GRUPPO BANCA SELLA

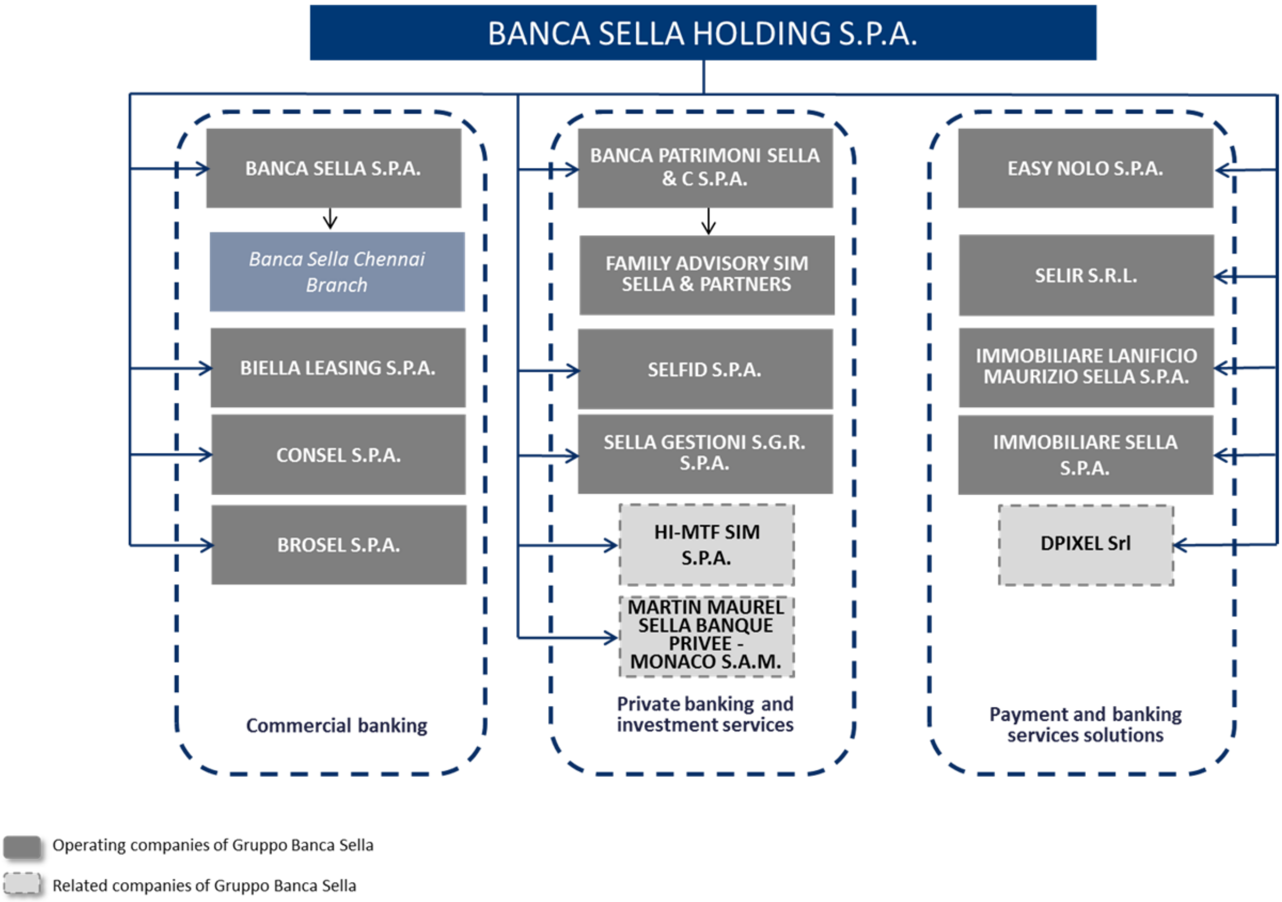
# Consolidated Half-Yearly Financial Report
# As at 30 June 2017

Drawn up by the Parent company

BANCA SELLA HOLDING

# Contents

# Map of the Group as at 30 June 2017




**Other fully consolidated companies:**
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

**Investee companies consolidated at Net Equity:**
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 of Banca Sella Holding

BOARD OF DIRECTORS
**In office up to the approval of the 2018 financial statements**

| | |
|---|---|
| Chairman | Maurizio Sella |
| Deputy Chairman | Sebastiano Sella |
| " " | Giacomo Sella |
| Honorary Deputy Chairman (*) | Franco Sella |
| Chief Executive Officer | Pietro Sella |
| Director | Francesca Arnaboldi |
| " | Mario Bonzano |
| " | Franco Cavalieri |
| " | Massimo Condinanzi |
| " | Jean Paul Fitoussi |
| " | Giovanna Nicodano |
| " | Giovanni Petrella |
| " | Ernesto Rizzetti |
| " | Caterina Sella |
| " | Federico Sella |

RISK COMMITTEE

| | |
|---|---|
| Member – Chairman | Giovanni Petrella |
| " | Francesca Arnaboldi |
| " | Mario Bonzano |

REMUNERATION COMMITTEE

| | |
|---|---|
| Member – Chairman | Mario Bonzano |
| " | Jean Paul Fitoussi |
| " | Francesca Arnaboldi |

APPOINTMENTS COMMITTEE

| | |
|---|---|
| Member – Chairman | Mario Bonzano |
| " | Maurizio Sella |
| " | Giovanni Petrella |

BOARD OF STATUTORY AUDITORS
**In office up to the approval of the 2017 financial statements**

| | |
|---|---|
| Regular auditor – Chairman | Pierluigi Benigno |
| " " | Gianluca Cinti |
| " " | Daniele Frè |
| Alternate Auditor | Riccardo Foglia Taverna |
| " " | Pier Angelo Ogliaro |

GENERAL MANAGEMENT

| | |
|---|---|
| Director General | Pietro Sella |
| Co-Director General | Attilio Viola |

| | |
|---|---|
| INDEPENDENT AUDITING FIRM | Deloitte & Touche S.p.A. |

(*) the honorary Deputy Chairman is not on the Board of Directors.

# Banca Sella Group – Main figures and indicators

**Banca Sella Group Summary data (euro thousands)**

| BALANCE SHEET DATA | 30/06/2017 | 31/12/2016 | Changes absolute | Changes % |
|---|---|---|---|---|
| Total assets | 14,253,945.1 | 13,298,375.6 | 955,569.5 | 7.2% |
| Financial assets (1) | 2,958,019.2 | 2,633,322.3 | 324,697.0 | 12.3% |
| Cash loans, exclusive of repurchase agreements receivable | 7,924,417.4 | 7,802,138.6 | 122,278.8 | 1.6% |
| *repurchase agreements receivable* | *373,190.7* | *103,381.3* | 269,809.4 | 261.0% |
| Total cash loans (2) | 8,297,608.1 | 7,905,519.9 | 392,088.2 | 5.0% |
| Guarantees issued | 202,955.7 | 205,423.6 | (2,467.9) | -1.2% |
| Equity investments | 12,507.2 | 12,169.9 | 337.3 | 2.8% |
| Tangible and intangible fixed assets | 291,737.1 | 288,711.1 | 3,026.0 | 1.1% |
| Direct deposits, exclusive of repurchase agreements payable | 10,910,821.5 | 10,969,997.0 | (59,175.5) | -0.5% |
| *repurchase agreements payable* | *155,798.3* | *12,278.1* | 143,520.2 | 1168.9% |
| Total direct deposits (3) | 11,066,619.8 | 10,982,275.1 | 84,344.7 | 0.8% |
| Direct deposits from credit institutions | 145,661.4 | 84,154.6 | 61,506.8 | 73.1% |
| Indirect deposits valued at market prices | 23,184,668.3 | 22,108,047.5 | 1,076,620.8 | 4.9% |
| Total deposits valued at market prices (4) | 34,241,151.2 | 33,174,306.0 | 1,066,845.2 | 3.2% |
| Common Equity Tier 1 (CET 1) | 902,210.0 | 900,789.6 | 1,420.4 | 0.2% |
| Additional Tier 1 capital (AT 1) | 13,845.4 | 10,329.4 | 3,516.0 | 34.0% |
| Tier 2 (T2) | 93,374.3 | 131,481.2 | (38,106.9) | -29.0% |
| Total own funds | 1,009,429.8 | 1,042,600.2 | (33,170.5) | -3.2% |

| RECLASSIFIED ECONOMIC DATA (5) | 30/06/2017 | 30/06/2016 | Changes absolute | Changes % |
|---|---|---|---|---|
| Net interest income | 122,231.6 | 121,929.7 | 301.7 | 0.3% |
| Gross revenues from services | 204,223.3 | 182,320.9 | 21,902.4 | 12.0% |
| Fee expenses | (54,864.0) | (49,696.0) | (5,168.0) | 10.4% |
| Net revenues from services (net of fee expenses) (6) | 149,359.3 | 132,625.0 | 16,734.4 | 12.6% |
| Net banking income | 271,590.9 | 254,554.8 | 17,036.1 | 6.7% |
| Operating costs net of recovery of stamp duties and other taxes (7) | (195,844.7) | (186,537.2) | (9,307.5) | 5.0% |
| Operating profit/loss | 75,746.2 | 68,017.6 | 7,728.6 | 11.4% |
| Net value adjustments for impairment losses | (26,589.2) | (38,726.8) | 12,137.6 | -31.3% |
| Other economic items | 9,339.2 | 71,385.7 | (62,046.5) | -86.9% |
| Profit (loss) for the period pertaining to Parent Company | 40,607.9 | 75,203.4 | (34,595.5) | -46.0% |
| Profit (loss) for the period pertaining to minority interests | 3,198.8 | 13,118.7 | (9,919.9) | -75.6% |

*(1) The aggregate represents the sum of the following items in the Balance Sheet Assets: item 20 "financial assets held for trading", item 30 "financial assets carried at fair value" and item 40 "financial assets available for sale";*
*(2) Represents item 70 of the balance sheet assets "loans to customers", includes net doubtful loans;*
*(3) The aggregate represents the sum of the following Balance Sheet liabilities items: item 20 "due to customers" and item 30 "securities in issue";*
*(4) The aggregate, valued at market prices, includes administered securities and funds and the component relating to insurance income;*
*(5) As per items reported in the reclassified consolidated Income Statement;*
*(6) The aggregate represents the sum of the following items in the Reclassified Income Statement: net commissions, net income (loss) from trading and hedging activities, profit (loss) from sale or repurchase of loans, financial assets available for sale, financial assets held to maturity and financial liabilities;*
*(7) Equal to the sum of the following items: "Administrative expenses" item 180, "Value adjustments on tangible assets" item 200, "Value adjustments on intangible fixed assets", item 210 "Other operating income and expenses" item 220. At 30 June 2016, administrative expenses included contributions to the National Resolution Fund.*

## Alternative performance indicators

| PROFITABILITY RATIOS (%) | 30/06/2017 | 30/06/2016 |
|---|---|---|
| R.O.E. (return on equity) (1) (11) | 8.4% | 22.6% |
| R.O.E. (return on equity) before extraordinary events (11) | 2.9% | 8.5% |
| R.O.A. (return on assets) (2)(11) | 0.6% | 1.3% |
| Net interest income (3) / Net banking income (3) | 45.0% | 47.9% |
| Net income from services (3) / Net banking income (3) | 55.0% | 52.1% |
| Cost to income (4) | 71.6% | 72.7% |
| Cost to income net of National Resolution Fund contribution (5) | 70.6% | 70.2% |
| **PRODUCTIVITY RATIOS (euro thousands)** | **30/06/2017** | **30/06/2016** |
| Net banking income (3) (11) / Average no. of employees | 127,777.4 | 119,467.2 |
| Operating result (3) (11) / Average no. of employees | 35,636.9 | 31,921.9 |
| Cash loans (net of repurchase agreements) / Employees at the end of the half | 1,876.9 | 1,822.9 |
| Direct deposits (net of repurchase agreements payable) / No. of employees at the end of the half | 2,584.3 | 2,563.1 |
| Total deposits at market prices / No. of employees at the end of the half | 8,110.2 | 7,751.0 |
| **EQUITY AND LIQUIDITY RATIOS (%)** | **30/06/2017** | **31/12/2016** |
| Cash loans (net of repurchase agreements) / Direct deposits (net of repurchase agreements) | 72.6% | 71.1% |
| Cash loans (net of repurchase agreements) / Total assets | 55.6% | 58.7% |
| Direct deposits (net of repurchase agreements payable) / Total assets | 76.6% | 82.5% |
| Liquidity Coverage Ratio (LCR) (6) | 187.2% | 219.5% |
| Net Stable Funding Ratio (NSFR) (7) | 129.40 | 124.0% |
| **CREDIT RISK RATIOS (%)** | **30/06/2017** | **31/12/2016** |
| Net non-performing loans / Cash loans (net of repurchase agreements) | 6.8% | 7.5% |
| Net doubtful loans / Cash loans (net of repurchase agreements) | 3.8% | 4.3% |
| Gross doubtful loans / Gross cash loans (net of repurchase agreements) | 8.5% | 10.3% |
| Net value adjustments to loans (8) / Cash loans (net of repurchase agreements receivable) (11) | 0.6% | 1.1% |
| Coverage rate for non-performing loans | 48.0% | 51.1% |
| Coverage rate for doubtful loans | 58.5% | 61.7% |
| NPL ratio (9) | 12.2% | 14.2% |
| Texas ratio (10) | 68.4% | 74.3% |
| **SOLVENCY RATIOS (%)** | **30/06/2017** | **31/12/2016** |
| CET 1 ratio (12) | 12.09% | 12.23% |
| Tier 1 ratio (12) | 12.28% | 12.37% |
| Total capital ratio (12) | 13.53% | 14.16% |

(1) *Ratio between operating profit and equity, net of valuation reserves, both including minority interests;*
(2) *Ratio between "Net profit including minority interests" and "Total assets";*
(3) *As per item reported in the reclassified consolidated 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 calculated net of the contribution to the National Resolution Fund SRF – Single Resolution Funds;*
(6) *LCR: minimum limit in force for all of 2017, equal to 80% (minimum limit after start-up period, 100%, as of 1 January 2018).*
(7) *NSFR: officially takes effect as of 01 January 2018, with a minimum limit of 100%.*
(8) *Obtained from the sum of items 100 a) and 130 a) in the reclassified income statement;*
(9) *Ratio between gross non-performing loans and gross cash loans net of repurchase agreements;*
(10) *Ratio between gross non-performing loans and the sum of tangible equity (i.e., shareholders' equity minus intangible assets) and adjustments on non-performing loans;*
(11) *Annualised indicator;*
(12) *The ratios are calculated on the basis of the prudential consolidation perimeter.*

The Banca Sella Group had a positive first half of the year, closing the consolidated financial statements as at 30 June 2017 with a net profit of € 40.6 million, along with a further improvement in credit quality and growth in deposits as well as loans. The result for the first half of the year was impacted by several extraordinary components such as, with a positive impact, the disposal of the equity investment in Compagnie Financière Martin Maurel and, with a negative impact, write-downs of contributions and commitments to the Fondo Atlante and the voluntary scheme of the Interbank Fund for the Protection of Deposits. Excluding these components, the net profit would have amounted to € 21.7 million, up compared to € 13.3 million in the first half of the previous year on a like-for-like basis (considering extraordinary components deriving from the acquisition of Visa Europe, of which Banca Sella was a shareholder, by Visa Inc, of which Banca Sella is now a shareholder, and the disposal of the insurance company Cba Vita to Hdi Assicurazioni, the net profit for the first half of 2016 totalled € 75.2 million).

In the first half of 2017, the Banca Sella Group also confirmed its robust financial position, which broadly exceeded the required minimum thresholds. The Group's CET1 amounted to 12.09%, compared to the 6% threshold assigned as part of the SREP supervisory review process, and the Total Capital Ratio was 13.53%, also in this case higher than the assigned threshold of 9.75%. The Group's liquidity indicators were particularly positive: the LCR came to 187.2% (the minimum limit is 60% and as of 2018 it will rise to 100%), while the NSFR is equal to 129.4% (in force as of 2018 when the minimum limit of 100% must be respected).

Total deposits at market value, inclusive of repurchase agreements, rose by € 1.2 billion, reaching € 34.4 billion (+3.7%), bearing witness to customer confidence. Direct deposits inclusive of repurchase agreements rose slightly to € 11.1 billion (+0.8%).

The Group's commitment to and numerous initiatives in favour of lending to businesses and households in the communities in which it works resulted in further growth of 5% in loans, which reached € 8.3 billion compared to € 7.9 billion at the end of 2016. In addition, the process of credit quality improvement continued, also thanks to better economic performance. Net value adjustments decreased by 31.3% compared to the same period of the previous year. The ratio between adjustments and total loans net of repurchase agreements declined to 0.6% on an annual basis. The coverage rate of non-performing loans declined to 48% compared to 51.1% at the end of 2016, while the coverage rate of doubtful loans alone declined to 58.5% compared to 61.7% at the end of 2016. The ratio between net non-performing loans and total net loans was 6.8%, an improvement compared to 7.5% at the end of 2016 and therefore better than the sector average of 9.4% as at 31 December 2016 (most recent figure available).

The slight decline in coverage rates and the improvement in the ratio between net non-performing loans and total net loans and the NPL ratio are due primarily to several transfers of doubtful loans, with a low expectation of recovery and therefore with an adequate degree of coverage, carried out in the first half of the year by some Group companies, transactions which further improved the credit portfolio quality. The transfer of doubtful loans also positively impacted the Group's Texas Ratio, which improved further to 68.4% and is one of the best in the entire Italian banking sector.

Net revenues from services performed well, growing by 12.6% (€ 149.4 million against € 132.6 million in the same period of the previous year), also thanks to the positive results achieved in the Group's main business sectors, including commercial bank activities, managed savings, payment systems, private banking and financial activities. The latter also had a positive impact on net banking income, which rose by 6.7% (€ 271.6 million against € 254.5 million in the same period of the previous year), while net interest income remained stable at € 122.2 million (+0.3%, totalling € 121.9 million in the same period of the previous year). Operating costs rose by 5%, also due to extraordinary contributions to the resolution funds.

**Staff and branches** *(end of the half)*

| | 30/06/2017 | 30/06/2016 | 30/06/2015 | 30/06/2014 | 30/06/2013 | 30/06/2012 |
|---|---|---|---|---|---|---|
| Employees | 4,222 | 4,280 | 4,243 | 4,106 | 4,026 | 4,146 |
| Bank branches | 300 | 305 | 304 | 304 | 304 | 334 |

## Group bank branches

| Company | Branches at 30/06/2017 | Proportion (%) of total 2017 | Branches at 31/12/2016 | Proportion (%) of total 2016 |
|---|---|---|---|---|
| **Banks in Italy** | | | | |
| Banca Patrimoni Sella & C. S.p.A. | 12 | 4.0% | 12 | 4.0% |
| Banca Sella S.p.A. | 287 | 95.7% | 287 | 95.7% |
| Banca Sella Holding S.p.A. | 1 | 0.3% | 1 | 0.3% |
| **Total branches in Italy** | **300** | **100.0%** | **300** | **100.0%** |
| **Total Group branches** | **300** | **100.0%** | **300** | **100.0%** |
| **Geographical distribution of branches** | | | | |
| North West (Piedmont, Aosta Valley, Lombardy, Liguria) | 174 | 58.0% | 174 | 58.0% |
| North East (Veneto, Trentino, Emilia Romagna, Friuli) | 27 | 9.0% | 27 | 17.6% |
| Centre (Tuscany, Lazio, Molise, Abruzzo, Marche) | 33 | 11.0% | 33 | 11.0% |
| South and Islands (Campania, Apulia, Sicily, Sardinia) | 66 | 22.0% | 66 | 22.0% |
| **Total branches** | **300** | **100.0%** | **300** | **100.0%** |

# Summary of the macroeconomic reference 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 Fed 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.

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

Following the merger agreement between Banque Martin Maurel and Rothschild & Co., Banca Sella Holding and Finanziaria 2010 sold the entire equity investment in Compagnie Financière Martin Maurel, generating a gross capital gain of € 29.7 million.

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".

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.

During the half, Consel made an agreement to sell a portfolio of non-performing loans. The portfolio, for a nominal value transferred of roughly € 33.6 million, was broken down primarily between personal loans (55.7%) and auto loans (20.1%) and following the write-downs made, the residual value at 31 December 2016 was € 3.2 million. The disposal of the same to a specialised company was done for € 6.6 million. Therefore, this operation reinforces the correctness of the measurement criteria applied and the reliability of the accounts as a whole, in that the sales price made it possible to obtain an improvement of around € 3.4 million with respect to the corresponding measurement.

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.

In the first half of the year, the Fondo Atlante was written down taking into account the impairment loss on the fund's underlying assets (Banca Popolare di Vicenza and Veneto Banca), also in the wake of the latest developments and the compulsory administrative liquidation with the resulting sale, to Banca Intesa Sanpaolo, of the assets and liabilities constituting a banking business unit of the two Banks in liquidation. With respect to the value recognised in the financial statements, of € 4.2 million, this therefore resulted in a write-down with effects on the income statement in the amount of € 3.6 million.

During the first half of the year, Selfid, the Group's trust company, launched a company transformation process with a view to better supporting Private Bankers in the management of activities relating to the protection and transmission of assets, including through innovation in the range of services offered and operating processes; as a result, the Bank of Italy authorised Banca Patrimoni Sella & C. to acquire an equity investment totalling 70% of the company from Banca Sella Holding, which held 92.5%.

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 10 August 2017, Banca Sella Holding received the report of the Bank of Italy relating to the inspection conducted to assess the governance and control and operational and IT risk management systems and to analyse the effectiveness and reliability of the IT/accounting system. When this report was drafted, the Bank was preparing its own considerations with respect to the findings reported.

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.

# Banca Sella Group Structure

The Banca Sella Group consists of 19 companies, of which two special purpose securitisation vehicles, working in many different geographical areas with a vast range of products and services.

The role of Banca Sella Holding is central within the Group, serving as the parent company for the banking group which, in the context of managing and coordinating the group, exercises:

a. strategic control over the development of the various areas in which the group operates and the risks which weigh on the activities performed. This involves control over both the trends of the activities performed by the companies within the Group (internal growth or reduction), and acquisition and disposal policies followed by group companies (external growth or reduction);

b. a management control aimed at ensuring that the economic, financial and equity balance conditions of individual companies and of the group as a whole are maintained. These control requirements are preferentially satisfied through the preparation of plans, programs and budgets (corporate and group), and through periodic situational analysis, infra-annual accounts, the various individual financial statements and consolidated financial statements, that is both for homogeneous sectors of activity and in reference to the entire group;

c. technical/operational control aimed at determining the various risk profiles brought to the group by the individual subsidiaries and overall Group risks.

It also incorporates Finance, that is own-account trading operations, managing company-owned securities portfolios and corporate finance.

In the context of the second funds, that of “provider of other services” to other Group companies, Banca Sella Holding manages various services at a central level and provides them to subsidiaries, including:

- financial instruments trading;
- access to financial markets;
- centralised Group treasury (including management of relations and credit lines of Banking Counterparties).

The main Group companies included in the consolidation area can be divided as follows, on the basis of their business segment:

- Italian commercial banks:
  - Banca Sella, the sole Italian banking network of the Group which mainly operates in retail activities;
- Investment services:
  - Banca Patrimoni Sella & C: a bank whose business is focused on securities asset management, investment advice and increasing its customers’ total assets, and which also plays the role of provider of private banking tools, services and products to the entire Group;
  - Selfid: a company whose purpose is to carry on a so-called “static” fiduciary business;
  - Sella Gestioni: a company operating in the managed savings sector (in the segment of collective management) and in the sector of individual management and complementary pensions;
  - Family Advisory SIM S.p.A. - Sella & Partners: a securities broking company, this is a multi-family office providing a concrete response for families and businesses;
- Leasing
  - Biella Leasing: a company operating in the financial leasing segment;
- Consumer credit

- Consel: a company which works in the consumer credit sector, providing customers with a wide range of products focused on credit;

- Banking Services

  - Selir: a Romanian company which operates in the sector of the design and development of software products and in the provision of administrative services exclusively for the Group's banks, Easy Nolo and Consel;

  - Easy Nolo: a company operating in the world of electronic payment systems;

- Other sectors of activity

  - Miret S.A.: a common-law company operating under Luxembourg law, dealing exclusively with administrative activities deriving from transferred management of Sella Bank Luxembourg S.A.;

  - Immobiliare Sella and Immobiliare Lanificio Maurizio Sella: the Group's real estate companies;

  - Finanziaria 2010: the Group's holding company;

  - Brosel: a company active in the insurance broking and advice sector;

  - Sella Synergy India: Indian company, which on 15 February 2010 sold its information activities to Chennai Branch, "permanent establishment abroad" of Banca Sella; the company is active but no longer operative;

  - Sella Capital Management: in liquidation.

