BANCA SELLA

Half-Yearly Report on Operations at 30 June 2016

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GRUPPO BANCA SELLA

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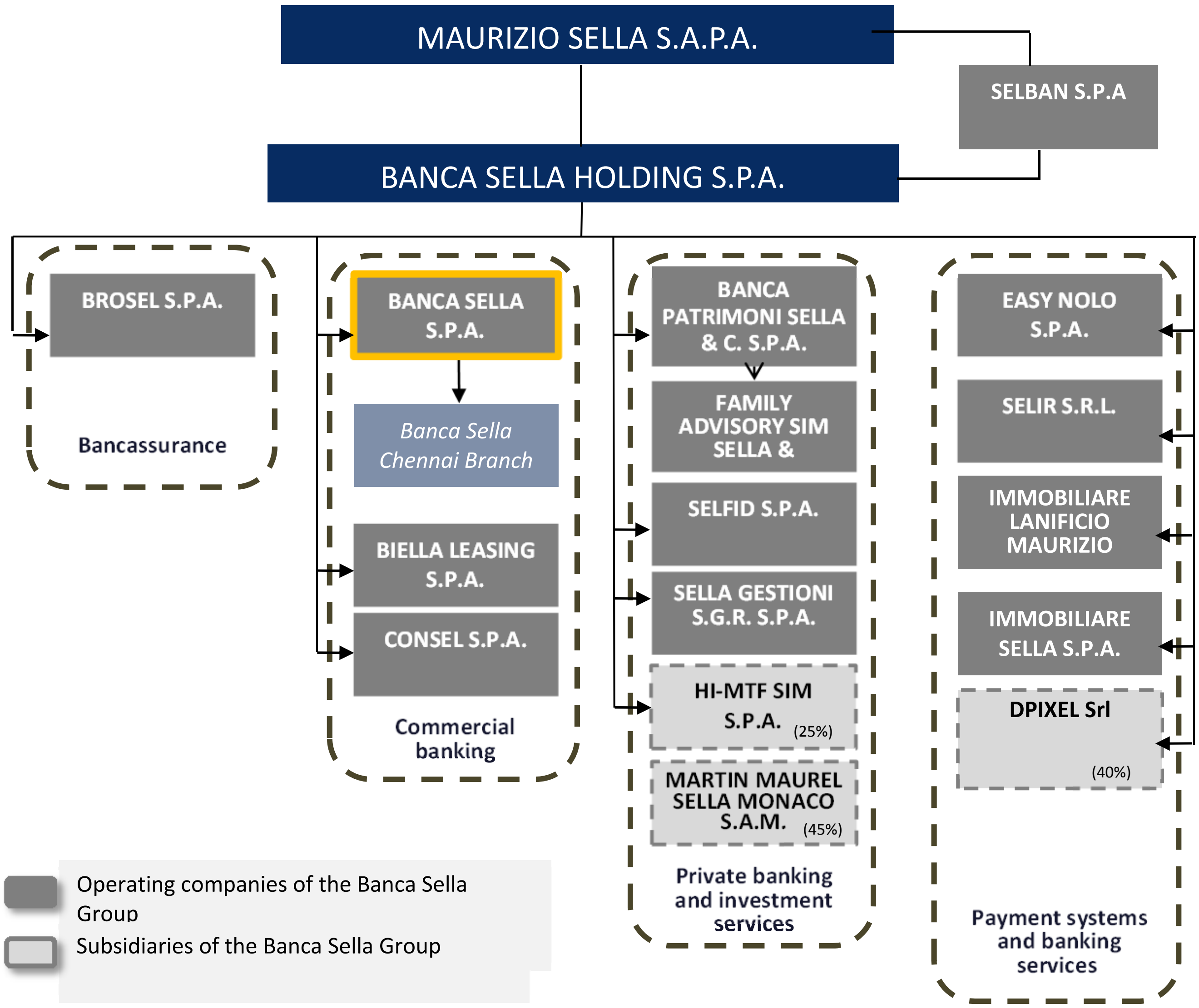
Caution:
Any lack of balancing among the figures shown depends exclusively on roundings.

Map of the Group



Other line-by-line consolidated companies:
Finanziaria 2010 S.p.A
Miret S.A.
Sella Synergy India P.LTD
MARS 2600 S.r.l. (special purpose vehicle for the Group's securitisation transactions)
Monviso 2014 S.r.l. (special purpose vehicle for the Group's securitisation transactions)

Investee companies consolidated at net equity:
Martin Maurel Sella Monaco S.A.M
HI-MTF Sim S.p.A
S.C.P. VDP 1
Enersel S.p.A.
DPixel S.r.l.
Brosel S.p.A.
Sella Capital Management SGR S.p.A. in liquidation
Aziende Agricole Sella S.r.l.

Corporate Officers

BOARD OF DIRECTORS

in office up to the approval of the 2016 financial statements

Chairman	Maurizio Sella
Deputy Chairman	Franco Sella
Managing Director	Claudio Musiari
Director	Elisabetta Galati
"	Luigi Gargiulo
"	Andrea Lanciani
"	Ferdinando Parente
"	Carlo Santini
"	Pietro Sella
"	Sebastiano Sella
"	Silvana Terragnolo
"	Paolo Tosolini
"	Attilio Viola

BOARD OF STATUTORY AUDITORS

in office up to the approval of the 2016 financial statements

Regular Auditor - Chairman	Paolo Piccatti
"	Vincenzo Rizzo
"	Riccardo Foglia Taverna
Alternate Auditor	Daniele Frè
" "	Michela Rayneri

GENERAL MANAGEMENT

Director General	Claudio Musiari
Co-Director General	Giorgio De Donno
Co-Director General	Gianluca Bisognani

Accounting standards applied

Statement of compliance with international accounting standards

This half-yearly report has been 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 2016, pursuant to EU Regulation No. 1606 of 19 July 2002. As concerns the illustrative schedules and tables, they are prepared in application of the Bank of Italy's instructions, when it exercised the powers established by Art. 9 of Italian Legislative Decree no. 38/2005, with Circular no. 262/05 as subsequently amended.

The half-yearly report on operations at 30 June 2016 was prepared solely for determining the results of the first half of the year, for the purposes of calculating Common Equity Tier 1. This half-yearly report was not prepared in compliance with IAS 34 "Interim Financial Reporting". It therefore does not include certain schedules, comparative figures and notes which would be required in order to present the equity and financial situation in compliance with the International Financial Reporting Standards adopted by the European Union.

This half-yearly report was prepared clearly and accurately and truly reflects the economic and financial situation of Banca Sella.

General drafting principles

The half-yearly report consists of a brief report on operations, accompanied by tables outlining the main capital and economic figures, the Balance Sheet, Income Statement, Statement of Comprehensive Income and the Statement of Changes in Shareholders' Equity. The schedules are prepared in Euro units and the tables are prepared in thousands of Euro.

The schedules report the corresponding comparative figures related to the balance sheet at the end of the previous financial year, while the income statement figures refer to the corresponding period of the previous financial year. The accounting schedules correspond to those in the annual financial statements.

Preparation is carried out observing the general standards foreseen in IAS 1 and in compliance with the general assumptions of the Systematic Framework. The accounting statements comply with the provisions of Bank of Italy Circular no. 262/2005 as subsequently amended.

The half-yearly report was prepared using the same accounting standards and criteria as in the last financial year, as well as the IFRS accounting standards, amendments and interpretations effective from 1 January 2016.

Note that this half-yearly report is subjected to limited auditing by Deloitte & Touche S.p.A.

Significant events in the period and subsequent to it

In November 2015 Visa Inc. and Visa Europe (in which the Bank held minority investments) announced that an agreement had been reached for the strategic acquisition of Visa Europe by Visa Inc., aimed at creating a single company that operates both on the US and European market. The transaction entailed extraordinary dividends paid in cash, and the assignment of Visa Inc. shares worth around € 5 billion when the operation was completed. A further earn-out of a maximum of € 4.7 billion will be distributed four years after completion of the transaction. On the basis of this data, Banca Sella, as a “principal member”, for the sale of its stake in Visa Europe, received a cash amount of approximately € 34.1 million and Visa Inc class C shares for a countervalue net of the lock-up clause of € 10.2 million and discounted receivable at maturity for an amount of € 2.6 million.

In November 2015 a commercial agreements was reached with the HDI Assicurazioni Group, (a company belonging to the German Talanx group, the third-largest insurance company in Germany which operates in more than 150 countries, the parent company of which Talanx AG is listed on the Frankfurt Stock Exchange), as insurance partner for the next ten years, consolidating the already well-tested partnership implemented since 2007 in InChiaro Assicurazioni. On 30 June this agreement was signed and the entire equity interest held by Banca Sella Holding in CBA Vita was sold to HDI Assicurazioni. With this therefore went the interest in its subsidiary Sella Life Ltd and the entire stake (49%) held in InChiaro Assicurazioni SpA. In Banca Sella CBA Vita was a non-controlling interest and the transaction described above entailed gains of € 0.5 million.

