Half-year financial report as at 30 June 2017

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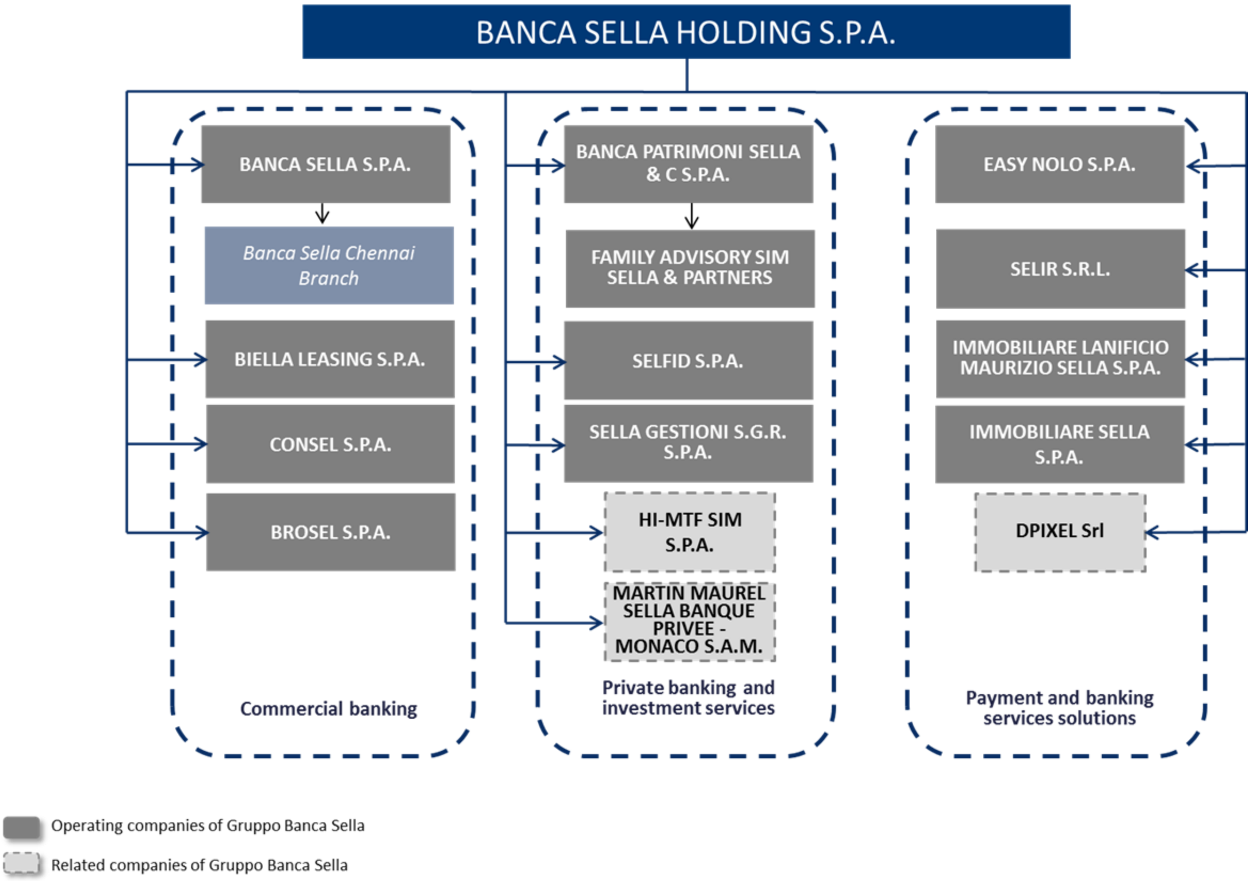
Contents

Map of the Group as at 30 June 2017



<u>Other fully consolidated companies:</u>
Finanziaria 2010 S. p.A
Miret S.A.
Sella Synergy India P.LTD
Mars 2600 S.r.l. (special purpose vehicle for Group securitisation transactions)
Monviso 2014 S.r.l. (special purpose vehicle for Group securitisation transactions)
Sella Capital Management Sgr S.p.A. in liquidation

<u>Investee companies consolidated at Net Equity:</u>
Martin Maurel Sella Banque Privee
HI-MTF Sim S.p.A
S.C.P. VDP 1
Enersel S.p.A.
DPixel S.r.l.

Corporate Officers

BOARD OF DIRECTORS (in office up to the approval of the 2019 financial statements)

Chairman	Sella Maurizio
Deputy Chairman	Sella Franco
Managing Director	Musiari Claudio
Director	Barbera Viviana
"	Covini Maria Clara
"	Della Penna Chiara
"	Galati Elisabetta
"	Lanciani Andrea
"	Parente Ferdinando
"	Sella Pietro
"	Sella Sebastiano
"	Tosolini Paolo
"	Viola Attilio

BOARD OF STATUTORY AUDITORS (in office up to the approval of the 2019 financial statements)

Chairman of the Board of Statutory Auditors	Piccatti Paolo
Standing auditor	Sottoriva Claudio
"	Ticozzi Valerio Carlo
Alternate Auditor	Frè Daniele
"	Rayneri Michela

GENERAL MANAGEMENT

Director General and CEO	Musiari Claudio
Co-Director General and Deputy CEO	Bisognani Gianluca
Co-Director General	Giorgio De Donno

Interim Report on Operations

Summary data and economic-financial indicators

Summary data (amounts in Euro thousands)

BALANCE SHEET DATA	30/06/2017	31/12/2016	Absolute changes	%
Total assets	11,659,101.1	11,259,197.9	399,903.2	3.6%
Financial assets (1)	1,326,949.7	1,541,713.7	(214,763.9)	-13.9%
Cash loans, exclusive of repurchase agreements receivable	6,973,341.4	6,984,390.4	(11,048.9)	-0.2%
repurchase agreements receivable	2,678.1	1,203.1	1,475.0	122.6%
Total cash loans (2)	6,976,019.6	6,985,593.5	(9,573.9)	-0.1%
Guarantees issued	211,477.9	214,923.2	(3,445.2)	-1.6%
Tangible and intangible fixed assets	95,727.8	97,259.8	(1,532.0)	-1.6%
Direct deposits, excluding repurchase agreements payable	9,655,452.5	9,695,379.1	(39,926.6)	-0.4%
repurchase agreements payable	8,820.1	12,272.4	(3,452.3)	-28.1%
Total direct deposits (3)	9,664,272.6	9,707,651.5	(43,378.9)	-0.5%
Direct deposits from banks	64,427.6	20,831.7	43,595.9	209.3%
Total deposits valued at market prices (5)	15,467,504.4	15,139,002.2	328,502.2	2.2%
Total deposits valued at market prices (4)	25,196,204.6	24,867,485.4	328,719.2	1.3%
Shareholders' Equity	792,496.6	789,554.3	2,942.3	0.4%
Common Equity Tier 1 (CET 1)	737,879.3	727,304.7	10,574.6	1.5%
Tier 2 Capital (T2)	141,341.5	168,722.7	(27,381.2)	-16.2%
Total own funds	879,220.8	896,027.4	(16,806.6)	-1.9%

RECLASSIFIED ECONOMIC DATA (5)	30/06/2017	30/06/2016	Absolute changes	%
Net interest income	75,024.5	77,976.9	(2,952.4)	-3.8%
Gross income from services	139,457.4	129,993.7	9,463.7	7.3%
Fee and commission expenses	(35,562.1)	(32,859.5)	(2,702.6)	8.2%
Net income from services (net of fee and commission expenses) (6)	103,895.2	97,134.2	6,761.1	7.0%
Net banking income	178,919.8	175,111.1	3,808.7	2.2%
Operating costs net of recovery of stamp duties and other taxes (7)	(132,893.4)	(128,531.8)	(4,361.7)	3.4%
Operating profit (loss)	46,026.3	46,579.3	553.0	-1.2%
Net value adjustments for impairment losses	(19,938.0)	(23,291.8)	3,353.8	-14.4%
Other economic items	(9,190.7)	44,850.1	(54,040.9)	-120.5%
Income taxes	(5,559.1)	(10,399.9)	4,840.8	-46.6%
Profit (Loss) for the period	11,338.5	57,737.8	(46,399.3)	-80.4%

(1) The aggregate represents the sum of the following items in the Balance Sheet Assets: item 20 "financial assets held for trading" and item 40 "financial assets available for sale".
(2) The aggregate represents item 70, "Due from customers", in the Balance Sheet Assets and includes net doubtful loans.
(3) The aggregate represents the sum of the following items from Balance Sheet Liabilities: 20 "Due to customers" and 30 "Securities in issue".
(4) The aggregate, valued at market prices, includes administered funds and securities and is net of the deposits of Group banks.
(5) As per items reported in the reclassified Income Statement.
(6) The aggregate represents the sum of the following items in the Reclassified Income Statement: fee and commission income, net income (loss) from trading and hedging activities, profit (loss) from sale or repurchase of loans, financial assets available for sale, held to maturity and financial liabilities;
(7) Given by the sum of the following items: "Administrative expenses" item 150, "write-downs on tangible assets" item 170, "write-downs on intangible fixed assets", item 180 "Other operating income and expenses" item 190.

Staff and branches

Item	30/06/2017	30/06/2016	Absolute changes	%
Employees	2,894	2,998	-104	-3.5%
Branches	287	293	-6	-2.0%

Alternative performance indicators

PROFITABILITY RATIOS (%)	30/06/2017	30/06/2016
R.O.E. (return on equity) (1) (11)	2.9%	15.9%
R.O.E. (return on equity) before extraordinary events (11)	2.9%	2.8%
R.O.A. (return on assets) (2)(11)	0.2%	1.0%
Net interest income (3) / Net banking income (3)	41.9%	44.5%
Net income from services (3) / Net banking income (3)	58.1%	55.5%
Cost to income (4)	73.7%	72.8%
Cost to income net of National Resolution Fund contribution (5)	72.6%	70.0%
PRODUCTIVITY RATIOS (in Euro thousands)	**30/06/2017**	**30/06/2016**
Net banking income (3) / Average no. of employees (11)	121.5	117.3
Operating profit (loss) (3) / Average no. of employees (11)	31.3	31.2
Cash loans (net of repurchase agreements) / Employees at year end	2,409.6	2,324.2
Direct deposits (net of repurchase agreements payable) / No. of employees at the end of the year	3,336.4	3,189.2
Direct deposits / No. of employees at year end	8,706.4	8,139.3
EQUITY AND LIQUIDITY RATIOS (%)	**30/06/2017**	**31/12/2016**
Cash Loans (net of repurchase agreements) / Direct deposits (net of repurchase agreements)	72.2%	72.0%
Cash loans (net of repurchase agreements) / Total assets	59.8%	62.0%
Direct deposits (net of repurchase agreements payable) / Total assets	82.8%	86.1%
Liquidity coverage ratio (LCR) (6)	225.4%	225.7%
Net stable funding ratio (NSFR) (7)	158.2%	138.4%
CREDIT RISK RATIOS (%)	**30/06/2017**	**31/12/2016**
Net non-performing loans / Cash Loans (net of repurchase agreements)	6.8%	7.4%
Net doubtful loans / Cash Loans (net of repurchase agreements)	4.0%	4.3%
Gross doubtful loans / Gross cash Loans (net of repurchase agreements)	8.6%	10.0%
Net adjustments to loans (8) / Cash Loans (net of repurchase agreements) (11)	0.6%	0.8%
Coverage rate for non-performing loans	47.2%	50.1%
Coverage rate for doubtful loans	57.0%	60.4%
NPL ratio (9)	12.1%	13.6%
Texas ratio (10)	77.2%	82.1%
SOLVENCY RATIOS (%)	**30/06/2017**	**31/12/2016**
CET 1 ratio	15.52%	15.41%
Tier 1 ratio	15.52%	15.41%
Total capital ratio	18.49%	18.98%

(1) Ratio between "Profit for the year" and the sum of items 160 "Reserves", 170 "Share premiums", and 180 "Share Capital" in the Balance Sheet Liabilities.
(2) Ratio between "Net profit" and "Total assets".
(3) As in the reclassified Income Statement.
(4) Ratio between operating costs, after deducting IRAP on personnel costs and net of losses connected to operating risks and net banking income.
(5) Cost to income ratio calculated by subtracting the component relating to the National Resolution Fund from operating costs.
(6) LCR: minimum limit of 80% in 2017 (minimum limit at 100% from 1 January 2018).
(7) NSFR: it will officially come into force on 1 January 2018, with a minimum limit of 100%.
(8) Obtained from the sum of items 130 a) and 100 a) in the reclassified income statement.
(9) Ratio between gross impaired assets and gross cash loans net of repurchase agreements.

(10) *Ratio between gross non-performing loans and the sum of tangible shareholders' equity (i.e. shareholders' equity less intangible assets) and value adjustments to non-performing loans;*

(11) *Annualised indicator.*

Summary of the macroeconomic scenario

In the first half of 2017, the phase of expansion continued across all of the main global economies.

In the United States, where the difficulties encountered by the Trump administration with respect to the healthcare reform lead us to expect a challenging process for the adoption of the 2018 fiscal year budget as well as the successful passage of tax reform, after a weak start to the year growth returned to a moderate pace, thanks to the recovery of private consumption and the continuing recovery in investments. Growth has showed a trend towards strengthening in the Eurozone, supported by a continuation of extremely accommodating monetary conditions and signs of a recovery in foreign demand, within the context of livelier foreign trade; the fact that the recovery is highly widespread, at geographical as well as sector level, and the role played by domestic demand as an important driver, are contributing towards lending greater solidity to the current phase of expansion in the region. At the moment, the consequences of the United Kingdom's exit from the European Union which should take place in March 2019, unless the two-year negotiation period is extended, are difficult to evaluate. Negotiations on future relationships between the United Kingdom and the EU will begin only when issues relating to the separation are in an advanced stage. The rate of expansion in economic activity has remained limited in Japan, where the greater contribution made by domestic demand has been offset by the downsizing of net foreign demand. Although emerging economies continue to have widely different macroeconomic conditions, a widespread trend towards improvement in growth trends has been confirmed, in certain cases due to the exit from long phases of recession.

On the consumer prices front, the recovery in oil prices from the low levels recorded between the end of 2015 and the start of 2016 and the resulting tapering off of the negative contribution of the energy component are at the basis of the acceleration highlighted by Eurozone inflation between the end of 2016 and the initial months of 2017; in the absence of a recovery in more stable consumer price index components, inflation subsequently demonstrated a trend towards moderation, standing at 1.3% in June. The European Central Bank recognised the improvement in growth data and the elimination of risks of deflation; at the same time, while there was a modest recovery in underlying inflation, it confirmed that asset acquisitions will continue at the pace of € 60 billion per month until December 2017, or even beyond if necessary, and acknowledged its willingness to revise the duration and/or amounts of the acquisitions upwards if the macroeconomic scenario worsens; with reference to policy rates, the ECB has declared that it expects them to remain at current levels in the long term and well beyond the end of the bond buying programme. In the US, inflation, up since the second half of 2016 after reaching levels just under 3% yoy in the opening months of 2017, then started on a downward trend towards rates of 1.6% reached in June, due to the slowdown in more stable components and the downsizing of the positive contribution of the energy item. The Federal Reserve, continuing in its current cycle of rate hikes which began in December 2015 from rates of zero, intervened on the cost of money with increases of 25 basis points at its March and June meetings, and brought the fed funds range to 1-1.25%. The US Central Bank also announced its intention to begin decreasing its own budget this year (which grew in the years subsequent to the great international crisis as a result of the significant bond buying programmes it conducted) by gradually reducing amounts reinvested from maturing securities.

In the course of the first half of 2017, lending by the Italian banking system expanded at a moderate pace; at the end of May, the amount of loans to the private sector totalled € 1,405 billion, with an annual drop of 0.4% compared to the same month of the previous year, but considering the securitisations carried out during the period, the annual change came to 1%. Loans to non-financial companies rose by 0.3% on an annual basis (-2.1% at € 773 billion not adjusted for securitisations), while loans disbursed to households expanded by +2.5% (+1.6% at € 631 billion before adjustments).

The stock of gross doubtful loans grew in May by 1.1% year-on-year, marking a gradual reduction; the stock is now equal to € 202 billion, against € 126 billion in provisions for adjustment, for a coverage rate of 62.1%, up by more than five percentage points compared to the level at the end of 2016.

On the funding side, the contraction continues, although at a slower pace than in the past, in the stock of bonds issued, down 7.7% on an annual basis in May. At the same time, the other forms of deposit have declined as well, in particular non-demand deposits and repurchase agreements, while the more liquid forms have recorded a robust expansion, amounting to +8.6% in May. Overall, total direct deposits fell by 1.9% in May.

Credit spreads narrowed further during the half, from 1.87% in December 2016 to 1.85% in May; the market rate reduction and competitive pressures on the pricing of loans to customers were only in part offset by the reduction in the cost of funding, particularly institutional doubtful loans.

Summary of the first half of 2017 and events subsequent to the end of the half

On 23 May, Banca Sella concluded a transaction for the transfer of doubtful loans in the amount of € 125.5 million to the Norwegian company B2Holding. This transaction, set forth in the Three-Year Plan, further improved the quality of the credit portfolio, reducing the stock of gross doubtful loans of Banca Sella by 16%, and made a negative contribution of roughly € 0.7 million to the income statement with respect to 31 December 2016, but in any event a positive contribution of roughly € 0.6 million with respect to the March 2017 valuations.

In May, the DBRS Ratings Limited rating agency confirmed the long-term ratings on the deposits of Banca Sella Holding and Banca Sella, which remain at “BBB (low)” for both. The agency also confirmed the short-term ratings on the deposits of Banca Sella Holding and Banca Sella at R-2 (middle). The trend on all ratings has improved from “negative” to “stable”.

In June, the first “short Sella” minibond transaction was concluded with the corporate customer Giglio Group S.p.A. in order to financially support the conclusion of the process of acquiring the company Evolve Service S.A.: the issue benefits from the InnovFin guarantee provided by the European Investment Fund.

On 3 August 2017, the IFPD sent an announcement to its members regarding an extraordinary shareholders' meeting, with an increase of € 95 million in the amount of Voluntary Scheme resources to be borne by the members on the agenda. Since the amendment requested during that meeting, the amount paid in to the Voluntary Scheme to date has not been sufficient to secure Caricesena, Carim and Carismi, and with reasonable probability the outlooks for the recovery of the amount invested are deemed very low. Therefore, the Participatory Financial Instrument was written down in full and the relative commitment was partially written down.

On 4 September 2017, Banca Sella received a communication from the Bank of Italy regarding the outcome of the inspections on the “transparency” of the banking and financial transactions and services conducted at 10 branches from 3 November 2016 to 25 January 2017. Several critical issues were identified, in large part connected to procedural anomalies and improvable aspects within internal controls, with respect to which the Bank, upon conclusion of its analyses, will provide the necessary clarifications to the Supervisory Body and will specify the measures taken for their removal. The same communication also makes reference to certain observations formulated upon completion of the previously mentioned inspection conducted on the Remuneration of credit lines and overdrafts, also with respect to the responses and clarifications provided by the Bank in the meantime. Also in this regard, upon conclusion of its analyses the Bank will provide a response to the Supervisory Body and will specify the measures taken.

Risk monitoring

Credit risks

Banca Sella considers the measurement and management of credit risk to be fundamentally important.

The activity of loan supplies has always looked towards traditional business forms, supporting household financing needs and providing the necessary support to businesses – in particular small and medium sized enterprises – in order to support growth projects, consolidation phases and financial needs during negative phases of the economic cycle. With regard to the credit risk, there are no transactions at present in innovative or complex financial products. The lending policies and processes for the disbursement and monitoring of loans are consequently defined so as to combine customer needs with the need to ensure the maintenance of quality for the lending business. In addition, in drawing up the policies for monitoring credit risks, special attention is paid to maintaining an adequate risk/return profile and assuming risks consistently with the propensity to risk defined and approved by the competent bodies.

With specific reference to credit risk control activities, these are the responsibility of the Risk Management department and Credit Area of Banca Sella. The Risk Management Service has the task of monitoring and quantifying the credit risk assumed by the Group companies, assessing its sustainability and, through the use of shared instruments, facilitating effective and proactive management. These activities are supported by checks targeted at examining the consistency of classifications and allocations, and the adequacy of the recovery process.