# Risk monitoring

## Credit risk

The Banca Sella Group considers the measurement and management of credit risk to be of crucial importance.

The activity of loan supplies has always looked towards traditional business forms, supporting household financing needs and providing the necessary support to those 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, at the moment no operations are 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 preparing credit risk monitoring policies, particular attention is paid to maintaining an adequate risk/return profile and the assumption of risks in keeping with the risk appetite defined and approved by the competent Bodies. Specifically, credit risk control activities are the responsibility of the Risk Management service of Banca Sella Holding, the Risk Management services of the individual Group companies that disburse loans and the Credit Quality and Control Office of Banca Sella. The Risk Management services are charged with monitoring and quantifying the credit risk assumed by the Group companies, with assessing its sustainability and, using shared instruments, favouring its effective and proactive management. Alongside these activities there are audits to review the appropriateness of classifications, the consistency of the provisions and the adequacy of debt collection processes.

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.

The Banca Sella Credit Quality and Control Service conducts the more traditional first level controls, mainly focused on checking the effective application of the bank's policies, the analysis of individual positions and the trend analysis of variables held to be significant in terms of controlling credit risk.

## Market risk

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 governed by a Group Policy which lays down the rules under which the individual Group companies may expose themselves to these types of risk.

### Interest-rate 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).

Interest-rate risk derives from the possibility 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 Group 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 and equity securities and UCITS.

The trading book consists primarily of bonds, equities, UCITS units and listed derivatives for hedging the positions. The book's bond component consists mainly of limited-duration bonds issued by the Republic of Italy. Issuer risk is the primary type of portfolio 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 current portfolios. The stress test procedures consist of analysing the economic results should specific negative events occur that, although extreme, are plausible (for example, a deterioration in the creditworthiness of the issuers of the securities in the portfolio).

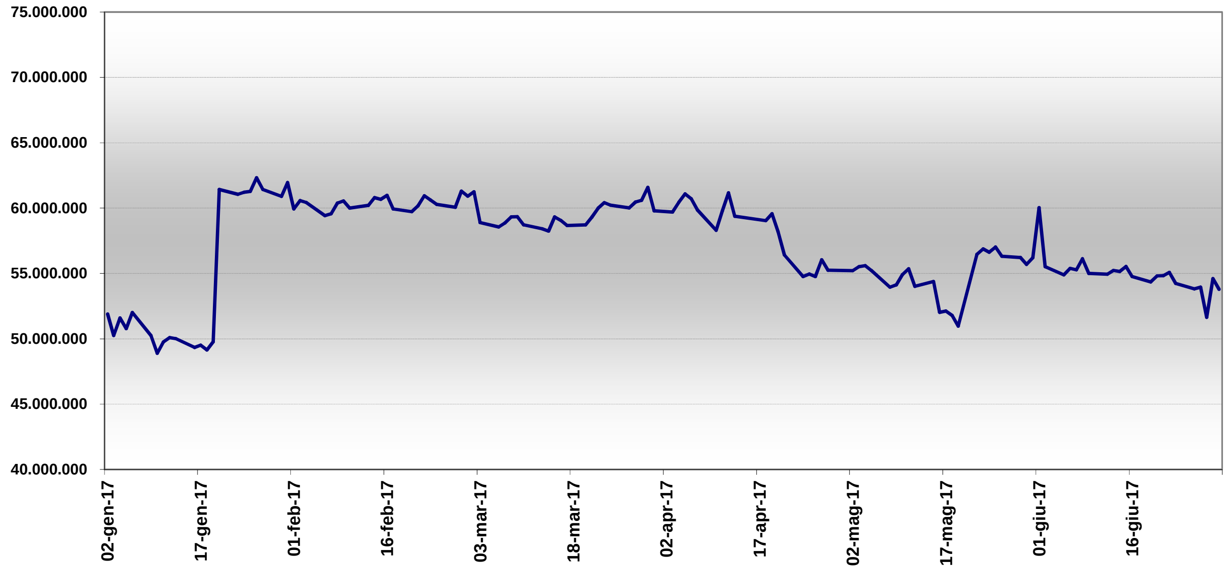
For management purposes, the trading book market risk is measured and monitored on the basis of the VaR (value-at-risk), which is basically assessed according to the historical simulation approach. VaR measures the maximum potential loss which, within a certain confidence interval, may occur if a certain 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 severe market swings on the portfolios. The percentile distribution corresponding to the confidence interval set gives the VaR.

Risk Management carries out checks on VaR trends (time horizon: 5 days for trading books and 3 months for current portfolios with confidence interval: 99%) on the own portfolios and carries out sensitivity analyses to risk factors such as portfolio duration and sudden interest rate shocks. Finally, operating limits on securities investments are also continuously monitored. The average duration of the current book is 1.75 years while the sensitivity, estimated on a parallel shift of +100 basis points of the interest rate curve, is about € 38.8 million (about 1.75% of the portfolio).

The trend in the VaR of the Banca Sella Group (confidence interval 99%, time horizon 3 months) is shown in the chart below. These values have always remained within the prudential limits set by the Parent Company.

**Banca Sella Group – Trading Book**

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




Risk Management also monitors own-account trading operations.

The trend of the VaR (horizon 1 week, confidence interval 99%) of Banca Sella Holding's trading activity is summarised in the table below with reference to the 1st half of 2017:

## VaR Decomposition - Banca Sella Holding al 30.06.2017

### Trading Book - Area Finanza

Orizzonte Temporale 1 settimana, intervallo di confidenza 99%

| Dati al | | 30-giu-17 | | | 31-dic-16 | | |
|---|---|---|---|---|---|---|---|
| | | VaR Medio | VaR Minimo | VaR Massimo | VaR Medio | VaR Minimo | VaR Massimo |
| **Tipologia di Rischio** | | | | | | | |
| Fixed Income | € | 569.282 | 156.277 | 1.329.435 | 644.216 | 116.940 | 1.411.924 |
| Foreign Exchange | € | 1.025 | 298 | 3.865 | 867 | 105 | 8.732 |
| Equities | € | - | - | - | - | - | - |
| Equity Derivatives | € | 130.457 | 29.724 | 369.277 | 109.069 | 13.742 | 458.931 |
| Derivatives OTC | € | - | - | - | - | - | - |
| Treasury | € | 16.109 | 3.135 | 28.067 | 9.977 | 2.789 | 30.289 |
| Total VaR(b) | € | **716.873** | **189.433** | **1.730.644** | **764.129** | **133.575** | **1.909.876** |

(b) Il Value-at-Risk totale è calcolato come la somma dei singoli VaR per tipologia di rischio

## 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 as described above, primarily amounts 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 deposits and loans to customers, bank portfolio fixed-rate and floating rate securities and interbank deposits (made and received), as well as derivative instruments created to mitigate exposure to interest rate risk. The Group's policy is to provide a high hedge to 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 (on demand items) and for the measurement of the phenomenon of prepayment. 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 are hypothesised in the rate curve, respectively of +200 basis points (rise) and -40 basis points (lowering).

The sensitivity analysis figures at 30/06/17 show a low risk for the 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 | 10.14 | 1,009.43 | 1.00% |

Amounts in Euro millions.

The price risk of the portfolio is attributable mainly to equity interests held for long-term investment purposes. These are positions assumed directly on the basis of resolutions authorised by the Board of Directors and operationally managed by the Finance Department of the Parent Company. Price risk for these financial instruments is managed by taking an operational approach to equity interests.

## 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 (macro-hedges, such as mortgage loans, consumer credit and regular leasing instalments) or bond loans issued by the Banca Sella Group, held in the banking book (micro-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 hedging is put in place with the aim of mitigating the interest rate risk or the exchange rate risk of simple derivatives such as domestic currency swaps, currency options, overnight interest swaps traded by customers of the Group's banks.

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 marginal volumes of foreign investments, the interest rate risk they generate is not hedged.

## Exchange rate risk

Currency transactions mainly take place at the Parent Company's Finance Department, in which the Treasury unit 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 as updated.

In the 1st half of 2017, there were no overruns of the 2% regulatory capital limit for consolidated positions in foreign currency. As a result, there was no capital requirement against exchange rate 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 actions, if considerable exposures towards specific currencies are identified.

### Exchange rate risk hedging activities

The transactions conducted during the first half of the year can be mainly traced back to exchange rate risk hedging activities for the Group's banks and companies and for customer transactions.

Micro-hedging is instead put in place, with third parties, with the aim of mitigating the risk of simple derivatives such as domestic currency swaps, currency options and forward contracts traded by customers with the Bank.

## 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 balance for 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 so as to guarantee solvency, even in stress conditions;
- conformity of liquidity risk management and monitoring processes and methods with prudential regulatory indications;
- decision-sharing and clarity on responsibilities of management, controlling and operating bodies.

The liquidity level is managed by the Banca Sella Holding Finance Department. The Finance Department guides, coordinates and controls the Banca Sella Group's financial activities, while pursuing careful risk management and a solid liquidity position. In particular, in this context the Banca Sella Holding ALM and Treasury service plays a key role by carefully managing the Group's liquidity and contributing to increasing the business's value over time in compliance with the risk parameters laid out in the Risk Appetite Framework. The ALM and Treasury service also contributes to evaluating liquidity reserves. The Group bank Treasuries are responsible for managing liquidity in keeping with the Group's strategic principles and policies.

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 BSH Risk Management service also evaluates the liquidity reserves. Responsibilities regarding controls and liquidity risk monitoring, verifying compliance with the limits established in line with group levels and sufficient reporting to the corporate bodies are delegated to the Group company Risk Management functions.

In addition, the liquidity position is examined and critically assessed by the Group's ALM Committee on a monthly basis. This Committee also provides 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 the 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 of assessing, through the use of a Maturity Ladder1, 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 the capital profile of the Group will not be altered.

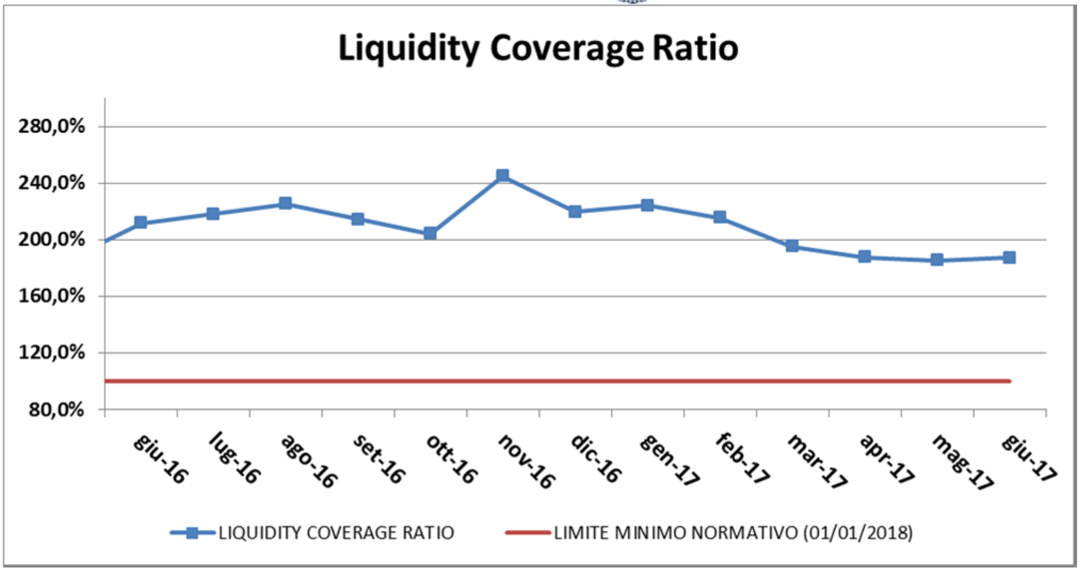
The Maturity Ladder is realised through the time-band mapping (horizon up to 3 months) of current and expected cash flows, together with items regarded as "potential liquidity reserves". This instrument allows assessing in various operational scenarios (business as usual and stress scenario) the net 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 face any crises, of either systemic or specific origin.

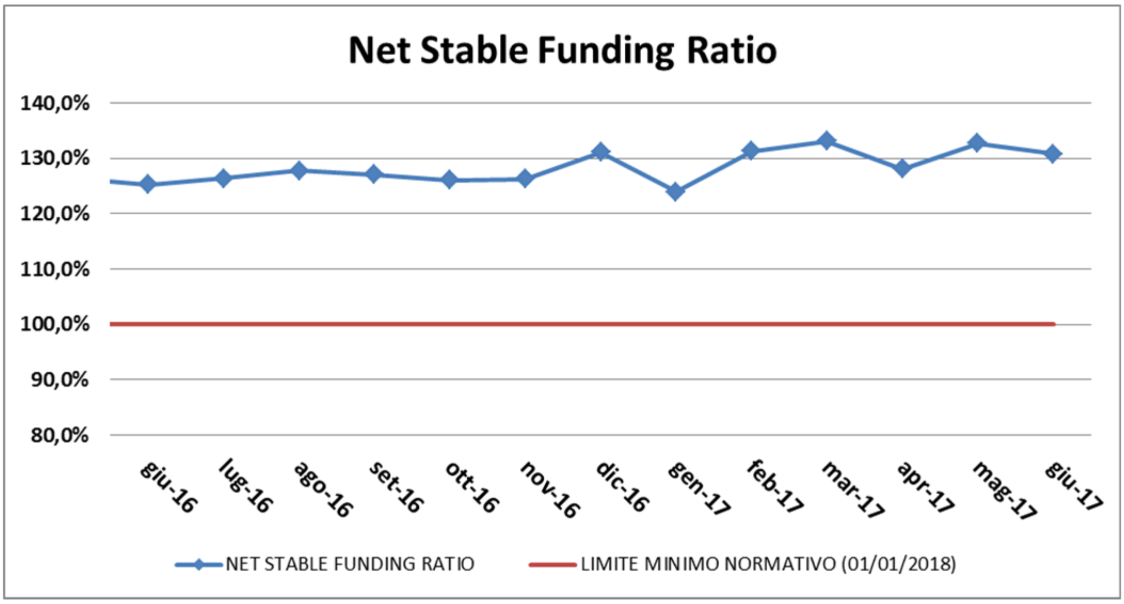
Below is the trend of the liquidity coverage ratio (LCR) for the Banca Sella Group, which indicates the Group's capacity to face net cash outflows over a 30 day horizon with its stock of high quality liquid assets. The minimum regulatory limit for this ratio is 100%[2].

[1] A Maturity Ladder is the projection of the net financial position over time.

[2] The 100% regulatory limit will take effect as of 1 January 2018. At present, the DELEGATED EU REGULATION 61/2015 is still in effect, which envisages a 3-year phase in period. As of 1 January 2017, the regulatory limit is 80%.




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%.




## 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 frauds, 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.

Also in the first half of 2017, the Banca Sella Group dedicated particular attention to the management of operational risks by constantly strengthening its organisational oversight and mitigation and control instruments, namely:

- the "Control Cycle", a process that has been effectively adopted by the entire Group for some time now for the processing of anomalies and removing the effects and the causes that generated them;

- mapping activities and the validation of company processes from an end-to-end perspective[3];
- activities for the evaluation of new products and services and IT risk;
- the certification and final reporting of service levels and line controls;
- the controls carried out through "alarm bells" (automatic processing with the goal of identifying and/or preventing possible 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 operational 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 at summary RAF level as well as by enabling a higher level of detail with performance information, so as to improve the monitoring and management of operational risk and in particular to more effectively support the activity carried out by the Parent Company's Control Committee.

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 on the income statement of operational risk, highlighting the more serious anomalies;
- the monitoring of operational risk indicators in relation to the Risk Appetite thresholds included in the Risk Appetite Framework;
- the outcome of line audits;
- the trend in service levels.

The operational risks to which Miret S.A. is exposed – related to relationships not transferred on 01 July 2010 to the banking company Banque BPP S.A. (now Banque de Patrimoines Privés S.A.) following the spin-off - are exclusively those due to events entirely attributable to management from the now distant 2001–2003, to which an end was put with the dismissal of the management in office and its immediate replacement in November 2003. This subject was already reported on in the financial statements for previous years.

Compared to what appears in the report to the 2015 financial statements, now we intend to provide only a description of the risks relating to disputes not yet resolved, therefore the risks relating to the disputes that arose with reference to the relations of Miret S.A. (at the time Sella Bank Luxembourg S.A.) with a number of funds incorporated under the laws of the BVI (British Virgin Islands) and with their management and/or sub-management companies or with subjects directly or indirectly related to the former or latter and with the so-called economic beneficiary of the funds incorporated under the laws of the BVI.

In reference to the risks mentioned above, note that on 17 October 2013 a transaction was signed between Miret S.A. and the management and sub-management companies for the three BVI-law funds, the related economic beneficiaries and the stated final economic beneficiary of the three BVI-law funds. This agreement, regularly carried out by Miret S.A. on 21 and 24 October 2013, led to the elimination of the litigation put forward by the management and/or sub-management companies or the subjects directly or indirectly connected to the first and second subjects. In February 2015, the stated final economic beneficiary of the three BVI-law funds sent Miret S.A. and Banca Sella Holding S.p.A., the latter in its dual capacity as the parent company of Miret S.A. and a signatory of the transaction, and in any case, jointly and severally, a writ of summons for the amount of € 800 million. The assessments made by the defence attorneys hired and an independent attorney do not indicate any sort of liability for Miret S.A. and/or Banca Sella Holding S.p.A. that could lead to a negative judgement for the claims brought and the abnormal legal initiative is considered inadmissible in relation to the transaction entered into, unfounded in terms of the merits of the charges made and put forward in complete bad faith. Subsequent writs confirm this initial assessment. The final economic beneficiary of the three BVI-law funds, making the same claims as in the civil summons, served Miret S.A., Banca Sella Holding S.p.A., the current CEO and the former Chairman of Miret S.A. with an act regarding

[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.

the lodging of criminal proceedings in November 2016, which the Court declared unreceivable with a judgement on 8 June 2017. The plaintiff appealed against this judgement on 13 June 2017. On 7 April 2017 the economic beneficiary of the three BVI funds served Miret S.A., Banca Sella Holding S.p.A., Joelle Mamane Aflalo, Guy Gad Boukobza and the company Gestman S.A. – the latter also in their capacity as trustees of the economic beneficiary - invoking their conviction (natural persons and legal entities) for specific offences, as well as the sentencing of the same parties, including in separate civil proceedings, to pay the amount of USD 68.7 million. The assessments of the defence attorneys hired agree that, as things currently stand, the plaintiff's claims are completely groundless and contradicted by the documentary evidence available to Miret S.A.

Due to the extension over time of unresolved disputes and the need to prepare the technical defence for civil as well as criminal proceedings, it was deemed prudent to increase the provisions on the operational risks to which the subsidiary Miret S.A. is exposed by € 3 million in the financial statements for the first quarter of 2017.

## Outlook - external scenario

The global economy is expected to continue to expand in the remaining months of 2017 and to close the year with moderate acceleration with respect to 2016.

In the United States, private consumption and investments, along with the signs of reawakening in global trade, should support continuing economic growth; uncertainty in relation to the timing and actual extent of the tax stimulus and the relative impact on the evolution of domestic financial and monetary conditions, as well as the direction that the US intends to actually follow with respect to international trade relations, at the same time exposes US economic outlooks to numerous risk factors, both positive and negative.

Eurozone growth is expected to remain at satisfactory levels, driven especially by domestic demand items, supported by the continuation in accommodating financial conditions; in addition, private consumption will continue to benefit from job market improvements. The evolution of negotiations with the United Kingdom and the relative implications for the integration process in Europe will receive increasing attention in the second half of the year. As regards consumer prices, substantial stability of inflation at current levels, higher than those of 2016, may be observed in the US as well as in the Eurozone. By the end of this year, the Federal Reserve should proceed with a new policy rate hike, following in the wake of the progress made and expected with respect to the dual mandate of supporting employment and stabilising inflation around the medium-term target of 2%, and begin to gradually reduce the securities portfolio held in its books. The European Central Bank will move forward with bond buying at the pace of € 60 billion per month until December and will maintain reference interest rates unchanged at current levels; the announcement concerning the methods for carrying out the quantitative easing plan after December 2017 will likely be managed with prudence so as to prevent a stiffening 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 to expand and credit quality should further improve, benefiting profitability for the banking system. Stimulation for growth in lending volumes should come in particular from the recovery in company investments, given the improved surveys on 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.

# Evolution of the strategic plan in the first half of 2017

In the first half of 2017, the Banca Sella Group continued with its activities planned within the four areas set forth in the three-year Strategic Plan as described below:

- **New Sales Model:** activities continue which will enable the Banca Sella Group to better support its customers and meet their requirements through a greater focus on consulting, while also boosting the number of customers and the associated margins.
  Some examples of progress made during the half include:
  - Banca Patrimoni Sella & C. posted growth in total volumes in the Full Consulting service and the number of customers enrolled in the service;
  - In Banca Sella activities continue in relation to:
    - growth in the number of dedicated salespeople and specialists in the Network;
    - geographical reorganisation with a greater focus on the modularity of presence by means of unifications, transformations and changes in hours and services offered to customers;
    - centralisation in relationships with retail customers ("Retail Desk").
- **Managerial Model:** in this area, the phase of launching and spreading the model to the Managers of the Banca Sella Group has concluded, with its central moment being the Convention held in Milan in May. The more than 450 Managers present had the opportunity to improve their knowledge of the model and engage in discussion on its 12 facets as well as to listen to and share experiences and stories, also thanks to the contribution of important guests.
  At the same time, the Managerial Community was launched, an environment in which resources can continue to enter into dialogue, learn and develop their management skills.
  Later on, in June, the model was completely rolled out to all Employees, followed by the launch of the first periodic survey on management conduct which will be conducted every four months and will contribute to providing a summary indicator of the evolution of management skills over time; lastly, the launch of Feedback 360 by the Group's managers continues.
- **Efficiency:** in this area the top objective continues to be the revision and improvement of the organisational structure and processes, from which additional recoveries of resources and in general further considerable savings are expected, as already witnessed in 2016.
  Some examples of progress made during the half include:
  - The acquisition by Banca Sella from Banca Sella Holding of a controlling interest, equal to 51%, in Biella Leasing and Consel, so as to be able to favour and strengthen commercial and operational synergies already existing between Banca Sella and the two companies, also with a view to evolution and innovation. Thanks to this transaction, already as of 2017 the Group will obtain significant economic benefits deriving from the reduced need for new issues of subordinated loans by Banca Sella necessary to maintain an adequate level of capitalisation in terms of the Total Capital Ratio;
  - Conducting activities for the analysis and implementation of the credit management and monitoring process which will trigger a significant improvement in Banca Sella's processes;
  - Activities launched to reduce the complexities of the Group's governance processes;
  - Activities launched, in terms of roboticization, which although they are part of other transformation initiatives, also represent significant efficiency improvements for the Banca Sella Group, which are fundamental to improve processes and free up resources to be dedicated to growth.
- **Innovation:** the Plan acts on three main levels, which are new customers, new business and new processes.
  Some examples of implementation during the half include:
  - The launch of the pilot phase, in Banca Patrimoni Sella & C., of the off-site automation project and the graphometric signature which aims to allow for the use of the Advanced Electronic Signature through mobile devices (tablets), dematerialising the entire documentation life cycle;
  - Continuation within Banca Sella of activities regarding the creation of a customer "data mart" and the development of data analytics with a view to creating or implementing advanced quantitative and qualitative analyses through the use of specific statistical software which will make it possible to define dynamic clusters of customers on which to build sales campaigns

and targeted communication and marketing plans that increase occasions for contact with our customers, cross-selling and customer retention;

- The launch of the Sella Evolution advisory service which, with the roboadvise engine, monitors and periodically rebalances customer portfolios;
- The launch of the first "open banking platform" in Italy, one of the first at international level, with a technological infrastructure open to innovative companies and startups, which can access services and functions which to date have been accessible only to the Bank;
- Multiple activities carried out regarding Hype and the integration of Apple pay on the Gestpay e-commerce platform.