The Board of Directors at its meeting on 31 May 2016 resolved a number of changes to the Bank's organisation chart, as well as a number of changes of responsibilities. The Pricing Unit service was set up; its mission is to manage and enhance the pricing policies in the traditional business contexts and in that of the new digital economy, divulging and implementing strategies and policies that pursue the obtainment of the right price for the value and services provided to Customers.

On Monday 6 June, as part of the ordinary Supervisory activity, the Bank of Italy began an inspection in Banca Sella regarding: “Remuneration of overdrafts and over-the-limit positions under the terms of Art.117 bis of Italian Legislative Decree 385/1993 (Consolidated Law on Banking) and Ministerial Decree 644/2012”. This was completed on 1 July 2016.

The Bank subscribed medium/longterm funds made available by the European Central Bank with the two TLTRO Programmes. In particular it extinguished in advance the loans granted in the context of the first Programme (€ 268 million) and at the same time obtained new loans for € 335 million from the first operation of the second TLTRO Programme (settled with value date 29/06/2016) and granted at more favourable interest rate conditions.

We can also not that on 28 July 2016 the update of the EMTN (Euro Medium-Term Note) programme in maturity was completed.

No further significant events have occurred after the interim reporting date.

The going concern assumption, strategy and profitability of the Bank

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 financial risks, on tests for reductions in the value of assets (impairment tests) and on uncertainties in the use of estimates, the Board of Directors confirms that it has a reasonable expectation that the Bank can continue its operations in the foreseeable future and therefore attests that the present interim report has been prepared on the basis of this going concern assumption.

In the Bank'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 the disclosure relating to financial risks, impairment tests and uncertainties in the use of estimates, please refer to the information given in this report and the comments on operating trends.

Summary of the macroeconomic situation

The expansion rate of the global economy came out at modest levels in the first half of 2016.

In the United States, after the gradual slowdown recorded between the second half of 2015 and the First Quarter of 2016, growth showed signs of strengthening, thanks in particular to the solidity of private consumption and despite the weakness of corporate investments. The recovery consolidated in the Euro Area, driven by domestic demand items, which are benefiting from the extremely accommodating monetary conditions, from the low level of oil prices and from the slightly expansive orientation of fiscal policy. Risk factors persist however and they are affecting the growth prospects in the region. Examples are the necessary budget adjustments in the public and private sectors, the presence of elements of fragility in the panorama of emerging economies, the geopolitical uncertainty and the consequences of the result of the referendum of 23 June on the United Kingdom remaining in the European Union. The implications of the exit of the United Kingdom from the Union seem at the moment hard to weigh up, as they depend on how long the negotiations take to arrive at the definition of a new arrangement and on the result of the negotiations itself; the uncertainty that derives from this could lead to the deferment of spending decisions by consumers and businesses and impede the expected recovery of growth and inflation in the Eurozone. In the emerging economies, although very different macroeconomic conditions persist, the generalised trend of deceleration has come to a halt.

As regards consumer prices, the sharp drop in crude oil prices recorded between the end of 2015 and the beginning of 2016 and the absence of pressures exercised by domestic demand are at the root of the extremely limited trend of inflation observed in the Euro Area in the first half of 2016; the extremely expansive orientation of the ECB, which in March announced a new package of stimulation measures, and the recovery of the oil price should contribute to a gradual return of inflation to positive territory, on levels in keeping with the price stability objective of the Institution. In the first six months of the year, leaving behind the figures close to zero recorded in 2015, inflation in the USA came back to around 1%, thanks to the recovery of the most stable components and the less negative contribution of the energy item. During the period the Federal Reserve reaffirmed its intention to proceed gradually to normalise the cost of money in the USA, beginning at the end of 2015 with a first rise in official rates, considering the progress made and expected with respect to the double mandate of supporting employment and stabilising inflation at the medium-term target of 2%. The caution shown over these months by the American central bank was also partly due to the uncertainties related to the international context, including the difficulties of the Chinese economy before and after the result of the referendum on the United Kingdom remaining in the European Union.

In line with the expected developments for the Italian macroeconomic situation in 2016, credit provided to the non-financial private sector by banks should continue on the path of return to positive growth rates and credit quality should further improve, benefiting profitability for the banking system. Further stimulus to increase the volume of loans disbursed should also arrive from the actions announced by the

European Central Bank, with particular reference to the new long-term loan auctions (TLTRO2) for the banking system, which create a further incentive for granting loans at low interest rates. Precisely the continuation of interest rates at particularly low levels will keep net interest income still compressed, leading banks to encourage the growth of the component of revenue from services and the diversification of activities other than lending; the uncertainty of development of the revenue from services component in a context of volatile markets, combined with the pressures on net interest income, will lead the banking system, also in 2016, to continue in any case to pay great attention to making operating structures more efficient and to containing costs, essential elements for achieving the necessary further recovery of profitability. The market tensions on listed banking institutions could also lead to an acceleration in the management of the system's problem loans, encouraging their disposal in a short time.

Main figures and indicators

Summary data (in Euro thousands)

BALANCE SHEET DATA	30-06-2016	31-12-2015	Changes	
			absolute	%
Total assets	11,124,883.6	10,765,853.3	359,030.3	3.3%
Financial assets (1)	1,810,068.4	1,749,371.7	60,696.8	3.5%
Cash loans excluding repurchase agreements receivable	6,967,760.8	6,734,045.2	233,715.6	3.5%
reverse repurchase agreements	351.1	412.3	(61.2)	-14.8%
Total cash loans (2)	6,968,111.9	6,734,457.0	233,654.4	3.5%
Guarantees issued	220,901.7	207,164.0	13,737.7	6.6%
Tangible and intangible fixed assets	90,853.1	90,656.8	196.3	0.2%
Direct deposits excluding repurchase agreements payable	9,561,210.3	9,275,161.1	286,049.2	3.1%
repurchase agreements	9,063.5	46,251.0	(37,187.5)	-80.4%
Total direct deposits (3)	9,570,273.8	9,321,412.0	248,861.8	2.7%
Nominal indirect deposits (4)	11,850,515.1	12,071,544.1	(221,029.0)	-1.8%
Nominal total deposits	21,420,788.8	21,392,956.1	27,832.7	0.1%
Total deposits at market prices (5)	24,401,650.0	24,543,104.0	(141,454.0)	-0.6%
Shareholders' Equity	786,039.5	771,168.6	14,870.8	1.9%
Common Equity Tier 1 (CET 1)	724,974.7	689,345.1	35,629.6	5.2%
Tier 2 (T2)	198,877.8	239,737.8	(40,860.1)	-17.0%
Total own funds	923,852.5	929,083.0	(5,230.5)	-0.6%

RECLASSIFIED ECONOMIC DATA (6)	30-06-2016	30-06-2015	Changes	
			absolute	%
Net interest income	77,976.9	87,265.8	(9,288.8)	-10.6%
Gross income from services	129,993.7	144,598.7	(14,605.0)	-10.1%
Fee and commission expenses	(32,859.5)	(41,263.4)	8,403.9	-20.4%
Net revenues from services (net of fee and commission expenses) (7)	97,134.2	103,335.3	(6,201.1)	-6.0%
Operating income	175,111.1	190,601.0	(15,489.9)	-8.1%
Operating costs net of recovery of taxes and stamp duties (8)	(128,531.8)	(122,275.1)	(6,256.7)	5.1%
Operating profit (loss)	46,579.3	68,325.9	(21,746.6)	-31.8%
Net value adjustments for impairment losses	(23,291.8)	(59,722.2)	36,430.5	-61.0%
Other economic items	44,850.1	(2,230.7)	47,080.8	-2110.6%
Income taxes	(10,399.9)	(2,119.5)	(8,280.5)	390.7%
Profit (loss) for the period	57,737.8	4,253.6	53,484.2	1257.4%

(1) The aggregate represents the sum of the following items in the Balance Sheet Assets: item 20 "financial assets held for trading" and item 40 "financial assets available for sale".
(2) The aggregate represents item 70, "Loans to customers", in the Balance Sheet Assets and includes net bad loans.
(3) The aggregate represents the sum of the following items from Balance Sheet Liabilities: 20 "Due to customers" and 30 "Securities in issue".
(4) The aggregate does not include the item "cash and cash equivalents", relating to asset management, which is included in the item "direct deposits".
(5) The aggregate, measured at market prices, includes securities and administered funds and is net of deposits of the Group banks.
(6) As per items reported in the reclassified Income Statement.
(7) The aggregate represents the sum of the following items in the Reclassified Income Statement: fee and commission income, net gains (losses) on trading and hedging activities, profit (loss) on sale or repurchase of receivables, financial assets available for sale, financial assets held to maturity, and financial liabilities;
(8) Given by the sum of the following items: "Administrative expenses" item 150, "Value adjustments on tangible assets" item 170, "Value adjustments on intangible assets", item 180 "Other operating income and expenses" item 190.