Monitoring activities, which are based primarily on forward-looking indicators, make it possible to enact anticipatory management, as required by the Basel regulations as well as the Bank of Italy's supervisory instructions.

The results of monitoring activities are analysed by Risk Management and the Credit Risk Control Committee of the Parent Company. Information relating to the performance of the risk profile and the main indicators included in the credit risk dashboard is brought to the attention of the Board of Directors on a monthly basis.

Banca Sella's Credit Quality Control Department is responsible for credit disbursement policies, product development, credit support system development, management of performing and non-performing loans, as well as being responsible for monitoring credit risk through specific organisational structures (the Banca Sella Credit Quality and Control Service). This monitoring involves traditional first-level checks, mainly focused on ensuring effective application of the bank's policies, analysing individual positions and trend analysis of variables held to be significant for the purposes of controlling credit risk.

Market risks

Market risk relates to unexpected variations in market factors such as interest rates, exchange rates and share prices that may cause fluctuations in the value of a position held in the trading book and in the values of investments arising from commercial operations and strategic choices (banking book).

The management and control of market risks (interest-rate risk, price risk, exchange rate risk) is regulated by a Group Policy which lays down the rules under which the individual Group companies may be exposed to these types of risk.

Interest-rate risk and price risk – regulatory trading book

For the compilation of this section we consider only financial instruments (assets and liabilities) held in the "regulatory trading book", as defined in the provisions on market risk regulatory reporting (see Bank of Italy Circular no. 286 of 17 December 2013).

This section deals with the risk that a fluctuation in interest rates may have a negative effect on the value of the regulatory trading book arising from the financial positions assumed by the Banca Sella within the assigned limits and powers.

The price risk inherent in the trading book is mainly a result of trading on the bank's own behalf in debt securities, capital and UCITS.

The Bank's trading book is mainly composed of listed bonds, equities, UCITS and derivatives for the hedging of positions. The bond component of the portfolio is made up primarily of short-term bonds issued by the Italian Republic. The prevailing portion of portfolio risk is composed of issuer risk.

The goals and strategies underlying the trading activity involving the own securities portfolio aim to limit risks and maximise returns on the portfolio itself in the field of action laid down in the Group rules on the subject.

Interest-rate risk and price risk management processes and measurement methods

The Finance Department of the Parent Company has the mission of managing market risk and coordinating the finance activities of the Banca Sella Group (management of owned portfolios, treasury and management of minority shares), also carrying out the specialised activities within the Parent Company (trading on own account). The Parent Company Banca Sella Holding is also the broker that provides access to markets for third-party trading carried on by customers of the Banca Sella Group.

The trading book market risk management process is governed by a specific company regulation approved by the Board of Directors and subject to periodic review. This regulation formalises Risk Management activities concerning market risk, defines the duties and responsibilities assigned to the various organisational units responsible for this matter and explains, inter alia, the measurement methods, exposure limits, information flows and any mitigation measures. Therefore, investment and trading activities are carried out in compliance with the regulation referred to above, and take place within a system of delegations of operational powers and within the framework of a regulation that calls for defined operating limits in terms of instruments, amounts, investment markets, type of issue and of issuer, sector and rating.

The Risk Management Service monitors exposure to market risk and verifies its consistency with the risk appetite defined by the corporate bodies within the Risk Appetite Framework and compliance with the system of limits. In line with the Risk Appetite Framework adopted by the Banca Sella Group, market risk exposure is monitored with reference:

- to current portfolios (consisting of financial instruments classified as held for trading and available for sale) held for medium/long-term investment purposes;
- to portfolios held for short-term trading purposes (consisting of financial instruments and listed hedging derivatives classified as held for trading).

Adequate information flows are regularly and promptly provided to the corporate bodies and the management functions.

For prudential purposes to measure the interest rate and price risks inherent in the regulatory trading book, the Banca Sella Group applies the “standardized approach” defined in Bank of Italy Circular no. 285/2013, and subsequent updates. Hence, capital absorption to cover market risk is represented by the sum of the capital requirements for each individual risk that makes up market risk, on the basis of the so-called building block approach.

At the same time as drafting the ICAAP Report (analysis of capital adequacy in accordance with the Second Pillar of Basel 3) and therefore at least once a year, the Parent Company carries out stress tests on the working portfolios. The stress test procedures consist of analysing the economic results upon an occurrence of specific negative events, which are extreme but plausible (for example, a deterioration in the creditworthiness of issuers of securities in the portfolio).

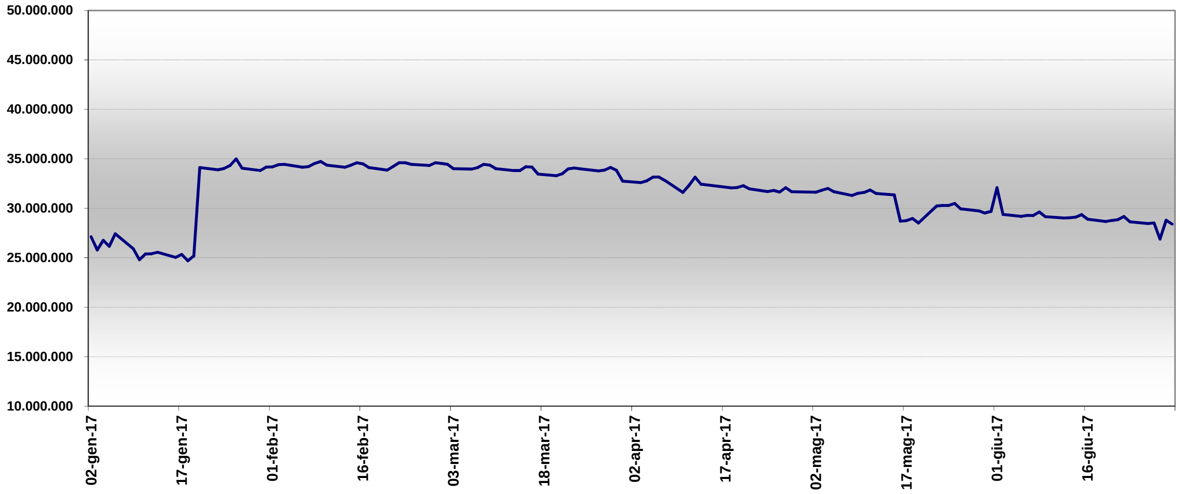
For management purposes, the trading book market risk is measured and monitored on the basis of the VaR (value-at-risk), which is basically assessed according to the historical simulation approach. VaR measures the maximum potential loss which, within a certain confidence interval, may occur if a certain portfolio is kept unchanged for a certain period of time. Historical simulation involves daily revaluation of position on the basis of the market price trends over an appropriate time interval. The empirical distribution of gains/losses that results is analysed to determine the effect of extreme market swings on the portfolios. The percentile distribution corresponding to the confidence interval set gives the VaR.

The Risk Management Department carries out checks on VaR trends (time horizon: 3 months for the current portfolio and confidence interval: 99%) on own portfolios and carries out analyses of sensitivity to risk factors such as: portfolio duration and sudden interest rate shocks. Lastly, checks on the operational limits on investment in securities are constantly guaranteed. The average duration of the Banca Sella trading book is equal to 1.54 years while sensitivity, estimated on a parallel movement of +100 basis points in the yield curve, is approximately € 19.2 million (about 1.54% of the portfolio).

The trend in the VaR of Banca Sella (confidence interval 99%, time horizon of 3 months) is shown in the chart below. The values always remained within the approved prudential limits.

Banca Sella – Trading Book

Market Risks VaR (time horizon 3 months – confidence interval 99%)



Interest rate and price risk – banking book

The banking book consists of all the financial instruments (assets and liabilities) not included in the trading book, pursuant to above, mainly receivables and payables due from and to banks and customers and securities not belonging to the regulatory trading book.

The main sources of interest rate risk generated in the banking book can be traced back to:

• maturity mismatches (risk connected with the exposure of positions to changes in the slope and the shape of the yield curve);

• mismatches arising from the imperfect correlation between changes in charged and paid interest rates on the various instruments (indexing risk).

Interest rate risk is mainly generated by customer funding and lending transactions, fixed and variable rate securities of the banking book, interbank deposits (assets and liabilities), as well as derivative instruments contracted to mitigate exposure to interest rate risk. The Group's policy is to provide elevated hedging of items, while strategic and management choices are aimed at minimising the volatility of the total economic value when the rate structure changes.

Internal interest-rate risk management and audit processes are based on an organisational structure, which provides that the information is analysed at operational level and critically assessed by the Group's ALM Committee every month. This Committee also provides appropriate operational guidelines.

Rate risk is measured using proprietary models for the processing of items in liabilities with undefined contractual due dates (sight items) and for the measurement of prepayments. For all other assets and liabilities items, the rules defined by Bank of Italy Circular no. 285/2013, as subsequently amended, are used. The audit is carried out taking into consideration all the positions assumed on and off the balance sheet, but limited to interest-bearing assets and liabilities.

To calculate the internal capital, parallel shifts in the rate curve of +200 basis points (increase scenario) and -40 basis points (decrease scenario) are hypothesised respectively.

The sensitivity analysis figures at 30.06.2017 show a low risk for the Banca Sella banking book (see the table below for total and percentage impact on the economic value).

Shift	Total Sensitivity	Regulatory Capital	Sensitivity %
+200 bps / -40 bps	18.42	879.22	2.09%

Amounts in Euro millions

The price risk of the portfolio is attributable primarily to the equity interests held for permanent investment purposes.

Fair value hedging activities

Hedging transaction strategies are mainly aimed at mitigating the exposure to interest-rate risk inherent in financial instruments, deriving predominantly from forms of disbursement of credit (general hedges, such as mortgage loans) or bonds issued (specific hedges).

Exposure to interest rate risk inherent in the disbursement of credit is hedged by derivative instruments such as amortising interest rate swaps and cap options, on the basis of the amount of the loan portfolio disbursed and the average maturities of this portfolio. Other interest rate swaps are implemented when fixed-rate bond loans are issued. Further hedges are put in place with third party counterparties to mitigate interest-rate risk or exchange rate risk through simple derivative products such as domestic currency swaps, currency options, or overnight interest swaps traded by the bank's customers.

The Parent Company generally adopts measurement methods and techniques based on the Black-Scholes, Monte Carlo and Net Present Value models using a number of parameters, which vary depending on the financial instrument to be measured. These parameters, which are approved by the Parent Company Risk Management Service, are chosen and set up on the calculation software at the moment of a request for measurement of a new derivative instrument. Every time the fair value of the financial instrument is calculated, the above parameters are promptly rechecked and updated.

Cash flow hedging activities

Due to the substantial balance of assets and liabilities, no hedging is provided for interest-rate risk on cash flow generated by variable rate items.

Foreign investment hedging activities

Due to the minor amount of foreign investments, no hedging is provided for the interest-rate risks arising from them.

Exchange rate risk

Currency transactions mainly take place at the Finance Department of the Parent Company, in which the Treasury carries out lending and inter-bank funding operations in foreign currency, and manages the exchange risk connected with currency imbalances.

Foreign exchange risk is monitored with the “standardised method” defined by the Bank of Italy in Circular no. 285/2013 and subsequent updates.

During the 1st half of 2017, the limit of 2% of regulatory capital defined for positions in foreign currency held by Banca Sella was not exceeded. Therefore, no capital requirements were generated in regards to foreign exchange risk.

The Risk Management Service monitors exchange risk exposure values and reports them to the Group's ALM Committee. This body, with the assistance of the Parent Company Treasury, assesses possible hedging action, should the exposures to given currencies be considered significant.

Exchange rate risk hedging activities

Banca Sella hedges transactions in foreign currency daily. The main assets of the Bank subject to this risk are loans and deposits in currency which correspond to a minimum part of the banking portfolio.

Liquidity risk

Liquidity risk corresponds to the risk arising from the inability to meet promises to pay, which may be caused by the inability to raise funds (funding liquidity risk) or by the presence of asset liquidity limits (market liquidity risk).

The Banca Sella Group's liquidity risk management ensures the maintenance of conditions of economic and financial equilibrium of the Group and guarantees the pursuit of the objectives of sound and prudent management. The governance model defined for managing the Banca Sella Group's liquidity risk is based on the following principles:

prudent management of liquidity risk to ensure solvency, including under stress conditions;
conformity of liquidity risk management and monitoring processes and methods with prudential regulatory indications;
decision sharing and distinction of responsibilities among management, controlling and operating bodies;

The liquidity level is managed by the Banca Sella Holding Finance Department. The Finance Department's objective is to direct, coordinate and control the Banca Sella Group's financial activities, through careful management of risk and a solid liquidity position. In particular, Banca Sella Holding's ALM and Treasury service holds a central role in this area, which engages in careful management of the Group's liquidity, helping, in observance of the risk parameters set in the Risk Appetite Framework, to increase the value of the company over time. The ALM and Treasury service also contributes to the valuation of liquidity reserves. The Group's Treasuries, where present, are responsible for liquidity management in accordance with the principles and strategic guidelines that apply to the Group.

The Risk Management service is responsible for measuring liquidity risk, determining the liquidity position at consolidated level, in ordinary as well as stress conditions, defining risk objectives in terms of the Risk Appetite Framework, monitoring them and performing the relative reporting and warning activities. The Risk Management Service is also responsible for the valuation of the liquidity reserves. The Risk Management Departments of the Group companies are delegated the responsibility for controlling and monitoring liquidity risk, verifying compliance with the approved limits consistent with the Group levels and adequate reporting to its company bodies.

In addition, the liquidity position is examined and critically evaluated on a monthly basis by the Group's ALM Committee. This Committee also provides the appropriate operational guidelines.

The Banca Sella Group has a Contingency Funding Plan (CFP) for the management of liquidity risk in stress situations. The CFP is the plan for the management of any liquidity contingency situations, to face adverse situations in obtaining funds and to guarantee the prompt economic and financial stability of the Banca Sella Group.

Liquidity risk is measured on various time horizons: “intraday”, “short term” and “structural”. The Group also autonomously evaluates the degree of liquidity of the financial instruments held as a liquidity reserve.

The measurement involves a broad set of indicators focused on systemic and specific liquidity situation trends, including the LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) regulatory indicators.

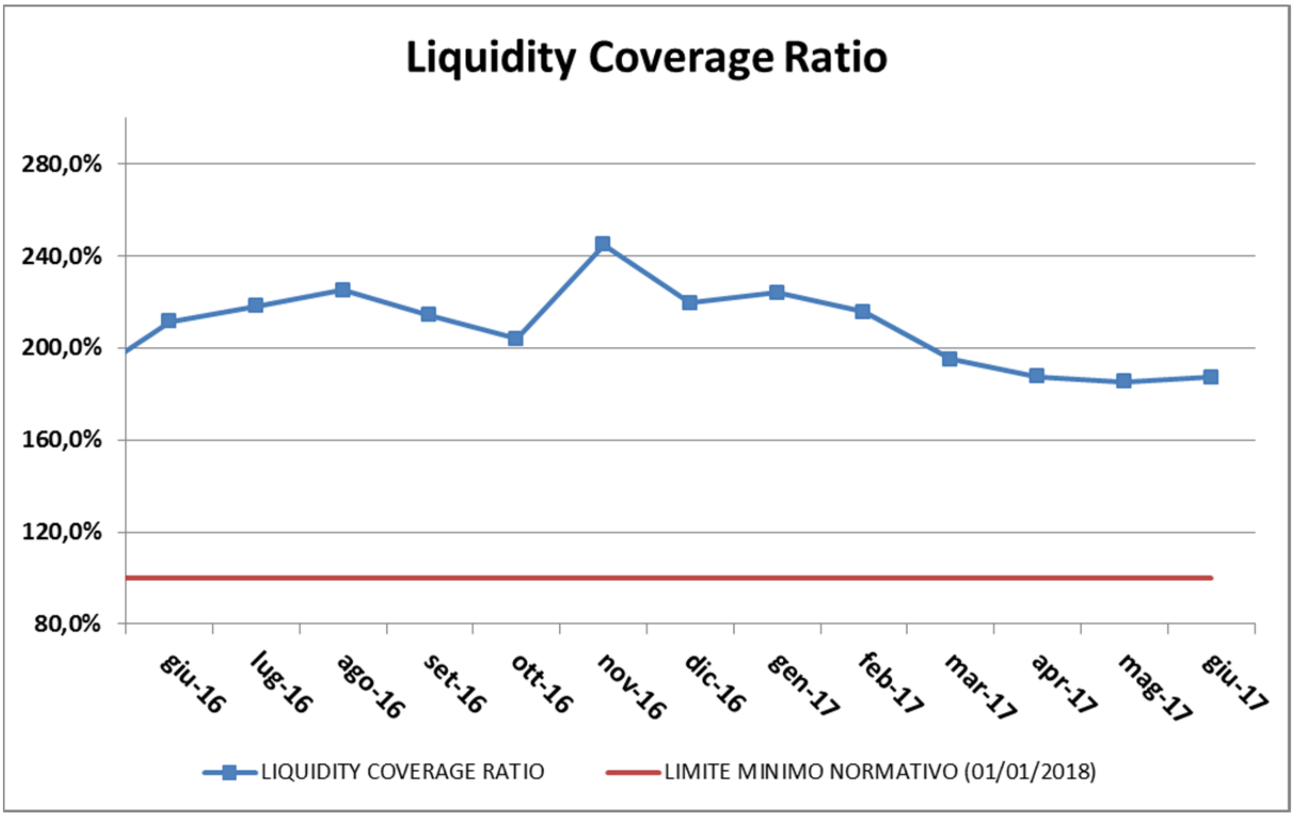
In addition to the information provided by liquidity indicators, the Risk Management service and the Finance Department of Banca Sella Group are responsible for carrying out stress analyses on the liquidity reserve of the Group itself.

The approach underlying the stress analysis consists in assessing, through the use of a Maturity Ladder[1], the ability to withstand a liquidity crisis (measured in days), of the entire Banca Sella Group if a systemic or specific crisis situation arises. The ability to withstand is calculated under the assumption that the business structure and capital profile of the Group will not be altered.

The Maturity Ladder is realised through the time-band mapping (horizon up to 3 months) of current and expected cash flows, together with items regarded as “potential liquidity reserves”. This instrument allows assessing in various operational scenarios (business as usual and stress scenario) the net financial position as to liquidity in different time buckets.

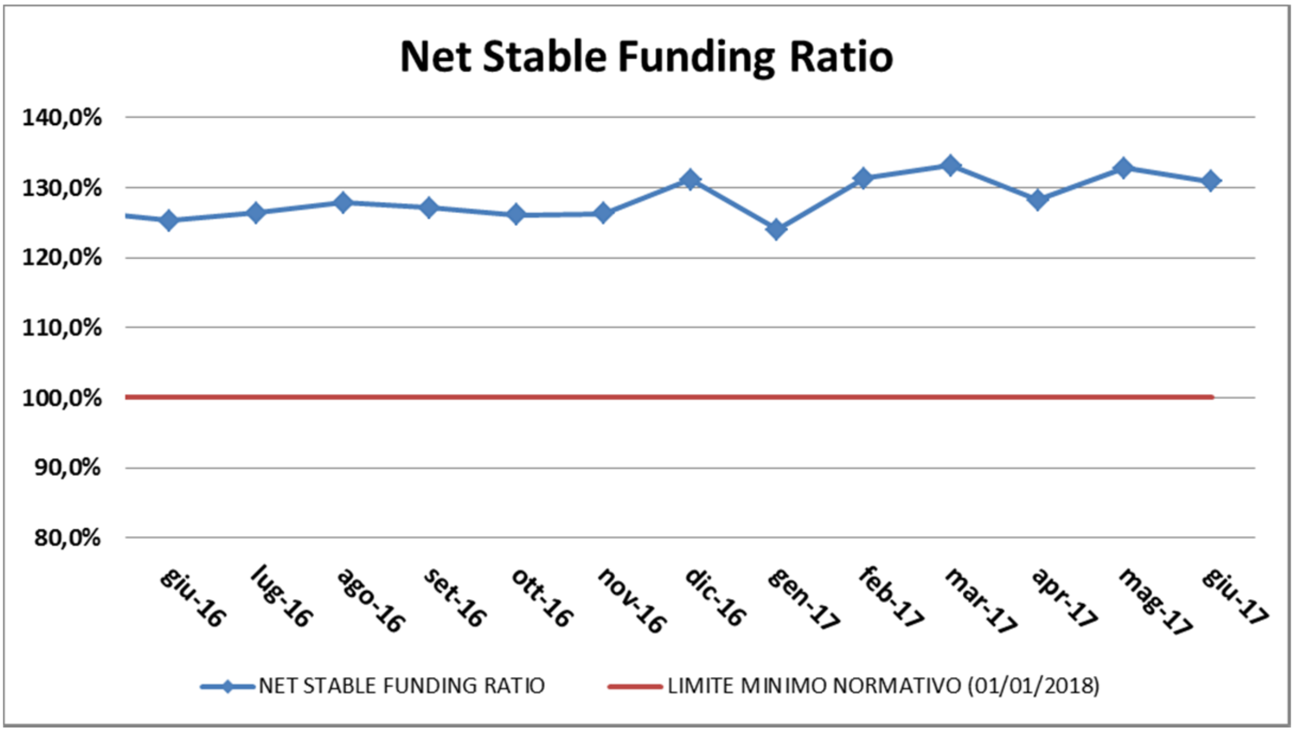
The stress test has always demonstrated cash and cash equivalents or easily cashed assets for the Group that are adequate to deal with any crises, of either systemic or specific origin.