# Being a going concern, strategy and profitability for the Group

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 reduced 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 Group can continue its operations in the foreseeable future and therefore attests that this Consolidated Interim Report has been prepared on the basis of this going concern assumption.

In the Group’s capital and financial structure and in the operating performance there are no elements or signs which may lead to uncertainty on the going concern assumption.

For information on financial risk, the impairments tests on assets and the uncertainties in the use of estimates see the information provided in the consolidated financial statements as at 31 December 2015.

# Treasury shares

Neither Banca Sella Holding, nor any other company included in the consolidation perimeter has, during the financial year, held, purchased or sold its own shares or those of the Parent Company Banca Sella Holding.

# Reclassified Income Statement

**Reclassified income statement (euro thousands)**

| Item | 30/06/2017 | 30/06/2016 | % change over 30/06/2016 |
|---|---|---|---|
| 10. Interest and similar income | 154,893.9 | 157,672.3 | -1.8% |
| 20. Interest and similar expense | (33,483.7) | (37,006.7) | -9.5% |
| 70. Dividends and similar income | 821.3 | 1,264.1 | -35.0% |
| **NET INTEREST AND DIVIDENDS** | **122,231.6** | **121,929.7** | **0.3%** |
| 40. Fee income | 187,532.4 | 171,107.1 | 9.6% |
| 50. Fee expenses | (54,864.0) | (49,695.9) | 10.4% |
| 80. Net gains/(losses) on trading activities (1) | 11,530.5 | 11,064.6 | 4.2% |
| 90. Net gains/(losses) on hedging activities | (62.5) | (945.9) | -93.4% |
| 100. Income (losses) from sale or repurchase of: | | | |
| *a) receivables* | 2,588.5 | (1,143.5) | -326.4% |
| *b) financial assets available for sale* | 2,693.3 | 2,166.6 | 24.3% |
| *d) financial liabilities* | (58.8) | 72.0 | -181.7% |
| **NET REVENUES FROM SERVICES** | **149,359.3** | **132,625.0** | **12.6%** |
| **NET BANKING INCOME** | **271,590.9** | **254,554.8** | **6.7%** |
| 180. Administrative expenses: | | | |
| a) personnel expenses | (120,734.0) | (119,143.2) | 1.3% |
| IRAP on net personnel and seconded personnel expenses (1) | (387.8) | (394.1) | -1.6% |
| **Total personnel and IRAP expenses** | **(121,121.7)** | **(119,537.3)** | **1.3%** |
| b) other administrative expenses | (94,728.2) | (92,129.8) | 2.8% |
| Recovery of stamp duty and other taxes (1) | 27,038.9 | 24,644.3 | 9.7% |
| **Total administrative expenses and recovery of taxes** | **(67,689.3)** | **(67,485.4)** | **0.3%** |
| 200. Net value adjustments on tangible assets | (8,606.6) | (7,973.4) | 7.9% |
| 210. Net value adjustments on intangible assets | (9,182.7) | (8,265.4) | 11.1% |
| 220. Other operating expenses/income (after deducting “Recovery of stamp duty and other taxes”) | 10,755.7 | 16,724.3 | -35.7% |
| **Operating expenses** | **(195,844.7)** | **(186,537.2)** | **5.0%** |
| **OPERATING PROFIT/LOSS** | **75,746.2** | **68,017.6** | **11.4%** |
| 190. Net provisions for risks and charges | (8,435.0) | (1,601.5) | 426.7% |
| 130. Net value adjustments for impairment of: | | | |
| *a) receivables* | (26,589.2) | (38,726.8) | -31.3% |
| *b) financial assets available for sale* | (7,194.4) | (3,685.2) | 95.2% |
| *d) other financial transactions* | (4,537.0) | (374.1) | 1112.7% |
| 240. Income (Losses) from equity investments | 793.2 | 344.2 | 130.4% |
| 260. Value adjustments on goodwill | (43.0) | - | 0.0% |
| 270. Income (losses) from the disposal of investments | 9.8 | 2,320.5 | -99.6% |
| **PROFIT FROM CONTINUING OPERATIONS BEFORE NON-RECURRING EFFECTS** | **29,750.6** | **26,294.7** | **13.1%** |
| **Reclassifications from non-recurring effects (1)** | | | |
| 100. Income (losses) from sale or repurchase of: | | | |
| *b) financial assets available for sale* | 28,745.6 | 47,388.6 | -39.3% |
| **PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES** | **58,496.2** | **73,683.3** | **-20.6%** |
| 290. Income taxes for the period on continuing operations (after deducting “IRAP on net personnel and seconded personnel expenses”) | (14,689.5) | (12,354.4) | 18.9% |
| **PROFIT FROM CONTINUING OPERATIONS NET OF TAXES** | **43,806.7** | **61,328.9** | **-28.6%** |
| 310. Profit/(loss) on asset disposal groups held for sale after tax | - | 26,993.2 | -100.0% |
| **PROFIT (LOSS) FOR THE YEAR** | **43,806.7** | **88,322.1** | **-50.4%** |
| **330. Profit (loss) for the period pertaining to minority interests** | **3,198.8** | **13,118.7** | **-75.6%** |
| **340. Profit/(Loss) for the period pertaining to parent company** | **40,607.9** | **75,203.4** | **-46.0%** |

(1) *The items in question were reclassified on the basis of more appropriate recognition criteria to represent the content of the items, based on standards of management homogeneity. The reclassifications are explained in the section below “Income statement classification criteria”.*

## Income Statement classification criteria

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

The reclassifications regarded:

- item 70. “dividends and similar income”, which was classified in net interest income;
- IRAP on the costs for personnel which is separated from the item “Income taxes for the period on continuing operations” and classified in personnel expenses;
- the item “recovery of stamp duty and other taxes”, which is separated from item 220. “other operating income and expenses,” 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 revenues from services and included below the operating profit/loss.

## Profitability

The Group closed the financial statements as at 30 June 2017 with a profit of € 43.8 million, of which € 40.6 million pertaining to the Parent Company and € 3.2 million to minority interests.

The main factors which determined the performance in the period in question (set out in the analysis of the Reclassified Income Statement) were:

- the stability (+0.3%) of the overall net interest income, resulting from growth in interest income on securities, in part offset by the drop in interest income on loans to customers; in particular, the decline in average rates on loans impacted the latter, in part offset by higher volumes and the decrease in interest expense due to the continuation of the trend of reduction in the cost of funding;
- the rise in net revenues from services (+12.6%) where the good result of the net fees component, up by 9.3% compared to 30 June 2016, was supported by the net result from trading activities (+4.2%) and income from the sale or repurchase of financial assets available for sale (+40.5%) and loans;
- the increase in the operating expense component (+5%) due to the growth in personnel expenses, administrative expenses and depreciation and amortisation, despite the decreased contributions to the guarantee and resolution funds;
- a further significant improvement (-31.3%) of impairment losses on loans;
- the extraordinary effects totalling € 28.7 million, as detailed in the comments below on income from financial activities;
- the extraordinary write-downs relating to the Fondo Atlante and the Voluntary Scheme and the relative gross commitment of € 10.7 million.

A short description of the performance of the main companies of the Group follows whose comments refer to the results obtained, applying the accounting standards used to prepare the separate financial statements.

The parent company **Banca Sella Holding** closed the first half of 2017 with a profit of € 7.5 million, relating primarily to income from equity investments. The money management margin, together with income from services, led to total income of € 31.3 million, up 24.1% with respect to 30 June 2016, when it amounted to € 25.2 million. This result was due basically to the increase in net fees (+29%), in particular the increase in fees relating to correspondent bank services, the good result from trading activities and net interest income and dividends. Operating expenses grew primarily due to the increase in personnel expenses in relation to the fixed and variable components, due to the improved results expected during the year as well as the increase in headcount. Other administrative expenses were down -19.9%. In the first half of the year, the entire equity investment in Compagnie Financière Martin Maurel was sold, generating a gross capital gain of € 6.3 million. Net provisions for risks and charges amounted to € 4.4 million, with the increase of roughly € 3 million in provisions on operational risks to which the subsidiary Miret S.A. is exposed originating primarily from the likely extension over time of the various legal proceedings with the resulting expenses that will need to be incurred. Value adjustments on financial assets available for sale totalled € -4.9 million, of which € -4.6 million relating to the Fondo Atlante, which was written down further taking into account the impairment loss on the fund's underlying assets (Banca Popolare di Vicenza and Veneto Banca).

**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 such extraordinary events, the profit for the half-year in question of € 15.1 million rose slightly with respect to the profit of € 13.6 million in the same period of 2016.

As at 30 June 2017 net interest income amounted to € 75 million (-3.8% compared with the same period of the previous year). The decline was influenced by market rate performance where, in regards to income, lower interest income was recorded, mainly in regards to loans to customers, in the presence of growth in volumes. Said lower interest income was partially offset by a reduction in interest expense, despite higher direct deposit volumes. On the other hand, the better performance of the securities portfolio contributed positively to net interest income: € +3.1 million with respect to the same period of the previous year.

Overall, net revenues from services came to € 103.9 million at 30 June 2017 (+7% compared to the same period of the previous year), in particular thanks to the positive trends in net fees, +6.3% compared to 30 June 2016. The good result for the first half of the year was due primarily to fees relating to payment services (+4.1%), essentially thanks to the significant growth in acquiring transactions, fees relating to trading services and order collection (+27.1%, primarily due to the placement of administered funds) and life insurance commissions (+21.4%). On the other hand, there was a slight decline in current account keeping and management commissions and those relating to loans granted to customers. The trend of other items contributing to net revenues was positive on the whole: while trading activities posted profits that declined by around € 0.2 million (totalling € 3.8 million), loan disposal activities generated a decline in negative effects with respect to 2016 of more than € 0.5 million and sales of financial assets available for sale brought higher profits of € 0.3 million.

Operating expenses, equal to € 132.9 million, rose by 3.4% (equal to € 4.4 million), as despite the significant reduction in personnel expenses (roughly € 2.1 million) there were lower recoveries (by € 2.8 million), lower operating income (by € 3 million) and higher value adjustments (€ 0.6 million). Personnel expenses decreased by 2.6% (including the relative IRAP) as a result of the headcount reduction following terminations of employment in accordance with the agreement signed in 2016 for access to the extraordinary benefits of the Solidarity Fund for professional retraining and requalification, and for which a dedicated provision was recognised as at 31 December 2016. The trend in Administrative expenses and recovery of taxes was impacted by contributions to guarantee funds which during the half amounted to € 1.9 million compared to € 2.2 million in the same period of 2016; net of these items, the aggregate rose by 6.7% (by € 3.2 million) due primarily to the higher cost of circuits (for acquiring services for € 2.1 million) and higher fees for POS services recognised to Easy Nolo (for € 0.9 million). Other operating expenses, up compared to June 2016, are represented by value adjustments on tangible and intangible assets, which were 11.4% and 3.2% higher, respectively, due to greater investments made in support of 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 named cost to income, i.e., the ratio between operating costs (after deducting IRAP on personnel expenses and net of losses connected to operational risks) and net banking income, is equal to 73.7%, down compared to 72.8% as at 30 June 2016.

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%, an improvement over 0.8% at 30 June 2016 (annualised data).

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".

**Banca Patrimoni Sella & C.**, a bank operating in the private banking sector, obtained a result of € 3.4 million at 30 June 2017, up compared to the result of € 2.8 million at 30 June 2016. To that end, the most significant aspect was net banking income, which rose compared to the same period of last year due to the positive influence of good net fees performance. Growth in the latter item more than offset the decline in net interest income, primarily associated with the decreased profitability of the own portfolio, in consideration of the average volume of investments during the period that was lower than the same period in the previous year, as well as market rates. There was a natural increase in operating expenses due to the increase in headcount already starting in the second half of 2016.

**Biella Leasing**, which works in the leasing sector, ended the first half of the financial year 2017 with a profit of € 5.208 million (+139.40% vs profit at 30.06.2016). Net interest income recorded an increase of roughly 2.56%: interest expense benefitted from the decline in interest rates and greater recourse to facilitated funding (EIB, CDP); this reduction offset the decline in interest income, which was impacted by lower interest rates as well as the reduction in spreads applied to new contracts entered into. In addition, there was a considerable decrease in the impact of the cost of credit (€ -865 thousand in the first quarter of 2017 vs € -5.212 million in the same period of 2016), as a result of the reduction in the number of new non-performing loans and several write-backs from sales completed in the first part of the year. In terms of new volumes disbursed, the company instead saw a decline with respect to the previous year, both in terms of the number of new loans (-9.23%) and amounts financed (-3.41%).

**Consel**, which specialises in consumer loans, saw a profit of € 5.57 million in the first half of 2017, against € 0.27 million in the same period of 2016. From the commercial perspective, the Company recorded overall growth in volumes disbursed of +10.4% with respect to the first half of 2016, bringing the amount disbursed during the period to a total of € 266.8 million.

The decrease in interest income is to be ascribed essentially to a different production mix; in particular, there was an increase in volumes for the salary-backed loan product, which has a nominal annual rate lower than the portfolio average due to its more limited risk.

Lower interest income was offset by the reduction in interest expense favoured by the reduction in the total average cost of funding and the reduction in average debt.

Operating expenses rose compared to the first half of the previous year (+9.8%) primarily as a result of the early decrease in collection agent costs linked to the disposal of NPLs.

Employees declined from 230 at 30 June 2016 to 200 at 30 June 2017 (from 220 to 201 if counted net of seconded staff).

Net value adjustments for impairment of loans, added to income/losses from sales, decreased further compared to the first half of 2016, from € 10.2 million to € 2.4 million (-76.4%), also due to the capital gain realised on the disposal of NPLs.

The cost of credit for the half (ratio between value adjustments on loans during the half and total loans to customers) was equal to 0.65% (1.18% at 30 June 2016).

The profits of **Sella Gestioni**, a company active in the asset management and supplementary pensions sectors, came to around € 0.4 million, with respect to the profits of € 1.5 million seen in the same period of last year (equal to roughly € 0.4 million net of the income deriving from the disposal of the minority interests in CBA Vita). The company's stock at the end of the half was 6.1% higher than at the end of December 2016.

## Net interest income

Net interest income at 30 June 2017 came to € 122.2 million, stable with respect to € 121.9 million at 30 June 2016, equal to around +0.3%.

Interest income came to € 154.9 million (€ 157.7 million at the end of June 2016), and reflects the continuation of the downward trend for average rates on loans, even though volumes rose compared to June 2016. Interest expense comes to € 33.5 million and shows a downward trend in terms of the cost of funding.

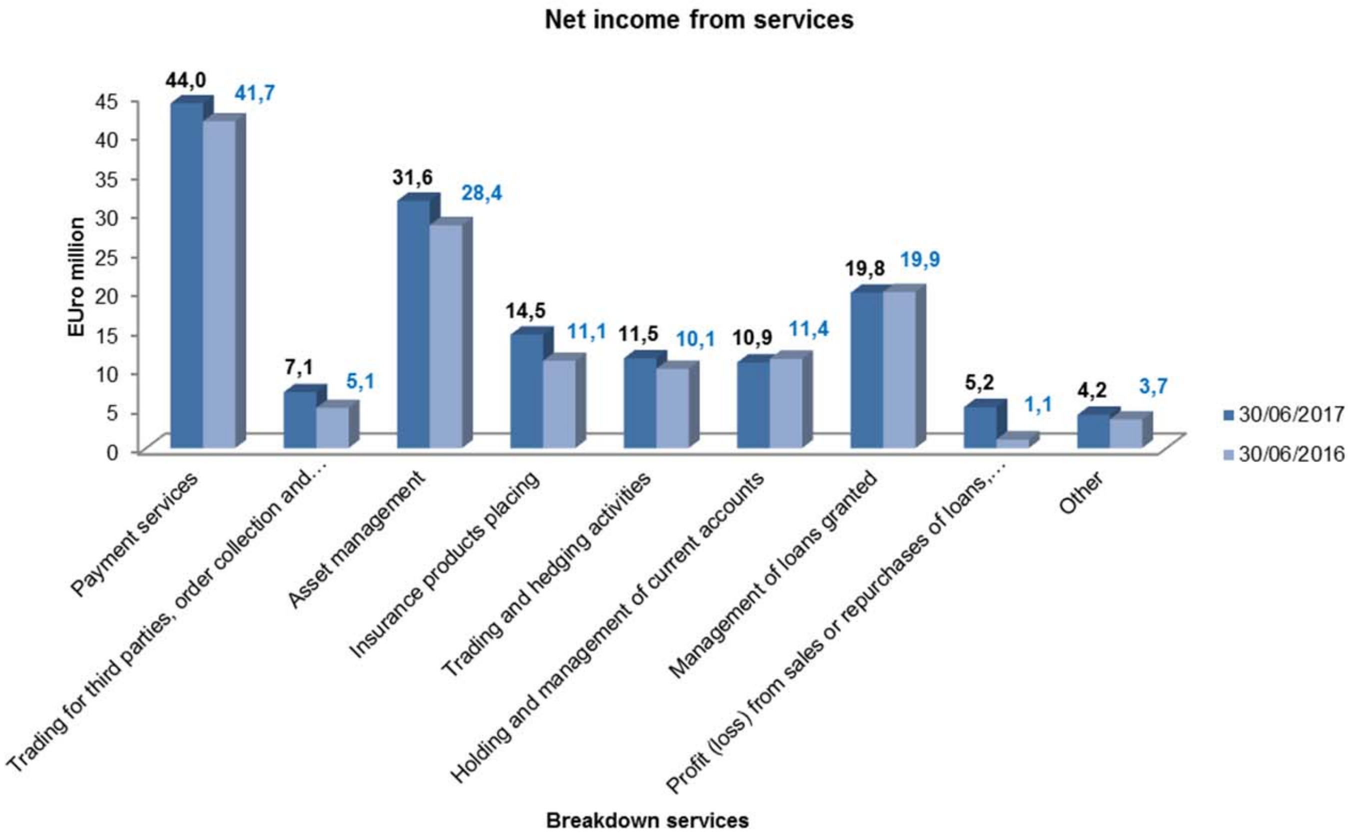
The item "Dividends and similar income" came to € 821 thousand, compared to € 1.3 million in the comparative period.

At 30 June 2017 net interest income was 45% of net banking income, compared to 47.9% at 30 June 2016.

## Net revenues from services

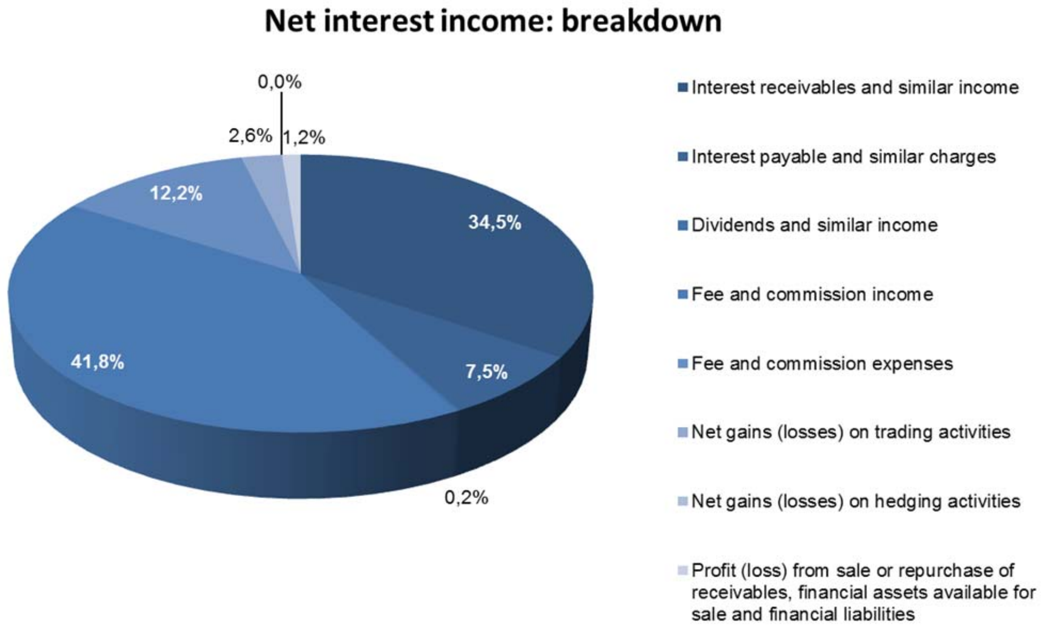
Total aggregate net income from services amounted to € 149.4 million, an improvement with respect to the same period of the previous year, in which it was € 132.6 million (12.6%). This result is due to:

- higher contributions relating to income from financial assets due to the market environment driven by the sector of Italian securities linked to inflation and securities with short-term maturities.
- growth in the net fee component thanks primarily to the good performance of asset management overall. In particular, there was a positive net deposit trend in all asset management segments and in particular in administered funds, on which higher entry fees were generated.




## Net banking income

As a consequence of the results of net interest income and net revenues from services, consolidated net banking income came to € 271.6 million at 30 June 2017, compared to € 254.6 million at 30 June 2016.




## Operating expenses

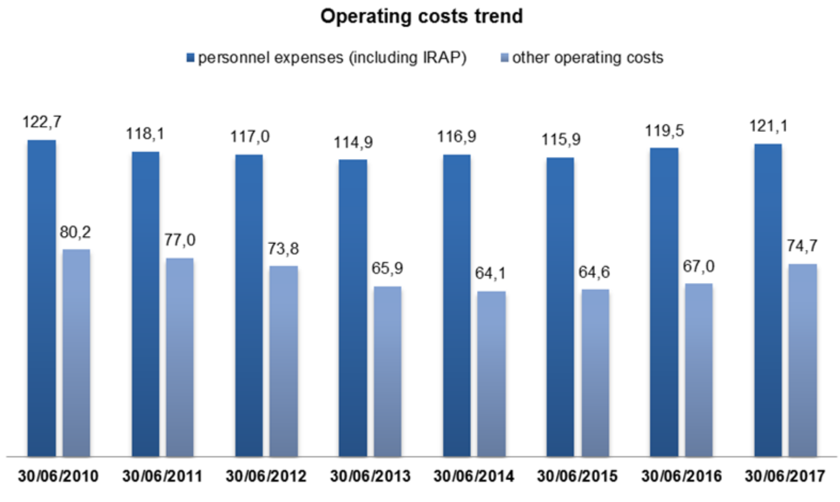
The total amount of operating expenses came to € 195.8 million, up 5% with respect to the same period of 2016, when it was € 186.5 million. It should be noted that the impact of the contribution to the resolution fund (Single Resolution Fund – SRF) is around € 0.8 million lower than in the same period of 2016.

The personnel expenses component (including the relative IRAP) amounts to € 121.1 million, while at 30 June 2016 the item totalled € 119.5 million. This value was influenced by growth in the fixed remuneration component due primarily to the hiring of high level employees in some Group companies, although the headcount as a whole declined compared to 2016.

Other administrative expenses, net of recovery of indirect taxes, totalled € 67.4 million, in line with 30 June 2016, when they were € 67.7 million. The rise in administrative expenses despite the lower contributions to the Resolution Fund, compared to the first half of 2016, was due essentially to higher expenses for advertising, outsourcing service fees, fees for application software and information providers.

Other operating expenses are represented by write-downs on tangible and intangible fixed assets, which came to € 17.8 million; they totalled 16.2 million at 30 June 2016.

Other operating income, after deducting the recovery of indirect taxes, came to € 10.8 million, down with respect to 30 June 2016, when the amount was € 16.7 million, mainly due to the reduction in fast credit processing fees.



| Personnel expenses (euro thousands) | | | | | | |
|---|---|---|---|---|---|---|
| Item | 30/06/2017 | Proportion (%) of total | 30/06/2016 | Proportion (%) of total | Absolute changes | % |
| Employees | 118,199.0 | 97.6% | 116,471.8 | 97.4% | 1,727.3 | 1.5% |
| Directors | 2,067.7 | 1.7% | 2,080.6 | 1.7% | (12.9) | -0.6% |
| Statutory Auditors | 340.1 | 0.3% | 251.1 | 0.2% | 89.0 | 35.4% |
| Other | 127.2 | 0.1% | 339.8 | 0.3% | (212.6) | -62.6% |
| **TOTAL PERSONNEL EXPENSES** | **120,734.0** | **99.7%** | **119,143.2** | **99.7%** | **1,590.7** | **1.3%** |
| IRAP on net personnel and seconded personnel expenses | 387.8 | 0.3% | 394.1 | 0.3% | (6.4) | -1.6% |
| **PERSONNEL EXPENSES INCLUDING ASSOCIATED IRAP** | **121,121.7** | **100.0%** | **119,537.3** | **100.0%** | **1,584.4** | **1.3%** |

## Provisions, value adjustments net of recoveries, income (losses) from sale / repurchase of financial assets/liabilities

### Net provisions for risks and charges

New provisions for risks and charges totalled € 8.4 million, compared to € 1.6 million in the same period of 2016. This growth was caused by the increase of roughly € 3 million in provisions on operational risks to which the subsidiary Miret S.A. is exposed originating primarily from the likely extension over time of the various legal proceedings with the resulting expenses that will need to be incurred, as well as the assessment of compliance with contractual agreements with HDI (around € 1 million).

