Interim Report

ON OPERATIONS

AT

30 JUNE 2018

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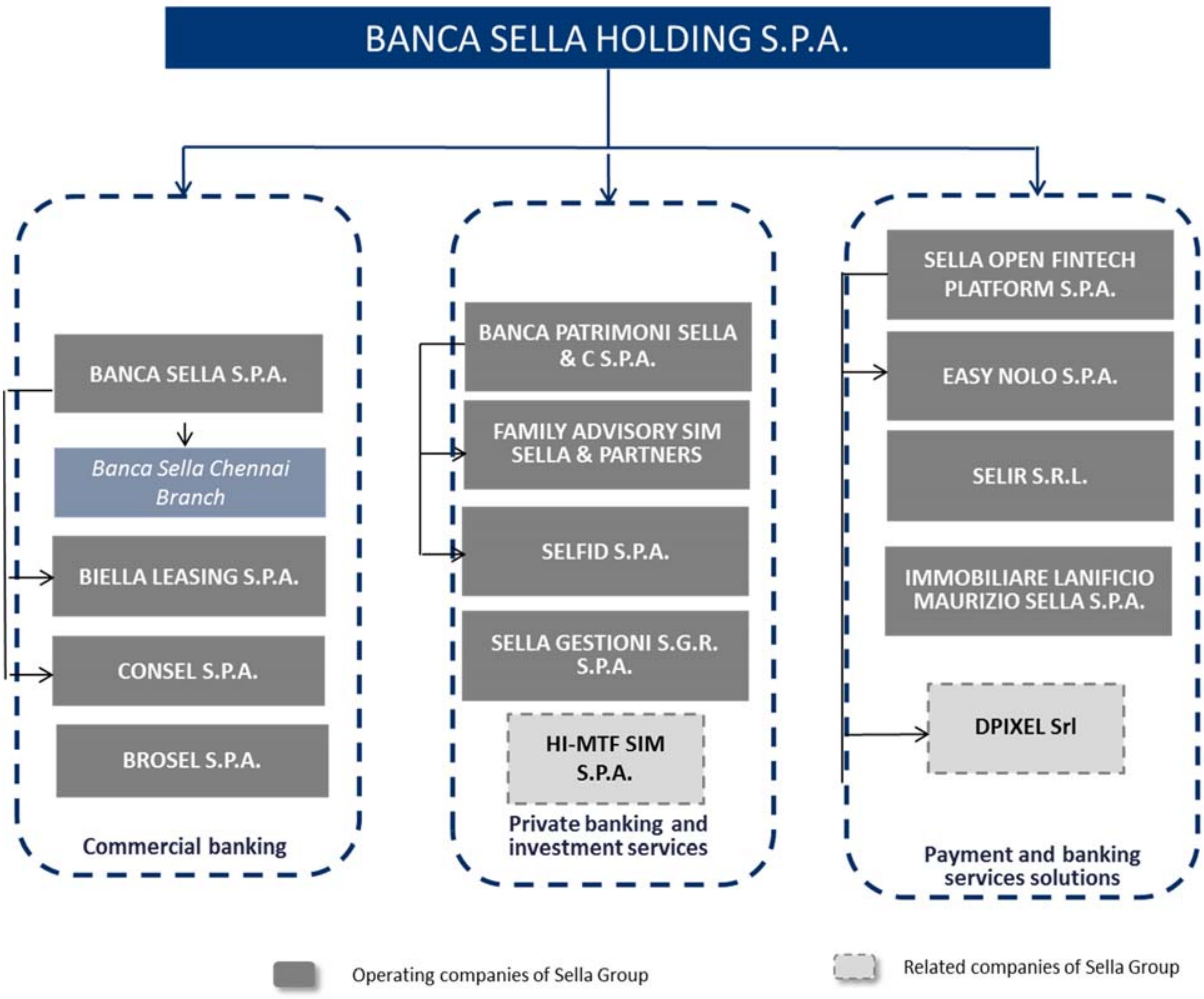
Note:

Any lack of correspondence between the figures presented is entirely due to rounding.

Banking Group Map at 30 June 2018



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)

Sella Capital Management Sgr S.p.A. in liquidation

Sella Technology Solutions S.p.A. **:** established at the end of June 2018, currently inactive.

Investee companies consolidated at Net Equity:

S.C.P. VDP 1

Enersel S.p.A.

Beesy S.r.L.