The trend in the short-term liquidity ratio (LCR) of the Banca Sella Group is reported below, which gives an indication of the Group’s ability to deal with net cash outflows over a period of 30 days with a stock of high quality liquid assets. The minimum regulatory limit of this ratio is 100%.[2]



Trends in the structural liquidity indicator (NSFR) of the Banca Sella Group are shown below, calculated at operational level, which provides an indication of the Group’s ability to have an adequate level of stable funding in order to finance medium/long-term investments. This indicator will enter into force in January 2018, with a minimum regulatory limit of 100%.

[1] A Maturity Ladder is the projection of the net financial position over time.
[2] The regulatory limit of 100% will come into force on 1 January 2018. The limit of DELEGATED REGULATION (EU) no. 61/2015 which envisages a gradual phase-in period of 3 years is still in force. From 1 January 2017, the regulatory limit is 80%.



Operating risk

Operational risk is the risk of suffering losses deriving from the inadequacy or failure of procedures, human resources and internal systems, or from external events. This type includes, among others, losses deriving from internal/external fraud, human errors, business interruptions, unavailability of systems, contractual non-fulfilment and natural catastrophes. Operational risk includes legal risk, but does not include strategic and reputational risks.

Once again in the first half of 2017, Banca Sella paid special attention to managing operating risk, through the constant strengthening of organisational measures and tools for mitigation and control, including, among other things:

the so-called "Control Cycle", a process that has been effectively adopted by the entire Group for several years for the processing of anomalies and removing the effects and the causes that generated them;

mapping and validation of business processes based on an end-to-end approach;[3]

evaluation of new products and services and of IT risk;

certification and final reporting of service levels and line controls;

the controls carried out through the so-called "alarm bells" (automatic processing with the goal of identifying and/or preventing any internal and/or external anomalies).

Monitoring of the risk translates also into specific reporting functions at all levels of the corporate organisation, in accordance with the legislation which states that timely information must be provided on the subject of operating risks. The Control Cycle provides the information basis which, at the occurrence of the anomaly and according to a precise escalation, generates and sends communication flows to the parties concerned. In 2017, the reporting structure was consolidated both at summary RAF level and by allowing the more detailed opening with behavioural information, in order to improve the monitoring and management of operational risk and, in particular, provide effective support to the activities performed by the Parent Company's Control Committee.

[3] The process is defined as end-to-end when it is set up in such a way as to form a "value flow" in complete logic of satisfying the intended purposes of the customer, whether internal or external, starting from the request and running through to delivery of the service.

In addition, in order to ensure an assessment of the performance of the management of operational risk, the Parent Company's Risk Management service produces regular summary and detailed statements which summarise for each Group company and the Group as a whole, the degree of risk assumed in relation to:

- anomalous events and the impact of operational risk on the income statement, highlighting events with the highest level of severity;
- monitoring of the operational risk indicators with respect to the Risk Appetite thresholds in the Risk Appetite Framework;
- the outcome of line audits;
- the trend in service levels.

Legal risk

The internal regulations of the Banca Sella Group, adopted by the Bank's Board of Directors, establish the obligation of using contractual forms with contents which correspond, as far as possible, to standardisation features previously assessed by the appointed structures at Group level. The Legal Services office of Banca Sella is the point of reference for the preparation and examination of draft contracts, for the drafting of legal opinions, and for the examination of legal problems and relative consultancy, for the companies of the Banca Sella Group.

With regard to pending legal disputes, we note that the Bank is the defendant in some legal disputes originating from its ordinary business. The most frequent legal disputes continue to relate to the application of compound interest and the application of usurious interest rates, frequently established for dilatory purposes.

In as much as it is not possible to predict the final results with certainty, it is held that any unfavourable results of said proceedings would not have, either singularly or as a whole, significant negative effects on the financial and economic situation of the Bank.

Risks connected with possible unfavourable sentences are carefully analysed and, when it was possible to make a reliable assessment of their amounts, an allocation was recognised to the appropriate provision.

As regards the case brought by some minority shareholders of Banca Sella Sud Arditi Galati to the Court of Lecce, in relation to the merger by incorporation into Banca Sella, aimed at ascertaining the legitimate right to withdraw on the part of said shareholders, putting forward the alleged violation of participation rights, the Bank has filed its appeal against the first instance ruling, which had upheld the plaintiff's claim.

On 21 March 2017, the Court of Appeal confirmed the first instance ruling, but upheld one of the grounds for appeal of Banca Sella. In addition, a recent ruling of the Supreme Court confirmed the correctness of the restrictive interpretation of the regulation governing withdrawal. Also for these reasons, the Bank, which firmly believes in the correctness of its position, deemed it reasonable and appropriate to file an appeal to the Supreme Court against the second instance ruling. Therefore, the appeal will shortly be filed to the Supreme Court within the legal terms (21.10.2017).

Furthermore, we note that in regards to the summons notified in April 2016 by Cassa Depositi e Prestiti spa (hereinafter CDP) for around € 18.4 million, in relation to a loan granted by CDP to a municipally-owned company with an account held with Banca Sella and the asserted obligation for the Bank to pay the residual debt of the municipally-owned company due to the delegation of payment by the Bank, subscribed as the CDP treasurer, a ruling was received which was favourable for the Bank, upholding the preliminary objection presented by the Bank in the proceedings. Subsequently, in March 2017, CDP served notice of a new summons, with identical merits and amount as the previous one.

The Bank, also based on research performed by external legal experts, believes that are significant grounds for an effective defence.

Lastly, it should be noted that, in April 2016, the Antitrust Authority extended the proceedings to eleven banks, including Banca Sella S.p.A., aimed at assessing any violations of competition committed through the creation of a service remuneration model known as Sepa Compliant Electronic Database

Alignment (Seda), which concluded without the imposition of any penalties against any of the parties involved.

Outlook - external scenario

The global economy should continue to grow in the remaining months of 2017 and leave behind a year in which a modest upturn was recorded when compared to 2016.

In the United States, private consumption and investments, combined with signs of a revival in global trade, should support continued economic growth; the uncertainty over the timing and actual extent of the fiscal stimulus and the associated impact on the evolution of domestic financial and monetary conditions, as with the actual direction the US intends to take as regards international trade relations, at the same time exposes the US economic prospects to a number of risk factors, both upside and downside.

Growth in the Euro Area is expected to remain satisfactory, driven in particular by domestic demand items, supported by the ongoing accommodating financial conditions; private consumption will also continue to benefit from the improvements in the job market. The developments of negotiations with the United Kingdom and the associated implications on the integration process in Europe will be the focus of increasing attention in the second part of the year. As regards consumer prices, inflation may essentially be stable at current levels, higher than those of 2016, both in the US and the Euro Area. By the end of the current year, the Federal Reserve should go ahead with a fresh increase in the policy rate, allowing itself to be guided by the progress achieved and expected with respect to the dual mandate of boosting employment and stabilising inflation at a medium-term target of 2%, and kick-starting a gradual reduction in the portfolio of securities held in the financial statements. The European Central Bank will buy bonds at a rate of € 60 billion per month until December and will keep current reference interest rates unchanged; the announcement over the methods of managing the quantitative easing plan after December 2017 will conceivably be managed with prudence, in order to prevent a tightening of financial conditions in the area.

In line with the expected developments for the Italian macroeconomic situation in 2017, credit provided to the private sector by banks should continue on the path of growth and credit quality further improve further, benefiting profitability for the banking system. Stimulus for the growth in the volumes of credit disbursed should arrive in the form of the recovery in company investments, in view of the improved surveys over the conditions for investing in the country.

The lasting continuation of interest rates at extremely low levels will also keep net interest income down, inducing banks to favour growth in revenues from services, by diversifying activities other than lending. Even in the presence of a further reduction in credit risk, the need to more rapidly offload the stock of problem loans will likely entail a continuation of high credit adjustment levels; the need to recover levels of profitability close to those of the rest of Europe will therefore make it necessary to insist on improving efficiency in operating structures and containing costs.

Business continuity

With reference to the Bank of Italy, Consob and ISVAP documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010, in relation to information to be provided in financial reports on business prospects, with a particular focus on the company’s ability to continue as a going concern, on the financial risks, on tests to reduce the value of assets (impairment tests) and on uncertainties in the use of estimates, the Board of Directors confirms that it has a reasonably expectation that the Bank can continue its operations in the foreseeable future and therefore attests that this interim report on operations has been prepared on the basis of this going concern assumption.

The Bank’s equity and financial structure and operating trend do not show any elements or signals that may give rise to any uncertainty on the business as a going concern.

For information on financial risk, the impairments tests on assets and the uncertainties in the use of estimates see the information provided in the present report, in the comments on operational performance.

Income Data

Reclassified income statement (in Euro thousands)

Item	30/06/2017	30/06/2016	% change over 30/06/2016
10. Interest receivables and similar income	100,525.5	108,589.5	-7.4%
20. Interest payable and similar charges	(25,607.3)	(30,721.0)	-16.7%
70. Dividends and similar income	106.3	108.4	-2.0%
NET INTEREST INCOME AND DIVIDENDS	**75,024.5**	**77,976.9**	**-3.8%**
40. Fee and commission income	135,627.6	126,959.9	6.8%
50. Fee and commission expenses	(35,562.1)	(32,859.5)	8.2%
Net fees	**100,065.5**	**94,100.4**	**6.3%**
80. Net gains (losses) on trading activities	3,824.7	4,023.1	-4.9%
90. Net gains (losses) on hedging activities	41.5	101.9	-140.7%
100. Profit (loss) from sale or repurchase of:			
a) receivables	(772.3)	(1,310.0)	-41.1%
b) financial assets available for sale	735.9	470.7	56.3%
d) financial liabilities	-	(48.1)	-100.0%
NET REVENUES FROM SERVICES	**103,895.2**	**97,134.2**	**7.0%**
NET BANKING INCOME	**178,919.8**	**175,111.1**	**2.2%**
150. Administrative expenses			
a) personnel expenses	(79,714.0)	(81,849.6)	-2.6%
IRAP on net personnel and seconded personnel expenses (1)	216.6	225.0	-3.7%
Total personnel and IRAP expenses	**(79,930.6)**	**(82,074.6)**	**-2.6%**
b) other administrative expenses	(70,642.9)	(70,576.0)	0.1%
Recovery of stamp duty and other taxes (1)	18,292.1	21,052.3	-13.1%
Total administrative expenses and recovery of taxes	**(52,350.8)**	**(49,523.6)**	**5.7%**
170. Write-downs on tangible fixed assets	(3,958.3)	(3,554.2)	11.4%
180. Write-downs on intangible fixed assets	(6,878.7)	(6,664.3)	3.2%
190. Other operating expenses/income (after deducting “Recovery of stamp duty and other taxes”)	10,225.0	13,285.0	-23.0%
Operating expenses	**(132,893.4)**	**(128,531.8)**	**3.4%**
OPERATING PROFIT (LOSS)	**46,026.3**	**46,579.3**	**-1.2%**
160. Net provisions for risks and charges	(2,756.1)	166.4	1556.0%
130. Net value adjustments for impairment of:			0.0%
a) receivables	(19,938.0)	(23,291.8)	-14.4%
b) financial assets available for sale	(2,137.5)	(1,834.5)	16.5%
d) other financial transactions	(4,317.3)	(539.4)	700.4%
240. Profit (loss) on disposal of investments	20.2	1.8	1011.1%
PROFIT FROM CONTINUING OPERATIONS BEFORE NON-RECURRING EFFECTS	**16,897.6**	**20,749.1**	**-18.6%**
Reclassifications from non-recurring effects (1)			
100. Profit (loss) from sale or repurchase of:			
b) financial assets available for sale	-	47,388.6	-100.0%
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES	**16,897.6**	**68,137.7**	**-75.2%**
290. Income taxes for the period on current operations			
(after deducting “IRAP on net personnel and seconded personnel expenses”)	(5,559.1)	(10,399.9)	-46.6%
PROFIT FROM CONTINUING OPERATIONS NET OF TAXES	**11,338.5**	**57,737.8**	**-80.4%**
PROFIT (LOSS) FOR THE YEAR	**11,338.5**	**57,737.8**	**-80.4%**

(1) The items in question were reclassified using presentation criteria more suited to represent the content of the items in accordance with principles of management homogeneity. The reclassifications are explained in the next section “Income Statement reclassification criteria”.

Income Statement reclassification criteria

In order to provide a more easily understandable representation of the income results, an Income Statement has been prepared using presentation criteria more suited to represent the content of the items in accordance with principles of management homogeneity.

The reclassifications involved:

- item 70. "dividends and other income", which is included within net interest income;
- IRAP on the costs for personnel, which is separated from the item "Income taxes for the period on continuing operations", and included in personnel expenses;
- the item "recovery of stamp duties and other taxes" is separated from item 190. "other operating expense/income" and included in item 150 b) "other administrative expenses";
- item 100. "income from sale or repurchase of financial assets available for sale"; the component relating to minority interests was separated from net revenue from services and placed under operating profit (loss).

Banca Sella ended the first half of the year with a profit of € 11.3 million, compared to € 57.7 million in the first half of 2016. Both periods were impacted by extraordinary events. In particular, 2016 saw extraordinary income of € 44.1 million net of taxes, due to the capital gain arising from the Visa transaction and from the disposal of the equity investment in C.B.A. Vita, while 2017 saw extraordinary write-downs of the participatory instrument and the relative commitment to the Interbank Fund for the Protection of Deposits of € 3.8 million net of taxes.

Net of these extraordinary events, profit in the half under review came to € 15.1 million, therefore marking a slight increase compared to profit of € 13.9 million in the corresponding period in 2016.

The most significant items of the Reclassified Income Statement which contributed to said result and the associated comments are reported hereunder:

- net fees +6.3%;
- net gains (losses) on trading activities (finance area) -4.9%;
- net income from services +7%;
- net banking income +2.2%;
- operating expenses +3.4%;
- write-downs on loans -14.4%.
- write-downs on other transactions +700.4%.

Net interest income

As at 30 June 2017, net interest income amounted to € 75 million (down by -3.8% compared with the same period in the previous year). The decrease is influenced by the trend in market rates where, on the asset front, lower interest was recorded, mainly on loans to customers, in the presence of increased volumes, partially offset by a reduction in interest expense, despite the presence of an increase in the volume of direct deposits. By contrast, the better performance of the securities portfolio made a positive contribution to net interest income: + € 3.1 million compared to the same period in the previous year.

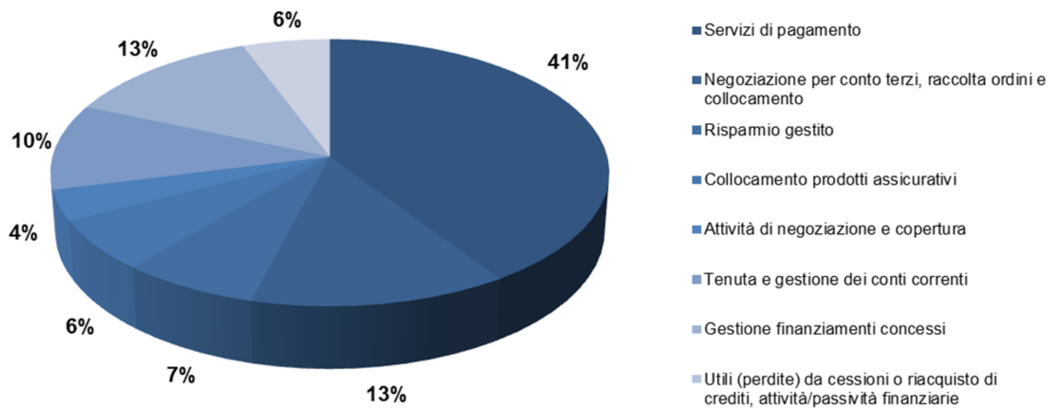
Net revenues from services

On the whole, at 30 June 2017 net revenues from services totalled € 103.9 million, (+7% compared with the same period in the previous year), in particular thanks to the strong performance of net fees, +6.3% compared to 30 June 2016.

Net income from services: main components (in Euro thousands)

Item	30/06/2017	30/06/2016	Absolute changes	%
Payment services	42,328.4	40,649.0	1,679.4	4.1%
Trading for third parties, order collection and placement	13,851.9	10,896.5	2,955.4	27.1%
Asset management	7,382.0	6,887.4	494.6	7.2%
Insurance products placing	6,444.2	5,310.0	1,134.3	21.4%
Trading and hedging activities	3,866.2	3,921.2	(55.0)	-1.4%
Holding and management of current accounts	10,795.9	11,273.5	(477.6)	-4.2%
Management of loans granted	13,372.7	14,047.3	(674.7)	-4.8%
Profit (loss) from sales or repurchases of loans, financial assets/liabilities	(36.4)	(887.4)	851.0	-95.9%
Other	5,890.4	5,036.8	853.6	17.0%
Total	**103,895.2**	**97,134.2**	**6,761.0**	**7.0%**

Ricavi netti da servizi - peso del servizio sul totale



Net fees

The following components mainly contributed to the strong result recorded in the first half: fees relating to payment services (+4.1%), essentially thanks to the significant growth in transaction volumes from acquiring, fees relating to trading and order collection services (+27.1%, predominantly due to the placement of funds under administration) and fees on life insurance (+21.4%).

By contrast, a slight decrease was recorded in commission charged on holding and managing current accounts and fees relating to loans issued to customers.

The performances of the other items that contributed to net revenue were generally positive: while trading activities recorded lower profits of around € 0.2 million, nonetheless amounting to € 3.8 million, the transfer of loans generated lower negative effects with respect to 2016 for over € 0.5 million and the transfer of available-for-sale financial assets generated greater profits of € 0.3 million.

Net banking income

The trends described above led to total income of € 178.9 million, up +2.2% with respect to 30 June 2016.

The positive result of net fees, which recorded an increase of +6.3%, more than offset the decrease in net interest income, thus maintaining the general growth in the money management margin.

Operating expenses

Operating expenses, amounting to € 132.9 million, recorded an increase of 3.4% (equal to € 4.4 million), given that, despite a sizeable reduction in personnel expenses (roughly € 2.1 million) there were less recoveries (€ 2.8 million), lower operating income (€ 3 million) and higher value adjustments (€ 0.6 million).

Personnel expenses fell by 2.6% (including IRAP - regional business tax), as a result of the reduction in the workforce following the terminations of service, as per the agreement signed in 2016 for accessing the extraordinary services of the Solidarity Fund for professional retraining and requalification, for which provision was made for the appropriate allocation as at 31 December 2016.

The trend in **Administrative expenses and recovery of taxes** was impacted by contributions to guarantee funds which totalled € 1.9 million, compared to € 2.2 million in the same period of 2016; net of these items, the aggregate rises by 6.7% (by € 3.2 million), due primarily to higher costs of circuits (for acquiring services for € 2.1 million) and higher fees for pos services paid to Easy Nolo (€ 0.9 million).