Following the risk review Banca Sella Holding, due to the guarantee issued to Selfid, recognised a provision of € 0.7 million in addition to the company's existing provision of € 1.3 million.

Banca Sella also set aside € 2.3 million with respect to the fast credit processing fee on unauthorised overdrafts deriving from uses of debit cards applied for the June 2015 - September 2016 period, on which a bank-initiated return procedure will be carried out. This will take place in line with the methods for the application of this fee, recently revised by the Bank, which as of 1 October 2016 no longer applies the fast credit processing fee for each unauthorised overdraft due to this type of transaction, in keeping with Bank of Italy instructions.

### Income from sale / repurchase of financial assets/liabilities

The result for the half-year was influenced in the gross amount of € 28.7 million by the sale of the equity investment of Banca Sella Holding and Finanziaria 2010 in Compagnie Financiere Martin Maurel following the merger transaction with Rothschild & Co.

### Net value adjustments

Net value adjustments on loans amounted to € 26.6 million in the first half of the year, with respect to € 38.7 million in 2016, a decrease of 31.3%. The positive trend of declining new non-performing loans which characterised 2016 continued in the first half of 2017, resulting in lower write-downs.

As a result of the above, the ratio between net write-downs (plus income on disposal) and cash loans went from 1.1% at 31 December 2016 to 0.6% (annualised) at the end of June 2017.

At 30 June 2017 the coverage ratio with reference to doubtful loans was 58.5%, while, at 31 December 2016, it was 61.7%. The coverage ratio on anomalous loans, understood as total write-downs booked on non-performing cash loans over gross loans disbursed stood at 48%; at 31 December 2016 it was 51%. The reductions resulted from disposals of non-performing loans, characterised by high coverage ratios, carried out during the half.

The higher value adjustments on financial assets available for sale, totalling € 7.2 million, compared to € 3.7 million in the comparative period, and on other financial transactions, amounting to € 4.5 million, were due primarily to write-downs on the minority interests held by Banca Sella Holding and Banca Sella, of which Fondo Atlante was written down taking into account the impairment loss on the fund's underlying assets (Banca Popolare di Vicenza and Veneto Banca), whilst the participatory instrument relating to the Voluntary Scheme was written down in full and the expected future commitments were also partially written down. For further details, please refer to the "Financial assets" section, specifically financial assets available for sale.

## Income taxes

Income tax for the period amounts to € 14.7 million, compared to € 12.3 million in the first half of the previous year, with an 18.9% increase compared to the decrease in pre-tax profit of 20.6%.

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 tax rate, net of the components indicated above, thus fell from 16.8% of the first half of the previous year to 25.9% in the first half of 2017.

The growth in the tax rate is due to the different impact of dividends and capital gains from disposals of investments on the before tax results, as they had the requirements set out in articles 89, paragraph 2 and 87 of Presidential Decree 917/86 and are subject to reduced taxation.

GRUPPO BANCA SELLA

# Reclassified Balance Sheet

**Reclassified balance sheet (euro thousands)**

| Assets | 30/06/2017 | 31/12/2016 | % change over 31/12/2016 |
|---|---|---|---|
| Financial assets (1) | 2,958,019.2 | 2,633,322.3 | 12.3% |
| Due from banks | 286,041.8 | 299,662.6 | -4.6% |
| Cash loans, exclusive of repurchase agreements receivable (2) | 7,924,417.4 | 7,802,138.6 | 1.6% |
| Repurchase agreements receivable | 373,190.7 | 103,381.3 | 261.0% |
| Equity investments | 12,507.2 | 12,169.9 | 2.8% |
| Tangible and intangible fixed assets (3) | 291,737.1 | 288,711.1 | 1.1% |
| Tax assets | 250,204.6 | 269,244.5 | -7.1% |
| Other assets (4) | 2,157,827.1 | 1,889,745.4 | 14.2% |
| **TOTAL ASSETS** | **14,253,945.1** | **13,298,375.6** | **7.2%** |
| **Liabilities and Shareholders' equity** | **30/06/2017** | **31/12/2016** | **% change over 31/12/2016** |
| Due to banks | 983,122.6 | 604,395.6 | 62.7% |
| Direct deposits, exclusive of repurchase agreements payable (5) | 10,910,821.5 | 10,969,997.0 | -0.5% |
| Repurchase agreements payable | 155,798.3 | 12,278.1 | 1168.9% |
| Total direct deposits | 11,066,619.8 | 10,982,275.1 | 0.8% |
| Financial liabilities | 373,204.1 | 127,325.4 | 193.1% |
| Tax liabilities | 23,395.0 | 30,196.5 | -22.5% |
| Other liabilities (6) | 618,121.5 | 378,154.6 | 63.5% |
| Provisions for specific purposes (7) | 93,437.1 | 92,518.4 | 1.0% |
| Shareholders' equity (8) | 1,096,045.1 | 1,083,510.1 | 1.2% |
| *- pertaining to the group* | 907,104.1 | 894,967.9 | 1.4% |
| *- pertaining to minority interests* | 188,941.0 | 188,542.2 | 0.2% |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **14,253,945.1** | **13,298,375.6** | **7.2%** |

(1) Given by the sum of the following balance sheet asset items: 20 "Financial assets held for trading", 40 "Financial assets available for sale" and 50 "Financial assets held to maturity".
(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: 120 "Property, plant and equipment" and 130 "Intangible assets".
(4) Given by the sum of the following balance sheet asset items: 10 "cash and cash equivalents", 80 "Hedging derivatives", 90 "Value adjustment of financial assets subject to macrohedging" and 160 "Other assets".
(5) Given by the sum of the following balance sheet liability items: 20 "Due to customers" and 30 "Securities in issue".
(6) Item 40 of the balance sheet liabilities: "Financial liabilities held for trading".
(7) Given by the sum of the following balance sheet liability items: 60 "Hedging derivatives" and 100 "Other liabilities".
(8) Given by the sum of the following balance sheet liability items: 110 "Employee severance indemnities" and 120 "Provisions for risks and charges".
(9) Given by the sum of the following balance sheet liability items: 140 "Valuation reserves", 170 "Reserves", 180 "Share premiums", 190 "Capital" and 210 "Equity pertaining to third-parties," and 220 "Profit for the period".

At 30 June 2017 total assets increased by 7.2%, reaching € 14,253.9 million, compared with € 13,298.4 million recorded at the end of 2016.

Brokering with customers, net of repurchase agreements, saw cash loans rise by 1.6% (€ 7,924.4 million, compared to € 7,802.1 million in the previous year).

Direct deposits totalled € 11,066.6 million compared to € 10,982.3 million in the previous year, marking an increase of 0.8%. Net of repurchase agreements, direct deposits dropped by 0.5%; payables to customers remained stable, while securities in issue fell as those reaching maturity were not renewed.

For the Group, the ratio between cash loans and direct deposits (net of repurchase agreements payable of € 155.8 million) totalled 72.6%, improving the already excellent liquidity level that has always been an important indicator of financial stability for the Group.

Lastly, shareholder's equity, inclusive of valuation reserves, increased by 1.2% compared to the end of the previous year, when it amounted to € 1,083.5 million, settling at € 1,096 million (€ 188.9 million of which pertaining to minority interests).

It should be noted that in the first half of 2017, equity investments were acquired in Rothschild & Co, Endeavor Catalyst II LP, Treedom Srl, Growish Srl and Fenera & Partners SGR Spa and the bank subscribed its shares of the share capital increases of Digital Magics and Sardex. On the other hand, the entire equity investment in Compagnie Financière Martin Maurel was sold, generating a gross capital gain of € 29.7 million, and part of the equity investment in e-MID SIM SpA was sold, generating a gross capital gain of € 63 thousand.

## Financial assets and liabilities

**Financial assets/liabilities of the Group (euro thousands)**

| Item | 30/06/2017 | Proportion (%) of total | 31/12/2016 | Proportion (%) of total | Absolute changes | % |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Financial assets held for trading | 770,687.8 | 26.1% | 432,534.4 | 16.4% | 338,153.5 | 78.2% |
| Financial assets available for sale | 2,181,358.5 | 73.7% | 2,200,787.9 | 83.6% | (19,429.4) | -0.9% |
| Financial assets held to maturity | 5,972.9 | 0.2% | - | 0.0% | 5,972.9 | 0.0% |
| **Total financial assets** | **2,958,019.2** | **100.0%** | **2,633,322.3** | **100.0%** | **324,697.0** | **12.3%** |
| **Financial liabilities** | | | | | | |
| Financial liabilities held for trading | (373,204.1) | 100.0% | (127,325.4) | 100.0% | (245,878.7) | 193.1% |
| **Total financial liabilities** | **(373,204.1)** | **100.0%** | **(127,325.4)** | **100.0%** | **(245,878.7)** | **193.1%** |
| **TOTAL NET FINANCIAL ASSETS AND LIABILITIES OF THE GROUP** | **2,584,815.1** | | **2,505,996.8** | | **78,818.3** | **3.2%** |

Financial assets held for trading are primarily of Banca Sella Holding (95.1%). Debt securities (which cover 96.3% of the item total) rose by € 335.8 million, from € 389.4 million at 31 December 2016 to € 725.3 million at 30 June 2017.

The trend in securities held for trading was influenced significantly by market making activities on government securities carried out by Banca Sella Holding. The strategy of investment diversification was maintained, paying particular attention to the quality of bonds of banking, financial and corporate issuers in the portfolio.

Assets available for sale are for the most part ascribable to Banca Sella (58.8%). The sub-item debt securities, which accounts for 93.3% of the total, consists of Italian government securities and bank bonds with high creditworthiness.

The objective for 2017 is to reduce the securities portfolio and pursue a strategy of greater diversification of financial assets, paying particular attention to the quality of bonds of banking, financial and corporate issuers in the portfolio. Therefore, and to favour diversification, during the half the presence of investment funds was gradually increased in the bond category. Indeed, this category consisted mainly of Italian government securities and banking and corporate bonds with high credit ratings; during the year, the small stock portion was increased slightly through the purchase of units of certain specialised SICAVs, and 3 closed-end funds were introduced for investment primarily in debt instruments issued by Italian SMEs.

Equity securities include minority equity interests, which at the end of the half-year were subjected to impairment tests. As a result, impairment losses were recognised on:

- Cassa di Risparmio di Bolzano (measurement method: multiples): after valuing the equity investment on the basis of the multiples implicit in a sample of comparable companies, a write-down was recognised with effects in the income statement in the amount of around € 200 thousand;
- Finpiemonte Partecipazioni (measurement method: shareholders’ equity): the value of the equity investment was aligned with the value of shareholders' equity, writing it down with effects on the income statement of around € 42 thousand;

- Agata (measurement method: recent market transactions): the value of the equity investment was aligned with the price of the share capital increase approved by the Company in June, writing it down with effects on the income statement of € 32 thousand;
- Veneto Banca (measurement method: recent market transactions): the value of the equity investment was eliminated, writing it down with effects on the income statement of € 16 thousand.

On the other hand, as at 30 June 2017, the equity reserves changed relating to:

- Rothschild & Co (measurement method: market listings): the equity investment was acquired in March 2017; at 30/06/2017 a positive shareholders' equity reserve was recognised on the basis of the closing market price for an amount of € 4.7 million;
- Smava (measurement method: income approach): the positive shareholders' equity reserve was adjusted for an amount of € 1 million;
- Cartalis (measurement method: mixed equity/income approach): the positive shareholders' equity reserve was adjusted for an amount of € 200 thousand;
- Lumia Capital 2014 Fund (Delaware) LP (measurement method: NAV): the positive shareholders' equity reserve was adjusted for an amount of € 136 thousand;
- Digital Magics (measurement method: market listings): the positive shareholders' equity reserve was adjusted on the basis of the closing market price at 30/06/2017 for an amount of € 68 thousand;
- Mission & Market Fund I LLC (measurement method: NAV): the positive shareholders' equity reserve was adjusted for an amount of € 60 thousand;
- H-Farm (measurement method: market listings): the positive shareholders' equity reserve was adjusted on the basis of the closing market price at 30/06/2017 for an amount of € 48 thousand;
- Bancomat (measurement method: recent market transactions): in June, the Bancomat Consortium transformed into Bancomat S.p.A.; the equity investment assigned to Banca Sella Holding, measured on the basis of the transformation appraisal, was valued by recognising a positive shareholders' equity reserve of € 17 thousand;
- United Ventures One (measurement method: NAV): the positive shareholders' equity reserve was adjusted on the basis of the most recent available NAV for an amount of € 7 thousand;
- Programma 101 (measurement method: NAV): the negative shareholders' equity reserve was adjusted on the basis of the most recent available NAV for an amount of € 162 thousand;
- SI2 (measurement method: NAV): the negative shareholders' equity reserve was adjusted on the basis of the most recent available NAV for an amount of € 44 thousand;
- Endeavor Catalyst II LP (measurement method: NAV): the negative shareholders' equity reserve was adjusted for an amount of € 12 thousand.
- VISA INC: Visa Inc class C shares for a total net of the lock-up clause of € 12 million; for which a positive equity reserve was recognised, with respect to the initial recognition at 21 June 2016, for an amount of roughly € 1.9 million;
- PENSPLAN INVEST SGR Spa (measurement method: complex equity with income adjustment): for a consideration of roughly € 0.4 million, the book value of which was written down by around € 36,000 with respect to the value of last 31 December;
- Funivie Madonna di Campiglio (measurement method: shareholders' equity and stock market multiples): the value of which was kept constant and equal to the value at 31 December 2016 of approximately € 235,000;
- Funivie Folgarida Marilleva (measurement method: shareholders' equity and stock market multiples): the value of which was kept constant and equal to the value at 31 December 2016 of approximately € 268,000.

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.

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.

Following further investigations conducted on the communication received from the IFPD, it was inferred that any likely approval by the IFPD extraordinary shareholders' meeting of the increase in Voluntary Scheme resources would lead to a future commitment for members to pay a total contribution of roughly € 515 million, of which € 170 million for the subscription of the junior tranche of the securitisation of the NPLs of Caricesena, Carim and Carismi and € 345 million for the bail-out of the three banks. On the basis of the share pertaining to the Group Banks, the expected outlay attributable to them is around € 5.6 million. Like what was done for the Participatory Financial Instrument, it is deemed that, for the part relating to bringing the three banks back to a stable situation, the likelihood of recovery of the future payment is very low, and therefore around € 3.8 million of this commitment was written down with effects on the income statement at 30 June 2017.

In addition, in the first half of the year the Fondo Atlante was written down taking into account the impairment loss on the fund’s underlying assets (Banca Popolare di Vicenza and Veneto Banca), also in the wake of the latest developments and the compulsory administrative liquidation with the resulting sale, to Banca Intesa Sanpaolo, of the assets and liabilities constituting a banking business unit of the two Banks in liquidation. With respect to the value recognised in the financial statements, of € 4.2 million, this therefore resulted in a write-down with effects on the income statement in the amount of € 3.6 million.

The financial assets held to maturity relate to the acquisition of debt securities by the company Banca Patrimoni Sella & C. in the first half of 2017.

## Financial liabilities

The change in Financial liabilities held for trading compared to 31 December 2016 relates primarily to the increase in short positions in government bonds for market-making activities; these liabilities are also hedged by means of repurchase agreements on the same securities entered into by Banca Sella Holding.

## Banking business with customers - collection

At the end of the half total deposits – consisting of all the assets administered on behalf of customers – amounted to € 34,241.2 million, up 3.2% compared with the year ending at 31 December 2016. This result was obtained thanks to the excellent work of the branches and private bankers.

**Total deposits (euro thousands)**

| Item | 30/06/2017 | Proportion (%) of total | 31/12/2016 | Proportion (%) of total | Absolute changes | % |
|---|---|---|---|---|---|---|
| Direct deposits from credit institutions | 145,661.4 | 0.4% | 96,261.5 | 0.3% | 49,399.9 | 51.3% |
| Direct deposits (exclusive of repurchase agreements) | 10,910,821.5 | 31.9% | 10,969,997.0 | 33.1% | (59,175.5) | -0.5% |
| Repurchase agreements payable | 155,798.3 | 0.5% | 12,278.1 | 0.0% | 143,520.2 | 1168.9% |
| Indirect deposits | 23,184,668.3 | 67.7% | 22,108,047.5 | 66.6% | 1,076,620.8 | 4.9% |
| **Total deposits (exclusive of repurchase agreements)** | **34,241,151.2** | **100.0%** | **33,174,306.0** | **99.7%** | **1,066,845.2** | **3.2%** |

### Direct deposits

Direct deposits from customers, exclusive of repurchase agreements payable, amounted to € 10,910.8 million at the end of the first half of 2017, a decline of 0.5% compared to the previous year.

The breakdown of direct deposits shows stability in amounts due to customers including repurchase agreements payable, which reached € 10,612.5 million, recording an increase of € 157.9 million (+1.5%) compared with 2016, when they came to € 10,454.6 million. The positive changes within the aggregate were those relative to current accounts and demand deposits and repurchase agreements payable.

As regards the other components of direct deposits, securities in issue, totalling € 454.1 million, declined by -13.9% compared to € 527.6 million in 2016, as traditional placements with customers were lower than issues reaching maturity with institutional investors.

Repurchase agreements payable, totalling € 155.8 million, rose by € 143.5 million compared to the previous year.

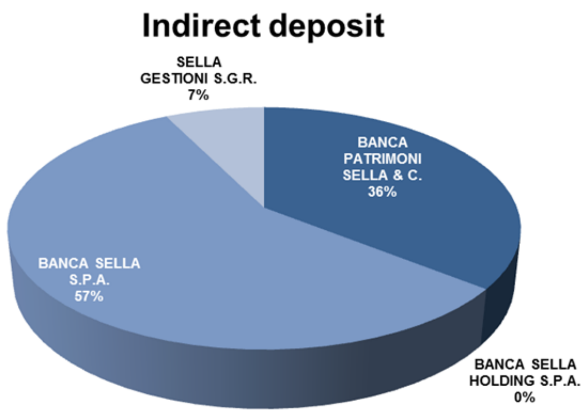
**Direct deposits (euro thousands)**

| Item | 30/06/2017 | Proportion (%) of total | 31/12/2016 | Proportion (%) of total | Absolute changes | % |
|---|---|---|---|---|---|---|
| Due to customers (excluding repurchase agreements) | 10,456,738.8 | 94.5% | 10,442,349.7 | 95.1% | 14,389.1 | 0.1% |
| - Current accounts and demand deposits | 9,527,689.9 | 86.1% | 9,399,506.7 | 85.6% | 128,183.2 | 1.4% |
| - Term deposits | 650,232.0 | 5.9% | 744,935.6 | 6.8% | (94,703.6) | -12.7% |
| - Other loans and advances | 134,160.9 | 1.2% | 168,065.0 | 1.5% | (33,904.1) | -20.2% |
| - Other | 144,656.0 | 1.3% | 129,842.4 | 1.2% | 14,813.6 | 11.4% |
| Securities in issue | 454,082.7 | 4.1% | 527,647.3 | 4.8% | (73,564.6) | -13.9% |
| **TOTAL DIRECT DEPOSITS** | **10,910,821.5** | **98.6%** | **10,969,997.0** | **99.9%** | **(59,175.5)** | **-0.5%** |
| Repurchase agreements payable | 155,798.3 | 1.4% | 12,278.1 | 0.1% | 143,520.2 | 1168.9% |
| **TOTAL DIRECT DEPOSITS (INCLUDING REPURCHASE AGREEMENTS)** | **11,066,619.8** | **100.0%** | **10,982,275.1** | **100.0%** | **84,344.7** | **0.8%** |

## Indirect deposits

The total stock of indirect deposits valued at market prices at 30 June 2017 was therefore equal to € 23,184.7 million, marking growth of 4.9% on an annual basis.

The primary component of indirect deposits consisted of assets under administration, representing 61.2% of the total. Assets under management represent 25.4% of indirect deposits, whist insurance income totals 12.4%. There are no UCITS units subscribed by customers. With respect to last year, there was a decline in the impact of assets under administration against a rise in the insurance and asset management components. As regards the Banca Sella Group’s investment services, the performance of net banking income and the profitability of indirect deposits are worth noting. Analysing the two components of the net banking income, Trading services, foreign exchange TOL and asset management services, the figure at 30 June amounted to € 20.4 million for the former and € 41.4 million for asset management items. The total profitability of the Banca Sella Group (gross of reimbursements to financial advisors of Banca Patrimoni Sella & C.) was 0.696%.




Banca Sella Holding, given its functions of acting as Parent Company of the banking group and trading on own account, has no indirect deposits from traditional customers. Indirect deposits also include revenues from the placement of funds, both UCITS of product companies which are not part of the Group and funds managed by Sella Gestioni, the Group’s asset management company.

## Sella Gestioni SGR SpA

The Company, which is based in Milan, has operated in the managed savings sector, in the segment of collective management since 1983 and since 1999 it has also operated in the social security sector.

At the end of the half, the Company directly managed 14 mutual funds operating under Italian law, a mutual fund operating under Italian specialising in investment in parts of other UCITS, consisting of 6 segments, a pension fund divided into 5 segments, as well as a SICAV operating under Luxembourg law. For the placing of its products the Company works with banks and security brokerage companies both within and beyond the Banca Sella Group.

At 30 June 2017 total assets managed (net of duplications) amounted to € 1,999.2 million, an increase of 6.1% compared with the figure at the end of 2016.

At the end of June the assets were invested as follows: 71% in bond funds, 13.3% in balanced and flexible funds and 15.7% in equity funds.

The first half of 2017 ended with net income of € 391 thousand, a decline compared to the income of € 1.517 million recorded in the first half of 2016, which was significantly influenced by the contribution of income from the sale of the equity investment in Cba Vita.

Net commissions came to € 4.065 million, an 8.1% increase with respect to the figure for the first half of 2016 due to the presence of higher average assets managed and the new asset management company fee for the NAV calculation, as of 1 March 2017, equal to € 165 thousand, as a result of the amendment of the Regulation on the collective management of savings of 19 January 2015 in implementation of the UCITS V Directive. This income, which is part of fee income, was offset by a cost in an equal amount recognised under other administrative expenses.

Net banking income came to € 4.1 million with a 10.1% increase with respect to the figure from the first half of 2016, due to what is outlined in the previous section and higher profit from the own portfolio.

Overheads, totalling € 3.4 million, were 8% higher than in the same period of last year, mainly due to what is noted above with respect to fee income and the higher costs incurred for information providers, software fees and promotional initiatives.

The Company’s workforce, including seconded staff, went down from 44.50 full time equivalents of the end of 2016 to 43.30 full time equivalents at 30 June 2017.

For the second half of 2017, the plans are to pursue a growth objective of volumes and quality of products managed, in a context that is increasingly attentive to limiting costs.

## Private Banking

The **Private Banking sector of the Banca Sella Group** includes the company Banca Patrimoni Sella & C. and Banca Sella’s Private Banking division. The total stock of the Private Banking sector of the Banca Sella Group as of 30 June 2017 amounted to approximately € 19,170 million, with an increase of € 1.3 billion with respect to 31 December 2016.

Total net deposits for the Group’s Private Banking grew by € 865 million over the course of the first 6 months of 2017.