Alternative performance indicators

PROFITABILITY RATIOS (%)	30-06-2016	30-06-2015
R.O.E. (return on equity) (1)(5)	15.9%	1.4%
R.O.A. (return on assets) (2)(5)	1.0%	0.1%
Net interest income (3) / Net operating income (3)	44.5%	45.8%
Net revenues from services (3) / Net operating income (3)	55.5%	54.2%
Cost to income (4)	72.8%	63.5%
Cost to income net of National Resolution Fund contribution (9)	70.0%	63.5%
EQUITY AND LIQUIDITY RATIOS (%)	**30-06-2016**	**31-12-2015**
Cash loans (net of repurchase agreements receivable) / Direct deposits (net of repurchase agreements payable)	72.9%	72.6%
Cash loans (net of repurchase agreements receivable) / Total assets	62.6%	62.6%
Direct deposits (net of repurchase agreements payable) / Total assets	85.9%	86.2%
Liquidity Coverage Ratio (LCR) (6)	224.9%	191.7%
Net Stable Funding Ratio (NSFR) (7)	150.8%	152.0%
CREDIT RISK RATIOS (%)	**30-06-2016**	**31-12-2015**
Net impaired loans / Cash loans (net of repurchase agreements receivable)	7.7%	8.3%
Net bad loans / Cash loans (net of repurchase agreements receivable)	4.5%	4.5%
Net value adjustments to loans (8) / Cash loans (net of repurchase agreements receivable) (5)	0.7%	1.5%
Coverage rate for impaired loans	50.2%	47.8%
Coverage rate for bad loans	61.1%	60.0%
SOLVENCY RATIOS (%)	**30-06-2016**	**31-12-2015**
CET 1 ratio	15.09%	14.67%
Tier 1 ratio	15.09%	14.67%
Total capital ratio	19.23%	19.77%

(1) Ratio between "Profit for the year" and the sum of items 160 "Reserves", 170 "Share premiums", and 180 "Share Capital" in the Balance Sheet Liabilities.
(2) Ratio between "Net profit" and "Total assets".
(3) As in the reclassified Income Statement.
(4) Ratio between operating expenses, after deducting IRAP on personnel costs and net of losses related to operational risks and operating income.
(5) Annualised ratio.
(6) LCR: minimum limit valid for all of 2016: 70% (minimum limit after start-up period, 100%, from 1 January 2018).
(7) NSFR: officially takes effect as of 1 January 2018, with a minimum limit of 100%.
(8) Obtained from the sum of items 130 a) and 100 a) in the reclassified income statement.
(9) Cost to income calculated removing the contribution to the National Resolution Fund.

Main economic aggregates

Reclassified income statement (in Euro thousands)

Item	30-06-2016	30-06-2015	% change since 30-06-2015
10. Interest and similar income	108,589.5	130,688.5	-16.9%
20. Interest payable and similar charges	(30,721.0)	(43,485.7)	-29.4%
70. Dividends and similar income	108.4	62.9	72.2%
NET INTEREST AND DIVIDENDS	**77,976.9**	**87,265.8**	**-10.6%**
40. Fee and commission income	126,959.9	126,886.2	0.1%
50. Fee and commission expenses	(32,859.5)	(41,263.4)	-20.4%
Net fees	**94,100.4**	**85,622.7**	**9.9%**
80. Net gains (losses) from trading activities	4,023.1	6,085.2	-33.9%
90. Net gains (losses) from hedging activities	(101.9)	(35.8)	184.4%
100. Profit (loss) from sale or repurchase of:	(887.4)	11,663.2	-107.6%
a) receivables	(1,310.0)	51.4	-2647.4%
b) financial assets available for sale (1)	470.7	11,620.2	-96.0%
d) financial liabilities	(48.1)	(8.5)	467.6%
NET REVENUES FROM SERVICES	**97,134.2**	**103,335.3**	**-6.0%**
NET BANKING INCOME	**175,111.1**	**190,601.0**	**-8.1%**
150. Administrative expenses			
a) personnel expenses	(81,849.6)	(78,154.7)	4.7%
IRAP on net personnel and seconded personnel expenses (1)	(225.0)	(322.2)	-30.2%
Total personnel and IRAP expenses	**(82,074.6)**	**(78,476.9)**	**4.6%**
b) other administrative expenses	(70,576.0)	(66,821.3)	5.6%
Recovery of stamp duty and other taxes (1)	18,316.2	18,615.7	-1.6%
Total administrative expenses and recovery of taxes	**(52,259.7)**	**(48,205.6)**	**8.4%**
170. Value adjustments on tangible assets	(3,554.2)	(3,780.9)	-6.0%
180. Value adjustments on intangible assets	(6,664.3)	(5,834.3)	14.2%
190. Other operating expenses/income (after deducting “Recovery of stamp duty and other taxes”)	16,021.1	14,022.5	14.3%
Operating expenses	**(128,531.8)**	**(122,275.1)**	**5.1%**
OPERATING PROFIT (LOSS)	**46,579.3**	**68,325.9**	**-31.8%**
160. Net provisions for risks and charges	(166.4)	(2,385.8)	-93.0%
130. Net value adjustments for impairment of:			0.0%
a) receivables	(23,291.8)	(59,722.2)	-61.0%
b) financial assets available for sale	(1,834.5)	(6.0)	100%
d) other financial transactions	(539.4)	148.5	-463.2%
240. Profit (loss) from disposal of investments	1.8	12.6	-85.6%
Reclassifications from extraordinary effects (1)			
100. Profit (loss) from sale or repurchase of:			
b) financial assets available for sale	47,388.6	-	0.0%
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES	**68,137.7**	**6,373.0**	**969.2%**
290. Income taxes for the period on continuing operations			0.0%
(after deducting “IRAP on net personnel and seconded personnel expenses”)	(10,399.9)	(2,119.5)	390.7%
CURRENT OPERATING INCOME AFTER TAX	**57,737.8**	**4,253.6**	**1257.4%**
PROFIT (LOSS) FOR THE PERIOD	**57,737.8**	**4,253.6**	**1257.4%**

(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 on the basis of representation criteria most appropriate to represent the content of the items in accordance with principles of management homogeneity.

Reclassifications involved:

- item 70. "dividends and other income", which is included within net interest income;
- IRAP on the cost of personnel, which is separated from the item "Income taxes for the period on continuing operations", and included in personnel expenses;
- the item "Recovery of stamp duties and other taxes" which is separated from item 190. "other operating expense/income" and included in item 150 b) "other administrative expenses";
- item 100 "gains on disposal or repurchase of financial assets available for sale", the component related to non-controlling equity investments was separated from net revenues from services and included under operating profit (loss).

Banca Sella ended the first half of 2016 with a profit of € 57.7 million, a great improvement compared to the same period of 2015. Comments on the main Reclassified Income Statement items that contributed to the profit for the period are presented below.

Net interest income

At 30 June 2016 net interest income amounted to Euro 78 million (-10.6% compared to the same period of the previous year). The drop was greatly influenced by the trend in market interest rates: as regards revenue, lower interest income was recorded, mainly on loans to customers, in the presence of decreasing average volumes and average rates on interest income contracting.

This lower interest income was partially offset by a reduction in interest expense (-29.4%), due to the continuing downward trend in the cost of funding, despite higher direct deposit volumes.

Net fees

Continuing with the analysis of the main income statement items a good trend in Net fees can be seen: +9.9%; a contribution to the good result came from net fees on acquiring (+23%), thanks both to the lower costs of interchange fees, following the entry into force of the MIF legislation in December 2015, and to the growth in transaction volumes; those on loans to customers (+21%) and those on placing of insurance products (+5.5%), mainly investment policies.

These increases more than offset the negative trend of "Investment services", down compared to the previous year owing to the adverse trend of the financial markets. In detail fees were down both on trading for third parties and order collection (-15.4%) and on asset management (-1.7%).