Other operating expenses, up compared to June 2016, are represented by **value adjustments** to tangible and intangible fixed assets, up by 11.4% and 3.2% respectively, due to higher investments made to boost growth.

Other operating income/expense, on the other hand, declined with respect to the same period of 2016 by 23.0% (€ 3.1 million) primarily due to the reduction in the fast credit processing fee (€ -2.1 million) and lower income due to administrative/IT services rendered to third parties (€ -1.1 million).

The efficiency indicator known as the **cost-to-income** ratio, the ratio of operating expenses (after deducting IRAP on personnel costs and net of losses linked to operational risks) and net banking income, is equal to 73.7%, down compared to 72.8% as at 30 June 2016.

Breakdown of operating expenses (in Euro thousands)

Item	30/06/2017	30/06/2016	Absolute changes	%
Administrative expenses:				
a) Personnel expenses	(79,714.0)	(81,849.6)	2,135.7	-2.6%
IRAP on net personnel and seconded personnel expenses	(216.6)	(225.0)	8.4	-3.7%
Total personnel and IRAP expenses	**(79,930.6)**	**(82,074.6)**	**2,144.1**	**-2.6%**
b) Other administrative expenses	(70,642.9)	(70,576.0)	(66.9)	0.1%
Recovery of stamp duty and other taxes	18,292.1	18,316.2	(24.2)	-0.1%
Total administrative and stamp duty expenses	**(52,350.8)**	**(52,259.7)**	**(91.1)**	**0.2%**
Write-downs on tangible fixed assets	(3,958.3)	(3,554.2)	(404.1)	11.4%
Write-downs on intangible fixed assets	(6,878.7)	(6,664.3)	(214.5)	3.2%
Other operating expenses/income (after deducting “Recovery of stamp duty and other taxes”)	10,225.0	16,021.1	(5,796.2)	-36.2%
Operating expenses	**(132,893.4)**	**(128,531.8)**	**(4,361.7)**	**3.4%**

Write-downs

Net value adjustments on loans and advances amounted to € 19.9 million, down by 14.4% compared to the € 23.3 million at 30 June 2016.

The decline in loans transferred to non-performing status involved all impairment classes, with a contraction in particular in new unlikely to pay and doubtful loans.

At 30 June 2017, the "Net value adjustments to loans/Cash loans (net of repurchase agreements receivable)" indicator, annualised, came to 0.6%, a significant improvement over 0.8% at 30 June 2016 (annualised data).

Banca Sella also took the decision to allocate around € 2.3 million for operational risk, in relation to fast credit processing fees on unauthorised overdraft facilities deriving from the uses of debit cards on credits applied for the July 2015 - September 2016 period, which have to be reimbursed. This was a consequence of the internal review conducted on the fee applied previously and in consideration of the Bank of Italy's Inspection Report of 2016, in conclusion of the theme-based inspection targeted at examining, in view of an assessment of the facts, the organisational-procedural structure adopted by the Bank, in order to comply with the provisions on Remuneration of credit facilities and overdrafts, pursuant to art. 117-bis of Italian Legislative Decree 385/1993 (TUB - Consolidated Banking Law) and Ministerial Decree 644/2012".

On the other hand, the greater net provisions for risks and charges made a negative contribution (roughly € -2.3 million relating to the procedure for the return of fast credit processing fees), as did greater negative adjustments on financial assets available for sale (€ 2.1 million) and on other transactions (€ 4.3 million), both due to the write-down of the participatory instrument and the commitment to the Voluntary Scheme, as illustrated in more detail below in "financial assets available for sale".

Profit (loss) from sale or repurchase of financial assets available for sale

Profit (loss) for the first half of 2016 was impacted, for an amount of € 47.4 million, by two extraordinary events: Visa Inc.'s acquisition of Visa Europe's shares, which, for Banca Sella, as "principal member", involved a capital gain of € 46.9 million and the transfer of C.B.A. Vita, a Group insurance company, carried out on 30 June 2016, which contributed a profit of € 0.5 million.

Income taxes

The trend in income taxes, which fell with respect to the previous financial year, can essentially be explained by the evolution of the pre-tax result and the different incidence on this result of dividends and capital gains from the sale of investments, partially excluded from taxation.

Income taxes for the year on current operations are net of IRAP related to personnel expenses, which were reclassified, increasing this component (which was calculated taking into account the amendments introduced in Law 190 of 23/12/2014 regarding the deductibility of IRAP for expenses sustained in relation to employees with permanent contracts). The percentage impact of income taxes on profit from continuing operations before taxes was 32.9%.

It should be noted that the 2016 Stability Law (Law no. 208 of 28/12/2015) made provision, effective from 1 January 2017, for the reduction of the IRES (corporate income tax) rate from 27.5% to 24%, with the introduction of an IRES surcharge of 3.5% for the Banking Sector. Said law also provided for the full deductibility of interest expenses as a result of the abolition of the so-called "Robin Hood tax", which had been introduced by Decree Law 112/2008.

The IRES and IRAP deductibility rules were applied to adjustments made to loans to customers, as set forth in Decree Law 85/2015, converted by Italian Law 132/2015, which makes provision, from 2016, for the immediate deductibility of adjustments to loans and, subsequently, does not cause increases in deferred taxes, without, however, having a direct impact on the tax rate with respect to the situation that applied previously.

Banca Sella, as a subsidiary, adheres to the tax consolidation system adopted by the parent company Banca Sella Holding as its controlling and consolidating company.

Balance Sheet Data

Reclassified balance sheet (in Euro millions)

Assets	30/06/2017	31/12/2016	% change over 31/12/2016
Financial assets (1)	1,326,949.7	1,541,713.7	-13.9%
Due from banks	2,738,191.5	2,062,213.5	32.8%
Cash loans, exclusive of repurchase agreements receivable (2)	6,973,341.4	6,984,390.4	-0.2%
Repurchase agreements receivable	2,678.1	1,203.1	122.6%
Equity investments	-	-	0.0%
Tangible and intangible fixed assets (3)	95,727.8	97,259.8	-1.6%
Tax assets	163,307.6	176,067.7	-7.3%
Non-current assets and asset groups held for sale	-	-	0.0%
Other assets (4)	358,904.9	396,349.9	-9.5%
TOTAL ASSETS	**11,659,101.1**	**11,259,197.9**	**3.6%**
Liabilities and Shareholders' equity	**30/06/2017**	**31/12/2016**	**% change over 31/12/2016**
Due to banks	767,887.6	406,482.8	88.9%
Direct deposits, excluding repurchase agreements payable (5)	9,655,452.5	9,695,379.1	-0.4%
repurchase agreements payable	8,820.1	12,272.4	-28.1%
Total direct deposits	9,664,272.6	9,707,651.5	-0.5%
Financial liabilities	17,443.3	20,518.2	-15.0%
Tax liabilities	10,013.0	15,794.6	-36.6%
Other liabilities (6)	358,947.8	266,980.3	34.5%
Provisions for specific purposes (7)	48,040.2	52,216.1	-8.0%
Liabilities associated with disposal groups (9)	-	-	0.0%
Shareholders' equity (8)	792,496.6	789,554.3	0.4%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**11,659,101.1**	**11,259,197.9**	**3.6%**

(1) Given by the sum of the following balance sheet asset items: 20 "Financial assets held for trading," and 40 "Financial assets available for sale".
(2) Item 70 "Due from customers" in the balance sheet assets, exclusive of repurchase agreements.
(3) Given by the sum of the following balance sheet asset items: 110 "Tangible assets" and 120 "Intangible assets".
(4) Given by the sum of the following balance sheet asset items: 80 "Hedging derivatives", 90 "Value adjustment of financial assets subject to macro-hedging" and 150 "Other assets".
(5) Given by the sum of the following balance sheet liability items: 20 "Due to customers" and 30 "Securities in issue".
(6) Given by the sum of the following balance sheet liability items: 60 "Hedging derivatives" and 100 "Other liabilities".
(7) Given by the sum of the following balance sheet liability items: 110 "Employee severance indemnities" and 120 "Provisions for risks and charges".
(8) Given by the sum of the following balance sheet liability items: 130 "Valuation reserves", 160 "Reserves", 170 "Share premiums", 180 "Share Capital" and 200 "Profit for the year".

Funding Policies and ALM

In regards to funding policies, during the first half of 2017 the Bank continued to operate under its normal policy of healthy and prudent management. In particular, it acted to ensure a solid liquidity position was maintained, which originates from and is based on the ratio, considerably lower than one, between cash loans and direct deposits. The surplus of direct deposits not used in sales assets is allocated to senior bonds (mainly Government) and in on sight deposits with the banking parent company, which constitute a significant buffer of high quality and easily liquidated assets.

Financial assets

Financial assets (in Euro thousands)

	30/06/2017	31/12/2016	% change over 31/12/2016
Held for trading	22,205.5	26,188.2	-15.2%
Held for sale	1,238,987.9	1,470,784.6	-15.8%
Due from banks	22,498.9	52,449.8	-57.1%
Due from customers	82.5	80.1	3.0%
TOTAL	**1,283,774.8**	**1,549,502.7**	**-17.2%**

Financial assets held for trading mainly consist of debt securities, in particular Italian government securities, senior bank bonds and bonds issued by banks within the Banca Sella Group. As 30 June 2017, the following types of securities are held:

- Italian government securities 45%;
- Senior bank bonds 1%;
- Banca Sella Group bonds 54%.

The amount of this component decreased by around € 4 million in the first half, going from € 26.2 million at 31 December 2016 to € 22.2 million at 30 June 2017.

With regard to asset allocation, the variable component was almost entirely eliminated, and almost all of the category is invested in short-term fixed rate securities. Exposure to interest-rate risk was contained for the entire period in question.

In the first half of 2017, the component of debt securities of financial assets available for sale recorded a drop of 13.7%, due mainly to the expiry of the BTP Italia on 22 April 2017, which were only partially renewed. The objective for 2017 is to reduce the securities portfolio and pursue a strategy of greater diversification of financial assets, with particular attention paid to the quality of the bonds from banks and financial and corporate issuers in the portfolio. For this reason, and in order to promote diversification, the presence of investment funds in the bond category was gradually increased during the half.

Assets available for sale are composed primarily of Italian government securities and bank and corporate bonds with a high credit rating; funds account for a marginal amount and as 30 June 2017 the following types of securities are held:

- CCT (Treasury Credit Certificates) 38.0%;
- BTP (Multi-year Treasury Bonds) 14.2%;
- Inflation-linked BTPs 28.9%;
- Senior bank bonds 12.1%;
- Senior corporate bonds 4.5%.
- Investment funds 2.3%.

In 2017, the amount of this segment fell by around € 230 million, reaching a value of € 1,239 million at 30 June 2017. The asset class which saw the biggest change was that of Inflation-indexed BTP Italia bonds, which recorded a drop of around € 259.4 million, partially offset by an increase in Senior bank bonds, which saw an increase of approximately € 38 million in unsecured securities and € 16 million in issues secured by the Italian Government. The volume of corporate bonds rose by roughly € 6.2 million, while the Government Bonds component as a whole fell by around € 292 million.

The asset allocation of the category changed, the variable rate component increased, accounting for around 38% of the category, and the short or medium-term fixed component linked to inflation instead fell to 29%. Exposure to interest-rate risk remained at very low levels for the entire period in question. With an eye on greater diversification, exposure to private issuers increased during the half, both banking and corporate, with an average maturity of 3 years.

Equity securities also include minority investments which, according to the requirements of IFRS, and continuing with the approach adopted in the financial statements at 31 December 2016, were subject to impairment testing. The main ones are reported below:

VISA INC: class C shares for a total net of the lock-up clauses of € 12 million; for which a positive equity reserve was recognised, with respect to initial recognition on 21 June 2016, amounting to roughly € 1,867,000;

PENSPLAN INVEST SGR Spa (measurement method: complex equity with income adjustment): for a consideration of around € 387,000, whose book value was written down by roughly € 36,000 compared to the value at 31 December in the previous year;

Funivie Madonna di Campiglio (measurement method: shareholders' equity and stock market multiples): whose value was maintained constant, equal to approximately € 235,000 at 31 December 2016;

Funivie Folgarida Marilleva (measurement method: shareholders' equity and stock market multiples): whose value was maintained constant, equal to approximately € 268,000 at 31 December 2016.

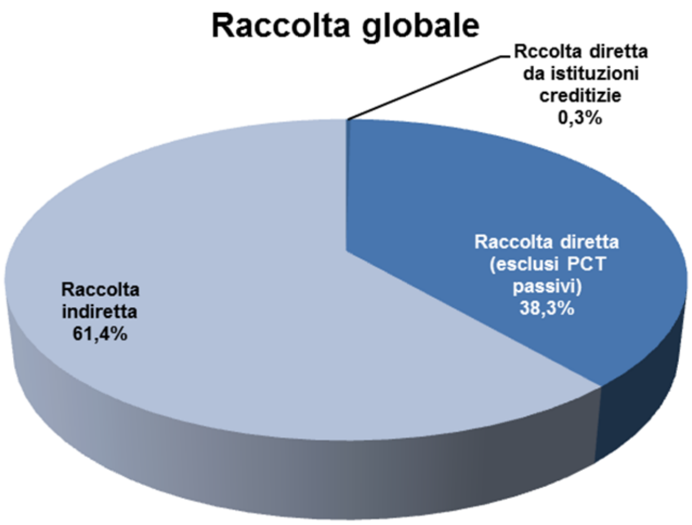
With respect to the voluntary scheme and the IFPD communication of 20 January 2017, following the intervention in the Cassa di Risparmio di Cesena share capital and the periodic update of the fair value measurements of the financial assets acquired, a write-down of € 0.7 million was recognised at 31 December 2016. The value of the economic capital of Cassa di Risparmio di Cesena was defined by applying the Dividend Discount Model methodology. On the basis of the amount of its contribution to the voluntary scheme, the Group Banks adjusted the carrying amount of Cassa di Risparmio di Cesena, equal to roughly € 2.1 million. As no further instructions were received from the Interbank Fund for the Protection of Deposits during the first quarter of 2017, the share value was kept constant IFPD.

On 3 August 2017, the IFPD sent an announcement to its members regarding an extraordinary shareholders' meeting, with an increase of € 95 million in the amount of Voluntary Scheme resources to be borne by the members on the agenda. Since the amendments requested during that meeting, the amount paid in to the Voluntary Scheme to date has not been sufficient to secure Caricesena and with reasonable probability the outlooks for the recovery of the amount invested are deemed very low. Therefore, the Participatory Financial Instrument was written down in full.

As a result of further in-depth analyses performed on the communication received from the IFPD, it was deemed that the likely approval of the extraordinary shareholders' meeting of the IFPD of an increase in the resources of the Voluntary Scheme, would entail, for members, the future commitment to pay a total contribution of around € 515 million, of which € 170 million allocated to the subscription of junior tranches of the securitisation of the NPLs of Caricesena, Carim and Carism and € 345 million to the rescuing of three banks. Based on the share pertaining to Banca Sella, the expected disbursement attributable to it is roughly € 5.3 million. Similar to the action taken for the Participatory Financial Instrument, it is believed that, for the part relating to ensuring the safety of the three banks, the likelihood of future payment is extremely low and, therefore, this commitment was written down, with effects on the income statement, as at 30 June 2017 for an amount of € 3.5 million.

Total Deposits

Total deposits (in Euro thousands)						
Item	30/06/2017	Proportion (%) of total	31/12/2016	Proportion (%) of total	Absolute changes	%
Direct deposits from banks	64,427.6	0.3%	20,831.7	0.1%	43,595.9	209.3%
Direct deposits (excluding repurchase agreements payable)	9,655,452.5	38.3%	9,695,379.1	39.0%	(39,926.6)	-0.4%
Repurchase agreements payable	8,820.1	0.0%	12,272.4	0.0%	(3,452.3)	-28.1%
Indirect deposits	15,467,504.4	61.4%	15,139,002.2	60.9%	328,502.2	2.2%
Total deposits	**25,196,204.6**	**100.0%**	**24,867,485.4**	**100.0%**	**328,719.2**	**1.3%**



Administered Savings

The aggregate of third-party securities in deposit, excluding asset management, mutual funds, SICAVs and financial insurance savings, reached € 8,578 million at 30 June 2017, a decrease of around 4.2% on the figure of € 8,954 million in December 2016. The main underlying trends showed a decrease in the bond component (down € 597 million compared to December 2016) and an increase in the equity component (€ +178 million compared to December 2016).

Funds and sicavs (variable capital investment companies)

Investment funds closed the half with positive net funding of around € 320 million. The flows are concentrated primarily on the bond and balanced segments and foreign funds were purchased to a greater extent than Italian funds. At the end of June 2017, fund volumes exceeded € 3.7 billion, up 11% over the previous year.

Online Trading

The trend in revenues deriving from the online trading service for financial instruments (Online Trading) in the first half of 2017 was influenced by the low volatility of the financial markets which, during the period, reduced the opportunities for trading by customers. This context subsequently witnessed a general contraction in market trading which adversely impacted the economic results of the main players in the Italian online trading market.

The transactions of Banca Sella customers, with over 1,100,000 orders executed on the market, fell overall by 14% with respect to the previous year, generating trading revenues that were down by 11%. The business trend was positively impacted, at least partly, by the improvement in the average commission applied to customers. On the whole, net banking income from this service fell by 9.5% with respect to the same period in the previous year.

The on-line trading service activities developed mainly in the following directions:

- Development of offerings;
- Strengthening of the service model;

With reference to development of the offering, the following services were introduced in the first half of 2017: Leva Plus (functionality which allows customers to operate on an intraday basis, benefitting from the effect of leverage up to 25 times invested capital), the new graphical layout of the Sellaxtrading platform, the automatic trading of foreign currency for end-of-day imbalance rather than order per order.

In the first few months of 2017, the service model dedicated to trader customers was improved, thanks to the introduction of the new “Trading Specialist” sales desk, a specialised team that aims, in a personalised and dedicated manner, to deal with the customers who carry out frequent transactions.

Asset Management

Asset Management recorded a positive first half of 2017. Net deposits totalled € 166.4 million, due almost entirely to a contribution of € 161 million relating to a single managed account relating to an institutional entity. Private banking figures were not particularly satisfying, € -24.7 million, net of the contribution of the institutional customer. By contrast, financial promoters recorded a brilliant result, with positive deposits of € 30 million; branches were virtually unchanged, + € 0.1 million.

At the end of June 2017, asset management volumes came to € 1.739 billion, of which € 1,146 million (65.9%) placed by the Private Banking service, € 221 million (21.4%) by the branch network and € 372 million (12.7%) by the network of financial advisors authorised for off-site sales by Banca Patrimoni Sella & C.. The aggregate volumes recorded an increase of roughly 11.1% compared to 31 December 2016.

Excellent results were registered on the performance side. The first half of 2017, 95.57% of customers (85.45% of assets) saw returns gross of tax effects and commissions exceed the benchmark. A total of 79.06% of customers (73.19% of assets) saw net returns exceed the benchmark in the same period.

The management of the Banca Sella portfolios is entrusted to Banca Patrimoni Sella & Co.

Private and Affluent Market

The new service model requires all customers in the private and affluent market to be served by a dedicated advisor. The Private and Affluent Market was established in July 2016 with this objective in mind.

The assignment of the customer target of the two segments to dedicated affluent advisors and to private bankers continued in the first half of 2017. There were more than 220 advisors (dedicated affluent and private bankers) at the end of June 2017, for coverage of the target customer of roughly 80%. The bank confirms the objective of reinforcing and increasing the concentration of bankers in the area, also through external recruiting. In the first half of 2017, 1 private banker was hired in Milan.

The Private segment

Total deposits as at 30 June 2017 amounted to € 8.171 billion, as a result of the continuation of the process to assign target customers consistently.

The first half concluded with net deposits from private customers of around € 40 million, and an excellent result in terms of assets managed, with total flows exceeding € 430 million. Therefore, the asset management component stood at 42.5% of total deposits.

The acquisition of customers in the first half confirmed the positive trend of the previous year, with a net positive change of 450 customers.

Net banking income recorded a final balance of € 17.6 million in the first 6 months. An excellent contribution was made to revenues from services by net investments, amounting to € 15.6 million.