The first half of the year was characterised by generalised stock market growth; the S&P 500 rose, without considering the exchange rate, by 8%, the Nasdaq rose by 14% and the Stoxx 600 increased by 5%. The FTSE MIB, supported by a recovery in the value of bank securities, outperformed Europe, with +7% for the half. The European stock market was sustained by indications of macroeconomic growth slightly better than estimates and an earnings season that confirmed the trend of significant corporate growth; in addition, the victory of the moderates in the Netherlands as well as France and the defeat of the political movements more critical towards the single currency and a common European policy provided added stability for investors. In North America, the push deriving from the expected reforms of the new US administration, particularly in relation to tax cuts, continued to support US markets. Within this framework, flows of institutional investors became important once again in the stock markets, also due to the lack of alternatives in light of current and outlook bond yields.

57.9% of the asset mix of the customers of Banca Patrimoni Sella & C. halfway through 2017 was represented by Individual Portfolio Management and Mutual Investment Funds; for Banca Sella Private Banking it was 34.7%. In 2017, the insurance component in both banks grew to around 7.7%.

At 30 June 2017, deposits under advisory for Family Advisory Sim Sella & Partners, the Family Office 85% held by Banca Patrimoni Sella & C. and 15% by the management of the same company, amounted to roughly € 1,070 million.

## Banca Patrimoni Sella & C.

Operations in the asset management sector constitute one of the main activities of Banca Patrimoni Sella & C. In total, the stock of assets under management, managed directly or under mandate, amounts to € 5,178 million at 30 June 2017, up compared to the figure at the end of 2016 by 10.2%. Amounts managed rose due to positive inflows of deposits of 9.6% and the effect of stock market prices, also positive since the start of the year by 0.6%.

As regards the assets under management deposited with the Bank, final stocks came to € 3,445 million, with an annual increase of 9.96%. In the course of 2017, the Bank continued its development of the management mandate assigned to it by Banca Sella. At the end of the first half of 2017, the total assets entrusted under mandate amounted to roughly € 1,733 million, up compared to the previous year by 10.7% due to the positive net inflows resulting mainly from a single institutional customer.

Gross returns achieved were higher than the reference benchmarks for 188.9% of the assets under direct management and for 186.1% of the assets managed under mandate.

In 2017, the Bank is continuing with its activity of managing and acting as depositary for internal funds associated with insurance policies issued by IN CHIARO LIFE DAC and by ZURICH INVESTMENTS LIFE SPA which at the end of June reached € 479 million for In Chiaro, stable with respect to previous months, and € 65 million for Zurich, marking an increase of € 28 million.

Customer positioning has not changed substantially with respect to previous years, and is mostly concentrated in balanced investment strategies. Without prejudice to the hedging purposes set forth in the contract, derivative financial instruments are not used within asset management activities.

## Lending in the Banca Sella Group

Lending trends were positive in the first six months of 2017. As already reported in 2016, also considering the improved economic framework and the recovery in demand, net loans, without considering repurchase agreements, rose by 1.6%, reaching € 7.92 billion.

**Cash loans (euro thousands)**

| Item | 30/06/2017 | Proportion (%) of total | 31/12/2016 | Proportion (%) of total | Absolute changes | % |
|---|---|---|---|---|---|---|
| **Loans to customers (excluding repurchase agreements)** | **7,924,417.4** | **95.5%** | **7,802,138.6** | **98.7%** | **122,278.8** | **1.6%** |
| Performing | 7,389,845.6 | 89.1% | 7,217,041.6 | 91.3% | 172,804.0 | 2.4% |
| - Current accounts | 819,574.9 | 9.9% | 758,654.2 | 9.6% | 60,920.7 | 8.0% |
| - Mortgage loans | 3,520,808.7 | 42.4% | 3,479,545.0 | 44.0% | 41,263.7 | 1.2% |
| - Credit cards, personal loans and loans on wage assignments | 1,118,346.5 | 13.5% | 1,094,278.3 | 13.8% | 24,068.1 | 2.2% |
| - Financial leasing | 887,302.7 | 10.7% | 887,861.0 | 11.2% | -558.4 | -0.1% |
| - Other transactions | 1,043,730.4 | 12.6% | 996,622.9 | 12.6% | 47,107.5 | 4.7% |
| - Debt securities | 82.5 | 0.0% | 80.1 | 0.0% | 2.4 | 3.0% |
| Non-performing assets | 534,571.8 | 6.4% | 585,096.9 | 7.4% | -50,525.2 | -8.6% |
| **TOTAL CASH LOANS (EXCLUDING REPURCHASE AGREEMENTS)** | **7,924,417.4** | **95.5%** | **7,802,138.6** | **98.7%** | **122,278.8** | **1.6%** |
| Repurchase agreements | 373,190.7 | 4.5% | 103,381.3 | 1.3% | 269,809.4 | 261.0% |
| **TOTAL CASH LOANS** | **8,297,608.1** | **100.0%** | **7,905,519.9** | **100.0%** | **392,088.2** | **5.0%** |
| **Details for Group companies** | | | | | | |
| Banca Sella Holding | 483,297.9 | 5.8% | 188,875.3 | 2.4% | 294,422.6 | 155.9% |
| Biella Leasing | 952,660.0 | 11.5% | 960,222.7 | 12.1% | -7,562.6 | -0.8% |
| Consel | 876,379.4 | 10.6% | 846,183.1 | 10.7% | 30,196.4 | 3.6% |
| Banca Patrimoni Sella & C. | 338,457.4 | 4.1% | 314,599.9 | 4.0% | 23,857.5 | 7.6% |
| Banca Sella | 5,641,924.4 | 68.0% | 5,591,046.3 | 70.7% | 50,878.1 | 0.9% |
| Other Group companies | 4,888.9 | 0.1% | 4,592.6 | 0.1% | 296.2 | 6.5% |
| **Total for Group companies** | **8,297,608.1** | **100.0%** | **7,905,519.9** | **100.0%** | **392,088.2** | **5.0%** |

## Banca Sella

In the course of the first half of 2017, the Banca Sella Credit Products Service continued to innovate its product range and continuously updated its existing products to better satisfy the needs of private customers and businesses alike. In particular, the range has been strengthened:

- for mortgages to private individuals with several promotions and with an increase in the Guarantee Fund for first homes;
- for credit products on digital channels, first and foremost for mortgages to private individuals and the offer of loan products under favourable conditions for corporate customers, after obtaining new funds from the TLTRO 2 programme;
- short-term lending methods were activated for Small Businesses and SMEs, specifically linked to POS collections, and the process for offering credit to innovative start-ups was improved;
- a drive was made for the use of the Innovfin guarantee (which is part of the Horizon 2020 programme on loans to support company research and innovation activities);
- the offer of loans was renewed for providing advances on CAP (common agricultural policy) contributions;
- new regional agreements were entered into (Piedmont, Apulia, Campania) relating to rural development plans (RDP) which call for the provision of contributions for investments in the agricultural sector;
- a new Agreement was entered into with Finlombarda for the commercial farm operation credit;

- participation in initiatives to financially support populations struck by natural disasters continued;
- the agreement with factoring companies was expanded to respond to the needs of corporate customers interested in that instrument for the management of receivables from commercial counterparties and the possible assignment of receivables without recourse;
- the placement of personal loans disbursed by Consel continued, for a nominal amount of roughly € 41.3 million, as well as the placement of Biella Leasing lease agreements for a nominal amount of around € 22.3 million;
- innovative forms of Supply Chain Finance operations are currently being studied. Potential partnerships are also being evaluated with Fintech-P2P Lending companies to expand the offer through digital channels in the Corporate and SME sectors;
- agreements were renewed for loans for purchasing tablets in favour of teachers and the families of students of several educational institutions in Biella.

At the end of the first half of 2017, cash loans to ordinary customers came to € 6,976 million (€ 6,985.6 as at 31 December 2016) with a very slight negative change of roughly € 9 million compared to the previous year. Unsecured loans totalled € 211.5 million (€ 214.9 million at 31 December 2016).

Within 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.

Lending to businesses continued in collaboration with Biella Leasing, the Group’s leasing company, and Consel, the Group’s consumer loan company, for the disbursement of consumer loans to private individuals.

During the course of 2016, activities were carried out using the funds made available by the European Investment Bank, the national Deposits and Loans Institute and the European Investment Fund, and the concrete collaboration continued with Sace to support the international growth of corporate customers.

## Biella Leasing

This Company, with registered office in Biella, has worked for thirty-six years in the finance lease business and maintains a local presence with seven branches. Biella Leasing also relies on credit agents and brokers that provide the Company with a widespread presence throughout the country.

The business is based on the acquisition by Biella Leasing of movable or immovable assets of any nature whatsoever from third-party suppliers, which are granted for use to the user for a pre-set period of time, entailing payment of a periodic fee. This type of loan allows the user to choose the supplier and the type of asset that meet its needs and, at the end of the agreement, by exercising the option right, to become the owner of the asset for the payment of an agreed price.

Biella Leasing offers different types of products depending on the nature of the assets:

- vehicle and heavy vehicle leases;
- capital goods leases;
- real estate leases, for properties already built and being built;
- recreational watercraft leases;
- renewable energy leases.

At the end of 2016 the Company started a new operating lease business, which makes the asset available to the user, transferring the relative obsolescence risks to the lessor for the entire duration of the contract. This model, different from finance leases, does not provide the user with the possibility of exercising a redemption option. The transaction type is therefore similar to a rental.

During the period the Company signed 2,300 contracts for a total amount of € 150.9 million. This figure is down with respect to the same period of last year (2,543 contracts for a value of € 157 million). The market share on newly-signed contracts was 1.57%, an increase compared with 31 December 2016, when it was 1.47%. The vehicles and capital goods segments, having reached 122 million, represent 81% of the entire amount of loans provided during the year.

Net leasing income, amounting to € 13 million, increased when compared with 2016, when it was 12.6 million. Structural costs, inclusive of personnel expenses and other overheads, amounted to a total of € 4.2 million at 30 June 2017, in line with the same period of the previous year. On 30 June 2017 the staff, including employees and seconded personnel from other companies of the Group, was made up of 73 people (with respect to 75 at the end of 2016).

Gross non-performing loans amounted to € 106 million (down 6.2% compared to the end of last year) and represent 10.5% of total gross loans. Their degree of coverage is 49.6%, up by 2.9 percentage points on last year. The impact of net doubtful loans on loans was 2.1%, down with respect to 2.8% at the end of 2016. The cost of credit on an annual basis was 0.9%.

The Company ended the year with a net profit of € 5.2 million.

## Consel

Compared to the same period of the previous year, in the first half of 2017 Consel recorded an improvement in its market share from 0.8% to 0.9%. In terms of disbursements, in the first half of 2017 overall growth was recorded in volumes disbursed, amounting to a total of € 266 million (+10.4% compared to the same period of 2016), while in terms of the number of transactions, there was a decline (-26.5%), with a total of nearly 130,000 transactions financed.

Analysing the individual segments in detail, the loans on wage/pension assignments sector once again posted triple-digit growth in terms of volumes (+204.7% compared to the same period of 2016), with total disbursements reaching € 24 million. Two factors mainly contributed to this increase: on one hand, the acquisition of receivables without recourse and on the other hand the consolidation of the agency network consisting of sector professionals.

Volumes relating to auto loans and special-purpose loans were also up, while volumes generated by the personal loans segment posted a negative trend, with a downturn of 8.6%.

Credit card volumes, with in excess of roughly € 20 million disbursed, remained basically stable and increased slightly.

## Credit quality

| Credit quality (euro thousands) | | | | | | |
|---|---|---|---|---|---|---|
| Item | 30/06/2017 | Proportion (%) of total | 31/12/2016 | Proportion (%) of total | Absolute changes | % |
| **Due from customers** | **8,297,525.6** | **100.00%** | **7,905,439.8** | **100.00%** | **392,085.8** | **4.96%** |
| Non-impaired loans | 7,763,036.3 | 93.56% | 7,320,422.9 | 92.60% | 442,613.4 | 6.05% |
| Non-performing loans | 534,571.8 | 6.44% | 585,096.9 | 7.40% | (50,525.2) | -8.64% |
| *of which net doubtful loans* | 299,051.4 | *3.60%* | 332,270.2 | *4.20%* | *(33,218.8)* | *-10.00%* |
| *of which unlikely to pay* | 223,560.4 | *2.69%* | 239,539.7 | *3.03%* | *(15,979.4)* | *-6.67%* |
| *of which expired non-performing* | 11,960.0 | *0.14%* | 13,287.0 | *0.17%* | *(1,327.0)* | *-9.99%* |

The gross non-performing loans of the Banca Sella Group were down by 13.95% and equal to € 1.03 billion, also thanks to two assignments of receivables recognised as doubtful loans for € 163 million, of which € 125.5 million by Banca Sella and € 37.5 million by Consel. As a result, although there was a 2.83 basis point decline in the coverage ratios, the NPL ratio (gross non-performing loans over gross loans) fell from 14.2% at 31 December 2016 to 12.2%, marking an improvement of 2.01 basis points. In terms of this indicator, please note that the Banca Sella Group figure should be observed in relation to the Bank of Italy figure concerning the banking system, an average of 19.1%, according to what was published in the Report on financial stability no. 1 of April 2017.

The key objective is a gradual reduction in the NPL ratio by means of a reinforcement of strategies for the increasingly active, efficient and informed management of non-performing loans and an improvement in the IT system so as to improve the quality, accuracy and comprehensiveness of information regarding NPLs.

| in Euro million | 30/06/2017 | | | | | 30/06/2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | gross | writedowns | net | coverage | change coverage 2017 | gross | writedowns | net | coverage | change coverage 2016 |
| doubtful loans | 719,823 | -420,773 | 299,050 | 58.46% | -3.26% | 867,882 | -535,618 | 332,264 | 61.72% | 1.37% |
| unlikely to pay | 292,648 | -69,087 | 223,561 | 23.61% | 1.05% | 309,314 | -69,775 | 239,539 | 22.56% | 2.74% |
| expired non-performing | 15,952 | -3,992 | 11,960 | 25.03% | -1.18% | 18,006 | -4,718 | 13,288 | 26.20% | 5.54% |
| Total gross non-performing assets | 1,028,423 | -493,852 | 534,571 | 48.02% | -3.03% | 1,195,202 | -610,111 | 585,091 | 51.05% | 3.37% |

The evolution of the main credit quality indicators is provided below:

| | 30/06/2017 | 31/12/2016 | 31/12/2015 | 31/12/2014 |
|---|---|---|---|---|
| Net doubtful loans / Cash loans (net of repurchase agreements) | 3.77% | 4.27% | 4.41% | 3.89% |
| Net non-performing loans / Cash loans (net of repurchase agreements) | 6.75% | 7.52% | 8.45% | 8.77% |
| Gross doubtful loans / Gross cash loans (net of repurchase agreements) | 8.51% | 10.29% | 10.27% | 9.99% |
| Gross non-performing loans / gross cash loans (net of repurchase agreements) | 12.16% | 14.17% | 14.93% | 15.56% |

Lastly, the Texas ratio indicator, which expresses the capacity of tangible equity along with the provision for risks on loans to cover non-performing assets, is improving more and more; indeed, compared to 94.27% at 31 December 2014, it reached 80.27% at 31 December 2015 and then 74.33% at 31 December 2016 and finally 68.39% at 30 June 2017.

| | 30/06/2017 | 31/12/2016 | 31/12/2015 | 31/12/2014 |
|---|---|---|---|---|
| gross non-performing assets | 1,028,423 | 1,195,209 | 1,244,734 | 1,355,410 |
| shareholders' equity | 1,096,045 | 1,083,510 | 1,042,509 | 867,138 |
| intangible assets | -86,205 | -85,654 | -85,395 | -81,115 |
| provisions for impairment on non-performing assets | 493,851 | 610,112 | 593,495 | 651,739 |
| Tangible equity | 1,503,691 | 1,607,968 | 1,550,609 | 1,437,762 |
| **Texas ratio (Gross non-performing assets/Tangible equity)** | **68.39%** | **74.33%** | **80.27%** | **94.27%** |

# Human Resources - management and development

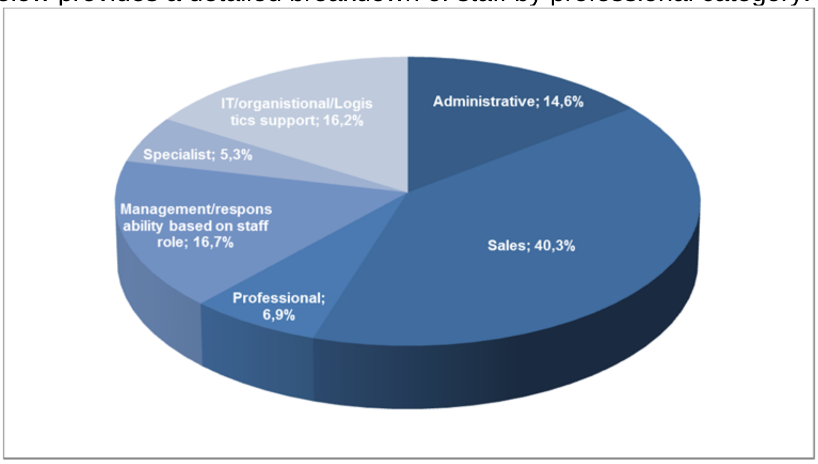
As 30 June 2017 the Banca Sella Group's staff totalled 4,222 employees, a decrease of 42 with respect to the figure at the end of 2016. The decline is in part the result of access to the voluntary retirement scheme. The personnel relating to the banking group alone shows a number of employees at the end of the half-year of 4,198, a decrease of 44 from 2016. Staff was strengthened in particular in Banca Patrimoni Sella & C. (+13) and Easy Nolo (+3), compared to some decreases, the main ones being in Banca Sella (-79) and Consel (-12).

**GROUP STAFF STRUCTURE**

| Company | Employees at 30/06/2017 | Proportion (%) of total 2017 | Employees at 31/12/2016 | Proportion (%) of total 2016 | Changes | |
|---|---|---|---|---|---|---|
| | | | | | absolute | % |
| **Parent Company** | | | | | | |
| Banca Sella Holding S.p.A. | 276 | 6.5% | 265 | 6.3% | 11 | 4.2% |
| **Banca Sella Group banking group** | | | | | | |
| Banca Patrimoni Sella & C. S.p.A. | 256 | 6.1% | 243 | 5.8% | 13 | 5.3% |
| Banca Sella S.p.A. | 2,639 | 62.5% | 2,718 | 64.4% | -79 | -2.9% |
| Chennai Branch - Banca Sella | 255 | 6.0% | 239 | 5.7% | 16 | 6.7% |
| Biella Leasing S.p.A. | 65 | 1.5% | 68 | 1.6% | -3 | -4.4% |
| Consel S.p.A. | 200 | 4.7% | 212 | 5.0% | -12 | -5.7% |
| Easy Nolo S.p.A. | 33 | 0.8% | 30 | 0.7% | 3 | 10.0% |
| Family Advisory SIM S.p.A. | 6 | 0.1% | 6 | 0.1% | - | 0.0% |
| Selir S.r.l. | 419 | 9.9% | 411 | 9.7% | 8 | 1.9% |
| Miret S.A | 2 | 0.0% | 2 | 0.0% | - | 0.0% |
| Sella Gestioni SGR S.p.A. | 47 | 1.1% | 48 | 1.1% | -1 | -2.1% |
| **Total Banca Sella Group banking group** | **4,198** | **99.4%** | **4,242** | **99.5%** | **-44** | **-1.0%** |
| **Average total Banca Sella Group banking group** | **4,220** | | **4,248** | | **-28** | **-0.7%** |
| Brosel S.p.A. | 24 | 0.6% | 22 | 0.5% | 2 | 9.1% |
| **Total Banca Sella Group civil-law group** | **4,222** | **100.0%** | **4,264** | **100.0%** | **-42** | **-1.0%** |
| **Average total Banca Sella Group civil-law group** | **4,243** | | **4,284** | | **-41** | **-1.0%** |

At the end of the first half of 2017, the average age of the Group's employees is approximately 40.01, with women representing 50% of the total workforce. The average age decreased slightly with respect to the end of the previous year, when the average age was 40.25, while previously women represented 50.2% of the total.

The chart below provides a detailed breakdown of staff by professional category.



# Statement of reconciliation between shareholders' equity and profit of the parent company and consolidated shareholders' equity and profit pertaining to the Group

**Statement of reconciliation between shareholders' equity and profit of the parent company and consolidated shareholders' equity and profit pertaining to the Group**

| *(in thousands of Euro)* | **Profit for the year 30 June 2017** | **Shareholders' equity at 30 June 2017** |
|---|---|---|
| **Balances as per parent company financial statements** | **7,498** | **654,008** |
| Treasury shares deducted | - | - |
| Equity pertaining to group of companies consolidated with line-by-line and net equity methods | - | 270,661 |
| Profit/(loss) for the period of consolidated investee companies, net of proportion pertaining to minority interests | 45,353 | 45,353 |
| Profit/(loss) for the period of investee companies measured with net equity method pertaining to the Group | 335 | 335 |
| Elimination of intra group dividends collected in the period | -11,335 | - |
| Consolidation adjustments: | - | - |
| Reversal of write-downs of consolidated investee companies | 104 | 77,795 |
| Valuation of goodwill | -43 | -47,828 |
| Reversal of gains on sales made between group companies | - | -73,131 |
| Other adjustments | -1,304 | -20,088 |
| **Balances as per consolidated financial statements** | **40,608** | **907,105** |

The difference between the equity recognised in the individual financial statements and that in the consolidated financial statements is a result of the application of the criteria and methods described in the Notes. They comply with the provisions of the law and tend to represent the situation and the results of the Group as if it were a single corporate entity.