Net revenues from services

Overall instead net revenues from services at 30 June 2016 came out at € 97 million (-6% compared to the previous financial year). The contraction was mainly due to gains on the disposal of securities of the financial assets available for sale portfolio, a non-recurring event of approximately € 11.6 million in 2015, not replicated in 2016 (a total of € 0.5 million). In addition, in 2016 the contribution of trading activity was down by approximately € 2 million, owing to the trend of the markets. Finally, in 2016 a sale was made of a batch of bad mortgage loans of a gross € 12.2 million at a price of € 5.6 million. This was completed in June and generated a negative economic effect of € -1.3 million of which approximately € -1.0 million deriving from a revision of the valuations during the year owing to an update of the appraisals on the properties used as guarantees, and approximately € -0.3 million owing to the effective difference between the last valuation and the selling price. The sale of these loans is the result of due diligence activity over several months which led to a narrow selection of positions with properties considered of particular interest for subsequent property development by the purchasers. We must specify also, as already reported in the classification criteria, that the gains deriving from the extraordinary operations involving Visa Inc and the sale of the CBA Vita non-controlling equity investment were reclassified under operating profit (loss) to make the comparison between the two periods more uniform.

Operating income

The trends described above led to a total net income of € 175.1 million, down (-8.1%) compared to 30 June 2015.

The good result of net fees, which recorded a positive change of +9.9%, was not sufficient to offset the drop in net interest income, the lower contribution of gains on disposal of financial assets and the losses on disposal of receivables (not considering the extraordinary gains deriving from the Visa operation and the sale of CBA Vita).

Net gains (losses) on trading activities: breakdown

Transactions/Income components	Capital gains (A)	Trading gains (B)	Capital losses (C)	Trading losses (D)	Net gains (losses) [(A+B) - (C+D)]
1. Financial assets held for trading	**83**	**30**	**(20)**	**(12)**	**81**
1.1 Debt securities	83	30	(20)	(12)	81
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans and advances	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Financial assets and liabilities: exchange rate differences	**x**	**x**	**x**	**x**	**2,830**
4. Derivative instruments	**4,346**	**1,251**	**(4,000)**	**(1,251)**	**1,112**
4.1 Financial derivatives:	4,346	1,251	(4,000)	(1,251)	1,112
- On debt securities and interest rates	4,346	1,251	(4,000)	(1,251)	346
- On equities and equity indices	-	-	-	-	-
- On currencies and gold	x	x	x	x	766
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**4,429**	**1,281**	**(4,020)**	**(1,263)**	**4,023**

Operating expenses

Operating expenses, of € 128.5 million, increased by 5.1%. The +4.6% increase in the personnel expenses component (including IRAP tax related to the same) was substantially due to the variable remuneration, on the basis of the better results expected in the year in progress, and to the increase in the Bank's staff.

The increase in administrative expenses was due instead to the contributions to the guarantee funds (approximately € 5 million) net of which they would have been down by approximately 2%. It should be noted that the amount of € 5 million includes € 2.7 million related to a contribution to the FITD (Fondo Interbancario di Tutela dei Depositi - Interbank Deposit Protection Fund) and € 2.2 million for the contribution to the SRF (Single Resolution Fund).

On 16 November 2015 Legislative Decrees no. 180 and 181 came into force, implementing in Italian Legislation Directive 2014/59/EU (Banking Resolution and Recovery Directive, “BRRD”), creating a framework to restore and resolve credit institutions and investment companies and establishing the National Resolution Fund managed by the Bank of Italy. The payment of these contributions was recognised in administrative expenses in the Income Statement. These contributions are divided between the SRF – Single Resolution Fund and the DGS – Deposit Guarantee Scheme. At 30 June 2016 only the contribution to the SRF of € 2.2 million had been requested, as previously reported.

In relation to the FITD fund, it needs to be specified that this is an event recognised in the income statement in 2014 when a request was received from the Fund, to help the Tercas bank, which, in April 2016 was adjusted following a decision of the MEF (Ministry of the Economy and Finance). This entailed the return of the amount paid in 2014 (of € 2.736 million in the item "Other operating expenses/income") and at the same time an outlay of € 2.7 million. Net of the return of the contribution to the FITD, other operating income was down compared to 2015 owing mainly to the reduction in rapid investigation fees on loans, following a reduction in the number of over-the-limit events.

Other operating expenses, up compared to 2015, consist of writedowns on fixed assets, amounting to more than € 0.6 million.

Writedowns

Net value adjustments to loans amounted to € 23.3 million, down by 61% compared to the € 59.7 million at 30 June 2015. The change was due to two effects: on the one hand the adjustments at 30 June 2015 included the evidence related to the Bank of Italy inspection, together with a number of legislative and internal policy updates; on the other the first half of 2016 saw a continuation of the positive trend, which had begun towards the end of 2015, of decreasing new entries to the impaired category and consequent lower writedowns.

The reduction in flows into the impaired category involved all impairment statuses, with a contraction in particular of entries among unlikely to pay and bad loans.

Although there were fewer entries, the percentage of average coverage of impaired positions was instead consolidated. The first half of 2016 ended with even stronger provisioning policies for impaired loans, which led to a coverage rate of 50.2%, meaning total writedowns carried out on all impaired cash loans and gross loans disbursed, which increased by 2.4 points over the previous year. The figure was 47.8% at 31 December 2015 and 44.4% at 31 December 2014.

Writedowns on financial assets available for sale of € 1.8 million, refer to the total writeoff of the equity investment in Comital Saiag S.P.A., (now Cuki Group S.p.A.).

At 30 June 2016 the indicator "Net value adjustments to loans (8) / Cash loans (net of repurchase agreements receivable)", annualised, was 0.7% decidedly improved compared to the 1.5% of 31/12/2015.

Value adjustments for impairment of other operations includes, for approximately € 500 thousand, the amount related to the fraud generated by operations carried out by customers, owners of commercial Bed & Breakfast businesses, on which there was a very high percentage of transactions with credit cards, which ended with negative disputes, that is won by the cardholders.

Net value adjustments on intangible assets: breakdown

Asset/Income component	Amortisation (a)	Impairment losses(b) (b)	Writebacks (c)	Net income/losses (a + b + c) 30-06-2016
A. Intangible assets				
A.1 Company owned	6,664	-	-	6,664
- Generated internally by the company	1,298	-	-	1,298
- Other	5,366	-	-	5,366
A.2 Assets acquired through financial leasing	-	-	-	-
Total	**6,664**	**-**	**-**	**6,664**

Net value adjustments for impairment of loans: breakdown

	Writedowns (1)			Writebacks (2)				Total	
	Specific		Portfolio	Specific		Portfolio		30-06-2016	30-06-2015
	Writeoffs	Other		To	B	To	B		
A. Loans to banks									
- Loans	-	-	-	-	-	-	45	45	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers									
Impaired loans acquired									
- Loans	-	-	x	-	-	x	x	-	-
- Debt securities	-	-	x	-	-	x	x	-	-
Other receivables									
- Loans	(1,031)	(43,067)	-	7,901	11,335	-	1,525	(23,337)	(59,722)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(1,031)**	**(43,067)**	**-**	**7,901**	**11,335**	**-**	**1,570**	**(23,292)**	**(59,722)**

A= from interest B= from other writebacks

Net value adjustments due to impairment of financial assets available for sale: breakdown

Transactions/Income components	Writedowns (1)		Writebacks (2)		Total 30-06-2016	Total 30-06-2015
	Specific		Specific			
	Writeoffs	Other	To	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	(16)	-	-	(16)	-
C. UCITS units	-	-	x	x	-	-
D. Loans to banks	-	-	x	-	-	-
E. Loans to customers	-	(1,818)	-	-	(1,818)	(6)
F. Total	**-**	**(1,834)**	**-**	**-**	**(1,834)**	**(6)**

A= from interest B= from other writebacks

Net value adjustments for impairment of other financial transactions: breakdown

Transactions/Income components	Writedowns (1)			Writebacks (2)				Total	
	Specific		Portfolio	Specific		Portfolio		30-06-2016	30-06-2015
	Writeoffs	Other		To	B	To	B		
A. Sureties issued	-	-	(26)	-	-	-	-	(26)	148
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other operations	(8)	(506)	-	-	-	-	-	(514)	-
E. Total	**(8)**	**(506)**	**(26)**	**-**	**-**	**-**	**-**	**(540)**	**148**

A= from interest B= from other writebacks

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

The result for the first half of 2016, of € 57.7 million was influenced for € 47.4 million by two extraordinary events: the acquisition by Visa Inc. of the shares of Visa Europe which entailed for Banca Sella, as a "principal member", a capital gain of € 46.9 million and the sale of CBA Vita, the Group's insurance company, carried out on 30 June 2016 which brought in a gain of € 0.5 million. The details of the two operations can be found on page 6 above under Significant events in the period.

Income taxes

The trend in income tax, up considerably compared to the previous year, can be explained essentially by the evolution of the pre-tax profit and by the different proportion out of the same of dividends and capital gains on the sale of equity investments, partially excluded from taxation.

Exclusive of IRAP related to personnel expenses, which was reclassified increasing this component, the percentage impact of income taxes on continuing operations before taxes was 15.3%.