Receivables

In the first half of 2017, the Credit Products Service continued to innovate its product range and continuously update existing products to better satisfy the requirements of private customers and businesses.

More specifically, we note the following:

- Activities continued targeted at strengthening the offering of mortgages to private customers, with some promotional initiatives, and through the enhancement of the First Home Guarantee Fund.
- The bank is currently engaged in enhancing the offering of credit products via digital channels, first and foremost in the private customer mortgage segment.
- Following the obtainment of new funds from the TLTRO 2 programme, the offering of loan products under favourable terms for business customers was enhanced.
- Short-term financing methods were introduced for Small Business and SMEs specifically linked with POS connections.
- The credit supply process for innovative start-ups was improved.
- Impetus was injected into the use of the Innovfin guarantee (as part of the Horizon 2020 programme, on the loans supporting company research and innovation activities).
- The offering of loans for the advance payment of PAC (Common Agricultural Policy) grants was renewed.
- New regional agreements (Piedmont, Puglia, Campania) were signed, relating to rural development plans (PSR) which make provision for the concession of grants for investments in the agricultural sector.
- A new Agreement was stipulated with Finlombarda for the Operating Loan to agricultural companies.
- Participation in financial support initiatives for populations affected by natural disasters continued.
- The signing of agreements with factoring companies was ramped up, in order to meet the needs of business customers interested in said tool for managing receivables due from commercial counterparties, and the eventual disposal of receivables on a non-recourse basis.
- The placement of personal loans disbursed by Consel continued, with roughly a nominal € 41.3 million paid, as did the placement of lease agreements stipulated by Biella Leasing, for approximately a nominal € 22.3 million.
- Innovative forms of transaction regarding Supply Chain Finance are at the study phase. Potential partnerships with Fintech-P2P Lending companies are also being evaluated, for the expansion of the offering through digital channels in the Corporate and SME sectors.
- The agreements were renewed for the financing of the purchase of tablets for teaching staff and for the households of students of some Biella-based educational institutions.

Cash loans (amounts in Euro millions)

Item	30/06/2017	Proportion (%) of total	31/12/2016	Proportion (%) of total	Absolute changes	%
Due from customers (excluding	**6,973,341.4**	**100.0%**	**6,984,390.4**	**100.0%**	**-11,048.9**	**-0.2%**
Performing	6,499,658.3	93.2%	6,471,300.1	92.6%	28,358.2	**0.4%**
- Current accounts	678,995.7	9.7%	617,909.4	8.9%	61,086.3	**9.9%**
- Mortgage loans	3,817,959.2	54.7%	3,851,174.3	55.1%	-33,215.0	**-0.9%**
- Credit cards, personal loans and salary-backed loans	218,942.8	3.1%	228,567.7	3.3%	-9,624.9	**-4.2%**
- Financial leasing	0.0	0.0%	0.0	0.0%	0.0	**0.0%**
- Other transactions	1,783,678.1	25.6%	1,773,568.7	25.4%	10,109.4	**0.6%**
- Debt securities	82.5	0.0%	80.1	0.0%	2.4	**3.0%**
Impaired assets	473,683.2	6.8%	513,090.2	7.3%	-39,407.1	**-7.7%**
TOTAL CASH LOANS (EXCLUDING REPURCHASE AGREEMENTS)	**6,973,341.4**	**100.0%**	**6,984,390.4**	**100.0%**	**-11,048.9**	**-0.2%**
Repurchase agreements	2,678.1	0.0%	1,203.1	0.0%	1,475.0	122.6%
TOTAL CASH LOANS	**6,976,019.6**	**100.0%**	**6,985,593.5**	**100.0%**	**-9,573.9**	**-0.1%**

The item Due from customers recorded a slight decrease of 0.1% compared to 31 December 2016. This trend is due primarily to the growth in current accounts, mortgages and other loans. The latter item includes loans without revocation and repayment plan, such as, for example, loans in tranches and foreign loans.

At the end of the first half of 2017, cash loans to ordinary customers came to € 6,976 million (€ 6,985.6 million at 31 December 2016), marking a slight negative change of around € 9 million with respect to the previous year. As concerns unsecured loans, the total amount is € 211.5 million (€ 214.9 million as at 31 December 2016).

In a still difficult economic situation, the Bank, as noted above, maintained its support for households, offering mortgages to purchase or remodel homes, and to companies that have demonstrated appropriate economic prospects and business continuity, disbursing short-term loans to support the carrying out of current activities, and medium/long-term loans for new investments and/or to restructure short-term debt.

Loans to businesses continued in collaboration with Biella Leasing, the Group's leasing company, and with Consel, the Group's consumer credit company, for the disbursement of consumer credit loans.

Also during the course of 2016, the bank made use of the funds provided by the European Investment Bank, the Deposits and Loans Fund and the European Investment Fund, and continued to actively collaborate with Sace to support the international growth of business customers.

In consideration of the complexity of the economic context, training and refresher courses for personnel who work in the credit sector was of huge importance in 2016 too.

In the first half of 2017, we were able to note the following:

- the consolidation of the signs of exit from the economic crisis that were registered in 2016;
- the positive effects of the initiatives implemented to improve the quality of credit, with a marked reduction in new entries to positions classified as impaired;
- similarly positive effects of increasingly more proactive management of disputes, targeted at disposing of non-performing loans more quickly: May 2017 saw the conclusion of a transfer of a portfolio of around € 125 million of doubtful loans (booked for a total of roughly € 123 million, equivalent to 16% of the volume of gross doubtful loans as at 31/03/2017).

A combination of three factors made it possible to reduce the impact of credit risk by 14.4% compared to the first half of 2016, with a ratio between adjustments to loans and cash loans, which improved from 0.8% as at 31/12/2016 to 0.6% (annualised figure).

All ratios recorded clear improvement:

- gross impaired assets to gross loans at 12.1% (from 13.6% as at 31/12/2016);
- gross doubtful loans to gross loans at 8.6% (from 10.0% as at 31/12/2016);
- net impaired assets to net loans at 6.8% (from 7.4% as at 31/12/2016);
- net doubtful loans to net loans at 4.0% (from 4.3% as at 31/12/2016);
- texas ratios at 76.9% (from 82.1% at 31/12/2016).

The coverage rate for non-performing loans stood at 47.2%, down compared to 31/12/2016 (50.1%). The decrease is linked to the substantial transfer of unsecured non-performing positions characterised by high percentages of impairment. The coverage rate for doubtful loans stood at 57.0% (60.4% at 31/12/2016), the coverage rate of unlikely to pay improved (22.8% from 21.7% at 31/12/2016) and the coverage rate of past due positions remained unchanged (12.2%).

In line with the strategic guidelines and the information referenced by the national and European supervisory bodies, activities during the year were also focused on reducing the amount of doubtful loans, in respect of which the trend is falling for both gross doubtful loans and net doubtful loans.

Credit quality (in thousands of Euro)

Item	30/06/2017	Proportion (%) of total	31/12/2016	Proportion (%) of total	Absolute changes	%
Due from customers	**6,975,937.1**	**100.00%**	**6,985,513.4**	**100.00%**	**(9,576.3)**	**-0.14%**
Non-non-performing loans	6,502,336.4	93.21%	6,472,503.2	92.66%	29,833.2	0.46%
Non-performing loans	473,683.2	6.79%	513,090.2	7.35%	(39,407.1)	-7.68%
of which net doubtful loans	*275,879.8*	*3.95%*	*299,822.6*	4.29%	*(23,942.8)*	*-7.99%*
of which unlikely to pay	*189,818.2*	*2.72%*	*204,426.8*	2.93%	*(14,608.6)*	*-7.15%*
of which impaired past due	*7,985.1*	*0.11%*	*8,840.8*	*0.13%*	*(855.6)*	*-9.67%*

Doubtful loans

Net doubtful loans at year-end totalled € 275.9 million (including securitisation volumes), down 8% with respect to 31/12/2016 (€ 299.8 million). The incidence on cash loans was 4.0% (4.3% at 31/12/2016).

During the period in question, the amount of gross new doubtful loans totalled € 30.4 million, a 43.1% decrease with respect to the previous year. The decrease is due to the significant improvement in credit quality.

Collections recorded on doubtful loans, including collections of positions transferred, amounted to € 33.8 million, a 25.7% increase with respect to the same period in 2016, when the figure was € 25.1 million. The improvement is connected to both an increase in collections deriving from transfers and the strong performance of collections from out-of-court actions. As regards activities concerning the enforcement of guarantees, a good performance was recorded in the year for property sales at auction, due to both the incentives of the reforms of the enforcement process introduced in the second half of 2015, and the actions implemented by the Dispute Department in synergy with Immobiliare Lanificio Maurizio Sella and some external partners, for the advertising and livening up of auctions, assistance and, where an interest exists, the purchase of properties. The collection of the guarantees enforced against Confidi, recorded a less favourable performance than the previous year, due to the entry into a state of crisis of some guarantee consortia.

The first quarter saw the completion of the non-recourse transfer of a portfolio of positions, with settlement procedures opened, for around € 20.75 million of collectable loans, booked for approximately € 6.9 million. The second quarter saw the completion of a transfer of a portfolio for around € 125.5 million of collectable loans, composed primarily of unsecured positions booked for approximately € 104 million and secured positions booked for around € 19 million.

The completion of the aforementioned transactions also made it possible to reduce manager portfolios by more than 3,600 dossiers, with benefits in terms of the efficiency of collection activities.

At 30 June 2017, the number of non-performing positions stood at 5,257, of which 51.9% were below the amount of € 50,000 and 11.3% lower than € 5,000.

In June 2017, the coverage ratio relating to non-performing positions was 57%, whilst at the end of last year it was 60.4%, a 3.4 points decrease. As already outlined, this decrease is connected exclusively to the substantial transfer of unsecured non-performing positions characterised by high percentages of coverage.

Unlikely to pay positions

Unlikely to pay positions totalled € 189.8 million at the end of the half (net cash exposures including securitisations), down 7.1% compared to 31/12/2016 (€ 204.4 million). The number of customers classified as ‘unlikely to pay’ came to 5,287 (of which 2,853 with an exposure of less than € 5,000).

In June 2017, loans secured by a mortgage guarantee amounted to a net total of € 139.2 million.

Positions with revocation of credit facilities totalled 1,383, i.e. € 39.7 million in net exposures. The volume was impacted by the presence of positions for which full repayment agreements were reached.

In June 2017, the coverage ratio relating to unlikely to pay positions was 22.8%, whilst at the end of last year it was 21.7%, an increase of 1.1%.

This coverage ratio, albeit more contained when compared with that of a sample of peers (29.0% in the first quarter of 2017), is justified by the reduced period of time loans stay in this category and a high ratio of reclassification as performing, and by the presence (around 68%) of the gross amount of unlikely to pay positions of mortgage guarantees.

Measurements done by the Non-Performing Exposures service applied to unlikely to pay positions are aimed at determining whether there is a real possibility of returning to performing and, if there are doubts about realisation, quantifying possible losses after collection actions, in general taking into account capitalisation, income-generating capacity, financial balance, prospects in the relative sector, managerial and entrepreneurial skills, regularity of managing bank counterparty relations and any guarantees present.

Past-due loans

Positions classified as loans past due and in excess of thresholds totalled € 8 million at the end of the year (net cash exposures including securitisations).

Loans past-due and in excess of thresholds include 64 positions with total exposure of € 2.6 million, which benefit from mortgage guarantee.

At 30 June 2017, the number of past due loans and loans in excess of thresholds corresponded to 5,637 customers. The portfolio of past due exposures is highly fragmented: 5,326 positions involve an amount of less than € 5,000.

Measurement of past-due and overdrafted loans used to determine write-downs is done analytically for positions with exposure exceeding € 100 thousand, at initial classification and every time new and significant factors arise.

Measurements performed by the Non-Performing Exposures service are aimed at determining whether there is a real possibility of positions being reclassified as performing and, if there are doubts over the realisation, quantifying possible losses, in general taking into account capitalisation, income-generating capacity, financial balance, prospects in the relative sector, managerial and entrepreneurial skills, regularity of managing counterparty bank relations and any guarantees present.

On the whole, analytical adjustments applied to the total of past due loans and loans in excess of thresholds amounted to € 1.1 million at 30 June 2017.

In June 2016, the coverage ratio for past due exposures was 12.2%, in line with the previous year.

Loans with forbearance measures

Total customers with forbearance status at 30 June 2017 amounted to € 322.7 million (gross exposures, € 351.8 million at 31 December 2016), broken down as follows:

€ 191.1 million in non-performing loans (€ 209.7 million the previous year);
€ 131.6 million in performing loans (€ 142.1 million the previous year);

In the first half of 2017, forborne non-performing positions saw a total of € 30.1 million in new entries, of which 13.8 million from forborne performing exposures.

Overall, in the same period, outflows from forborne non-performing totalled € 52.1 million, of which € 11.7 million due to forborne performing, as regular payments had been made for 12 months after forbearance was granted.

Equity investments and transactions with the companies of the Group

The following tables show the relations between the Bank and the other Group companies, from an equity and economic point of view. Banca Sella supplies most of the outsourced services to the Group companies; it receives outsourced services from the parent company as concerns the services headed by it, in particular: Inspectorate, IT security and the issue of debenture loans.

Relations with Group companies: balance sheet figures (in thousands of Euro)

	Other assets	Other liabilities	Financial assets held for trading	Due from banks	Due from customers	Due to banks	Due to customers	Hedging derivatives	Financial liabilities held for trading	Debt securities purchased	Debt securities issued
Banca Sella Holding S.p.A.	2.180	3.025	7.047	2.685.056	-	692.985	-	92.005	11.017	34.521	32.310
Sella Gestioni S.g.r S.p.A.	2.514	-	-	-	2	-	4.317	-	-	-	-
Sella Capital Management S.g.R S.p.A. in liquidazione	8	-	-	-	-	-	5.472	-	-	-	-
Biella Leasing S.p.A.	474	36	-	-	632.361	-	1.421	-	-	-	-
Immobiliare Lanificio Maurizio Sella S.p.A.	26	-	-	-	-	-	46.459	-	-	-	-
Immobiliare Sella S.p.A.	13	-	-	-	-	-	11.643	-	-	-	-
Selfid S.p.A.	45	-	-	-	-	-	1.668	-	-	-	-
Consel S.p.A.	456	-	-	-	696.949	-	-	-	-	-	-
Banca Patrimoni Sella & C. S.p	3.056	-	-	23	-	15.695	-	-	-	-	-
Easy Nolo S.p.A.	495	-	-	-	4.780	-	-	-	-	-	-
Brosel S.p.A.	46	-	-	-	-	-	1.164	-	-	-	-
Selir S.r.L.	61	-	-	-	-	-	3.783	-	-	-	-
Family Advisory sim S.p.A.	12	-	-	-	2	-	578	-	-	-	-
Miret S.A.	-	-	-	-	-	-	69	-	-	-	-
Finanziaria 2010 S.p.A.	7	-	-	-	-	-	1.864	-	-	-	-
Maurizio Sella	14	-	-	-	437	-	-	-	-	-	-
Selban	5	-	-	-	-	-	171	-	-	-	-
Total	**9.413**	**3.061**	**7.047**	**2.685.080**	**1.334.530**	**708.680**	**78.609**	**92.005**	**11.017**	**34.521**	**32.310**

Relations with Group companies: income statement figures (in thousands of Euro)

	Other operating income	Other operating income (*)	Fee and commission income	Fee and commission expenses	Interest receivables and similar income - other	Interest payable and similar charges - other	Net gains (losses) on hedging activities	Net gains (losses) on trading activities	Administrative expenses: other administrative expenses	Administrative expenses: personnel expenses (**)	Administrative expenses: personnel expenses (***)
Banca Sella Holding S.p.A.	846	603	331	3.001	4.780	13.330	13.328	-4.803	1.505	-1.227	902
Sella Gestioni S.g.r S.p.A.	53	56	5.060	-	-	-	-	-	-	-	-
Sella Capital Management S.g.R S.p.A. in liquidazione	5	3	-	-	-	-	-	-	-	-	-
Biella Leasing S.p.A.	173	90	248	-	3.982	-	-	-	-	-	125
Immobiliare Lanificio Maurizio Sella S.p.A.	19	2	4	-	-	29	-	-	930	-	6
Immobiliare Sella S.p.A.	13	-	-	-	-	1	-	-	1.013	-	-
Selfid S.p.A.	15	14	-	-	-	-	-	-	-	-	40
Consel S.p.A.	94	80	1.959	-	4.472	-	-	-	-7	-123	85
Banca Patrimoni Sella & C. S.p	838	725	-	7.932	10	-	-	-	158	-25	38
Easy Nolo S.p.A.	93	94	24	-	23	-	-	-	4.755	-5	217
Brosel S.p.A.	27	13	-3	-	-	1	-	-	18	-	1
Selir S.r.L.	9	50	-	-	-	1	-	-	2.029	-14	7
Family Advisory sim S.p.A.	8	3	-	-	-	-	-	-	110	-	-
Miret S.A.	-	-	-	-	-	-	-	-	-	-	-
Finanziaria 2010 S.p.A.	7	-	-	-	-	-	-	-	-	-	-
Maurizio Sella	14	-	-	-	7	-	-	-	-	-	-
Selban	5	-	-	-	-	-	-	-	-	-	-
Total	**2.220**	**1.732**	**7.623**	**10.933**	**13.274**	**13.362**	**13.328**	**-4.803**	**10.510**	**-1.393**	**1.422**

(*) services provided to Group companies
(**) Recoveries of costs of employees on secondment to other companies
(***) Reimbursements of expenses of employees of third parties on secondment at other Group companies.