Biella, 29 September 2017

In the name and on behalf of the Board
The Chairman of the Board of Directors

**Maurizio Sella**

# Schedules from the Consolidated Financial Statements

# as at 30 June 2017

# Consolidated Balance Sheet

## CONSOLIDATED BALANCE SHEET ASSETS

| Assets | 30/06/2017 | 31/12/2016 | Difference % |
|---|---|---|---|
| 10. Cash and cash equivalents | 1,813,300 | 1,542,050 | 17.59% |
| 20. Financial assets held for trading | 770,688 | 432,534 | 78.18% |
| 30. Financial assets carried at fair value | - | - | 0.00% |
| 40. Financial assets available for sale | 2,181,359 | 2,200,788 | -0.88% |
| 50. Financial assets held to maturity | 5,973 | - | 0.00% |
| 60. Due from banks | 286,042 | 299,663 | -4.55% |
| 70. Due from customers | 8,297,608 | 7,905,520 | 4.96% |
| 80. Hedging derivatives | 5,025 | 5,927 | -15.22% |
| 90. Value adjustment of financial assets subject to macrohedging (+/-) | 101,967 | 118,699 | -14.10% |
| 100. Equity investments | 12,507 | 12,170 | 2.77% |
| 110. Reinsurers' share of technical reserves | - | - | 0.00% |
| 120. Tangible assets | 205,532 | 203,057 | 1.22% |
| 130. Intangible assets | 86,206 | 85,654 | 0.64% |
| of which: | | | 0.00% |
| - goodwill | 34,193 | 34,236 | -0.13% |
| 140. Tax assets | 250,204 | 269,244 | -7.07% |
| a) current | 69,383 | 81,193 | -14.55% |
| b) deferred | 180,821 | 188,051 | -3.84% |
| of which Law 214/2011 | 155,039 | 160,094 | -3.16% |
| 150. Non-current assets and asset groups held for sale | - | - | 0.00% |
| 160. Other assets | 237,535 | 223,069 | 6.48% |
| **Total assets** | **14,253,946** | **13,298,375** | **7.19%** |

## CONSOLIDATED BALANCE SHEET LIABILITIES

| Liabilities and shareholders' equity | 30/06/2017 | 31/12/2016 | Difference % |
|---|---|---|---|
| 10. Due to banks | 983,123 | 604,396 | 62.66% |
| 20. Due to customers | 10,612,537 | 10,454,628 | 1.51% |
| 30. Securities in issue | 454,083 | 527,647 | -13.94% |
| 40. Financial liabilities held for trading | 373,204 | 127,325 | 193.11% |
| 50. Financial liabilities carried at fair value | - | - | 0.00% |
| 60. Hedging derivatives | 106,072 | 122,344 | -13.30% |
| 70. Value adjustment of financial liabilities subject to macrohedging (*/-) | - | - | 0.00% |
| 80. Tax liabilities | 23,395 | 30,197 | -22.53% |
| a) current | 14,951 | 17,755 | -15.79% |
| b) deferred | 8,444 | 12,442 | -32.13% |
| 90. Liabilities associated to assets being divested | - | - | 0.00% |
| 100. Other liabilities | 512,049 | 255,810 | 100.17% |
| 110. Provision for severance indemnities | 39,197 | 41,528 | -5.61% |
| 120. Provisions for risks and charges: | 54,240 | 50,990 | 6.37% |
| a) retirement and similar obligations | - | - | 0.00% |
| b) other provisions | 54,240 | 50,990 | 6.37% |
| 130. Technical reserves | - | - | 0.00% |
| 140. Valuation reserves | 7,658 | 30,616 | -74.99% |
| 150. Reimbursable shares | - | - | 0.00% |
| 160. Equity instruments | - | - | 0.00% |
| 170. Reserves | 646,174 | 572,124 | 12.94% |
| 175. Advances on dividends (-) | - | - | 0.00% |
| 180. Share premiums | 105,551 | 105,551 | 0.00% |
| 190. Capital | 107,114 | 107,114 | 0.00% |
| 200. Treasury shares (-) | - | - | 0.00% |
| 210. Equity pertaining to third-parties (+/-) | 188,941 | 188,542 | 0.21% |
| 220. Profit (loss) for the year (+/-) | 40,608 | 79,563 | -48.96% |
| **Total liabilities and Shareholders' Equity** | **14,253,946** | **13,298,375** | **7.19%** |

# Consolidated Income Statement

## CONSOLIDATED INCOME STATEMENT

| Item | 30/06/2017 | 30/06/2016 | Difference % |
|---|---|---|---|
| 10. Interest and similar income | 154,894 | 157,673 | -1.76% |
| 20. Interest and similar expense | (33,484) | (37,007) | -9.52% |
| **30. Net interest income** | **121,410** | **120,666** | **0.62%** |
| 40. Fee income | 187,532 | 171,107 | 9.60% |
| 50. Fee expenses | (54,864) | (49,696) | 10.40% |
| **60. Net fees** | **132,668** | **121,411** | **9.27%** |
| 70. Dividends and similar income | 821 | 1,264 | -35.05% |
| 80. Net gains/(losses) on trading activities | 11,530 | 11,065 | 4.20% |
| 90. Net gains/(losses) on hedging activities | (63) | (946) | -93.34% |
| 100. Income (losses) from sale or repurchase of: | 33,968 | 48,484 | -29.94% |
| a) receivables | 2,588 | (1,143) | -326.42% |
| b) financial assets available for sale | 31,439 | 49,555 | -36.56% |
| c) financial assets held to maturity | - | - | 0.00% |
| d) financial liabilities | (59) | 72 | -181.94% |
| 110. Net gains/(losses) on financial assets and liabilities carried at fair value | - | - | 0.00% |
| **120. Net banking income** | **300,334** | **301,944** | **-0.53%** |
| 130. Net value adjustments for impairment of: | (38,320) | (42,786) | -10.44% |
| a) receivables | (26,589) | (38,727) | -31.34% |
| b) financial assets available for sale | (7,194) | (3,685) | 95.22% |
| c) financial assets held to maturity | - | - | 0.00% |
| d) other financial transactions | (4,537) | (374) | 1113.10% |
| **140. Net financial operating gains (losses)** | **262,014** | **259,158** | **1.10%** |
| 150. Net premiums | - | - | 0.00% |
| 160. Balance of other income/expenses from insurance operations | - | - | 0.00% |
| **170. Net gains (losses) from financial and insurance operations** | **262,014** | **259,158** | **1.10%** |
| 180. Administrative expenses: | (215,462) | (211,273) | 1.98% |
| a) personnel expenses | (120,734) | (119,143) | 1.34% |
| b) other administrative expenses | (94,728) | (92,130) | 2.82% |
| 190. Net provisions for risks and charges | (8,435) | (1,601) | 426.86% |
| 200. Net value adjustments on tangible assets | (8,607) | (7,973) | 7.95% |
| 210. Net value adjustments on intangible assets | (9,183) | (8,265) | 11.11% |
| 220. Other operating expenses/income | 37,797 | 41,367 | -8.63% |
| **230. Operating expenses** | **(203,890)** | **(187,745)** | **8.60%** |
| 240. Income (Losses) from equity investments | 793 | 344 | 130.52% |
| 250. Net gains (losses) from the fair value measurement of tangible and intangible assets | - | - | 0.00% |
| 260. Value adjustments on goodwill | (43) | - | 0.00% |
| 270. Income (losses) from the disposal of investments | 10 | 2,321 | -99.57% |
| **280. Profit (Loss) on current operations before tax** | **58,884** | **74,078** | **-20.51%** |
| 290. Income taxes for the period on continuing operations | (15,077) | (12,749) | 18.26% |
| **300. Profit/(Loss) on continuing operations after tax** | **43,807** | **61,329** | **-28.57%** |
| 310. Profit/(loss) on asset disposal groups held for sale after tax | - | 26,993 | -100.00% |
| **320. Profit (Loss) for the period** | **43,807** | **88,322** | **-50.40%** |
| 330. Profit (loss) for the period pertaining to minority interests | 3,199 | 13,119 | -75.62% |
| **340. Profit/(Loss) for the period pertaining to parent company** | **40,608** | **75,203** | **-46.00%** |

# Comprehensive income

| | Item<br>*(in thousands of Euro)* | 30/06/2017 | 30/06/2016 |
|---|---|---|---|
| **10.** | **Profit (Loss) for period** | **43,807** | **88,322** |
| | **Other income components net of taxes without reversal to income statement** | | |
| 20. | Tangible assets | - | (6,647) |
| 30. | Intangible assets | - | - |
| 40. | Defined benefit plans | 44 | (3,245) |
| 50. | Non-current assets held for sale | - | - |
| 60. | Share of valuation reserves in relation to investments evaluated via the equity method | - | - |
| | **Other income components net of taxes with reversal to income statement** | | |
| 70. | Foreign investment hedging: | - | - |
| 80. | Foreign exchange gains (losses) | (99) | (289) |
| 90. | Cash flow hedging | - | - |
| 100. | Financial assets available for sale | (23,084) | (10,961) |
| 110. | Non-current assets held for sale | - | - |
| 120. | Share of valuation reserves in relation to investments evaluated via the equity method | 2 | (655) |
| **130.** | **Total of other income components after tax** | **(23,137)** | **(21,797)** |
| **140.** | **Comprehensive income (Items 10 +130)** | **20,670** | **66,525** |
| 150. | Comprehensive consolidated income pertaining to third-parties | 3,021 | 4,987 |
| **160.** | **Comprehensive consolidated income pertaining to the Parent Company** | **17,649** | **61,538** |

# Statement of changes in Consolidated Shareholders' Equity as 30 June 2017

**STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30 JUNE 2017** *(in thousands of Euro)*

| | Balance at 31/12/2016 | Changes to opening balance | Balance at 01/01/2017 | Allocation of previous year's profit: Reserves | Allocation of previous year's profit: Dividends and other allocations | Changes for the period: Changes in reserves | Changes for the period – Operations on shareholders' equity: Issue of new shares | Operations on shareholders' equity: Purchase of treasury shares | Operations on shareholders' equity: Distribution of extraordinary dividends | Operations on shareholders' equity: Change in equity instruments | Operations on shareholders' equity: Derivatives on treasury shares | Operations on shareholders' equity: Stock options | Operations on shareholders' equity: Changes in shareholdings | Changes for the period: Profit for the year at 30/06/2017 | Group shareholders' equity at 30/06/2017 | Minority interest shareholders' equity at 30/06/2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Share capital: | | | | | | | | | | | | | | | | |
| a) ordinary shares | 185,917 | - | 185,917 | - | - | - | - | - | - | - | - | - | (95) | - | **107,114** | **78,708** |
| b) other shares | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | **-** |
| Share premiums | 184,852 | - | 184,852 | - | - | - | - | - | - | - | - | - | (104) | - | **105,551** | **79,197** |
| Reserves: | | | | | | | | | | | | | | | | |
| a) from profits | 588,240 | - | 588,240 | 85,988 | - | - | - | - | - | - | - | - | 66 | - | **646,174** | **28,119** |
| b) other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | **-** |
| Valuation reserves | 30,511 | - | 30,511 | - | - | - | - | - | - | - | - | - | - | (23,137) | **7,657** | **(282)** |
| Equity instruments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** | **-** |
| Treasury shares | - | - | - | - | - | - | - | - | - | - | - | - | | - | **-** | **-** |
| Profit (Loss) for period | 93,990 | - | 93,990 | (85,988) | (8,002) | - | - | - | - | - | - | - | | 43,807 | **40,608** | **3,199** |
| Group shareholders' equity | 894,968 | - | 894,968 | | (5,569) | - | - | - | - | - | - | - | 56 | 17,649 | **907,104** | |
| Minority interest shareholders' equity | 188,542 | - | 188,542 | | (2,433) | - | - | - | - | - | - | - | (189) | 3,021 | | **188,941** |

# Consolidated cash flow statement – direct method

| A. OPERATING ACTIVITIES | 30/06/2017 | 30/06/2016 |
|---|---|---|
| **1. Operations** | **69,987** | **78,252** |
| Interest income collected (+) | 162,752 | 145,793 |
| Interest expense paid (-) | (33,484) | (37,007) |
| Dividends and similar income | 821 | 1,264 |
| Net fees (+/-) | 132,668 | 121,411 |
| Personnel expenses | (120,701) | (116,764) |
| Net premiums collected (+) | 0 | 0 |
| Other insurance income/expenses (+/-) | 0 | 0 |
| Other costs (-) | (94,728) | (92,130) |
| Other revenues (+) | 37,736 | 41,441 |
| Taxes and duties (-) | (15,077) | (12,749) |
| Costs/revenues for asset groups held for sale and net of the tax effect (+/-) | 0 | 26,993 |
| **2. Cash generated (absorbed) by financial assets** | **(682,520)** | **665,090** |
| Financial assets held for trading | (326,623) | (527,084) |
| Financial assets carried at fair value | 0 | 0 |
| Financial assets available for sale | 9,631 | 3,948 |
| Due from customers | (399,357) | (139,277) |
| Due from banks | 13,621 | (217,940) |
| Other assets | 20,208 | 1,545,443 |
| **3. Cash generated (absorbed) by financial liabilities** | **918,098** | **(776,877)** |
| Due to banks | 378,727 | (75,712) |
| Due to customers | 157,909 | 685,892 |
| Securities in issue | (73,565) | (154,840) |
| Financial liabilities held for trading | 245,879 | 162,418 |
| Financial liabilities carried at fair value | 0 | 0 |
| Other liabilities | 209,148 | (1,394,635) |
| **Net cash provided (used) by operating activities** | **305,565** | **(33,535)** |
| **B. INVESTMENT ACTIVITIES** | **30/06/2017** | **30/06/2016** |
| **1. Cash generated by:** | **621** | **21,163** |
| Sales of equity investments | - | 29 |
| Dividends collected on equity investments | 458 | 454 |
| Sales/redemptions of financial assets held to maturity | 0 | - |
| Sales of property, plant and equipment | 97 | 17,130 |
| Sales of intangible assets | 66 | 3,550 |
| Sales of subsidiaries and company divisions | - | - |
| **2. Cash (absorbed) by:** | **(26,934)** | **(13,511)** |
| Purchases of equity investments | 0 | - |
| Purchases of financial assets held to maturity | (5,923) | - |
| Purchases of property and equipment | (11,168) | (4,364) |
| Purchases of intangible assets | (9,843) | (9,147) |
| Sales of subsidiaries and company divisions | - | - |
| **Net cash provided (used) by investing activities** | **(26,313)** | **7,652** |
| **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 | (8,002) | (1,820) |
| **Net cash provided (used) by financing activities** | **(8,002)** | **(1,820)** |
| **NET CASH PROVIDED (USED) IN THE PERIOD** | **271,250** | **(27,703)** |
| **RECONCILIATION** | **30/06/2017** | **30/06/2016** |
| **Cash and cash equivalents at start of year** | **1,542,050** | **130,889** |
| Total net cash provided (used) in the period | 271,250 | (27,703) |
| **Cash and cash equivalents at end of year** | **1,813,300** | **103,186** |

# Notes

## Declaration of compliance with international accounting standards

This Consolidated Interim Report 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. As concerns the explanatory schemes and tables, they were 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 and Circular no. 262/05 as subsequently amended.

The interim directors' report at 30 June 2017 was prepared clearly and reflects the profit and loss and financial position of the "Banca Sella Group" in a true and fair manner as represented for supervisory purposes, and was prepared exclusively for the determination of the profit for the period in order to calculate Common Equity Tier 1. This interim report was not drawn up in compliance with IAS 34 "Interim Financial Reporting". Therefore, it lacks several statements, comparative figures and explanatory notes that would be required to represent the Group's financial position and profit and loss for the period in compliance with the International Financial Reporting Standards adopted by the European Union.

## General drafting principles

This consolidated half-yearly report consists of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of changes in shareholders' equity, the Cash Flow Statement and the Notes, with the statements deemed most significant to represent the changes that took place during the half in the main balance sheet aggregates, as well as the breakdown of the main income items that contributed to the profit for the half-year period.

For interim financial statements, IAS 34 "Interim Financial Reporting" requires comparative accounting statements to be provided using the values from the corresponding period of the previous year for the Income Statement and the values from the financial statements as at 31 December of the previous year for the Balance Sheet.

Therefore, in application of this rule and in compliance with the presentation criteria adopted in the tables and comments in the Notes below, the income statement values for the first half of 2017 are compared with those of the first half of 2016, appropriately reclassified to take into account the changes made in the above-mentioned Bank of Italy provisions, while the balance sheet data as at 30 June 2017 are compared with those of the financial statements closed as at 31 December 2016.

This consolidated half-yearly report was prepared using the euro as the reporting currency; amounts are shown in thousands of euro in the accounting statements and, if not specified otherwise, in the notes.

The accounting standards adopted to prepare this Half-Yearly Report remained unchanged, with reference to the recognition, classification, measurement and derecognition of the various asset and liability items, with respect to the standards adopted for the preparation of the financial statements for the year as at 31 December 2016 (therefore, for further details on the preparation and measurement criteria, please refer to those financial statements).

They are 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 accounting statements are compliant with what is set forth in Bank of Italy Circular no. 262/2005.

The interim report has been prepared in coherence with the accounting standards and criteria used the last financial year, as well as the following IFRS accounting standards, amendments and interpretations applied as of 1 January 2017.

# Scope and methods of consolidation

The Consolidated Financial Statements are the financial statements for the group, presented in the form of a single economic entity. This comprises the Balance Sheet and Income Statement of the parent company and of its directly and indirectly controlled companies.

In preparing the Consolidated Financial Statements, the draft financial statements for the first half of 2017 of the parent company and those of the other fully consolidated Group companies were used. These latter, when necessary, were appropriately reclassified and adjusted for proper representation in the bank balance sheet schedules and to ensure uniformity of use for the IAS/IFRS.

The assets and liabilities, income and expenses of consolidated companies denominated in currencies other than the euro are converted according to the following rules:

- balance sheet assets and liabilities are translated at the exchange rate obtaining at the balance sheet date;
- revenues and costs in the Income Statement are translated at the average exchange rate for the year.

All exchange differences arising from the translation are recognised in a specific and separate shareholders' equity reserve. The above reserve is eliminated at the moment of any sale of the equity interest, and the amounts are added to or subtracted from the Income Statement at the same time. Pursuant to IFRS 10, the parent company Banca Sella Holding consolidates companies on the basis of the control principle, as defined in the cited IFRS. In particular, control by the parent company is determined when the following three conditions are simultaneously met (paragraph 7, IFRS 10):

(a) exercising power over the investee;

(b) holding of rights or exposure to variable returns, deriving from the relationship with the investee;

(c) the capacity to assert power held over the investee to affect the amount of these returns.

For the purposes of exercising power, it is necessary to consider whether valid rights are held (e.g. voting rights, potential voting rights, or one or more contractual agreements) that grant the current capacity to direct significant activities, that is activities that significantly affect the returns achieved by the investee.

A right or exposure to variable returns exists when the returns deriving from the relationships with the investee are susceptible to variation in relation to the economic performance of the same. The capacity to assert power to affect returns exists when there is a practical capacity to unilaterally carry out the significant activities. To that end, a series of elements are considered, including the following which, if considered together with one's rights, can indicate that these rights are sufficient to grant power over the investee:

(a) the possibility, without having the contractual right, to appoint or approve key management personnel within the investee that have the ability to carry out significant activities;

(b) the possibility, without having the contractual right, to instruct the investee to undertake significant operations to the benefit of the parent company or to prohibit any change;

(c) the possibility to direct the selection process for members of the governing body of the investee or to obtain proxies from other holders of voting rights;

(d) key management personnel within the investee consists of related parties of the parent company (for example, the chief executive officer of the investee and the chief executive officer of the parent company are the same person);

(e) the governing body of the investee consists for the most part of related parties of the parent company.

## 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. Having recourse to said models is motivated by 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 related 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 to 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 as to underlying security, 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 for evaluating AFS investments 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 close-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 appropriated 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. For this purpose, 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.

Related 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 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 brought down 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 above described measurement techniques and models 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, ordered in increasing order relative 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 is at the base 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. As at 30 June 2017, there were no securities for which liquidity either improved or deteriorated and therefore there were no changes in fair value hierarchy level with respect to 31 December 2016.

## Other information

The Group 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 Consolidated Balance Sheet

## Assets

# Financial assets held for trading – Item 20

## Financial assets held for trading: product breakdown

| Item/Value | 30/06/2017 | | | 31/12/2016 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **A. Cash assets** | | | | | | |
| 1. Debt securities | 717,388 | 7,912 | - | 381,779 | 7,684 | - |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | 717,388 | 7,912 | - | 381,779 | 7,684 | - |
| 2. Equities | 8,667 | - | 1 | 2,498 | - | 1 |
| 3 UCITS units | 10,918 | - | 6,430 | 10,804 | - | 6,119 |
| 4. Loans | - | - | - | - | - | - |
| 4.1 Repurchase agreements receivable | - | - | - | - | - | - |
| 4.2 Others | - | - | - | - | - | - |
| **Total A** | **736,973** | **7,912** | **6,431** | **395,081** | **7,684** | **6,120** |
| **B. Derivative instruments** | | | | | | |
| 1. Financial derivatives: | 2,549 | 16,773 | 50 | 848 | 22,726 | 75 |
| 1.1 for trading | 2,549 | 16,577 | 50 | 848 | 22,686 | 75 |
| 1.2 linked to fair value option | - | - | - | - | - | - |
| 1.3 other | - | 196 | - | - | 40 | - |
| 2. Credit Derivatives: | - | - | - | - | - | - |
| 2.1 for trading | - | - | - | - | - | - |
| 2.2 linked to fair value option | - | - | - | - | - | - |
| 2.3 other | - | - | - | - | - | - |
| **Total B** | **2,549** | **16,773** | **50** | **848** | **22,726** | **75** |
| **Total (A+B)** | **739,522** | **24,685** | **6,481** | **395,929** | **30,410** | **6,195** |

# Financial assets available for sale – Item 40

## Financial assets available for sale: product breakdown

| Item/Value | 30/06/2017 | | | 31/12/2016 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Debt securities | 2,020,657 | 14,925 | - | 2,084,899 | 10,527 | - |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | 2,020,657 | 14,925 | - | 2,084,899 | 10,527 | - |
| 2. Equities | 24,386 | - | 39,445 | 2,908 | - | 77,300 |
| 2.1 Carried at fair value | 24,386 | - | 33,846 | 2,908 | - | 73,158 |
| 2.2 Carried at cost | - | - | 5,599 | - | - | 4,142 |
| 3. UCITS units | 57,257 | 1,115 | 15,007 | 4,827 | 658 | 14,158 |
| 4. Loans | - | - | 8,567 | - | - | 5,511 |
| **Total** | **2,102,300** | **16,040** | **63,019** | **2,092,634** | **11,185** | **96,969** |

# Financial assets held to maturity - Item 50

## Financial assets held to maturity: product breakdown

| | Total 30/06/2017 | | | | Total 31/12/2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | FV | | | BV | FV | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| 1. Debt securities | 5,973 | 6,114 | - | - | - | - | - | - |
| - structured | - | - | - | - | - | - | - | - |
| - others | 5,973 | 6,114 | - | - | - | - | - | - |
| 2. Loans | - | - | - | - | - | - | - | - |

# Due from banks – Item 60

## Due from 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** | **100,264** | **-** | **-** | **100,264** | **106,669** | **-** | **-** | **106,669** |
| 1. Term deposits | - | X | X | X | - | X | X | X |
| 2. Statutory reserve | 100,264 | X | X | X | 106,555 | X | X | X |
| 3. Repurchase agreements receivable | - | X | X | X | - | X | X | X |
| 4. Other | - | X | X | X | 114 | X | X | X |
| **B. Due from banks** | **185,778** | **-** | **-** | **185,778** | **192,994** | **-** | **-** | **192,994** |
| 1. Loans | 185,778 | - | - | 185,778 | 192,994 | - | - | 192,994 |
| 1.1 Current accounts and demand deposits | 49,733 | X | X | X | 61,601 | X | X | X |
| 1.2 Term deposits | 6,885 | - | - | - | 6,512 | - | - | - |
| 1.3. Other loans and advances: | 129,160 | X | X | X | 124,881 | X | X | X |
| - Repurchase agreements receivable | 7,610 | X | X | X | 20,257 | X | X | X |
| - Financial leasing | - | X | X | X | - | X | X | X |
| - Others | 121,550 | X | X | X | 104,624 | X | X | X |
| 2. Debt securities | - | - | - | - | - | - | - | - |
| 2.1 Structured securities | - | X | X | X | - | X | X | X |
| 2.2 Other debt securities | - | X | X | X | - | X | X | X |
| **Total** | **286,042** | **-** | **-** | **286,042** | **299,663** | **-** | **-** | **299,663** |

Key: FV = fair value BV = book value

# Due from 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 | | | | | |
| | | Non-performing | | | | | | Non-performing | | | | |
| | Non-impaired | Acquired | Other | L1 | L2 | L3 | Non-impaired | Acquired | Other | L1 | L2 | L3 |
| **Loans** | **7,762,954** | **-** | **534,572** | **-** | **-** | **8,363,979** | **7,320,343** | **-** | **585,097** | **-** | **-** | **7,990,881** |
| 1. Current accounts | 819,575 | - | 105,184 | X | X | X | 758,654 | - | 121,055 | X | X | X |
| 2. Repurchase agreements receivable | 373,191 | - | - | X | X | X | 103,381 | - | - | X | X | X |
| 3. Mortgage loans | 3,520,809 | - | 280,276 | X | X | X | 3,479,545 | - | 300,372 | X | X | X |
| 4. Credit cards, personal loans and loans on wage assignments | 1,118,346 | - | 11,073 | X | X | X | 1,094,278 | - | 15,613 | X | X | X |
| 5. Financial leasing | 887,303 | - | 53,506 | X | X | X | 887,861 | - | 60,374 | X | X | X |
| 6. Factoring | - | - | - | X | X | X | - | - | - | X | X | X |
| 7. Other loans and advances | 1,043,730 | - | 84,533 | X | X | X | 996,624 | - | 87,683 | X | X | X |
| **Debt securities** | **82** | **-** | **-** | **-** | **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** | **7,763,036** | **-** | **534,572** | **-** | **82** | **8,363,979** | **7,320,423** | **-** | **585,097** | **-** | **80** | **7,990,881** |

# Credit quality

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

| Portfolio/Quality | | Doubtful loans | Unlikely to pay | Non-performing past due loans | Non-impaired past due loans | Non-impaired exposures | Total |
|---|---|---|---|---|---|---|---|
| 1. Financial assets available for sale | | - | - | - | - | 2,044,149 | 2,044,149 |
| 2. Financial assets held to maturity | | - | - | - | - | 5,973 | 5,973 |
| 3. Due from banks | | - | - | - | - | 286,042 | 286,042 |
| 4. Due from customers | | 299,052 | 223,560 | 11,960 | 212,263 | 7,550,773 | 8,297,608 |
| 5. Financial assets carried at fair value | | - | - | - | - | - | - |
| 6. Non-current assets held for sale | | - | - | - | - | - | - |
| **Total** | **30/06/2017** | **299,052** | **223,560** | **11,960** | **212,263** | **9,886,937** | **10,633,772** |
| **Total** | **31/12/2016** | **332,270** | **239,540** | **13,287** | **203,423** | **9,517,600** | **10,306,120** |