Income taxes for the year on continuing operations are also net of IRAP related to personnel expenses, which was reclassified increasing this component (and which was calculated taking into account the changes introduced by Law 190 of 23/12/2014 regarding the deductibility of IRAP for expenses incurred in relation to employees with permanent contracts).

The tax rate percentage was influenced positively by the fact that a significant proportion of the revenues is made up of capital gains and dividends on equity investments having the features provided for under Arts 89 paragraph 2 and 87 of Italian Presidential Decree 917/86, which are almost totally tax-free. This component (which was notably higher compared to 2015) caused lower taxes by approximately € 12.4 million or 18.20 per cent on the tax rate in 2016.

The so-called "Robin Hood tax" introduced by Legislative Decree 112/2008 (converted into Italian Law no. 133/2008) which foresees that 4% of interest expenses is non-deductible, caused an increase in taxes of approximately € 0.2 million, corresponding to about 0.3 percentage points in the tax rate.

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

Without the effect of the aforementioned components, the tax rate would have been approximately 33.2%.

Banca Sella, as a subsidiary, adheres to the tax consolidation system adopted by the controlling and consolidating Parent Company Banca Sella Holding.

Main capital aggregates

Reclassified balance sheet (in Euro thousands)

Assets	30-06-2016	31-12-2015	% change since 31-12-2015
Financial assets (1)	1,810,068.4	1,749,371.7	3.5%
Loans to banks	1,682,951.4	1,584,034.6	6.2%
Cash loans (excluding repurchase agreements receivable) (2)	6,967,760.8	6,734,045.2	3.5%
Reverse repurchase agreements	351.1	412.3	-14.8%
Tangible and intangible fixed assets (3)	90,853.1	90,656.8	0.2%
Tax assets	174,747.4	188,847.6	-7.5%
Other assets (4)	398,151.4	418,485.2	-4.9%
TOTAL ASSETS	**11,124,883.6**	**10,765,853.3**	**3.3%**
Liabilities and Shareholders' equity	**30-06-2016**	**31-12-2015**	**% change since 31-12-2015**
Due to banks	382,907.5	335,182.9	14.2%
Direct deposits (excluding repurchase agreements payable) (5)	9,561,210.3	9,275,161.1	3.1%
Repurchase agreements	9,063.5	46,251.0	-80.4%
Total direct deposits	9,570,273.8	9,321,412.0	2.7%
Financial liabilities	18,871.2	19,007.3	-0.7%
Tax liabilities	19,999.9	23,664.4	-15.5%
Other liabilities (6)	301,759.0	252,193.4	19.7%
Provisions for specific purposes (7)	45,032.8	43,224.7	4.2%
Shareholders' equity (8)	786,039.5	771,168.6	1.9%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**11,124,883.6**	**10,765,853.3**	**3.3%**

(1) Given by the sum of the following balance sheet asset items: 20 "Financial assets held for trading", and 40 "Financial assets available for sale";
(2) Item 70 "Loans to customers" in the balance sheet assets net of the component of repurchase agreements;
(3) Given by the sum of the following balance sheet asset items: 110 "Tangible assets" and 120 "Intangible assets";
(4) Given by the sum of the following balance sheet asset items: 10 "Cash and cash equivalents", 80 "Hedging derivatives", 90 "Value adjustment of financial assets subject to macrohedging" and 150 "Other assets";
(5) Given by the sum of the following balance sheet liability items: 20 "Due to customers" and 30 "Securities in issue";
(6) Given by the sum of the following balance sheet liability items: 60 "Hedging derivatives" and 100 "Other liabilities";
(7) Given by the sum of the following balance sheet liability items: 110 "Employee severance indemnities" and 120 "Provisions for risks and charges";
(8) Given by the sum of the following balance sheet liability items: 130 "Valuation reserves", 160 "Reserves", 170 "Share premiums", 180 "Share Capital" and 200 "Profit for the period".

Funding Policies and ALM

As regards funding policies, in the first half of 2016 the bank continued to operate under its normal policy of sound and prudent management. In particular, it acted so as to ensure the maintenance of a solid liquidity position, which originates from and is founded on the ratio, notably lower than parity, between cash loans and direct deposits. The surplus of direct deposits not used in commercial activity is allocated to senior (mainly government) bonds and in demand deposits with the parent company, which constitute a significant buffer of high-quality and easily liquidated assets. The bonds placed with customers that reached maturity were mostly replaced by medium/long-term funds made available by the European Central Bank with the two TLTRO Programmes. In particular the bank extinguished in advance the loans granted in the context of the first Programme (€ 268 million) and at the same time obtained new loans for € 335 million from the first operation of the second TLTRO Programme (settled with value date 29/06/2016) and granted at more favourable interest rate conditions.

Receivables

The item Loans to customers recorded an increase of 3.5% compared to 31 December 2015. This trend was due mainly to the growth of current accounts, mortgage loans and other loans. This last item includes irrevocable loans and loans without repayment schedule, such as loans in tranches and foreign loans.

The Bank maintained its support for families, offering mortgage loans to purchase or renovate homes, and to companies that have demonstrated appropriate economic prospects and that are going concerns, disbursing short-term loans to support the performance of current activities, and medium/long-term loans for new investments and/or to restructure short-term debt. Loans to businesses also continued in collaboration with Biella Leasing, the Group's leasing company, and with Consel, the Group's consumer credit company, for the disbursement of consumer credit loans to private customers.

Also during 2016, the concrete collaboration with Regional Councils, Industrial Associations and Loan Consortia continued, using the funds made available by the EIB and by Cassa Depositi e Prestiti (the national Deposits and Loans Bank).

Loans to customers: product breakdown

Type of transaction/Value	Total 30-06-2016						Total 31-12-2015					
	Book value			Fair Value			Book value			Fair Value		
	Non-impaired	Impaired		L1	L2	L3	Non-impaired	Impaired		L1	L2	L3
		Acquired	Other					Acquired	Other			
Loans	**6,432,693**	**-**	**535,295**	**-**	**-**	**7,116,886**	**6,174,638**	**-**	**559,699**	**-**	**-**	**6,876,060**
1. Current accounts	694,971	-	128,815	X	X	X	665,522	-	136,148	X	X	X
2. Reverse repurchase agreements	351	-	-	X	X	X	412	-	-	X	X	X
3. Mortgage loans	3,787,329	-	311,991	X	X	X	3,687,755	-	322,163	X	X	X
4. Credit cards, personal loans and salary-backed loans	227,352	-	6,651	X	X	X	247,011	-	7,044	X	X	X
5. Financial leasing	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans and	1,722,690	-	87,838	X	X	X	1,573,938	-	94,344	X	X	X
Debt securities	**124**	**-**	**-**	**-**	**124**	**-**	**120**	**-**	**-**	**-**	**120**	**-**
8. Structured	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt	124	-	-	X	X	X	120	-	-	X	X	X
Total	**6,432,817**	**-**	**535,295**	**-**	**124**	**7,116,886**	**6,174,758**	**-**	**559,699**	**-**	**120**	**6,876,060**

The item debt securities consists exclusively of a 6% Confidi subordinated bond with maturity at 27 December 2018.

With reference to the following tables, the term "credit exposures" is used excluding equity securities and UCITS units, while the term "exposures" includes these elements.

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

Portfolio/Quality	Bad loans	Unlikely to pay	Impaired past-due exposures	Other non-impaired exposures	Non-impaired exposures	Total
1. Financial assets available for sale	-	-	-	-	1,747,978	1,747,978
2. Financial assets held to maturity	-	-	-	-	-	-
3. Loans to banks	-	-	-	-	1,682,951	1,682,951
4. Loans to customers	311,480	213,156	10,659	150,686	6,282,131	6,968,112
5. Financial assets carried at fair value	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
Total 30-06-2016	**311,480**	**213,156**	**10,659**	**150,686**	**9,713,060**	**10,399,041**
Total 31-12-2015	**305,461**	**244,813**	**11,243**	**156,624**	**9,243,076**	**9,961,217**

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	-	-	-	1,747,978	-	1,747,978	1,747,978
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Loans to banks	-	-	-	1,683,084	(133)	1,682,951	1,682,951
4. Loans to customers	1,075,312	(540,017)	535,295	6,464,949	(32,132)	6,432,817	6,968,112
5. Financial assets carried at fair value	-	-	-	X	X	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total 30-06-2016	**1,075,312**	**(540,017)**	**535,295**	**9,896,011**	**(32,265)**	**9,863,746**	**10,399,041**
Total 31-12-2015	**1,075,793**	**(514,276)**	**561,517**	**9,433,411**	**(33,710)**	**9,399,700**	**9,961,217**

Portfolio / Quality	Assets with evident low creditworthiness		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	121	47,666
2. Hedging derivatives	-	-	6,662
Total 30-06-2016	**-**	**121**	**54,328**
Total 31-12-2015	**-**	**9**	**69,580**

Bad loans

Net bad loans at 30 June 2016 amounted to € 311.5 million (the figure includes securitisation volumes) up by 2% compared to 31/12/2015 (€ 305.5 million). The ratio to cash loans was 4.6%; it comes out at 4.5% if loans net of repurchase agreements are considered.