Financial Statement Schedules

as at 30 June 2017

Balance Sheet

BALANCE SHEET

Assets	30/06/2017	31/12/2016	Difference %
10. Cash and cash equivalents	112,774,866	126,566,571	-10.90%
20. Financial assets held for trading	40,030,011	47,459,139	-15.65%
40. Financial assets available for sale	1,286,919,721	1,494,254,507	-13.88%
60. Due from banks	2,738,191,490	2,062,213,464	32.78%
70. Due from customers	6,976,019,568	6,985,593,449	-0.14%
80. Hedging derivatives	5,025,345	5,927,316	-15.22%
90. Value adjustment of financial assets subject to macrohedging (+/-)	93,372,071	108,044,205	-13.58%
110. Tangible assets	42,403,270	44,642,616	-5.02%
120. Intangible assets	53,324,492	52,617,136	1.34%
of which:			0.00%
- goodwill	13,531,423	13,531,423	0.00%
130. Tax assets	163,307,642	176,067,726	-7.25%
a) current	46,180,396	53,332,664	-13.41%
b) deferred	117,127,246	122,735,062	-4.57%
of which Law 214/2011	104,342,942	108,911,976	-4.20%
150. Other assets	147,732,613	155,811,773	-5.19%
Total assets	**11,659,101,089**	**11,259,197,902**	**3.55%**

Liabilities and shareholders' equity	30/06/2017	31/12/2016	Difference %
10. Due to banks	767,887,568	406,482,827	88.91%
20. Due to customers	9,290,284,054	9,254,133,239	0.39%
30. Securities in issue	373,988,557	453,518,277	-17.54%
40. Financial liabilities held for trading	17,443,337	20,518,182	-14.99%
60. Hedging derivatives	97,030,296	111,205,986	-12.75%
80. Tax liabilities	10,012,961	15,794,643	-36.61%
a) current	3,067,031	6,799,355	-54.89%
b) deferred	6,945,930	8,995,288	-22.78%
100. Other liabilities	261,917,529	155,774,270	68.14%
110. Provision for severance indemnities	30,748,900	33,097,412	-7.10%
120. Provisions for risks and charges:	17,291,287	19,118,732	-9.56%
b) other provisions	17,291,287	19,118,732	-9.56%
130. Valuation reserves	(548,183)	378,217	-244.94%
160. Reserves	81,387,740	30,320,657	168.42%
170. Share premiums	366,090,483	366,090,483	0.00%
180. Capital	334,228,084	334,228,084	0.00%
200. Profit (Loss) for the year (+/-)	11,338,476	58,536,893	-80.63%
Total liabilities and shareholders' equity	**11,659,101,089**	**11,259,197,902**	**3.55%**

Income Statement

INCOME STATEMENT

Item	30/06/2017	30/06/2016	Difference %
10. Interest receivables and similar income	100,525,530	108,589,478	-7.43%
20. Interest payable and similar charges	(25,607,286)	(30,720,953)	-16.65%
30. Net interest income	**74,918,244**	**77,868,525**	**-3.79%**
40. Fee and commission income	135,627,596	126,959,869	6.83%
50. Fee and commission expenses	(35,562,133)	(32,859,517)	8.22%
60. Net fees	**100,065,463**	**94,100,352**	**6.34%**
70. Dividends and similar income	106,270	108,391	-1.96%
80. Net gains (losses) on trading activities	3,824,734	4,023,097	-4.93%
90. Net gains (losses) on hedging activities	41,480	(101,876)	-140.72%
100. Profit (loss) from sale or repurchase of:	(36,435)	46,501,236	-100.08%
a) receivables	(772,310)	(1,310,015)	-41.05%
b) financial assets available for sale	735,875	47,859,349	-98.46%
d) financial liabilities	-	(48,097)	-100.00%
120. Net banking income	**178,919,756**	**222,499,724**	**-19.59%**
130. Net value adjustments for impairment of:	(26,392,842)	(25,665,659)	2.83%
a) receivables	(19,938,009)	(23,291,781)	-14.40%
b) financial assets available for sale	(2,137,513)	(1,834,503)	16.52%
d) other financial transactions	(4,317,320)	(539,375)	700.43%
140. Net financial operating gains (losses)	**152,526,914**	**196,834,065**	**-22.51%**
150. Administrative expenses:	(150,356,850)	(152,425,581)	-1.36%
a) personnel expenses	(79,713,968)	(81,849,620)	-2.61%
b) other administrative expenses	(70,642,882)	(70,575,962)	0.09%
160. Net provisions for risks and charges	(2,756,052)	(166,423)	1556.04%
170. Net value adjustments on tangible assets	(3,958,271)	(3,554,225)	11.37%
180. Net value adjustments on intangible assets	(6,878,743)	(6,664,284)	3.22%
190. Other operating expenses/income	28,517,045	34,337,337	-16.95%
200. Operating expenses	**(135,432,871)**	**(128,473,176)**	**5.42%**
240. Profit (loss) from disposal of investments	20,167	1,815	1011.13%
250. Profit (loss) on continuing operations before tax	**17,114,210**	**68,362,704**	**-74.97%**
260. Income taxes for the period on continuing operations	(5,775,734)	(10,624,932)	-45.64%
270. Profit (loss) on continuing operations after tax	**11,338,476**	**57,737,772**	**-80.36%**
290. Profit (Loss) for the period	**11,338,476**	**57,737,772**	**-80.36%**

Comprehensive income

COMPREHENSIVE INCOME

		30/06/2017	30/06/2016
10.	**Profit (Loss) for the period**	**11,338,476**	**57,737,772**
	Other comprehensive income net of taxes without transfer to income statement		
40.	Defined benefit plans	82,380	(2,615,865)
	Other comprehensive income net of taxes with transfer to income statement		
100.	Financial assets available for sale	(1,008,780)	(36,578,087)
130.	**Other comprehensive income, net of tax**	**(926,400)**	**(39,193,952)**
140.	**Comprehensive income (Items 10 +130)**	**10,412,076**	**18,543,820**

The change in comprehensive income relating to item 100. “Financial assets available for sale” is attributable almost entirely to the reversal to the income statement, in 2016, of the positive reserve booked at the end of 2015 as a result of the non-recurring acquisition of Visa Europe by Visa Inc. Lastly, at the end of 2015 a reserve of around € 38.6 million was recognised for the fair value measurement of the investment held. The transfer of the investment was completed in 2016, with the generation of a capital gain of approximately € 46.9 million and the subsequent reversal of the valuation reserve to the income statement.

While the variation in item 40 is due to the effect of the actuarial evaluations of severance indemnity.

Statement of changes in shareholders’ equity as 30 June 2017

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY AT 30 JUNE 2017

				Allocation of profit of previous year		Changes in the year								
				Reserves	Dividends and other allocations		Shareholders’ equity transactions							
	Balances as at 31.12.2016	Change of opening balances	Balances as at 01.01.2017	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	distribution of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income 2017	Shareholders’ equity at 31/12/2017
Capital:														
a) ordinary shares	334,228,084	-	334,228,084	-	-	-	-	-	-	-	-	-	-	**334,228,084**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premiums	366,090,483	-	366,090,483	-	-	-	-	-	-	-	-	-	-	**366,090,483**
Reserves:														
a) from profits	168,613,284	-	168,613,284	**51,067,083**	-	-	-	-	-	-	-	-	-	**219,680,367**
a.1) from previous year’s profit	(4,542,710)	-	(4,542,710)	-	-	-	-	-	-	-	-	-	-	**(4,542,710)**
b) other	(133,749,917)	-	(133,749,917)	-	-	-	-	-	-	-	-	-	-	**(133,749,917)**
Valuation reserves:														
a) financial assets available for sale	5,890,702	-	5,890,702	-	-	-	-	-	-	-	-	-	(1,008,780)	**4,881,922**
b) cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
c) special revaluation laws	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
d) other	(5,512,485)	-	(5,512,485)	-	-	-	-	-	-	-	-	-	82,380	**(5,430,105)**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit (Loss) for the period	58,536,893	-	58,536,893	**(51,067,083)**	**(7,469,810)**	-	-	-	-	-	-	-	11,338,476	**11,338,476**
Shareholders’ Equity	**789,554,334**	**-**	**789,554,334**	**-**	**(7,469,810)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10,412,076**	**792,496,600**

Cash flow statement – direct method

A. OPERATING ACTIVITIES	30/06/2017	30/06/2016
1. Operations	**52,887,738**	**52,609,886**
Interest income collected (+)	105,948,087	117,816,039
Interest expense paid (-)	(25,607,286)	(30,720,953)
Dividends and similar income	106,270	108,390
Net fees (+/-)	100,065,463	94,100,352
Personnel expenses	(79,723,225)	(81,830,390)
Other costs (-)	(72,064,196)	(71,963,624)
Other revenues (+)	29,938,359	35,725,004
Taxes and duties (-)	(5,775,734)	(10,624,932)
Costs/revenues for asset groups held for sale and net of the tax effect (+/-)	-	-
2. Cash generated (absorbed) by financial assets	**(463,555,498)**	**(355,203,420)**
Financial assets held for trading	11,199,412	15,470,826
Financial assets available for sale	200,717,341	(32,121,271)
Due from customers	(11,136,438)	(258,256,206)
Due from banks	(675,978,026)	(98,916,814)
Other assets	11,642,213	18,620,045
3. Cash generated (absorbed) by financial liabilities	**413,630,722**	**288,986,921**
Due to banks	361,404,741	47,724,575
Due to customers	36,150,815	366,479,625
Securities in issue	(78,143,793)	(116,526,797)
Financial liabilities held for trading	(3,074,845)	(136,099)
Other liabilities	97,293,804	(8,554,383)
Net cash generated (used) by operating activities	**2,962,962**	**(13,606,613)**
B. INVESTMENT ACTIVITIES	**30/06/2017**	**30/06/2016**
1. Cash generated by:	**141,311**	**310,731**
Sales of equity investments	-	-
Dividends collected on equity investments	-	-
Sales/redemptions of financial assets held to maturity	-	-
Sales of property, plant and equipment	77,284	36,722
Sales of intangible assets	64,027	274,009
Sales of subsidiaries and business units	-	-
2. Cash (absorbed) by:	**(9,426,168)**	**(10,723,715)**
Purchases of equity investments	-	-
Purchases of financial assets held to maturity	-	-
Purchases of property, plant and equipment	(1,776,042)	(2,436,929)
Purchases of intangible assets	(7,650,126)	(8,286,786)
Sales of subsidiaries and business units	-	-
Net cash generated (used) by investing activities	**(9,284,857)**	**(10,412,984)**
C. FUNDING ACTIVITIES	**30/06/2017**	**30/06/2016**
Issue/purchase of treasury shares	-	-
Issue/purchase of equity instruments	-	-
Distribution of dividends and other purposes	(7,469,810)	(3,672,979)
Net cash flow generated (used) by financing activities	**(7,469,810)**	**(3,672,979)**
0	**(13,791,705)**	**(27,692,576)**
RECONCILIATION	**30/06/2017**	**30/06/2016**
Cash and cash equivalents at start of year	**126,566,571**	**130,426,196**
Total net cash generated (used) in the period	(13,791,705)	(27,692,576)
Cash and cash equivalents at end of period	**112,774,866**	**102,733,620**

Notes

Declaration of compliance with international accounting standards

This interim report on operations was drawn up according to the international accounting standards IAS/IFRS (including the SIC and IFRIC interpretation documents) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union as of 30 June 2017, pursuant to Community Regulation no. 1606 of 19 July 2002. The schemes and tables are prepared in application of the decrees of the Bank of Italy in the exercise of the powers established by Art. 43 of Italian Legislative Decree no. 136/2015 with Circular no. 262/05 as subsequently amended.

The interim report on operations as at 30 June 2017 was drafted exclusively for the determination of the result of the first half for the purposes of calculating Common Equity Tier 1 (CET 1). This interim report on operations was not drafted in compliance with IAS 34 “Interim financial reporting”. Therefore, it lacks some of the tables, comparative data and notes that would be required to present the equity and financial position in compliance with the International Financial Reporting Standards adopted by the European Union.

This interim report on operations was drafted clearly and gives a true and fair picture of the economic and financial situation of Banca Sella.

General drafting principles

The interim report comprises a brief overview of the operating performance, accompanied by the tables which represent the main balance sheet and income statement items from the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders’ Equity; the schemes are prepared in Euro and the tables in thousands of Euro.

The schemes report the corresponding comparison data relating to the balance sheet as at the end of the previous year, while the income statement figures relate to the corresponding period of the previous year. The financial statements correspond to the annual financial statements.

It was prepared in compliance with the general standards provided for in IAS 1 and in accordance with the general assumptions envisaged in the Systematic Framework. The financial statements comply with the provisions of Bank of Italy Circular no. 262/2005 and subsequent updates.

The interim report has been prepared in conformance with the accounting standards and criteria used in the last financial year, as well as in compliance with the accounting standards, amendments and interpretations (IFRS) applied from 1 January 2017.

It is hereby noted that this interim report on operations is subject to a limited audit by Deloitte & Touche S.p.A..

Main risks and uncertainties

The Group conducted impairment testing on its equity investments at 30 June 2017 with no test providing any indications of impairment losses. In addition, no evidence arose that would make it necessary to write down the goodwill recognised in the Balance sheet assets connected to acquisitions of bank branches.

Please note that impairment testing was conducted in continuity with what was done in the financial statements as at 31 December 2016 (for more details, please refer to the published volume) and in compliance with the principles laid out in the Impairment Testing Policy issued by the Group with Circular 09/2012 in March 2012.

Other aspects

Relative to the measurement techniques, input and relative adjustments used in measuring the fair value of instruments in level 2 and level 3, below we provide an extract of that specified in the Fair Value Policy adopted by the Group and currently in effect.

The asset swap spread model is used for the valuation of fixed-rate bonds, while the discount margin model is adopted for floating rate bonds. The use of said models is based on the consideration that they represent the market standard for these types of securities in Europe.

The Euro swap rate curve used as the pricing input for fixed-rate bonds derives from the info-providers used in the Bank, while the spread levels used derive from the elaboration of variables connected with credit spread reported by info-providers. The purpose of such processing is to consider various variables that may affect pricing processes.

If the bonds contain an optional component, when possible the Bloomberg pricing model is used, so as to guarantee an estimate based on the method most widely used on the market. For this purpose, similarly to the previous cases, the option-adjusted-spread (OAS) used is the spread level deduced from the elaboration of variables connected with credit spreads reported by info-providers.

The bonds with a structure that cannot be priced with Bloomberg models are priced by dividing their structure into simpler components.

The valuation of said components is carried out using some valuations deduced from those provided by counterparties for the hedging instrument or, if they are not available, Monte Carlo simulations, using as inputs the values of the variables reported by the main info-providers.

The OTC derivatives that can typically be found in the financial statements concern swaps, rate options and exchange options.

Rate swaps are evaluated according to the discounted cash flow (DCF) method, which is the market standard and uses the swap rate curve relative to the contact currency as the input data. This curve is periodically drawn from the curve published by the main info-providers (Bloomberg/Reuters) in the Bank. If the swap structure is more complex, and such as to prevent a reasonable certainty in the estimate of the contract value, a valuation of the contract is requested to the counterparty of the transaction.

At present, rate options for the Banca Sella Group include only caps and floors and are measured using the Black model. This choice is based on the consideration that alternative models would present the problem of adjusting pricing parameters and would not provide significant improvement of the price estimate. Further elements supporting this choice are connected with the consideration that a wide amount of implicit volatility is reported by the main info-providers, together with the price of options themselves for standard maturity dates.

Both “plain vanilla” and “exotic” exchange options (European or American barrier options) are evaluated according to the Black&Scholes model. The necessary volatility curves for the calculation of implicit volatility for each option as well as the market rate and exchange quotations used for contract valuations are taken from the main info-providers in the Bank (Bloomberg). In the case of exotic options structures that are more complex and do not allow reasonable certainty about the value of the contract, when possible a measurement algorithm is developed internally or, when possible, an evaluation of the same is requested from a third party external to the transaction. These evaluations, when available, are part of the determination of the price together with the measurement provided by the counterpart in the transaction.

The fair value of ABS securities in the portfolio is measured according to Bloomberg pricing models. These models are based on a DCF (Discounted Cash Flow) method, using as input data the latest data provided by the company in charge of the securitisation.

The discount margin level used is deduced from the one reported by research, according to secondary market spreads for similar securities in terms of underlying asset, country and rating. This level may be rectified to take into consideration external factors (and typical factors of the security) such as the different quality of assets, the performance of the underlying security, etc.

The techniques adopted to measure investments in AFS each time are:

the income approach, which determines the value of the company on the basis of its ability to yield income; to that end, the value of the company is calculated by discounting the expected income; average future earnings are estimated on the basis of corporate data (financial statements, interim reports, budgets, industrial plans); in addition to risk-free securities, the discount rate considers a premium for investments in business activities;

multiple of earnings, which determines the company value on the basis of specific indicators relating market prices to financial statement values; multiple of earnings are expressed by a sample of quoted companies as similar as possible to the company to be evaluated; a number of factors are taken into account to establish sample homogeneity: belonging to the same economic sector, the size of the company, financial risks deriving from the corporate financial structure, market shares, geographical diversification, and so on.

other measurement techniques commonly used by those participating in the market to give a price to companies if these techniques have demonstrated that the provide reliable estimates of the prices practices in current market transactions (these include the use of the equity method, which determines the value of the company on the basis of the algebraic balance between assets and liabilities; analysis on the basis of historic data obtained from company information; financial statements, half-yearly reports, budgets, industrial plans).

Unquoted closed-end funds and private equity funds are evaluated on the basis of the data provided by the issuer or, if these data are not provided, according to the amount allocated to the fund. Special attention will be paid to ABS funds where, as far as possible, the investor reports for the individual ABS will be analysed, which are available for individual funds in most cases.

In relation to the loans issued by each Bank in the Group and that subject to hedging, the determination of the fair value for the purposes of evaluating the efficacy of the same is done by using the discounted cash flow method. To that end, the same risk-free curve utilised to measure the hedges is used, and the spread paid is obtained from the security coupon according to that indicated in the hedging contract.

Relative to hedged fixed-rate loans, fair value measurement requires financial consistency between the assets hedged and the IRSs agreed upon for the hedge. At every date of measurement of the fair value, the cumulative stock of hedging IRSs and the cumulative stock of hedged loans are prepared, making sure that the amortisation profile of the IRSs corresponds to the amortisation profile of the hedged loans.

Subsequently, the weighted average fixed rate of hedging IRSs is calculated. Said rate represents the average effective market rate at the time of the agreement of the various IRSs and reflects the interest that was meant to be hedged at the time of loan hedging. In other words, such rate represents the actual part of interest hedged by the IRS, distinguishing it from the part of interest that is not hedged and corresponds to the spread (expressing customer risk rather than rate risk).

At this point, it is appropriate to prepare, beginning from the residual amortisation plan of the principal of all loans hedged, the amortisation plan of loans to be used for measuring the fair value. This plan shall be made up of loan principal flows (the difference between the residual debt of a period and the residual debt of the previous period according to the contractual amortisation plan) and the interest obtained applying the weighted average rate of hedging IRSs (expressing the hedged interest) to the residual debt for the period.

The instalments obtained can then be updated adopting the same yield curve used for measuring the fair value of hedging IRSs, and decreased in proportion to the actual hedging percentage at the date of the valuation (ratio between the "surfaces" – i.e. the sum of remaining principals for the respective duration days – of amortisation plans for the remaining IRS amount divided by the remaining loan credit), so as to obtain the current value of hedged loans. The remaining credit (multiplied by the hedging percentage) at the date of loan valuation shall be deducted from this value.

According to this procedure (current value of the instalments minus residual debt reduced by the hedging percentage), the fair value at the end of financial year T and the fair value at the end of financial year T-1 is calculated. The difference between these two figures is the fair value delta of the loans, which is then compared with the fair value delta of the IRSs.

Measurement processes and sensitivity

The use of the measurement techniques and models described above requires the selection and quantification of certain parameters, which vary based on the financial instrument to be measured.

These parameters are chosen and set up on the calculation software at the moment of a request for measurement of a new instrument.

The Risk Management service is responsible for validating the parameters defined.

Every time the fair value of the financial instrument is calculated, the above parameters are rechecked and updated both by the area that performs the calculation and by the Risk Management service.

By way of example, the main observable parameters can be linked to:

Rate Curve

This is a combination of yield rates for zero coupon synthetic securities, arranged in increasing order in relation to the maturity dates of the same. These rates are obtained using consolidated “bootstrapping” methods from the market rates for deposits (for maturities no greater than 12 months) and market rates for IRSs (for maturities of no less than 2 years). For the purposes of the measurements, the mid rates are used. This forms the basis of the measurement of all OTC derivatives.

Volatility Matrix

This consists of a table that indicates, for every maturity date and strike for the options considered, the relative value of the mid volatility quoted on the market. This table is the same for all cap/floor type options.

Spread

To measure bonds issued by the Group (structured or not), two types of spread are taken into consideration:

Rate spread: represents the margin on the variable rate subject to indexing (for variable rate securities) or the IRS rate for the same maturity dates (for fixed rate securities).

Price spread: represents the differential to be subtracted from the theoretical price to take into account the riskiness of the structure.

Implicit Volatility

This is the volatility of the option prices quoted for a specific underlying instrument.

For every maturity date, the value of the at-the-money options is considered, or a weighted average of the volatility of the prices of the options quoted (even with different strikes) for the same maturity date.

Dividend Yield

In the measurement methodologies, this is obtained as the annualised logarithm of the ratio between dividend and price, as reported by the main information providers (Bloomberg, Reuters, etc.), for maturity dates analogous to those of the derivative in question.

By way of example, the main non-observable parameters can be linked to:

Correlations

To calculate correlations, the logarithmic variations in the prices of the two assets (exchange rate and price of the underlying instrument) considered are used. To that end, data relative to the last 6 months is generally used.

Historic Volatility

In the case that the implicit volatility of the options is not quoted, the historic volatility of the underlying instrument is used, measured on the basis of the standard deviation of the logarithmic variations of the prices of the same.

There is no significant observable input used for fair value measurement of assets and liabilities in level 3.

Fair value hierarchy

Any transfers from a fair value hierarchy level to another occur as a function of the evolution of the characteristics of each security and in relation to the criteria which determine classification in the various levels of the fair value hierarchy. They are identified twice a year, at the time of the half-yearly and annual financial statements. At 30 June 2017, there were no securities that improved or worsened their liquidity and had changed their fair value hierarchy level with respect to 31 December 2016.

Other information

The Bank does not manage groups of financial assets or liabilities on the basis of their net exposure to market risks or credit risk.