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

| Portfolio / Quality | | Non-performing assets | | | Non-impaired assets | | | Total (net exposure) |
|---|---|---|---|---|---|---|---|---|
| | | Gross exposure | Specific adjustments | Net exposure | Gross exposure | Portfolio adjustments | Net exposure | |
| 1. Financial assets available for sale | | - | - | - | 2,044,149 | - | 2,044,149 | 2,044,149 |
| 2. Financial assets held to maturity | | - | - | - | 5,973 | - | 5,973 | 5,973 |
| 3. Due from banks | | - | - | - | 286,072 | (30) | 286,042 | 286,042 |
| 4. Due from customers | | 1,028,423 | (493,851) | 534,572 | 7,802,150 | (39,114) | 7,763,036 | 8,297,608 |
| 5. Financial assets carried at fair value | | - | - | - | X | X | - | - |
| 6. Non-current assets held for sale | | - | - | - | - | - | - | - |
| **Total** | **30/06/2017** | **1,028,423** | **(493,851)** | **534,572** | **10,138,344** | **(39,144)** | **10,099,200** | **10,633,772** |
| **Total** | **31/12/2016** | **1,195,209** | **(610,112)** | **585,097** | **9,763,223** | **(42,200)** | **9,721,023** | **10,306,120** |

| Portfolio / Quality | | Assets with evident low creditworthiness | | Other assets |
|---|---|---|---|---|
| | | Cumulative capital losses | Net exposure | Net exposure |
| 1. Financial assets held for trading | | - | 10 | 744,661 |
| 2. Hedging derivatives | | - | - | 5,025 |
| **Total** | **30/06/2017** | **-** | **10** | **749,686** |
| **Total** | **31/12/2016** | **-** | **64** | **418,975** |

## Cash exposures and off-balance sheet loans to banks: gross and net values and past-due segments

| Type of exposure/amounts | Gross exposure | | | | | Specific value adjustments | Portfolio adjustments | Net exposure |
|---|---|---|---|---|---|---|---|---|
| | Non-performing 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) Non-performing 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 | 775,890 | X | (30) | 775,860 |
| - of which: exposures subject to forbearance | X | X | X | X | - | X | - | - |
| **TOTAL A** | **-** | **-** | **-** | **-** | **775,890** | **-** | **(30)** | **775,860** |
| **B. OFF BALANCE SHEET EXPOSURES** | | | | | | | | |
| a) Non-performing | - | - | - | - | X | - | X | - |
| b) Non-impaired | X | X | X | X | 88,222 | X | - | 88,222 |
| **TOTAL B** | **-** | **-** | **-** | **-** | **88,222** | **-** | **-** | **88,222** |
| **TOTAL (A+B)** | **-** | **-** | **-** | **-** | **864,112** | **-** | **(30)** | **864,082** |

## Cash exposures and off-balance sheet loans to customers: gross and net values and past-due segments

| Type of exposure/amounts | Gross exposure | | | | | Specific value adjustments | Portfolio adjustments | Net exposure |
|---|---|---|---|---|---|---|---|---|
| | Non-performing 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 | 1,263 | 2,995 | 4,055 | 711,512 | X | (420,773) | X | 299,052 |
| - of which: exposures subject to forbearance | 3 | 26 | 321 | 56,668 | X | (27,119) | X | 29,899 |
| b) Unlikely to pay | 175,510 | 41,219 | 29,461 | 46,456 | X | (69,086) | X | 223,560 |
| - of which: exposures subject to forbearance | 114,414 | 16,608 | 19,260 | 31,268 | X | (41,754) | X | 139,796 |
| c) Non-performing past-due loans | 1,839 | 6,863 | 2,909 | 4,341 | X | (3,992) | X | 11,960 |
| - of which: exposures subject to forbearance | 371 | 1,112 | 644 | 1,645 | X | (1,381) | X | 2,391 |
| d) Non-impaired past-due loans | X | X | X | X | 217,338 | X | (5,075) | 212,263 |
| - of which: exposures subject to forbearance | X | X | X | X | 39,561 | X | (2,093) | 37,468 |
| e) Other non-impaired exposures | X | X | X | X | 9,870,414 | X | (34,039) | 9,836,375 |
| - of which: exposures subject to forbearance | X | X | X | X | 130,142 | X | (4,277) | 125,865 |
| **TOTAL A** | **178,612** | **51,077** | **36,425** | **762,309** | **10,087,752** | **(493,851)** | **(39,114)** | **10,583,210** |
| **B. OFF BALANCE SHEET EXPOSURES** | - | - | - | - | - | - | - | - |
| a) Non-performing | 11,371 | - | - | - | X | (3,780) | X | 7,591 |
| b) Non-impaired | X | X | X | X | 1,432,430 | X | (1,170) | 1,431,260 |
| **TOTAL B** | **11,371** | **-** | **-** | **-** | **1,432,430** | **(3,780)** | **(1,170)** | **1,438,851** |
| **TOTAL (A+B)** | **189,983** | **51,077** | **36,425** | **762,309** | **11,520,182** | **(497,631)** | **(40,284)** | **12,022,061** |

# Hedging derivatives – Item 80

## Hedging derivatives: breakdown by hedge type and level

| | 30/06/2017 | | | 30/06/2017 | 30/06/2016 | | | 30/06/2016 |
|---|---|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | | L1 | L2 | L3 | |
| **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** |

# Value adjustment of financial assets subject to macrohedging - Item 90

## Value adjustments of hedged assets: breakdown by hedged portfolio

| Value adjustments of hedged assets / Values | 30/06/2017 | 31/12/2016 |
|---|---|---|
| **1. Increases** | **101,967** | **118,699** |
| 1.1 of specific portfolios: | 101,967 | 118,699 |
| a) receivables | 101,967 | 118,699 |
| 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** | **101,967** | **118,699** |

# Equity investments – Item 100

## Investments: information on equity investments

| Name | Registered and operational office | Type of relationship | Shareholding relationship | | Voting rights % |
|---|---|---|---|---|---|
| | | | Investor company | Stake % | |
| **B. Companies subject to significant influence** | | | | | |
| MARTIN MAUREL SELLA BANQUE PRIVEE S.A.M. | Principality of Monaco | sub. to sign. influence | Finanziaria 2010 S.p.A. | 45.0000% | - |
| DPIXEL S.R.L. | Biella | sub. to sign. influence | Banca Sella Holding S.p.A. | 40.0000% | - |
| S.C.P. VDP1 | Principality of Monaco | sub. to sign. influence | Banca Sella Holding S.p.A. | 29.0000% | - |
| HI-MTF SIM S.P.A. | Milan | sub. to sign. influence | Banca Sella Holding S.p.A. | 25.0000% | - |
| ENERSEL S.P.A. | Biella | sub. to sign. influence | Banca Sella Holding S.p.A. | 18.2982% | - |

# Main items of the Consolidated Balance Sheet

## Liabilities

# Due to banks – Item 10

## Due to banks: product breakdown

| Type of transaction/Value | 30/06/2017 | 31/12/2016 |
|---|---|---|
| **1. Due to central banks** | **728,184** | **349,281** |
| **2. Due to banks** | **254,939** | **255,115** |
| 2.1 Current accounts and demand deposits | 145,493 | 101,833 |
| 2.2 Term deposits | - | 9,489 |
| 2.3 Loans and advances | 107,941 | 139,939 |
| 2.3.1 Repurchase agreements payable | - | - |
| 2.3.2 Others | 107,941 | 139,939 |
| 2.4 Liabilities for repurchase commitments of own equity instruments | - | - |
| 2.5 Other payables | 1,505 | 3,854 |
| **Total** | **983,123** | **604,396** |
| **Fair value - level 1** | **-** | **-** |
| **Fair value - level 2** | **-** | **-** |
| **Fair value - level 3** | **983,123** | **604,396** |
| **Total fair value** | **983,123** | **604,396** |

# Due to customers – Item 20

## Due to customers: product breakdown

| Type of transaction/Value | 30/06/2017 | 31/12/2016 |
|---|---|---|
| 1. Current accounts and demand deposits | 9,527,690 | 9,399,507 |
| 2. Term deposits | 650,232 | 744,936 |
| 3. Loans | 289,959 | 180,343 |
| 3.1 Repurchase agreements payable | 155,798 | 12,278 |
| 3.2 Others | 134,161 | 168,065 |
| 4. Liabilities for repurchase commitments of own equity instruments | - | - |
| 5. Other payables | 144,656 | 129,842 |
| **Total** | **10,612,537** | **10,454,628** |
| **Fair value - level 1** | **-** | **-** |
| **Fair value - level 2** | **-** | **-** |
| **Fair value - level 3** | **10,612,537** | **10,454,628** |
| **Fair value** | **10,612,537** | **10,454,628** |

# 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 | 454,083 | - | 368,065 | 96,398 | 527,580 | - | 413,444 | 119,884 |
| 1.1 structured | - | - | - | - | - | - | - | - |
| 1.2 others | 454,083 | - | 368,065 | 96,398 | 527,580 | - | 413,444 | 119,884 |
| 2. Other securities | - | - | - | - | 67 | - | - | 67 |
| 2.1 structured | - | - | - | - | - | - | - | - |
| 2.2 other | - | - | - | - | 67 | - | - | 67 |
| **Total** | **454,083** | **-** | **368,065** | **96,398** | **527,647** | **-** | **413,444** | **119,951** |

# 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 | 337,105 | 355,845 | - | - | 355,845 | 97,781 | 106,777 | - | - | 106,777 |
| 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 Others | - | - | - | - | x | - | - | - | - | x |
| **Total A** | **337,105** | **355,845** | **-** | **-** | **355,845** | **97,781** | **106,777** | **-** | **-** | **106,777** |
| **B. Derivative instruments** | | | | | | | | | | |
| 1. Financial derivatives | x | 51 | 17,308 | - | x | x | - | 20,548 | - | x |
| 1.1 Held for trading | x | 51 | 17,308 | - | x | x | - | 20,548 | - | 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 Others | x | - | - | - | x | x | - | - | - | x |
| **Total B** | **x** | **51** | **17,308** | **-** | **x** | **x** | **-** | **20,548** | **-** | **x** |
| **Total (A+B)** | **x** | **355,896** | **17,308** | **-** | **x** | **x** | **106,777** | **20,548** | **-** | **x** |

*Key*

FV = fair value

FV* = fair value calculated excluding changes in value due to changes in creditworthiness of the issuer after the issue date

NV = nominal or notional value

L1 = Level 1 L2 = Level 2 L3 = Level 3

# Hedging derivatives – Item 60

Hedging derivatives pertain exclusively to the banking group

## 6.1 Hedging derivatives: breakdown by hedge type and 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** | **-** | **106,072** | **-** | **558,390** | **-** | **122,344** | **-** | **627,093** |
| 1) Fair value | - | 106,072 | - | 558,390 | - | 122,344 | - | 627,093 |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| 3) Foreign investments | - | - | - | - | - | - | - | - |
| **B. Credit derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1) Fair value | - | - | - | - | - | - | - | - |
| 2) Cash flows | - | - | - | - | - | - | - | - |
| **Total** | **-** | **106,072** | **-** | **558,390** | **-** | **122,344** | **-** | **627,093** |

*Key*

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

# Other information

## 1. Guarantees Given and Commitments

| Transactions | Amount 30/06/2017 | Amount 31/12/2016 |
|---|---|---|
| 1) Financial guarantees issued | 30,209 | 31,073 |
| a) Banks | - | - |
| b) Customers | 30,209 | 31,073 |
| 2) Commercial guarantees issued | 172,747 | 174,351 |
| a) Banks | 47 | 168 |
| b) Customers | 172,700 | 174,183 |
| 3) Irrevocable commitments to disburse funds | 1,268,298 | 344,990 |
| a) Banks | 534,271 | 45,396 |
| i) for certain use | 534,271 | 45,396 |
| ii) usage uncertain | - | - |
| b) Customers | 734,027 | 299,594 |
| i) for certain use | 540,370 | 106,294 |
| ii) usage uncertain | 193,657 | 193,300 |
| 4) Commitments underlying credit derivatives: protection sales | - | - |
| 5) Assets used in guarantee of third-party obligations | 14,364 | 21,936 |
| 6) Other commitments | - | - |
| **Total** | 1,485,618 | 572,350 |

## 5. Management and broking for customer accounts

| Type of services | Amount 30/06/2017 | Amount 31/12/2016 |
|---|---|---|
| **1. Orders carried out on behalf of customers** | **45,583,674** | **87,751,167** |
| a) purchases | 23,055,150 | 44,275,528 |
| 1. settled | 22,892,443 | 44,185,585 |
| 2. not settled | 162,707 | 89,943 |
| b) sales | 22,528,524 | 43,475,639 |
| 1. settled | 22,351,441 | 43,393,282 |
| 2. not settled | 177,083 | 82,357 |
| **2. Portfolio management** | **4,956,794** | **4,455,425** |
| a) Individual | 4,715,221 | 4,240,449 |
| b) Collective | 241,573 | 214,976 |
| **3. Custody and administration of securities** | **32,985,253** | **31,342,791** |
| a) third-party securities on deposit as custodian bank (exclusive of portfolios managed) | - | - |
| 1. securities issued by companies included within consolidation | - | - |
| 2. other securities | - | - |
| b) third party securities on deposit (excluding portfolio management): other | 12,430,341 | 12,088,655 |
| 1. securities issued by companies included within consolidation | 484,679 | 526,014 |
| 2. other securities | 11,945,662 | 11,562,641 |
| c) third-party securities deposited with third parties | 16,570,195 | 16,475,515 |
| d) own securities deposited with third parties | 3,984,717 | 2,778,621 |
| **4. Other transactions** | **60,128,777** | **111,249,091** |

The table below shows a breakdown of indirect funding for the Banca Sella Group:

### Indirect deposits, breakdown

| | 30/06/2017 | 31/12/2016 |
|---|---|---|
| a) Indirect deposits from management and broking for third parties (see previous table) | | |
| - Portfolio management | 4,956,794 | 4,455,425 |
| - 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 | 11,945,662 | 11,562,641 |
| b) Indirect deposits from insurance policies | 2,415,200 | 2,090,317 |
| **Total indirect deposits** | **19,317,656** | **18,108,383** |

# Main items of the Consolidated 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 | 10,821 | - | 1,800 | 12,621 | 8,230 |
| 2. Financial assets carried at fair value | - | - | - | - | - |
| 3. Financial assets available for sale | 14,892 | 3 | - | 14,895 | 10,744 |
| 4. Financial assets held to maturity | 32 | - | - | 32 | - |
| 5. Due from banks | - | 1,439 | - | 1,439 | 418 |
| 6. Due from customers | 2 | 123,257 | 88 | 123,347 | 134,713 |
| 7. Hedging derivatives | x | x | 1,923 | 1,923 | 2,292 |
| 8. Other assets | x | x | 637 | 637 | 1,276 |
| **Total** | **25,747** | **124,699** | **4,448** | **154,894** | **157,673** |

## Interest liabilities and similar expenses: breakdown

| Item/Technical type | Payables | Securities | Other transactions | Total 30/06/2017 | Total 30/06/2016 |
|---|---|---|---|---|---|
| 1. Due to central banks | 5 | x | - | 5 | 211 |
| 2. Due to banks | 3,130 | x | - | 3,130 | 993 |
| 3. Due to customers | 5,949 | x | - | 5,949 | 10,637 |
| 4. Securities in issue | x | 6,416 | - | 6,416 | 8,464 |
| 5. Financial liabilities held for trading | 3,448 | - | 787 | 4,235 | 1,804 |
| 6. Financial liabilities carried at fair . | - | - | - | - | - |
| 7. Other liabilities and reserves | x | x | 1,317 | 1,317 | 1,163 |
| 8. Hedging derivatives | x | x | 12,432 | 12,432 | 13,735 |
| **Total** | **12,532** | **6,416** | **14,536** | **33,484** | **37,007** |

## Interest liabilities and similar expenses: differentials relative to hedging transactions

| | 30/06/2017 | 30/06/2016 |
|---|---|---|
| A. Positive differentials on hedging transactions | 1,923 | 2,292 |
| B. Negative differentials on hedging transactions | 12,432 | 13,735 |
| **C. Balance (A-B)** | **(10,509)** | **(11,443)** |

# Commissions – Items 40 and 50

## Fee income: breakdown

| Type of service/Value | Total 30/06/2017 | Total 30/06/2016 |
|---|---|---|
| a) sureties issued | 2,151 | 2,031 |
| b) credit derivatives | - | - |
| c) asset management, brokerage and advisory services: | 83,805 | 72,598 |
| 1. financial instruments trading | 583 | 611 |
| 2. currency trading | 838 | 731 |
| 3. portfolio management | 31,792 | 28,664 |
| 3.1. individual | 21,674 | 19,090 |
| 3.2 collective | 10,118 | 9,574 |
| 4. custody and administration of securities | 938 | 997 |
| 5. depositary bank | - | - |
| 6. placement of securities | 20,394 | 15,574 |
| 7. activities related to receiving and sending orders | 13,294 | 13,614 |
| 8. consultancy activities | 1,477 | 1,036 |
| 8.1 regarding investments | 1,290 | 915 |
| 8.2 regarding financial structure | 187 | 121 |
| 9. distribution of third party services | 14,489 | 11,371 |
| 9.1 portfolio management | 16 | 22 |
| 9.1.1. individual | 16 | 22 |
| 9.1.2. collective | - | - |
| 9.2 insurance products | 14,473 | 11,125 |
| 9.3 other products | - | 224 |
| d) collection and payment services | 61,200 | 56,179 |
| e) servicing of securitisation transactions | 39 | 82 |
| f) services for factoring transactions | - | - |
| g) tax collection services | - | - |
| h) activities for management of multilateral trading facilities | - | - |
| i) current account keeping and management | 10,929 | 11,393 |
| j) other services | 29,408 | 28,824 |
| **Total** | **187,532** | **171,107** |

Below is the breakdown of the subitem relative to other services:

**Fee income: breakdown of subitem "Other services"**

| | 30/06/2017 | 30/06/2016 |
|---|---|---|
| - credit and debit cards | 5,731 | 5,881 |
| - expense recovery on loans to customers | 6,602 | 5,663 |
| - fees and commissions on relations with credit institutions | 296 | 248 |
| - safe deposit box leasing | 121 | 112 |
| - recovery of postal, printing and similar expenses | 795 | 838 |
| - fees on loans to customers | 12,418 | 13,400 |
| Other | 3,445 | 2,682 |
| **Total "other services"** | **29,408** | **28,824** |

**Fee expense: breakdown**

| Service/Amount | Total 30/06/2017 | Total 30/06/2016 |
|---|---|---|
| a) sureties received | 83 | 80 |
| b) credit derivatives | - | - |
| c) asset management and brokerage services: | 29,032 | 26,534 |
| 1. financial instruments trading | 2,239 | 2,445 |
| 2. currency trading | - | - |
| 3. portfolio management: | 251 | 262 |
| 3.1 own | 116 | 123 |
| 3.2 delegated by third-parties | 135 | 139 |
| 4. custody and administration of securities | 413 | 406 |
| 5. placement of financial instruments | 397 | 446 |
| 6. off-site sales of financial instruments, products and services | 25,732 | 22,975 |
| d) collection and payment services | 22,960 | 20,381 |
| e) other services | 2,789 | 2,701 |
| **Total** | **54,864** | **49,696** |

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 | 226 | 205 |
| Loans | 412 | 477 |
| Brokering | - | - |
| Other | 2,151 | 2,019 |
| **Total "Other services"** | **2,789** | **2,701** |

# 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 | Dividends | Income from UCITS units |
| A. Financial assets held for trading | 63 | 60 | 208 | - |
| B. Financial assets available for sale | 599 | 99 | 1,056 | - |
| C. Financial assets carried at fair value | - | - | - | - |
| D. Equity investments | - | x | - | x |
| **Total** | **662** | **159** | **1,264** | **-** |

# Net gains/(losses) on 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) - |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | **1,806** | **15,773** | **(2,256)** | **(9,790)** | **5,533** |
| 1.1 Debt securities | 1,102 | 14,916 | (2,003) | (9,151) | 4,864 |
| 1.2 Equity securities | 283 | 857 | (192) | (639) | 309 |
| 1.3 UCITS units | 421 | - | (61) | - | 360 |
| 1.4 Loans and advances | - | - | - | - | - |
| 1.5 Others | - | - | - | - | - |
| **2. Financial liabilities held for trading** | **1,478** | **42** | **(335)** | **(114)** | **1,071** |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Payables | 1,478 | 42 | (335) | (114) | 1,071 |
| 2.3 Others | - | - | - | - | - |
| **3. Financial assets and liabilities: exchange rate differences** | **x** | **x** | **x** | **x** | **3,717** |
| **4. Derivative instruments** | **23,525** | **24,057** | **(25,180)** | **(22,196)** | **1,209** |
| 4.1 Financial derivatives: | 23,525 | 24,057 | (25,180) | (22,196) | 1,209 |
| - On debt securities and interest rates | 23,306 | 20,254 | (24,738) | (19,121) | (299) |
| - On equity securities and stock indices | 219 | 3,803 | (442) | (3,075) | 505 |
| - On currencies and gold | x | x | x | x | 1,003 |
| - Others | - | - | - | - | - |
| 4.2 Credit derivatives | - | - | - | - | - |
| **Total** | **26,809** | **39,872** | **(27,771)** | **(32,100)** | **11,530** |

# 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 | 16,705 | 466 |
| A.2 Hedged financial assets (fair value) | - | 16,847 |
| A.3 Hedged financial liabilities (fair value) | 1,335 | 354 |
| A.4 Cash flow hedging derivatives | - | - |
| A.5 Assets and liabilities in foreign currencies | - | - |
| **Total hedging income (A)** | **18,040** | **17,667** |
| **B. Expenses from:** | | |
| B.1 Fair value hedging derivatives | 1,371 | 18,597 |
| B.2 Hedged financial assets (fair value) | 16,732 | 16 |
| B.3 Hedged financial liabilities (fair value) | - | - |
| B.4 Cash flow hedging derivatives | - | - |
| B.5 Assets and liabilities in foreign currencies | - | - |
| **Total expenses for hedging activities (B)** | **18,103** | **18,613** |
| **C. Net gains/(losses) on hedging activities (A-B)** | **(63)** | **(946)** |

# Profits (losses) from sales/repurchases - Item 100

## Profit (Loss) from sales/repurchases: 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 | - | - | - | 73 | 72 | 1 |
| 2. Due from customers | 6,480 | 3,892 | 2,588 | 197 | 1,341 | (1,144) |
| 3. Financial assets available for sale | 34,921 | 3,482 | 31,439 | 51,886 | 2,331 | 49,555 |
| 3.1 Debt securities | 5,557 | 3,423 | 2,134 | 4,955 | 2,291 | 2,664 |
| 3.2 Equity securities | 29,158 | 44 | 29,114 | 46,931 | 40 | 46,891 |
| 3.3 UCITS units | 206 | 15 | 191 | - | - | - |
| 3.4 Loans and advances | - | - | - | - | - | - |
| 4. Financial assets held to maturity | - | - | - | - | - | - |
| **Total assets** | **41,401** | **7,374** | **34,027** | **52,156** | **3,744** | **48,412** |
| **Financial liabilities** | | | | | | |
| 1. Due to banks | - | - | - | 61 | - | 61 |
| 2. Due to customers | - | - | - | - | - | - |
| 3. Securities in issue | 363 | 422 | (59) | 465 | 454 | 11 |
| **Total liabilities** | **363** | **422** | **(59)** | **526** | **454** | **72** |

# Value adjustments for impairment - Item 130

## Net value adjustments 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 | - | - | - | - | - | - | 99 | 99 | 35 |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| B. Due from customers | | | | | | | | | |
| Non-performing loans acquired | | | | | | | | | |
| - Loans | - | - | x | - | - | x | x | - | - |
| - Debt securities | - | - | x | - | - | x | x | - | - |
| Other receivables | | | | | | | | | |
| - Loans | (1,004) | (60,088) | - | 8,448 | 23,838 | - | 2,118 | (26,688) | (38,762) |
| - Debt securities | - | - | - | - | - | - | - | - | - |
| **C. Total** | **(1,004)** | **(60,088)** | **-** | **8,448** | **23,838** | **-** | **2,217** | **(26,589)** | **(38,727)** |