In the first half of 2016 the flow of gross new bad loans totalled € 57.2 million, a significant drop (-53.2%) compared to the first half of 2015. The change in new entries into the bad loan category was due to two effects: on the one hand a reduction in flows into this category, which confirms the positive trend that began already at the end of financial year 2015, on the other the flows of 2015 included the most evident effects of the internal policy update introduced in May 2015, which entailed a reduction in monitoring times for classification as bad. In June 2016 a transaction for sale without recourse of bad loans backed by real guarantees was completed with Algebris through the Nemo SPV s.r.l fund. This regarded 9 positions for € 12.2 million. The sale of these loans is the result of due diligence activity over several months which led to a narrow selection of positions with properties considered of particular interest for subsequent property development by the purchasers. The impact of the transaction on the income statement was not significant.

At 30 June 2016, the number of bad loans was 11,678, of which 72.3% were below the threshold of € 50,000 and 31.2% of € 5,000.

In June 2016, the coverage ratio referred to bad loans was 61.1%, whilst at the end of last year it was 60.0%, a 1.1% increase. Therefore, coverage of bad loans was strengthened, with adequate protection against credit risk in this category.

Unlikely to pay positions

Positions in unlikely to pay amounted at 30 June 2016 to € 213.2 million (net cash exposures including securitisations) down by 12.9% compared to 31 December 2015 (€ 244.8 million).

At 30 June 2016 loans backed by mortgage guarantees amounted to € 153.8 million net and the number of loans classified as unlikely to pay corresponded to 3,973 customers, of which 1,477 with revocation of the credit, for € 38.5 million of net exposures.

In June 2016, the coverage ratio referred to unlikely to pay was 18.9%, whilst at the end of last year it was 18.4%, a 0.5% increase.

Past-due loans

Past-due and over-the-limit loans amounted at 30 June 2016 to € 10.7 million (net cash exposures including securitisations). At 31 December 2015 past-due and over-the-limit loans amounted to € 11.2 million. The exposure decreased by 5.2%.

Past due and over-the-limit loans include 84 positions with total exposure of € 3.6 million, which benefit from mortgage guarantees. At 30 June 2016, the number of past due and over-the-limit loans corresponded to 6,624 customers.

In all, analytical adjustments applied to the volumes of past due and over-the-limit loans of Banca Sella amounted, at 30 June 2016, to € 1.5 million (1.5 million at 31 December 2015).

At June 2016 the coverage ratio with reference to past-due exposures was 12.6%, an increase compared to the previous year, when it was 11.8%.

Amounts due to and from banks

Net interbank position (in Euro millions)

Item	Total 30-06-2016	Total 31-12-2015
Loans to banks	1,682,951	1,584,035
Due to banks	382,907	335,183
Net interbank position	**1,300,044**	**1,248,852**

Almost all current accounts and demand deposits are held by the parent company Banca Sella Holding, as is the term deposit of 86 million used to hold the compulsory reserve with Banca Sella Holding, which manages it on the Bank's account. Other loans includes the balance of the current account, again held by Banca Sella Holding, in which Banca Sella deposits the margins for existing derivatives.

Loans to banks: product breakdown

Type of transaction/Value	Total 30-06-2016				Total 31-12-2015			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans to Central Banks	**1**	**-**	**-**	**1**	**1**	**-**	**-**	**1**
1. Term deposits	-	X	X	X	-	X	X	X
2. Statutory reserve	1	X	X	X	1	X	X	X
3. Reverse repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Loans to banks	**1,682,951**	**-**	**134,948**	**1,548,192**	**1,584,034**	**-**	**187,223**	**1,397,187**
1. Loans	1,548,192	-	-	1,548,192	1,397,187	-	-	1,397,187
1.1 Current accounts and demand deposits	1,338,349	X	X	X	1,207,556	X	X	X
1.2 Term deposits	86,036				83,688			
1.3. Other loans and advances:	123,807	X	X	X	105,943	X	X	X
- Reverse repurchase agreements	-	X	X	X	-	X	X	X
- Financial leasing	-	X	X	X	-	X	X	X
- Others	123,807	X	X	X	105,943	X	X	X
2. Debt securities	134,759	-	134,948	-	186,847	-	187,223	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	134,759	X	X	X	186,847	X	X	X
Total	**1,682,951**	**-**	**134,948**	**1,548,193**	**1,584,034**	**-**	**187,223**	**1,397,188**

Debt securities consist exclusively of bonds issued by Banca Sella Holding. During the year, the segment decreased by about € 52.1 million. The decrease is entirely due to the maturity of bonds that were only partially renewed.

Due to banks: product breakdown

Type of transaction/Value	Total 30-06-2016	Total 31-12-2015
1. Due to central banks	**-**	**-**
2. Due to banks	**382,907**	**335,183**
2.1 Current accounts and demand deposits	24,104	40,904
2.2 Term deposits	335,000	293,710
2.3 Loans and advances	22,941	23
2.3.1 Repurchase agreements	-	-
2.3.2 Others	22,941	23
2.4 Liabilities for commitments to repurchase own equity instruments	-	-
2.5 Other payables	862	546
Total	**382,907**	**335,183**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**382,907**	**335,183**
Total fair value	**382,907**	**335,183**

The item, which increased, does not show significant differences. Term deposits relate to TLTRO loans as described under Significant events in the period and Funding policies.

Direct deposits (Due to customers and Securities in issue).

Due to customers: product breakdown

Type of transaction/Value	Total 30-06-2016	Total 31-12-2015
1. Current accounts and demand deposits	7,847,969	7,356,416
2. Term deposits	813,560	904,064
3. Loans	99,948	117,152
3.1 Repurchase agreements	9,064	46,251
3.2 Others	90,884	70,901
4. Liabilities for commitments to repurchase own equity instruments	-	-
5. Other payables	247,590	264,955
Total	**9,009,067**	**8,642,587**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**9,009,067**	**8,642,587**
Fair value	**9,009,067**	**8,642,587**

Securities in issue: product breakdown

Type of securities / Values	30-06-2016				31-12-2015			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	561,140	-	583,351	-	678,758	-	681,617	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	561,140	-	583,351	-	678,758	-	681,617	-
2. Other securities	67	-	-	67	67	-	-	67
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	67	-	-	67	67	-	-	67
Total	**561,207**	**-**	**583,351**	**67**	**678,825**	**-**	**681,617**	**67**

The item does not show significant differences compared to 31 December 2015. The decrease was due to securities which matured and were not renewed.

Financial assets held for trading

This category mainly consists of debt securities, in particular Italian Government Securities, senior bank bonds and bonds issued by banks within the Banca Sella Group. At 30 June 2016 the following types of securities were held:

- Italian Government Securities 24%;
- Senior Bank Bonds 6%;
- Banca Sella Group Bonds 70%;

The amount of this component decreased by around € 11.7 million, going from € 40.6 million at 31 December 2015 to € 28.9 million at 30 June 2016; during the period the total exposure decreased.

As regards asset allocation, the floating-rate component was almost entirely absent, and almost all of the category is invested in short-term fixed-rate securities. Exposure to interest-rate risk was contained for the entire period in question.

Financial assets held for trading: product breakdown

Item/Value	Total 30-06-2016			Total 31-12-2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	8,662	20,291	2	20,387	20,231	2
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	8,662	20,291	2	20,387	20,231	2
2. Equity securities	-	-	-	-	-	-
3 UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total A	**8,662**	**20,291**	**2**	**20,387**	**20,231**	**2**
B. Derivative instruments						
1. Financial derivatives:	39	18,793	-	47	18,640	-
1.1 for trading	39	18,599	-	47	18,576	-
1.2 linked to fair value option	-	-	-	-	-	-
1.3 other	-	193	-	-	64	-
2. Credit Derivatives:	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 linked to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**39**	**18,792**	**-**	**47**	**18,640**	**-**
Total (A+B)	**8,701**	**39,083**	**2**	**20,434**	**38,871**	**2**

Financial assets available for sale

Financial assets available for sale: breakdown

Item/Value	Total 30-06-2016			Total 31-12-2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	1,734,117	13,566	-	1,628,795	11,817	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,734,117	13,566	-	1,628,795	11,817	-
2. Equity securities	-	-	11,351	-	-	44,600
2.1 Carried at fair value	-	-	-	-	-	41,459
2.2 Carried at cost	-	-	11,351	-	-	3,141
3. UCITS units	1,664	-	1,289	1,489	-	1,250
4. Loans	-	-	295	-	-	2,113
Total	**1,735,781**	**13,566**	**12,935**	**1,630,284**	**11,817**	**47,963**

After the significant increase recorded in 2015, this category saw a countervalue up by approximately 6.5%; this increase was mainly due to the purchase of debt securities, with the objective of increasing portfolio profitability and pursuing a diversification strategy for financial assets, with particular attention paid to the quality of bonds from banking, financial and corporate issuers in the portfolio.