Main items of the Balance Sheet

Assets

Financial assets held for trading - Item 20

Financial assets held for trading: Product breakdown

Item/Value	Total 30/06/2017			Total 31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	10,184	12,022	-	5,532	20,656	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	10,184	12,022	-	5,532	20,656	-
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements receivable	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**10,184**	**12,022**	**-**	**5,532**	**20,656**	**-**
B. Derivative instruments						
1. Financial derivatives:	-	17,824	-	-	21,271	-
1.1 held for trading	-	17,628	-	-	21,231	-
1.2 linked to fair value option	-	-	-	-	-	-
1.3 other	-	196	-	-	40.	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 linked to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**17,824**	**-**	**-**	**21,271**	**-**
Total (A+B)	**10,184**	**29,846**	**-**	**5,532**	**41,927**	**-**

Financial assets available for sale - Item 40

Financial assets available for sale: product breakdown

Item/Value	Total 30/06/2017			Total 31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	1,226,623	12,365	-	1,464,769	6,015	-
1.1 Structured securities	1,000	-	-	-	-	-
1.2 Other debt securities	1,225,623	12,365	-	1,464,769	6,015	-
2. Equity securities	-	-	18,031	-	-	19,304
2.1 Carried at fair value	-	-	12,032	-	-	13,269
2.2 Carried at cost	-	-	5,999	-	-	6,035
3. UCITS units	26,706	-	2,926	1,682	-	2,216
4. Loans	-	-	268	-	-	268
Total	**1,253,329**	**12,365**	**21,225**	**1,466,451**	**6,015**	**21,788**

Loans to banks - Item 60

Loans to banks: product breakdown

Type of transaction/Value	Total 30/06/2017				Total 31/12/2016			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**1**	**-**	**-**	**1**	**1**	**-**	**-**	**1**
1. Term deposits	-	X	X	X	-	X	X	X
2. Obligatory reserve	1	X	X	X	1	X	X	X
3. Repurchase agreements receivable	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Due from banks	**2,738,190**	**-**	**22,500**	**2,715,691**	**2,062,212**	**-**	**52,495**	**2,009,763**
1. Loans	2,715,691	-	-	2,715,691	2,009,762	-	-	2,009,763
1.1 Current accounts and demand deposits	2,522,552	X	X	X	1,818,174	X	X	X
1.2 Term deposits	90,757				89,211			
1.3. Other loans and advances:	102,382	X	X	X	102,377	X	X	X
- Repurchase agreements receivable	-	X	X	X	-	X	X	X
- Financial leasing	-	X	X	X	-	X	X	X
- Other	102,382	X	X	X	102,377	X	X	X
2. Debt securities	22,499	-	22,500	-	52,450	-	52,495	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	22,499	X	X	X	52,450	X	X	X
Total	**2,738,191**	**-**	**22,500**	**2,715,692**	**2,062,213**	**-**	**52,495**	**2,009,764**

Key:
FV=fair value
BV=book value

Almost all current accounts and demand deposits are held at the Parent company Banca Sella Holding, as is the term deposit of € 90 million used for keeping the obligatory reserve at Banca Sella Holding which manages it on behalf of the Bank. Other loans and advances includes the balance of the current account, again held at the Banca Sella Holding, on which Banca Sella deposits margins for existing derivatives.

Debt securities consist exclusively of bonds issued by Banca Sella Holding. During the year, the decrease in the segment was entirely due to the maturity of bonds that were only partially renewed.

Loans to customers - Item 70

Due from customers: product breakdown

Type of transaction/Value	Total 30/06/2017						Total 31/12/2016					
	Book value			Fair Value			Book value			Fair Value		
		Impaired						Impaired				
	Non-impaired	Acquired	Other	L1	L2	L3	Non-impaired	Acquired	Other	L1	L2	L3
Loans	**6,502,254**	**-**	**473,684**	**-**	**-**	**7,073,769**	**6,472,423**	**-**	**513,090**	**-**	**-**	**7,104,331**
1. Current accounts	678,996	-	104,731	X	X	X	617,909	-	120,352	X	X	X
2. Repurchase agreements receivable	2,678	-	-	X	X	X	1,203	-	-	X	X	X
3. Mortgage loans	3,817,959	-	279,105	X	X	X	3,851,174	-	299,198	X	X	X
4. Credit cards, personal loans and salary-backed loans	218,943	-	5,491	X	X	X	228,568	-	6,024	X	X	X
5. Financial leasing	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7 Other loans and	1,783,678	-	84,357	X	X	X	1,773,569	-	87,516	X	X	X
Debt securities	**82**	**-**	**-**	**-**	**-**	**-**	**80**	**-**	**-**	**-**	**80**	**-**
8 Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9 Other debt securities	82	-	-	X	X	X	80	-	-	X	X	X
Total	**6,502,336**	**-**	**473,684**	**-**	**-**	**7,073,769**	**6,472,503**	**-**	**513,090**	**-**	**80**	**7,104,331**

Impaired and performing loans

Distribution of financial assets by portfolio and credit quality (book values)

Portfolio/Quality			Doubtful loans	Unlikely to pay	Impaired past-due loans	Other non-impaired exposures	Non-impaired exposures	Total
1. Financial assets available for sale			-	-	-	-	1,239,256	1,239,256
2. Financial assets held to maturity			-	-	-	-	-	-
3. Due from banks			-	-	-	-	2,738,191	2,738,191
4. Due from customers			275,880	189,819	7,985	162,687	6,339,649	6,976,020
5. Financial assets carried at fair value			-	-	-	-	-	-
6. Financial assets held for sale			-	-	-	-	-	-
	Total	**30/06/2017**	**275,880**	**189,819**	**7,985**	**162,687**	**10,317,096**	**10,953,467**
	Total	**31/12/2016**	**299,823**	**204,427**	**8,840**	**122,020**	**9,883,748**	**10,518,858**

Breakdown of credit exposure by portfolio and credit quality (gross and net amounts)

Portfolio/Quality		Impaired assets			Non-impaired assets			Total (net exposure)
		Gross exposure	Specific write-downs	Net exposure	Gross exposure	Portfolio write-downs	Net exposure	
1. Financial assets available for sale		-	-	-	1,239,256	-	1,239,256	1,239,256
2. Financial assets held to maturity		-	-	-	-	-	-	-
3. Due from banks		-	-	-	2,738,203	(12)	2,738,191	2,738,191
4. Due from customers		896,838	(423,154)	473,684	6,529,459	(27,123)	6,502,336	6,976,020
5. Financial assets carried at fair value		-	-	-	X	X	-	-
6. Financial assets held for sale		-	-	-	-	-	-	-
Total	**30/06/2017**	**896,838**	**(423,154)**	**473,684**	**10,506,918**	**(27,135)**	**10,479,783**	**10,953,467**
Total	**31/12/2016**	**1,027,461**	**(514,371)**	**513,090**	**10,034,723**	**(28,955)**	**10,005,768**	**10,518,858**

Portfolio/Quality		Assets with evident low creditworthiness		Other assets
		Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading		-	10	40,020
2. Hedging derivatives		-	-	5,025
Total	**30/06/2017**	**-**	**10**	**45,045**
Total	**31/12/2016**	**-**	**64**	**53,322**

Cash credit and off balance sheet exposures to banks: gross and net amounts and past-due segments

Type of exposure/amounts	Gross exposure					Specific write-downs	Portfolio write-downs	Net exposure
	Impaired assets				Non-impaired assets			
	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Doubtful loans	-	-	-	-	X	-	X	-
- of which: exposures subject to forbearance	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- of which: exposures subject to forbearance	-	-	-	-	X	-	X	-
c) Impaired past-due loans	-	-	-	-	X	-	X	-
- of which: exposures subject to forbearance	-	-	-	-	X	-	X	-
d) Non-impaired past-due loans	X	X	X	X	-	X	-	-
- of which: exposures subject to forbearance	X	X	X	X	-	X	-	-
e) Other non-impaired exposures	X	X	X	X	2,892,502	X	(12)	2,892,490
- of which: exposures subject to forbearance	X	X	X	X	-	X	-	-
TOTAL A	**-**	**-**	**-**	**-**	**2,892,502**	**-**	**(12)**	**2,892,490**
B. OFF BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) non-impaired	X	X	X	X	13,448	X	-	13,448
TOTAL B	**-**	**-**	**-**	**-**	**13,448**	**-**	**-**	**13,448**
TOTAL (A+B)	**-**	**-**	**-**	**-**	**2,905,950**	**-**	**(12)**	**2,905,938**

Cash credit and off balance sheet exposures to customers: gross and net amounts and past-due segments

Type of exposure/amounts	Gross exposure					Specific write-downs	Portfolio write-downs	Net exposure
	Impaired assets				Non-impaired assets			
	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Doubtful loans	930	-	-	640,843	X	(365,894)	X	275,879
- of which: exposures subject to forbearance	-	-	-	49,859	X	(22,755)	X	27,104
b) Unlikely to pay	145,003	36,211	24,273	40,475	X	(56,144)	X	189,818
- of which: exposures subject to forbearance	94,056	13,707	15,707	27,227	X	(33,692)	X	117,005
c) Impaired past-due loans	1,724	5,380	1,498	499	X	(1,116)	X	7,985
- of which: exposures subject to forbearance	327	705	89	20	X	(30)	X	1,111
d) Non-impaired past-due loans	X	X	X	X	164,338	X	(1,652)	162,686
- of which: exposures subject to forbearance	X	X	X	X	21,184	X	(612)	20,572
e) Other non-impaired exposures	X	X	X	X	7,472,284	X	(25,471)	7,446,813
- of which: exposures subject to forbearance	X	X	X	X	103,572	X	(3,694)	99,878
TOTAL A	**147,657**	**41,591**	**25,771**	**681,817**	**7,636,622**	**(423,154)**	**(27,123)**	**8,083,181**
B. OFF BALANCE SHEET EXPOSURES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Impaired	10,983	-	-	-	X	(3,520)	X	7,463
b) non-impaired	X	X	X	X	391,786	X	(1,163)	390,623
TOTAL B	**10,983**	**-**	**-**	**-**	**391,786**	**(3,520)**	**(1,163)**	**398,086**
TOTAL (A+B)	**158,640**	**41,591**	**25,771**	**681,817**	**8,028,408**	**(426,674)**	**(28,286)**	**8,481,267**

Hedging derivatives - Item 80

Hedging derivatives: breakdown by hedge type and level

	30/06/2017			30/06/2017	30/06/2016			30/06/2016
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives								
1) Fair value	-	5,025	-	107,409	-	5,927	-	131,886
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**5,025**	**-**	**107,409**	**-**	**5,927**	**-**	**131,886**

Key:
NV= notional value
FV=fair value

Fair value adjustment of financial assets subject to macrohedging in portfolios - Item 90

Fair value adjustments of hedged assets: breakdown by hedged portfolio

Value adjustments of hedged assets / Values	Total 30/06/2017	Total 31/12/2016
1. Increases	**93,372**	**108,044**
1.1 of specific portfolios:	93,372	108,044
a) receivables	93,372	108,044
b) financial assets available for sale	-	-
1.2 total	-	-
2. Decreases	**-**	**-**
2.1 of specific portfolios:	-	-
a) receivables	-	-
b) financial assets available for sale	-	-
2.2 total	-	-
Total	**93,372**	**108,044**

The item represents the fair value adjustment for the interest rate risk component of all fixed rate loans that are hedged from said risk, with the appropriate derivative contracts, based on the “macro fair value hedging” regime.

Main items of the Balance Sheet

Liabilities

Due to banks - Item 10

Due to banks: product breakdown

Type of transaction/Value	Total 30/06/2017	Total 31/12/2016
1. Due to central banks	**-**	**-**
2. Due to banks	**767,888**	**406,483**
2.1 Current accounts and demand deposits	48,589	37,508
2.2 Term deposits	688,267	334,311
2.3 Loans and advances	30,184	33,562
2.3.1 Repurchase agreements payable	-	-
2.3.2 Other	30,184	33,562
2.4 Liabilities for repurchase commitments of own equity instruments	-	-
2.5 Other payables	848	1,102
Total	**767,888**	**406,483**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**767,888**	**406,483**
Total fair value	**767,888**	**406,483**

The item increased as a result of the rise in term deposits, which mainly relate to the Parent Company.

Due to customers - Item 20

Due to customers: product breakdown

Type of transaction/Value	Total 30/06/2017	Total 31/12/2016
1. Current accounts and demand deposits	8,335,479	8,167,958
2.2 Term deposits	647,579	742,213
3. Loans	83,306	114,569
3.1 Repurchase agreements payable	8,820	12,272
3.2 Other	74,486	102,297
4. Liabilities for repurchase commitments of own equity instruments	-	-
5. Other payables	223,920	229,393
Total	**9,290,284**	**9,254,133**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**9,290,284**	**9,254,133**
Fair value	**9,290,284**	**9,254,133**

Securities in issue - Item 30

Securities in issue: product breakdown

Type of securities / Values	30/06/2017				31/12/2016			
	Book Value	*Fair Value*			Book Value	*Fair Value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	373,989	-	384,588	-	453,451	-	459,525	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	373,989	-	384,588	-	453,451	-	459,525	-
2. Other securities	-	-	-	-	67	-	-	67
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	67	-	-	67
Total	**373,989**	**-**	**384,588**	**-**	**453,518**	**-**	**459,525**	**67**

Financial liabilities held for trading - Item 40

Financial liabilities held for trading: product breakdown

Type of transaction/Value	30/06/2017					31/12/2016				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	x	-	-	-	-	x
3.1.2 Other bonds	-	-	-	-	x	-	-	-	-	x
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	x	-	-	-	-	x
3.2.2 Other	-	-	-	-	x	-	-	-	-	x
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives	x	-	17,443	-	x	x	-	20,518	-	x
1.1 Held for trading	x	-	17,443	-	x	x	-	20,518	-	x
1.2 Linked to fair value option	x	-	-	-	x	x	-	-	-	x
1.3 other	x	-	-	-	x	x	-	-	-	x
2. Credit derivatives	x	-	-	-	x	x	-	-	-	x
2.1 Held for trading	x	-	-	-	x	x	-	-	-	x
2.2 Linked to fair value option	x	-	-	-	x	x	-	-	-	x
2.3 Other	x	-	-	-	x	x	-	-	-	x
Total B	**x**	**-**	**17,443**	**-**	**x**	**x**	**-**	**20,518**	**-**	**x**
Total (A+B)	**x**	**-**	**17,443**	**-**	**x**	**x**	**-**	**20,518**	**-**	**x**

Key
FV= fair value; FV* = fair value calculated excluding changes in value due to changes in credit worthiness of the issuer with respect to the issue date.
NV = nominal or notional value
L1= level 1; L2= level 2; L3= level 3

Hedging derivatives - Item 60

Hedging derivatives: breakdown by hedge type and hierarchical level

	Fair Value	30/06/2017		NV	Fair Value	31/12/2016		NV
	L1	L2	L3	30/06/2017	L1	L2	L3	31/12/2016
A. Financial derivatives	**-**	**97,030**	**-**	**402,749**	**-**	**111,206**	**-**	**436,567**
1) Fair value	-	97,030	-	402,749	-	111,206	-	436,567
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**97,030**	**-**	**402,749**	**-**	**111,206**	**-**	**436,567**

Other information

Guarantees issued and Commitments

Transactions	Amount 30/06/2017	Amount 31/12/2016
1) Financial guarantees issued	35,806	36,587
a) Banks	64	-
b) Customers	35,742	36,587
2) Commercial guarantees issued	175,673	178,336
a) Banks	721	841
b) Customers	174,952	177,495
3) Irrevocable commitments to disburse funds	176,142	205,586
a) Banks	2,309	904
i) usage certain	2,309	904
ii) usage uncertain	-	-
b) Customers	173,833	204,682
i) usage certain	33,936	27,702
ii) usage uncertain	139,897	176,980
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as collateral for third-party obligations	-	-
6) Other commitments	-	-
Total	387,621	420,509

Management and brokerage for third parties

Type of services	Amount 30/06/2017	Amount 31/12/2016
1. Orders executed on behalf of customers	**-**	**-**
a) purchases	-	-
1. settled	-	-
2. not settled	-	-
b) sales	-	-
1. settled	-	-
2. not settled	-	-
2. Portfolio management	**1,620,819**	**1,441,653**
a) Individual	1,620,819	1,441,653
b) Collective	-	-
3. Custody and administration of securities	**20,934,910**	**21,622,412**
a) third-party securities on deposit as custodian bank (exclusive of portfolios managed)	-	-
1. securities issued by the reporting bank	-	-
2. other securities	-	-
b) third party securities on deposit (excluding portfolio management): other	9,212,438	9,495,308
1. securities issued by the reporting bank	279,993	323,522
2. other securities	8,932,445	9,171,786
c) third-party securities deposited with third parties	10,159,468	10,310,270
d) own securities deposited with third parties	1,563,004	1,816,834
4. Other transactions	**42,903,336**	**79,710,880**

Indirect deposits, breakdown

	30/06/2017	31/12/2016
a) Indirect deposits from management and brokerage for third parties (see previous table)		
- Portfolio management	1,620,819	1,441,653
- Custody and administration of securities:		
- third-party securities on deposit as custodian bank (exclusive of assets managed) - Other securities	-	-
- other third-party securities on deposit (excluding asset management): other - Other securities	8,932,445	9,171,786
b) Indirect deposits from insurance policies	1,565,932	1,390,579
Total indirect deposits	**12,119,196**	**12,004,018**

Main items of the Income Statement

Interest – Items 10 and 20

Interest receivables and similar income: breakdown

Item/Technical type	Debt securities	Loans	Other transactions	Total 30/06/2017	Total 30/06/2016
1. Financial assets held for trading	143	-	1,046	1,189	1,137
2. Financial assets available for sale	9,215	3	-	9,218	5,724
3. Financial assets held to maturity	-	-	-	-	-
4. Due from banks	49	2,287	-	2,336	1,868
5. Due from customers	2	85,841	-	85,843	97,560
6. Financial assets carried at fair value	-	-	-	-	-
7 Hedging derivatives	x	x	1,921	1,921	2,290
8 Other assets	x	x	19	19	10
Total	**9,409**	**88,131**	**2,986**	**100,526**	**108,589**

Interest expense and similar charges: breakdown

Item/Technical type	Payables	Securities	Other transactions	Total 30/06/2017	Total 30/06/2016
1. Due to central banks	-	x	-	-	-
2. Due to banks	43	x	-	43	291
3. Due to customers	5,543	x	-	5,543	9,776
4. Securities in issue	x	6,380	-	6,380	8,183
5. Financial liabilities held for trading	-	-	933	933	809
6. Financial liabilities carried at fair value	-	-	-	-	-
7 Other liabilities and provisions	x	x	2,086	2,086	303
8 Hedging derivatives	x	x	10,623	10,623	11,359
Total	**5,586**	**6,380**	**13,642**	**25,608**	**30,721**

Commissions - Items 40 and 50

Fee income: breakdown

Type of service/Value	Total 30/06/2017	Total 30/06/2016
a) sureties issued	1,705	1,613
b) credit derivatives	-	-
c) asset management, brokerage and advisory services:	41,899	37,079
1. financial instruments trading	-	-
2. currency trading	689	595
3. portfolio management	7,382	6,887
3.1. individual	7,360	6,880
3.2 collective	22	7
4. custody and administration of securities	755	896
5. depositary bank	-	-
6. placement of securities	15,672	12,030
7. activities related to receiving and sending orders	9,238	10,184
8. consultancy activities	42	39
8.1 regarding investments	42	39
8.2 regarding financial structure	-	-
9. distribution of third party services	8,121	6,448
9.1 portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2 insurance products	6,444	5,310
9.3 other products	1,677	1,138
d) collection and payment services	59,368	54,995
e) servicing of securitisation transactions	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) activities for management of multilateral trading facilities	-	-
i) current account keeping and management	10,796	11,274
j) other services	21,859	21,999
Total	**135,627**	**126,960**

Below is the breakdown of the sub-item relative to other services:

Fee and commission income: detail of the item “Other services”

	30/06/2017	30/06/2016
- credit and debit cards	5,453	5,362
- expense recovery on loans to customers	507	536
- fees and commissions on relations with credit institutions	296	259
- safe deposit box leasing	111	105
- recovery of postal, printing and similar expenses	735	823
- fees on loans to customers	12,131	12,688
Other	2,626	2,226
Total “other services”	**21,859**	**21,999**