A= from interest B= from other write-backs

## Net write-downs due to deterioration 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 | - | - | - | - | - | (230) |
| B. Equity securities | - | (2,569) | - | - | (2,569) | (1,637) |
| C. UCITS units | - | (4,625) | x | x | (4,625) | - |
| D. Lending to banks | - | - | x | - | - | - |
| E. Lending to customers | - | - | - | - | - | (1,818) |
| **F. Total** | **-** | **(7,194)** | **-** | **-** | **(7,194)** | **(3,685)** |

## 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 | (17) |
| B. Credit derivatives | - | - | - | - | - | - | - | - | - |
| C. Commitments to disburse funds | - | (3,780) | - | - | - | - | - | (3,780) | - |
| D. Other operations | (51) | (790) | (30) | - | 99 | - | - | (772) | (357) |
| **E. Total** | **(51)** | **(4,570)** | **(30)** | **-** | **99** | **-** | **15** | **(4,537)** | **(374)** |

# Administrative Expenses - Item 180

## Expenses for personnel: breakdown

| Type of expense/Amount | Total 30/06/2017 | Total 30/06/2016 |
|---|---|---|
| 1) Employees | 118,204 | 116,470 |
| a) Wages and Salaries | 85,778 | 85,376 |
| b) Social security contributions | 20,406 | 19,943 |
| c) Severance indemnities | 2,568 | 2,284 |
| d) Pension expenses | 1,834 | 1,695 |
| e) Provision for severance indemnities | 33 | 103 |
| f) Provision for pension fund and similar commitments: | - | - |
| – defined contribution | - | - |
| - defined benefit | - | - |
| g) Payments into external supplementary pension funds: | 3,405 | 3,559 |
| – defined contribution | 3,405 | 3,559 |
| - defined benefit | - | - |
| h) Costs deriving from share-based payment agreements | - | - |
| i) other employee benefits | 4,180 | 3,510 |
| 2) Other current personnel | 122 | 341 |
| 3) Directors and auditors | 2,408 | 2,332 |
| 4) Retired personnel expenses | - | - |
| **Total** | **120,734** | **119,143** |

## Other employee benefits

| Type of expense/Amount | Total 30/06/2017 | Total 30/06/2016 |
|---|---|---|
| - early retirement incentives and provision to support income | 145 | 119 |
| - benefits for dependent children | 33 | 28 |
| - benefits in kind | 1,432 | 1,375 |
| - insurance expenses | 1,086 | 1,027 |
| - professional training courses | 623 | 443 |
| - travel expenses | 23 | 83 |
| Other | 838 | 435 |
| **Total** | **4,180** | **3,510** |

## Other administrative expenses: breakdown

| Type of service/Value | Total 30/06/2017 | Total 30/06/2016 |
|---|---|---|
| Legal and notarial expenses | 3,305 | 3,432 |
| IT assistance and sundry advice | 1,840 | 2,176 |
| Leasing of electronic machines and software licences | 1,278 | 885 |
| Sundry rentals and expenses for services provided by third parties | 20,797 | 17,231 |
| Computer networks and telephone | 2,443 | 2,448 |
| Postal | 1,782 | 2,064 |
| Transport expenses | 1,994 | 1,826 |
| Cleaning of premises | 572 | 648 |
| Surveillance and escort of valuables | 1,418 | 1,420 |
| Electricity and heating | 2,152 | 2,162 |
| Rent of premises | 7,861 | 7,970 |
| Sundry insurance policies | 840 | 870 |
| Classified advertisements, publicity and entertainment expenses | 2,350 | 1,382 |
| Membership fees | 936 | 859 |
| Information and inspections | 1,100 | 1,216 |
| Other fees payable | 439 | 480 |
| Other | 5,435 | 4,188 |
| **Maintenance and repair expenses** | **4,965** | **4,777** |
| - Real estate | 255 | 201 |
| - Movables | 1,167 | 1,240 |
| Hardware and software | 3,543 | 3,336 |
| **Indirect taxes** | **33,221** | **36,096** |
| - Stamp duty | 25,260 | 24,413 |
| - Substitute tax Pres. Dec. 601/73 | 889 | 824 |
| - Single municipal tax (IMU) | 884 | 995 |
| - DGS and SRF contribution | 2,726 | 6,251 |
| - Other indirect taxes and duties | 3,462 | 3,613 |
| **Total** | **94,728** | **92,130** |

# Net allocations to provisions for risks and charges – Item 190

## Net provisions for risks and charges: breakdown

| | Balances as of: 30/06/2017 | Balances as of: 30/06/2016 |
|---|---|---|
| Relative to risks due to legal disputes and customer complaints | 4,853 | 2,218 |
| Relative to operating risks | 2,930 | 30 |
| Relative to staff expenses | 77 | 97 |
| Relative to other charges | 1,984 | 1,086 |
| Reattributions to Income Statement relating to risks of legal disputes and customer complaints | (866) | (397) |
| Reattributions to Income Statement relating to operational risks | - | (1,071) |
| Reattributions to Income Statement relating to personnel expenses | (409) | (64) |
| Reattributions to Income Statement relating to other expenses | (134) | (297) |
| **Total** | **8,435** | **1,602** |

# Net value adjustments on tangible assets – Item 200

## Net adjustments of property, plant and equipment: breakdown

| Asset/Income component | Depreciation (a) | Impairment losses (b) | Write-backs (c) | Net income/losses (a + b + c) 30/06/2017 |
|---|---|---|---|---|
| A. Tangible assets | | | | |
| A.1 Company owned | 8,607 | - | - | 8,607 |
| - For business purposes | 8,289 | - | - | 8,289 |
| - For investment | 318 | - | - | 318 |
| A.2 Assets acquired through financial leasing | - | - | - | - |
| - For business purposes | - | - | - | - |
| - For investment | - | - | - | - |
| **Total** | **8,607** | **-** | **-** | **8,607** |

# Net value adjustments on intangible assets – Item 210

## Net value adjustments on intangible assets: breakdown

| Asset/Income components | Amortisation (a) | Impairment losses (b) | Write-backs (c) | Net income/losses (a + b + c) 30/06/2017 |
|---|---|---|---|---|
| A. Intangible assets | | | | |
| A.1 Company owned | 9,183 | - | - | 9,183 |
| - Generated internally by the company | 1,427 | - | - | 1,427 |
| - Other | 7,756 | - | - | 7,756 |
| A.2 Assets acquired through financial leasing | - | - | - | - |
| **Total** | **9,183** | **-** | **-** | **9,183** |

# Other operating income and expenses – Item 220

## Other operating expenses/income

| | 30/06/2017 | 30/06/2016 |
|---|---|---|
| Total other operating expenses | 5,264 | 4,776 |
| Total other operating income | 43,061 | 46,143 |
| **Other operating expenses/income** | **37,797** | **41,367** |

## Other operating expenses: breakdown

| | Total 30/06/2017 | Total 30/06/2016 |
|---|---|---|
| Amortization of expenses for improvements on third party assets | 489 | 523 |
| Losses connected to operating risk | 1,103 | 1,162 |
| Financial leasing management expenses | 2 | - |
| Advances on the account of customers | 2,583 | 1,994 |
| Service renderings related to credit recovery | 298 | 296 |
| Restitution of Fund/SICAV incentives to customers (MIFID) | - | 12 |
| Other charges | 789 | 789 |
| **Total** | **5,264** | **4,776** |

## Other operating income: breakdown

| | Total 30/06/2017 | Total 30/06/2016 |
|---|---|---|
| Rents and instalments receivable | 640 | 531 |
| Charges to third parties and refunds received: | 27,872 | 25,504 |
| - taxes recovered | 27,040 | 24,644 |
| - insurance premiums and refunds | 832 | 860 |
| Expenses recovered and other revenues on current accounts and deposits | 1,846 | 4,368 |
| Income for software services | 1,514 | 1,452 |
| Income on insurance brokerage activities | 1,367 | 1,321 |
| POS fees receivable | 3,396 | 2,915 |
| Expenses and service renderings advanced on behalf of customers | 15 | 18 |
| Expenses recovered for services rendered in relation to credit recovery | 1,382 | 1,759 |
| Income from the sale of the business unit | - | - |
| Other income | 5,029 | 8,275 |
| **Total** | **43,061** | **46,143** |

# Income (losses) of equity investments – Item 240

## Income (losses) from equity investments: breakdown

| Income components/Sectors | 30/06/2017 | 30/06/2016 |
|---|---|---|
| **1) Jointly controlled companies** | | |
| A. Income | - | - |
| 1. Revaluations | - | - |
| 2. Gains on sales | - | - |
| 3. Write-backs | - | - |
| 4. Other income | - | - |
| B. Expenses | - | - |
| 1. Write-downs | - | - |
| 2. Impairment losses | - | - |
| 3. Losses on sales | - | - |
| 4. Other charges | - | - |
| **Net income/losses** | - | - |
| **2) Companies subject to significant influence** | | |
| A. Income | 815 | 534 |
| 1. Revaluations | 815 | 534 |
| 2. Gains on sales | - | - |
| 3. Write-backs | - | - |
| 4. Other income | - | - |
| B. Expenses | (22) | (190) |
| 1. Write-downs | (22) | (139) |
| 2. Impairment losses | - | - |
| 3. Losses on sales | - | (51) |
| 4. Other charges | - | - |
| **Net income/losses** | **793** | **344** |
| **Total** | **793** | **344** |

# Income (losses) from disposal of investments – Item 270

**Income (losses) from the disposal of investments: breakdown**

| Income component/Amount | Total 30/06/2017 | Total 30/06/2016 |
|---|---|---|
| A. Properties | 11 | 2 |
| - Gains on sales | 11 | 2 |
| - Losses on sales | - | - |
| B. Other assets | (1) | 2,319 |
| - Gains on sales | 12 | 2,319 |
| - Losses on sales | (13) | - |
| **Net income/losses** | **10** | **2,321** |

# Income taxes on continuing operations for the period – Item 290

**Income taxes for the period on continuing operations: breakdown**

| Income components/Sectors | Total 30/06/2017 | Total 30/06/2016 |
|---|---|---|
| 1. Current taxes (+/-) | (11,214) | (12,573) |
| 2. Change in current taxes of previous years (+/-) | 251 | 191 |
| 3. Decreases in current taxes for the year (+) | 1,895 | 1,376 |
| 3. bis Reduction in current taxes for the year for tax credits pursuant to law 214/2011 (+) | - | 1,329 |
| 4. Changes in prepaid taxes (+/-) | (7,318) | (3,716) |
| 5. Changes in deferred taxes (+/-) | 1,309 | 644 |
| 6. Taxes for the year | (15,077) | (12,749) |

# Income (losses) on assets/liabilities being divested net of taxes – Item 310

**Income (losses) on assets/liabilities being divested net of taxes: breakdown**

| Income components/Sectors | Total 30/06/2017 | Total 30/06/2016 |
|---|---|---|
| 1. Income | - | 450 |
| 2. Expenses | - | - |
| 3. Result of group evaluations of associated assets and liabilities | - | - |
| 4. Realized income (losses) | - | 26,870 |
| 5. Taxes and duties | - | (327) |
| **Income (loss)** | **-** | **26,993** |

# Profit (losses) for the period pertaining to minority interest – Item 330

**Breakdown of item 330 "Profit (loss) attributable to minority interests"**

| | 30/06/2017 | 30/06/2016 |
|---|---|---|
| Investments in consolidated companies with significant minority interests | | |
| 1. Banca Sella S.p.A. | 2,377 | 12,288 |
| 2. Banca Patrimoni Sella & C. S.p.A. | 785 | 713 |
| 3. Easy Nolo S.p.A. | 13 | 3 |
| 4. CBA Vita S.p.A. | - | |
| 5. Sella Gestioni SGR S.p.A. | 15 | 104 |
| 6. Consel S.p.A. | - | |
| 7. Family Advisory SIM S.p.A. | (4) | (3) |
| Other investments | 13 | 13 |
| **Total** | **3,199** | **13,118** |

# Information on consolidated equity

# Own funds and bank capital adequacy ratios

As of 1 January 2014, the new harmonised regulations for banks and investment companies took effect, as contained in regulation 575/2013 ("CRR") and Directive 2013/36/EU ("CRD IV"), which transfer to the European Union the standards defined by the Basel Committee for bank regulation (Basel 3).

To implement and support application of the new EU regulations, as well as to achieve comprehensive review and simplification of the bank supervisory regulations, on 17 December 2013 the Bank of Italy issued Circular 285 "Supervisory provisions for banks", and subsequent updates which:
i) implemented the provisions of CRD IV, for which implementation is the responsibility of the Bank of Italy pursuant to the Consolidated Banking Act;
ii) indicates the methods through which the national discretion attributed to national authorities in the EU regulations was exercised;
iii) outlines a complete, organic and rational regulatory framework, integrated with the directly applicable EU provisions, so as simplify use by operators.

In the Banca Sella Group, supervision of capital adequacy is ensured by capital management activities.

The Capital Management Plan is defined at the same time as the strategic plan and the Risk Appetite Framework (RAF) and includes an assessment of the impact of ordinary activities and definition of any extraordinary operations with an eye to meeting the capitalisation objectives (represented by the Common Equity Tier 1 ratio and the Total Capital ratio) held necessary and appropriate to give the Group current and prospective solidity and sustainability.

The Capital Management plan is systematically monitored by the Parent Company Risk Management area, through activities that supervise capital amounts and absorption, including:

i) monthly calculation of final figures, based on operating profit achieved;

ii) quarterly simulation of future trends, aimed at preventing any situations in which the established levels are not respected.

The Group's solvency ratios, at the consolidated and individual levels, constitute part of the monthly reports prepared for the Board of Directors of the Parent Company and the Group companies, for the Group's Alignment and Trend Verification Meeting and the Group's ALM Committee.

The main characteristics of the shares calculated in the Group's **Common Equity Tier 1 – CET1** as at 30 June 2017 are listed below:

- Maurizio Sella s.a.p.a., 25,550,315 ordinary shares with a nominal value of € 0.52 (zero point fifty two) each, including share premiums, reserves and profits accrued and net of 385,593 treasury shares held for a calculable value of € 919,043,627;
- Banca Sella s.p.a., 668,456,168 ordinary shares with a nominal value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 87,366,666 relative to minority interests;
- Banca Sella Holding s.p.a., 209,976,000 ordinary shares with a nominal value of € 0.50 (zero point fifty) each; 4,251,206 special shares with a nominal value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 2,583,262 relative to minority interests;
- Banca Patrimoni Sella & C., 28,000,000 ordinary shares with a nominal value of € 1 each, including share premiums, reserves and profits accrued for a calculable value of € 10,253,303 relative to minority interests;
- Biella Leasing, 25,000,000 ordinary shares with a nominal value of € 0.80 each, including share premiums, reserves and profits accrued for a calculable value of € 68,502 related to minority interests.

The following financial instruments were calculated **in the Additional Tier 1 (AT1)** as at 30 June 2017:

- Banca Sella s.p.a., 668,456,168 ordinary shares with a nominal value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 11,843,664 relative to minority interests;
- Banca Sella Holding s.p.a., 209,976,000 ordinary shares with a nominal value of € 0.50 (zero point fifty) each; 4,251,206 special shares with a nominal value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 501,288 relative to minority interests;
- Banca Patrimoni Sella & C., 28,000,000 ordinary shares with a nominal value of € 1 each, including share premiums, reserves and profits accrued for a calculable value of € 1,488,520 relative to minority interests;
- Biella Leasing, 25,000,000 ordinary shares with a nominal value of € 0.80 each, including share premiums, reserves and profits accrued for a calculable value of € 11,958 related to minority interests.

The following financial instruments were calculated **in the Tier 2 (T2)** as at 30 June 2017:

- Banca Sella s.p.a., 668,456,168 ordinary shares with a nominal value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 15,730,932 relative to minority interests;
- Banca Sella Holding s.p.a., 209,976,000 ordinary shares with a nominal value of € 0.50 (zero point fifty) each; 4,251,206 special shares with a nominal value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 683,495 relative to minority interests;
- Banca Patrimoni Sella & C., 28,000,000 ordinary shares with a nominal value of € 1 each, including share premiums, reserves and profits accrued for a calculable value of € 1,984,692 relative to minority interests;
- Biella Leasing, 25,000,000 ordinary shares with a nominal value of € 0.80 each, including share premiums, reserves and profits accrued for a calculable value of € 15,944 related to minority interests;
- Subordinated instruments issued by Group companies for a total calculable amount of € 77,554,215.

## Own funds

| | Total 30-06-2017 | Total 31-12-2016 |
|---|---|---|
| **A - Common Equity Tier 1 - CET1 before application of prudential filters** | **997,339** | **978,538** |
| of which CET1 instruments subject to transitional provisions | - | - |
| B. CET1 prudential filters (+/-) | (2,043) | (1,326) |
| **C. CET1 gross of elements to be deducted and the effects of the transitional regime (A +/- B)** | **995,296** | **977,211** |
| **D. Elements to be deducted from CET1** | **112,223** | **104,890** |
| **E. Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions** | **19,137** | **28,468** |
| **F. Total Common Equity Tier 1 (CET 1) (C - D +/- E)** | **902,210** | **900,790** |
| **G. Additional Tier 1- AT 1, gross of elements to be deducted and the effects of the transitional regime** | **17,307** | **17,216** |
| of which AT1 instruments subject to transitional provisions | - | - |
| **H. Elements to be deducted from AT1** | **-** | **-** |
| **I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to the effects of transitional provisions** | **(3,461)** | **(6,886)** |
| **L. Total Additional Tier 1 (Additional Tier 1 - AT1) (G - H +/- I)** | **13,845** | **10,329** |
| **M. Tier 2- AT 2, gross of elements to be deducted and the effects of the transitional regime** | **83,978** | **91,414** |
| of which T2 instruments subject to transitional provisions | 12,919 | 19,094 |
| **N. Elements to be deducted from T2** | **4,839** | **-** |
| **O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to the effects of transitional provisions** | **14,235** | **40,067** |
| **P. Total Tier 2 - T2 (M - N +/- O)** | **93,374** | **131,481** |
| **Q. Total own funds (F + L + P)** | **1,009,430** | **1,042,600** |

## Capital adequacy

| | 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 | 12,978,511 | 12,618,362 | 6,234,843 | 6,180,499 |
| 1. Standard method | 12,978,511 | 12,618,362 | 6,234,843 | 6,180,499 |
| 2. Methodology based on internal ratings | - | - | - | - |
| 2.1 Basic | - | - | - | - |
| 2.2 Advanced | - | - | - | - |
| 3. Securitisations | - | - | - | - |
| **B. Regulatory capital requirements** | | | | |
| B.1 Credit and counterparty risk | | | **498,864** | **494,487** |
| B.2 Credit evaluation adjustment risk | | | 1,492 | 1,607 |
| B.3 Regulatory risk | | | 241 | 111 |
| B.4 Market risks | | | 13,090 | 9,805 |
| 1. Standard method | | | 13,090 | 9,805 |
| 2. Internal models | | | - | - |
| 3. Concentration risk | | | - | - |
| B.5 Operating risk | | | 83,188 | 83,188 |
| 1. Basic method | | | 83,188 | 83,188 |
| 2. Standard method | | | - | - |
| 3. Advanced method | | | - | - |
| B.6 Other calculation elements | | | - | - |
| B.7 Total prudential requirements | | | 596,874 | 589,198 |
| **C. Risk assets and capital ratios** | | | | |
| C.1 Risk-weighted assets | | | 7,460,929 | 7,364,980 |
| C.2 Common equity Tier 1/Risk-weighted assets (CET1 capital ratio) | | | 12.09% | 12.23% |
| C.3 Tier 1 capital/Risk weighted assets (Tier 1 capital ratio) | | | 12.28% | 12.37% |
| C.4 Total own funds/Risk-weighted assets (Total capital ratio) | | | 13.53% | 14.16% |

With its communication released on 24 November 2015, the Bank of Italy, upon completing the periodic prudential review process (SREP), indicated the additional specific capital requirements with respect to the minimum capital amounts indicated in the current regulations, in proportion to risk exposure. These capital ratios correspond to the Overall Capital Requirement (OCR) ratios as defined by the EBA/GL/2014/13 Guidelines and are the sum of binding measures, corresponding to the Total SREP Capital Requirement (TSCR) ratio, as defined in the mentioned EBA Guidelines, and the capital conservation buffer.

Please note that the 18th update of circular no. 285 published on 4 October 2016 amended the provisions whereby the rules of the CRD IV (Directive EU/2013/36) on the capital conservation buffer, which is currently set at 2.5%, were adopted. The new provisions require banking groups to hold the CET1 necessary to satisfy the own funds requirements laid out in art. 92 CRR in addition to a capital conservation buffer equal to the overall risk exposure of the bank multiplied by the following minimum coefficients:

- 1.25% from 1 January 2017 to 31 December 2017;
- 1.875% from 1 January 2018 to 31 December 2018;
- 2.5% as of 1 January 2019.

On 4 January 2017, the Bank of Italy announced the outcome of the procedure launched on 18 January 2017 relating to the establishment if an additional capital requirement. Therefore, the Banca

Sella Group must meet the following ratio thresholds:

- common equity tier 1 ratio (CET1 ratio) of 6%, binding in the amount of 4.75% (of which 4.5% for minimum regulatory requirements and 0.25% for additional requirements determined following the SREP); for the Group it is 12.09%;
- Tier 1 ratio of 7.6%, binding in the amount of 6.35% (of which 6% for minimum regulatory requirements and 0.35% for additional requirements determined following the SREP); this ratio is at 12.28% for the Group;
- total capital ratio of 9.75%, binding in the amount of 8.5% (of which 8% for minimum regulatory requirements and 0.5% for additional requirements determined following the SREP); this ratio is at 13.53% for the Group.

# Related party transactions

# Information on the remuneration of managers with strategic responsibilities

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

a) subsidiaries over which the parent company directly or indirectly exercises control;
b) associated companies over which the parent company directly or indirectly exercises significant influence;
c) directors and managers with strategic responsibilities;
d) close family members of directors and managers with strategic responsibilities;
e) companies controlled by or associated with one of the subjects described in points c) and d).

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, 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. In the light of the Group's current organisational structure, the following are included within "managers with strategic responsibilities": Board members, and members of Banca Sella Holding general management, based on the exercising of management, coordination and control functions.

Fees paid at 30 June 2017 to the above-mentioned key company personnel in the parent company are set out in the following table:

**Fees paid to managers with strategic responsibilities(*)** *in euro thousands*

| Item | Total 30/06/2017 |
|---|---|
| a) Short-term employee benefits | 2,256 |
| b) Post-employment benefits | - |
| c) Other long-term benefits | 112 |
| d) Severance indemnities | - |
| e) Share-based payments | - |
| **Total** | **2,368** |

*(*) including those who serve as directors*

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

| Item | Total 30/06/2017 |
|---|---|
| Directors | 910 |
| Statutory Auditors | 65 |
| **Total** | **975** |

## 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.

Intra-group transactions were carried out following assessments of mutual benefit, in line with market terms, with the aim of creating value within the Group.

In preparing the consolidated financial statements, transactions and existing balances with intra-group related parties are eliminated.

The table below sets out the main items existing as of 30 June 2017 differentiated by the different types of related parties:

| | 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** | **67,590** | **10,026** | **4,552** | **790** |
| Equity instruments | - | 156 | 10,026 | - | 32 |
| Debt securities | - | 67,331 | - | - | - |
| Loans and advances | 437 | 103 | - | 4,552 | 758 |
| of which: impaired financial assets | - | - | - | - | - |
| **Selected financial liabilities** | **-** | **73,474** | **-** | **6,953** | **16,913** |
| Deposits | - | 6,642 | - | 6,908 | 16,913 |
| Debt securities issued | - | 66,831 | - | 45 | - |
| Nominal amount of commitments to disburse loans, financial guarantees and other commitments given | - | 3,863 | 63 | 6,824 | 548 |
| of which: in default | - | - | - | - | - |
| Commitments to disburse loans, financial guarantees and other commitments received | - | - | - | - | 523 |
| Notional amount of derivatives | - | - | - | 906 | - |
| Interest income | 17 | 32 | 1 | 7 | 1,422 |
| Interest expense | 1 | - | - | 34 | 27 |
| Revenues from dividends | - | - | - | - | - |
| Revenues from commissions and fees | 6 | 1 | 14 | 36 | 1,456 |
| Expenses from commissions and fees | - | 3 | 54 | 183 | 346 |