This category is made up of Italian Government Securities and bank and corporate bonds with high creditworthiness. During the period, the small equity portion increased slightly through the purchase of a number of units of specialised SICAVs. At 30 June 2016 the following types of securities were held:

- BOT 0.1%;
- CCT 27.4%;
- BTP 59.9%;
- Senior bank bonds 8.3%;
- Senior Corporate Bonds 4,3%;

During the period, the amount of this segment increased by around € 107.2 million, reaching a value of € 1,750.6 million at 30 June 2016. The exposure in CCTs remained more or less stable, while the most significant changes were recorded on BTPs (approximately € +32.7 million), bank bonds (approximately € +48.5 million) and corporate bonds (approximately € +28.9 million).

As regards asset allocation, the floating-rate component, which fell slightly compared to 31 December 2015, represented about 30%, while the remaining 70% was invested in fixed-rate securities with short or medium-term maturity. Exposure to interest-rate risk remained at very low levels for the entire period in question. With an eye to increasing diversification, during the year exposure to both banking and corporate private issuers was increased, with an average maturity of 3 years.

Equity securities also include non-controlling interests, which according to the requirements of the IFRSs were subjected to impairment tests in continuity with what was done for the financial statements at 31 December 2015. The main ones are the following:

- VISA INC: Visa Inc class C shares for a countervalue net of the lock-up clause of € 10.2 million;
- PENSPLAN INVEST SGR SpA (equity method of measurement): an impairment compared to the book value was found, so a writedown of the equity investment was made in the income statement for € 16,439.78;
- Funivie Madonna di Campiglio (equity method of measurement): the value remained the same as that at 31 December 2015;
- Funivie Folgarida Marilleva (equity method of measurement): the value remained the same as that at 31 December 2015;

The loans item included as “Financial Equity Instruments” the Comital Saiag S.p.A. now Cuki

Group S.p.A. position, for which a restructuring agreement was signed in 2009, which had generated the partial conversion of the total amount owed to the Bank of € 9 million.

On the basis of the economic and financial information provided by the Comital Group, in the context of the presentation of the “Update of the 2016-2018 Business Plan”, and of the Consolidated Financial Statements of the Cuki Group at 31 December 2015, during the first quarter the valuation of the equity instrument was updated. Considering the Company's most recent final data it was considered opportune to write it down in the income statement for € 200,000. During the second quarter, when it became known that the investee company's receivables had been sold and that two leading national banks had sold the Financial Equity Instruments in question to a fund specialised in non-performing receivables, the valuation was changed again. The details of the transactions mentioned establish for the Financial Equity Instruments a value of € 1 for the entire packet in possession of the sellers and therefore it was considered correct to write off the equity investment in the income statement. The book value at 30 June 2016 was therefore zero.

Own funds and banking capital adequacy ratios

At 30 June 2016 668,456,168 ordinary shares were calculated in Banca Sella's Common Equity Tier 1 – CET1. These have a face value of € 0.50 (zero point fifty) each, including share premiums, reserves and profits accrued for a calculable value of € 782,307,908.

There were no calculable financial instruments in Additional Tier 1 Capital at 30 June 2016.

Tier 2 - T2 included subordinated loans issued by Banca Sella at 30 June 2016 for a countervalue of € 198,643,365.

Regulatory capital

	Total 30-06-2016	Total 31-12-2015
A. Common Equity Tier 1 – CET1 before application of prudential filters	**782,308**	**767,496**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(225)	(401)
C. CET1 gross of elements to be deducted and the effects of the transitional regime (A +/- B)	**782,083**	**767,095**
D. Elements to be deducted from CET1	**49,971**	**48,783**
E. Transitional regime – Impact on CET1 (+/-)	**(7,137)**	**(28,966)**
F. Total Common Equity Tier 1 (Common Equity Tier 1 – CET1) (C – D +/- E)	**724,975**	**689,346**
G. Additional Tier 1 – AT 1, gross of elements to be deducted and the effects of the transitional regime	**-**	**-**
of which AT1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime – Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 (Additional Tier 1 – AT1) (G – H +/- I)	**-**	**-**
M. Tier 2 – AT 2, gross of elements to be deducted and the effects of the transitional regime	**198,643**	**228,148**
of which T2 instruments subject to transitional provisions	**27,095**	**35,840**
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime – Impact on T2 (+/-)	**234**	**11,589**
P. Total Tier 2 – T2 (M - N +/- O)	**198,877**	**239,737**
Q. Total own funds (F + L + P)	**923,852**	**929,083**

On the basis of the prudential regulatory provisions, the total requirement is equal to the sum of the capital requirements prescribed against credit, counterparty, credit valuation adjustment, regulatory, market and operational risks.

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

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

Reconciliation of profit for regulatory purposes

	30/06/2016
Profit for the period	57,737,771.93
- to the Fund for charity and sundry donations	35,000.00
- estimated dividends	3,696,562.61
Profit for regulatory purposes	54,006,209.32

At 30 June 2016, the capital ratios exceeded the minimum requirements provided for in the regulations in effect as of the reporting date:

- Common Equity Tier 1 ratio: 15.09%, against a minimum level of 5.125% at the individual level, as a member of the Banking Group;
- Tier 1 ratio: 15.09%, against a minimum level of 6.625%, as a member of the Banking Group;
- Total Capital ratio: 19.23%, against a minimum level of 8.625%, as a member of the Banking Group;

Capital adequacy

	Non-weighted amounts		Weighted amounts / requirements	
	30-06-2016	31-12-2015	30-06-2016	31-12-2015
A. RISK ASSETS				
A.1 Credit and counterparty risk	11,023,178	10,637,674	4,042,606	3,931,284
1. Standardised method	11,023,178	10,637,674	4,042,606	3,931,284
2. Methodology based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			323,408	314,503
B.2 Credit evaluation adjustment risk			-	-
B.3 Regulatory Risk			-	-
B.4 Market risks			2,039	2,462
1. Standard method			2,039	2,462
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			58,905	58,905
1. Basic method			58,905	58,905
2. Standard method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			384,352	375,870
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			4,804,411	4,698,375
C.2 Tier 1 capital/Risk-weighted assets (CET 1 capital ratio)			15.09%	14.67%
C.3 Tier 1 capital/Risk weighted assets (Tier 1 capital ratio)			15.09%	14.67%
C.4 Total own funds//Risk-weighted assets (Total capital ratio)			19.23%	19.77%

Management system and exposure to risk

Banca Sella considers the measurement and management of credit risk to be of crucial importance. The loan disbursement activity has always been oriented towards traditional business forms, supporting household financing needs and providing the necessary support to businesses – in particular small and medium-sized enterprises – in order to support growth projects, consolidation phases and financial needs during negative phases of the economic cycle. With regard to the credit risk, no operations are performed on 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.

Specifically, credit risk control activities are the responsibility of the Risk Management and Audit (Credit Risk Management Unit and Credit Risk Control Unit) of Banca Sella Holding and the Credit Area of Banca Sella.

Within the Risk Management Service, activities are structured as follows:

- The Credit Risk Management Office is responsible for quantifying and monitoring credit risk at the portfolio level. Monitoring is done also with benchmarking tools aimed at assessing positioning with respect to system figures. In addition, on the basis of the evidence resulting from analysis, risk management guidelines are identified.
- The Credit Risk Control Office is responsible for verifying the effectiveness of the credit risk management process and the adequacy of the writedowns applied to impaired positions.

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

Market risk relates to unexpected variations in market factors such as interest rates, 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).

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 Banca Sella within the assigned limits and powers.

The price risk inherent in the trading book is mainly a result of trading on the bank's own account in debt securities.

The Bank's trading book includes assets held as financial instruments for its own account. Most of these instruments can be traded on regulated markets (fixed and variable-income securities).

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 restricted and prudential field of action laid down in the Group rules on the subject.

At the same time as drafting the ICAAP statement (analysis of the suitability of equity in accordance with the Second Pillar of Basel III) and therefore at least once a year, the Parent Company carries out, at the consolidated level, stress tests on the trading book for regulatory purposes.

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).

Liquidity monitoring and management operations for Banca Sella are formalised in the Group's Liquidity Policy, which contains both liquidity risk management guidelines and the strategies to be followed in critical situations. Such strategies are an integral part of the emergency plan called the Contingency Liquidity Plan.