Fee and commission income: product and service distribution channels

Channel/Amount	Total 30/06/2017	Total 30/06/2016
a) at own branches		
1. portfolio management	7,360	6,880
2. placement of securities	15,656	12,015
3. third party products and services	7,998	6,279
b) off-site sales		
1. portfolio management	-	-
2. placement of securities	17	15
3. third party products and services	110	120
c) other distribution channels		
1. portfolio management	22	7
2. placement of securities	-	-
3. third party products and services	13	50

Fee expense: breakdown

Service/Amount	Total 30/06/2017	Total 30/06/2016
a) sureties received	165	161
b) credit derivatives	-	-
c) asset management and brokerage services:	12,030	12,169
1. financial instruments trading	2,453	2,730
2. currency trading	-	-
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated by third-parties	-	-
4. custody and administration of securities	270	257
5. placement of financial instruments	12	-
6. off-site sales of financial instruments, products and services	9,295	9,182
d) collection and payment services	22,493	19,708
e) other services	873	821
Total	**35,561**	**32,859**

Below is the breakdown of the sub-item relative to other services:

Fee expense: breakdown of sub-item “Other services”

	30/06/2017	30/06/2016
Relations with banks	187	83
Loans	10	94
Other	676	644
Total “Other services”	**873**	**821**

Dividends and similar income - Item 70

Dividends and similar income: breakdown

Item/Income	Total 30/06/2017		Total 30/06/2016	
	Dividends	Income from UCITS units		
A. Financial assets held for trading	-	-	108	-
B. Financial assets available for sale	100.	6	-	-
C. Financial assets carried at fair value	-	-	-	-
D. Equity investments	-	x	-	x
Total	**100.**	**6**	**108**	**-**

Net income (losses) from trading activities - Item 80

Net gains (losses) on trading activities: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net gains (losses) [(A+B) - (C+D)]
1. Financial liabilities held for trading	**182**	**165**	**(1)**	**(126)**	**220**
1.1 Debt securities	182	165	(1)	(126)	220
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans and advances	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange rate differences	**x**	**x**	**x**	**x**	**4,478**
4. Derivative instruments	**2,474**	**1,006**	**(2,570)**	**(1,006)**	**(873)**
4.1 Financial derivatives:	2,474	1,006	(2,570)	(1,006)	(873)
- On debt securities and interest rates	2,474	1,006	(2,570)	(1,006)	(96)
- On equity securities and stock indices	-	-	-	-	-
- On currencies and gold	x	x	x	x	(777)
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**2,656**	**1,171**	**(2,571)**	**(1,132)**	**3,825**

Result of hedging activity - Item 90

Net gains (losses) on hedging activities: breakdown

Income components/Amounts	Total 30/06/2017	Total 30/06/2016
A. Income from:		
A.1 Fair value hedging derivatives	14,698	444
A.2 Hedged financial assets (fair value)	-	16,083
A.3 Hedged financial liabilities (fair value)	1,386	1,139
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities in foreign currency	-	-
Total hedging income (A)	**16,084**	**17,666**
B. Expenses from:		
B.1 Fair value hedging derivatives	1,370	17,768
B.2 Hedged financial assets (fair value)	14,672	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	-
Total expenses for hedging activities (B)	**16,042**	**17,768**
C. Net gains (losses) on hedging activities (A-B)	**42**	**(102)**

Profit (loss) from sale/repurchase - Item 100

Profit (loss) from sale/repurchase: breakdown

Item/Income component	Total 30/06/2017			Total 30/06/2016		
	Gains	Losses	Net income/losses	Gains	Losses	Net income/losses
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Due from customers	2,521	3,293	(772)	27	1,337	(1,310)
3. Financial assets available for sale	3,099	2,363	736	48,769	910	47,859
3.1 Debt securities	3,075	2,354	721	1,380	910	470
3.2 Equity securities	15	-	15	47,389	-	47,389
3.3 UCITS units	9	9	-	-	-	-
3.4 Loans and advances	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**5,620**	**5,656**	**(36)**	**48,796**	**2,247**	**46,549**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	107	107	-	140	188	(48)
Total liabilities	**107**	**107**	**-**	**140**	**188**	**(48)**

Net value adjustments for impairment - Item 130

Net write-downs for impairment of loans: breakdown

	Write-downs (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		30/06/2017	30/06/2016
	Write-offs	Other		A	B	A	B		
A. Due from banks									
- Loans	-	-	-	-	-	-	101	101	45
- Debt securities	-	-	-	-	-	-	-	-	-
B. Due from customers									
Non-performing loans acquired									
- Loans	-	-	x	-	-	x	x	-	-
- Debt securities	-	-	x	-	-	x	x	-	-
Other receivables									
- Loans	(355)	(42,621)	-	8,228	12,991	-	1,718	(20,039)	(23,337)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(355)**	**(42,621)**	**-**	**8,228**	**12,991**	**-**	**1,819**	**(19,938)**	**(23,292)**

Net write-downs due to impairment of financial assets available for sale: breakdown

Transactions/Income components	Write-downs (1)		Write-backs (2)		Total 30/06/2017	Total 30/06/2016
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	(2,138)	-	-	(2,138)	(16)
C. UCITS units	-	-	x	x	-	-
D. Loans to banks	-	-	x	-	-	-
E. Loans to customers	-	-	-	-	-	(1,818)
F. Total	**-**	**(2,138)**	**-**	**-**	**(2,138)**	**(1,834)**

Key: A=from interest B=other write-backs

Net write-downs for impairment of other financial transactions: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		30/06/2017	30/06/2016
	Write-offs	Other		A	B	A	B		
A. Sureties issued	-	-	-	-	-	-	15	15	(26)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	(3,520)	-	-	-	-	-	(3,520)	-
D. Other transactions	(45)	(767)	-	-	-	-	-	(812)	(514)
E. Total	**(45)**	**(4,287)**	**-**	**-**	**-**	**-**	**15**	**(4,317)**	**540.**

Key: A=from interest B=other write-backs

Administrative Expenses - Item 150

Expenses for personnel: breakdown

Type of expense/Amount	Total 30/06/2017	Total 30/06/2016
1) Employees	79,357	81,086
a) Wages and Salaries	57,740	59,365
b) Social security contributions	14,033	14,276
c) Severance indemnities	1,720	1,836
d) Pension expenses	849	866
e) Provision for severance indemnities	(9)	19
f) Provision for pensions and similar obligations:	-	-
– defined contribution	-	-
- defined benefit	-	-
g) Payments into external supplementary pension funds:	2,600	2,568
– defined contribution	2,600	2,568
- defined benefit	-	-
h) Costs deriving from payment agreements based on own equity instruments	-	-
i) other employee benefits	2,424	2,156
2) Other current personnel	50	181
3) Directors and auditors	340	262
4) Retired personnel expenses	-	-
5) Recovery of costs of employees on secondment to other companies	(1,426)	(1,481)
6) Recovery of costs of employees on secondment within the Company	1,393	1,802
Total	**79,714**	**81,850**

Other employee benefits

Type of expense/Amount	Total 30/06/2017	Total 30/06/2016
- early retirement incentives and provision to support income	141	106
- benefits for dependent children	29	24
- benefits in kind	879	907
- insurance expenses	729	758
- professional training courses	244	183
- travel expenses	36	25
Other	366	153
Total	**2,424**	**2,156**

Other administrative expenses: breakdown

Type of service/Value	Total 30/06/2017	Total 30/06/2016
Legal and notarial expenses	2,464	2,582
IT assistance and sundry advice	1,102	705
Printing and stationery	197	204
Leasing of electronic machines and software licences	649	339
Sundry rentals and expenses for services provided by third parties	20,285	17,827
Fees for data transmission and telephone	1,569	1,584
Postal and telegraphic expenses	1,304	1,522
Transport expenses	212	172
Cleaning of premises	393	462
Surveillance and escort of valuables	1,214	1,215
Electricity and heating	1,431	1,422
Rent of premises	8,816	9,063
Sundry insurance policies	432	448
Advertising and promotion	1,272	813
Entertainment expenses	87	82
Donations	115	106
Membership fees	459	398
Subscriptions and books	42	46
Information and inspections	796	1,080
Travel expenses	766	866
Expenses for interbank network service	320	328
Website expenses	6	46
Pension expenses for financial promoters	80	76
Other	1,019	1,049
Maintenance and repair expenses	**4,348**	**3,892**
- Properties owned	136	117
- Movables	1,729	1,231
- Hardware and software	2,483	2,545
Indirect taxes	**21,263**	**24,247**
- Stamp duty	18,006	17,879
- Substitute tax Pres. Dec. 601/73	829	780
- Single municipal tax (IMU)	148	191
- DGS and SRF contribution	1,880	4,979
- Other indirect taxes and duties	400	419
Total	**70,641**	**70,576**

Net allocations to provisions for risks and charges - Item 160

Net provisions for risks and charges: breakdown

	Balances as of: 30/06/2017	Balances as of: 30/06/2016
Provisions for risks and charges for revocations	120	125
Provisions for personnel expenses	46	24
Provisions for legal disputes	946	1,133
Provisions for customer complaints	2,433	61
TAX Provisions	15	18
Other provisions	34	220
Reattributions to Income Statement relating to provisions for revocations	-	(61)
Reattributions to Income Statement relating to provisions for personnel expenses	(125)	(7)
Reattributions to Income Statement relating to legal disputes	(269)	(60)
Reattributions to Income Statement relating to customer complaints	(343)	(4)
Reattributions to Income Statement relating to operating risks of the company GBS	-	(850)
Reattributions to Income Statement relating to employee disloyalty	-	(221)
Reattributions to Income Statement relating to other provisions	(100)	(212)
Total	**2,756**	**166**

Net value adjustments on tangible assets - Item 170

Net write-down on tangible assets: breakdown

Asset/Income component	Depreciation (a)	Impairment write-down (b)	Write-backs (c)	Net income/losses (a + b + c) 30/06/2017
A. Tangible assets				
A.1 Company-owned	3,959	-	-	3,959
- For business purposes	3,849	-	-	3,849
- For investment	110	-	-	110
A.2 Assets acquired through financial leasing	-	-	-	-
- For business purposes	-	-	-	-
- For investment	-	-	-	-
Total	**3,958**	**-**	**-**	**3,958**

Net value adjustments on intangible assets - Item 180

Net write-down on intangible assets: breakdown

Asset/Income component	Amortisation (a)	Impairment write-down (b)	Write-backs (c)	Net income/losses (a + b + c) 30/06/2017
A. Intangible assets				
A.1 Company-owned	6,879	-	-	6,879
- Generated internally by the company	1,376	-	-	1,376
- Other	5,503	-	-	5,503
A.2 Assets acquired through financial leasing	-	-	-	-
Total	**6,879**	**-**	**-**	**6,879**

Other operating income and expenses - Item 190

Other operating expenses: breakdown

	Total 30/06/2017	Total 30/06/2016
Amortisation of expenses for improvements on third party assets	289	325
Losses connected to operating risk	847	769
Refunds of interest on collection and payment transactions	-	-
Penalties payable for contract defaults	10	20
Restitution of Fund/SICAV incentives to customers (MIFID)	-	-
Other charges	276	274
Total	**1,421**	**1,388**

Other operating income: breakdown

	Total 30/06/2017	Total 30/06/2016
Rents and instalments receivable	183	179
Charges to third parties and refunds received:	18,321	18,378
- taxes recovered	18,292	18,316
- insurance premiums and refunds	29	62
Expenses recovered and other revenues on current accounts and deposits	1,831	4,339
Income for software services	2,354	2,801
Recoveries of interest on collection and payment transactions	2	3
POS fees receivable	1,432	1,163
Administrative services rendered to third parties	2,286	2,932
Penalties receivable for contract defaults	60	17
Expenses recovered for services rendered in relation to credit recovery	1,066	1,454
Recovery of other expenses	1,141	-
Gain on sale of business unit	-	-
Other income	1,262	4,459
Total	**29,938**	**35,725**

Income taxes for the period on continuing operations Item 260

Income taxes for the year on continuing operations: breakdown

Income components/Amounts	Total 30/06/2017	Total 30/06/2016
1. Current taxes (+/-)	(1,291)	(9,110)
2. Change in current taxes of previous years (+/-)	10	81
3. Decreases in current taxes for the year (+)	-	-
3. bis Reduction in current taxes for the year for tax credits pursuant to law 214/2011 (+)	-	-
4. Changes in prepaid taxes (+/-)	(5,570)	(1,962)
5. Changes in deferred taxes (+/-)	1,075	366
6. Taxes for the year	(5,776)	(10,625)

Information on company equity

Own funds and bank capital ratios

Below are the main features of the shares included in Banca Sella's Common Equity Tier 1 – CET1 at 30 June 2017:

- 668,456,168 ordinary shares with a nominal value of € 0.50 each, including share premiums, reserves and profits accrued for a calculable value of € 790,162 thousand.

There were no calculable financial instruments in Additional Tier 1 Capital at 30 June 2017.

Tier 2 - T2 included subordinated loans issued by Banca Sella at 30 June 2017 for an amount of € 140,976 thousand.

Regulatory Capital - B. Quantitative information

	Total 30-06-2017	Total 31-12-2016
A. Common Equity Tier 1 – CET1 before application of prudential filters	**790,162**	**782,085**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(260)	(400)
C. CET1 gross of elements to be deducted and the effects of the transitional regime (A +/- B)	**789,902**	**781,685**
D. Elements to be deducted from CET1	**50,061**	**49,500**
E. Transitional regime – Impact on CET1 (+/-)	**(1,961)**	**(4,880)**
F. Total Common Equity Tier 1 (Common Equity Tier 1 – CET1) (C – D +/- E)	**737,880**	**727,305**
G. Additional Tier 1 – AT 1, gross of elements to be deducted and the effects of the transitional regime	**-**	**-**
of which AT1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime – Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 (Additional Tier 1 – AT1) (G – H +/- I)	**-**	**-**
M. Tier 2 – AT 2, gross of elements to be deducted and the effects of the transitional regime	**140,976**	**168,386**
of which T2 instruments subject to transitional provisions	**12,919**	**19,094**
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime – Impact on T2 (+/-)	**365**	**337**
P. Total Tier 2 – T2 (M - N +/- O)	**141,341**	**168,723**
Q. Total own funds (F + L + P)	**879,221**	**896,028**

On the basis of prudential regulatory provisions, the total requirement is equal to the sum of the capital requirements prescribed against credit and counterpart, adjustment of credit measurement, regulatory, market and operating risk.

In general, methods used to calculate capital requirements refer to the standardised approach and basic indicator approach (BIA), in terms of operating risk.

Banca Sella's capital management policies have the goal of guaranteeing that the capital base is in line with the level of risk taken on, while complying with regulatory requirements and company development plans.

At 30 June 2017, the capital ratios exceeded the minimum requirements set forth in the regulations in effect as of the reporting date:

- Common Equity Tier 1 ratio: 15.52%, against a minimum level of 5.125%;
- Tier 1 ratio: 15.52%, against a minimum level of 6.625%;
- Total Capital ratio: 18.49%, against a minimum level of 8.625%.

Capital adequacy - B. Quantitative information

Categories/Amounts	Non-weighted amounts		Weighted amounts / requirements	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
A. RISK ASSETS				
A.1 Credit and Counterparty Risk	11,591,419	11,177,304	4,010,111	3,968,838
1. Standardised method	11,591,419	11,177,304	4,010,111	3,968,838
2. Internal rating-based methodology	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			320,809	317,507
B.2 Credit evaluation adjustment risk			9	-
B.3 Regulatory Risk			-	-
B.4 Market risks			1,342	1,870
1. Standardised method			1,342	1,870
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			58,261	58,260
1. Basic method			58,261	58,260
2. Standardised method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			380,421	377,637
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			4,755,359	4,720,469
C.2 Tier 1 capital/Risk-weighted assets (CET 1 capital ratio)			15.52%	15.41%
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			15.52%	15.41%
C.4 Total own funds//Risk-weighted assets (Total capital ratio)			18.49%	18.98%

Reconciliation of profit for regulatory purposes

	30/06/2017
Profit for the period	11,338,476.00
- Donations	35,000.00
- estimated dividends	2,299,489.22
Profit for regulatory purposes	9,003,986.78

Related party transactions

Information on the remuneration of managers with strategic responsibility

In accordance with IAS 24, the types of related parties, with reference to the specific organisational structure and governance, comprise:

a) Banca Sella Holding S.p.A. as the parent company which controls Banca Sella S.p.A.;

b) directors, statutory auditors and top management of Banca Sella S.p.A. (managers with strategic responsibilities);

c) companies controlled by or associated with one of the subjects referred to in point b);

d) close family members of one of the subjects referred to in point b);

e) directors, statutory auditors and top management of the controlling company Banca Sella Holding (managers with strategic responsibilities);

f) the companies of the Group in as much as, together with Banca Sella S.p.A., subject to the direction and coordination of Banca Sella Holding S.p.A.;

With the 9th update, on 12 December 2011, the Bank of Italy introduced into Circular no. 263 "New regulations for the prudential supervision of banks", the new TITLE V - Chapter 5 (Section IV) "Risk activities and conflict of interest with regards to related parties" in application of CICR Resolution no. 277 of 29 July 2008 and Art. 53, paragraphs 4, 4-ter and 4-quater of Italian Legislative Decree no. 385 of 1 September 1993.

The Bank introduces these provisions, explaining that "The regulation of related party transactions aims to monitor the risk that the nearness of some subjects to the bank's decision-making units may compromise the objectivity and impartiality of the decisions relating to the granting of loans and other transactions with regards to said subjects, with possible distortion of the resource allocation process, exposure of the bank to risks that have not been adequately measured or monitored and potential damages for investors and shareholders".

As parent company of the banking Group, Banca Sella Holding S.p.A. has prepared suitable group procedures to ensure compliance with the above provisions, the general rules of which are dictated by two internal regulatory documents: the "Group Regulation for the management of related party transactions" and the "Internal Controls Policies".

Both documents have been approved by the Board of Directors of the parent company and subsequently enacted by the Bank.

The table below indicates the fees received by managers with strategic responsibilities. The managers with strategic responsibilities also include directors and statutory auditors.

Fees paid to managers with strategic responsibilities *in Euro thousands*

Item	Total 30/06/2017
a) Short-term employee benefits	632
b) Post-employment benefits	-
c) Other long-term benefits	-
d) Severance indemnities	37
e) Share-based payments	-
Total	**669**

Fees paid to Directors and Statutory Auditors *in Euro thousands*

Item	Total 30/06/2017
Directors	239
Statutory Auditors	76
Total	**315**

Information on transactions with related parties

Transactions with related parties were carried out, as a rule, on the basis of terms equivalent to those applied for operations performed with independent third parties. The transactions based on the Finrep reporting scheme are reported below, with a rationale that involves different drafting criteria from those relating to the preparation of the table of relations with Group companies in this Report on Operations. Therefore, there could be some differences, including the one relating to the item 'Due from banks' concerning the security deposit at the Parent Company amounting to € 102.4 million, paid as guarantee for derivative transactions, not recorded as a related party given classified in the notes to the financial statements under other receivables and is not included in the details of related parties "Loans and advances".

	Parent company and entities that have joint control or significant influence	Affiliates and other entities in the same group	Associates and joint ventures	Managers with strategic responsibilities for the entity or its parent	Other related parties
Selected financial assets	**437**	**3,956,205**		**4,252**	**179**
Equity instruments		4,868			
Debt securities		34,521			
Loans and advances	437	3,916,817		4,252	179
of which: financial assets that have suffered impairment					
Selected financial liabilities		**819,600**		**4,377**	**593**
Deposits		787,289		4,332	593
Debt securities issued		32,310		45	
Nominal amount of commitments to disburse loans, financial guarantees and other commitments given		294,018		6,513	548
Notional amount of derivatives		1,369,022		391	
Interest income	7,341	13,266,835		6,628	163,561
Interest expense	-249	-13,362,740		-12,993	-25,257
Income from dividends		47,792			
Revenues - fees and compensation	307	7,628,093		15,244	1,456,439
Expenses - fees and compensation		-10,933,234		-146,178	-237,355