The governance model defined for managing and controlling the Banca Sella Group's liquidity risk is based on the following principles:

- 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;

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.

The Parent Company, Banca Sella Holding, performs a function of management and coordination for the control of exposure to the risks assumed by the Banca Sella Group companies in carrying on their ordinary and extraordinary business, delegating the operational aspects to the Risk Management service. This service has the responsibility to measure, monitor and manage the Group's exposure to the risks indicated under the First and Second Pillars of Basel III, continuously improving the instruments and methods for assessing quantitative and qualitative risk exposure aspects.

Financial Statement Schedules

at 30 June 2016

Balance Sheet

BALANCE SHEET ASSETS

Assets	30-06-2016	31-12-2015	Difference %
10. Cash and cash equivalents	102,733,620	130,426,196	-21.23%
20. Financial assets held for trading	47,786,487	59,307,804	-19.43%
40. Financial assets available for sale	1,762,281,940	1,690,063,869	4.27%
60. Loans to banks	1,682,951,381	1,584,034,567	6.24%
70. Loans to customers	6,968,111,878	6,734,457,470	3.47%
80. Hedging derivatives	6,661,725	10,282,377	-35.21%
90. Value adjustment of financial assets subject to macrohedging (+/-)	126,628,924	110,546,374	14.55%
110. Tangible assets	37,846,501	38,998,704	-2.95%
120. Intangible assets	53,006,572	51,658,079	2.61%
of which:			0.00%
- goodwill	13,755,423	13,755,423	0.00%
130. Tax assets	174,747,388	188,847,585	-7.47%
a) current	53,302,870	65,466,047	-18.58%
b) deferred	121,444,518	123,381,538	-1.57%
of which Law 214/2011	111,706,948	114,562,394	-2.49%
150. Other assets	162,127,163	167,230,238	-3.05%
Total assets	**11,124,883,579**	**10,765,853,263**	**3.33%**

Liabilities and shareholders' equity	30-06-2016	31-12-2015	Difference %
10. Due to banks	382,907,447	335,182,872	14.24%
20. Due to customers	9,009,066,661	8,642,587,036	4.24%
30. Securities in issue	561,207,097	678,824,963	-17.33%
40. Financial liabilities held for trading	18,871,193	19,007,292	-0.72%
60. Hedging derivatives	129,181,069	115,421,762	11.92%
80. Tax liabilities	19,999,846	23,664,350	-15.49%
a) current	10,097,073	11,537,697	-12.49%
b) deferred	9,902,773	12,126,653	-18.34%
100. Other liabilities	172,577,971	136,771,626	26.18%
110. Provision for severance indemnities	35,396,492	32,010,558	10.58%
120. Provisions for risks and charges:	9,636,333	11,214,175	-14.07%
a) pensions and similar obligations	-	-	0.00%
b) other provisions	9,636,333	11,214,175	-14.07%
130. Valuation reserves	1,327,999	40,521,951	-96.72%
160. Reserves	26,655,132	24,315,891	9.62%
170. Share premiums	366,090,483	366,090,483	0.00%
180. Capital	334,228,084	334,228,084	0.00%
200. Profit (loss) for the period (+/-)	57,737,772	6,012,220	860.34%
Total liabilities and Shareholders' Equity	**11,124,883,579**	**10,765,853,263**	**3.33%**

Income Statement

INCOME STATEMENT

Item	30-06-2016	30-06-2015	Difference %
10. Interest and similar income	108,589,478	130,688,485	-16.91%
20. Interest payable and similar charges	(30,720,953)	(43,485,663)	-29.35%
30. Net interest income	**77,868,525**	**87,202,822**	**-10.70%**
40. Fee and commission income	126,959,869	126,886,175	0.06%
50. Fee and commission expenses	(32,859,517)	(41,263,445)	-20.37%
60. Net fees	**94,100,352**	**85,622,730**	**9.90%**
70. Dividends and similar income	108,391	62,933	72.23%
80. Net gains (losses) from trading activities	4,023,097	6,085,212	-33.89%
90. Net gains (losses) from hedging activities	(101,876)	(35,826)	184.36%
100. Profit (loss) from sale or repurchase of:	46,501,236	11,663,154	298.70%
a) receivables	(1,310,015)	51,425	-
b) financial assets available for sale	47,859,349	11,620,203	311.86%
c) financial assets held to maturity	-	-	0.00%
d) financial liabilities	(48,097)	(8,474)	467.58%
120. Operating income	**222,499,724**	**190,601,025**	**16.74%**
130. Net value adjustments for impairment of:	(25,665,659)	(59,579,748)	-56.92%
a) receivables	(23,291,781)	(59,722,234)	-61.00%
b) financial assets available for sale	(1,834,503)	(6,021)	-
c) financial assets held to maturity	-	-	0.00%
d) other financial transactions	(539,375)	148,507	-463.20%
140. Net financial operating gains (losses)	**196,834,065**	**131,021,277**	**50.23%**
150. Administrative expenses:	(152,425,581)	(144,975,914)	5.14%
a) personnel expenses	(81,849,620)	(78,154,656)	4.73%
b) other administrative expenses	(70,575,961)	(66,821,258)	5.62%
160. Net provisions for risks and charges	(166,423)	(2,385,803)	-93.02%
170. Net value adjustments on tangible assets	(3,554,225)	(3,780,881)	-5.99%
180. Net value adjustments on intangible assets	(6,664,284)	(5,834,281)	14.23%
190. Other operating expenses/income	34,337,337	32,638,228	5.21%
200. Operating expenses	**(128,473,176)**	**(124,338,651)**	**3.33%**
240. Profit (loss) from the disposal of investments	1,815	12,629	-85.63%
250. Profit (loss) from continuing operations before tax	**68,362,704**	**6,695,255**	**921.06%**
260. Income taxes for the period on continuing operations	(10,624,932)	(2,441,683)	335.15%
270. Profit (loss) from continuing operations, net of tax	**57,737,772**	**4,253,572**	**1257.39%**
290. Profit (loss) for the period	**57,737,772**	**4,253,572**	**1257.39%**

Comprehensive income

STATEMENT OF COMPREHENSIVE INCOME

		30-06-2016	30-06-2015
10.	**Profit (loss) for the period**	**57,737,772**	**4,253,572**
	Other income components after tax without transfer to income statement		
40.	Defined benefit plans	(2,615,865)	2,277,628
	Other income components after tax with reversal to income statement		
100.	Financial assets available for sale	(36,578,087)	(5,398,619)
130.	**Total other income components, net of tax**	**(39,193,952)**	**(3,120,991)**
140.	**Comprehensive income (Items 10 +130)**	**18,543,820**	**1,132,581**

Statement of Changes in Shareholders’ Equity at 30 June 2016

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY AT 30 June 2016

				allocation of previous year's profit		changes for the year								
				reserves	dividends and other allocations		operations on shareholders’ equity							
	balance at 31/12/2015	Changes to opening balance	balance at 01/01/2016	Reserves	Dividends and other allocations	changes in reserves	issue of new shares	purchase of treasury shares	distribution of extraordinary dividends	change in equity instruments	derivatives on treasury shares	stock options	Comprehensive income 2016	shareholders' equity at 30/06/2016
Share Capital:														
a) ordinary shares	334,228,084	-	334,228,084	-	-	-	-	-	-	-	-	-	-	**334,228,084**
b) other shares		-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premiums	366,090,483	-	366,090,483	-	-	-	-	-	-	-	-	-	-	**366,090,483**
Reserves:														**-**
a) from profits	162,608,520	-	162,608,520	2,339,241	-	-	-	-	-	-	-	-	-	**164,947,761**
b) from previous year profits	(4,542,710)	-	(4,542,710)	-	-	-	-	-	-	-	-	-	-	**(4,542,710)**
b) other	(133,749,918)	-	(133,749,918)	-	-	-	-	-	-	-	-	-	-	**(133,749,918)**
Valuation reserves:														**-**
a) available for sale	44,418,210	-	44,418,210	-	-	-	**-**	**-**	**-**	**-**	**-**	**-**	(36,578,087)	**7,840,124**
b) cash flow hedging		-	-	-	-	-	-	-	-	-	-	-	-	**-**
c) special revaluation laws		-	-	-	-	-	-	-	-	-	-	-	-	**-**
d) other	(3,896,260)	-	(3,896,260)	-	-	-	-	-	-	-	-	-	(2,615,865)	**(6,512,125)**
Equity instruments		-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares		-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit (loss) for the period	6,012,220	-	6,012,220	(2,339,241)	(3,672,979)	-	-	-	-	-	-	-	57,737,772	**57,737,772**
Shareholders’ Equity	**771,168,629**	**-**	**771,168,629**	**-**	**(3,672,979)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,543,820**	**786,039,470**