Corporate Officers

BOARD OF DIRECTORS (In office until the approval of the 2019 financial statements)

Chairman	Maurizio Sella
Deputy Chairman	Franco Sella
Chief Executive Officer	Claudio Musiari
Director	Viviana Barbera
“	Maria Clara Covini
“	Elisabetta Galati
“	Helga Garuzzo
“	Andrea Lanciani
“	Ferdinando Parente
“	Pietro Sella
“	Sebastiano Sella
“	Paolo Tosolini
“	Attilio Viola

BOARD OF STATUTORY AUDITORS (In office until the approval of the 2019 financial statements)

Chairman of the Board of Statutory Auditors	Paolo Piccatti
Regular Auditor	Claudio Sottoriva
“	Valerio Carlo Ticozzi
Alternate Auditor	Daniele Frè
“	Michela Rayneri

GENERAL MANAGEMENT

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

Main figures and indicators

Summary data (amounts in thousands of euro)

BALANCE SHEET DATA	30-06-2018	31-12-2017	Changes	
			absolute	%
Total assets	11,857,034.7	11,753,678.0	103,356.8	0.9%
Financial assets (1)	1,294,255.8	1,174,896.1	119,359.8	10.2%
Cash loans, excluding reverse repurchase agreements	7,003,441.7	7,001,626.4	1,815.3	0.0%
reverse repurchase agreements	-	2,135.8	(2,135.8)	-100.0%
Total cash loans (2)	7,003,441.7	7,003,762.2	(320.6)	0.0%
Sureties issued	223,291.7	200,154.9	23,136.8	11.6%
Equity investments	105,236.2	88,536.0	16,700.2	18.9%
Tangible and intangible fixed assets	101,989.1	101,366.3	622.8	0.6%
Direct deposits, excluding repurchase agreements payable	9,968,990.5	9,778,674.0	190,316.5	2.0%
repurchase agreements payable	7,157.9	6,783.3	374.5	5.5%
Total direct deposits (3)	9,976,148.4	9,785,457.3	190,691.1	2.0%
Direct deposits from credit institutions	16,103.5	14,364.4	1,739.2	12.1%
Indirect deposits valued at market prices	15,934,072.5	15,963,100.5	(29,028.0)	-0.2%
Global deposits valued at market prices (4)	25,926,324.4	25,762,922.2	163,402.2	0.6%
Shareholders' equity	740,985.2	797,404.6	(56,419.4)	-7.1%
Common Equity Tier 1 (CET1)	726,803.2	735,162.8	(8,359.6)	-1.1%
Tier 2 Capital (T2)	190,786.7	214,467.8	(23,681.0)	-11.0%
Total own funds	917,590.0	949,630.6	(32,040.6)	-3.4%

RECLASSIFIED ECONOMIC DATA (5)	30-06-2018	30-06-2017	Changes	
			absolute	%
Net interest income	71,466.3	75,024.5	(3,558.2)	-4.7%
Gross income from services	145,136.5	139,457.4	5,679.1	4.1%
Fee and commission expenses	(38,268.1)	(35,562.1)	(2,706.0)	7.6%
Net revenues from services (net of fee expenses) (6)	106,868.4	103,591.9	3,276.5	3.2%
Net banking income	178,334.7	178,616.5	(281.8)	-0.2%
Operating costs net of recovery of stamp duties and other taxes (7)	(138,001.3)	(132,590.1)	(5,411.2)	4.1%
Operating profit (loss)	40,333.3	46,026.3	(5,693.0)	-12.4%
Net value adjustments for credit risk	(14,365.5)	(19,938.0)	5,572.5	-28.0%
Other income statement items	(825.5)	(9,190.7)	8,365.2	-91.0%
Income taxes	(8,248.9)	(5,559.1)	(2,689.8)	48.4%
Profit (Loss) for the period	16,893.4	11,338.5	5,554.9	49.0%

(1) Obtained from the sum of items 20, 30 and 40, only debt securities from Balance Sheet Assets;
(2) Obtained from item 40 b) of the Balance Sheet Assets, excluding debt securities;
(3) Obtained from the sum of items 10 b) and 10 c) of the Balance Sheet Liabilities;

(4) *The aggregate, valued at market prices, includes administered securities and funds and the insurance funding component and, in contrast to other funding aggregates, refers to the management perimeter on a like for like basis;*
(5) *Items from the Reclassified Income Statement;*
(6) *The aggregate represents the sum of the following items in the Reclassified Income Statement: net fees, 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) *Obtained from the sum of the following items: 160, 180, 190 and 200 of the Reclassified Income Statement.*

Alternative performance indicators

PROFITABILITY RATIOS (%)	30-06-2018	30-06-2017
R.O.E. (return on equity) (1)(11)	4.6%	2.9%
R.O.E. (return on equity) before extraordinary events (11)	4.6%	2.9%
R.O.A. (return on assets) (2)(11)	0.3%	0.2%
Net interest income (3) / Net banking income (3)	40.1%	41.9%
Net income from services (3) / Net banking income (3)	59.9%	58.1%
Cost to income (4)	76.6%	73.7%
Cost to income net of National Resolution Fund contribution (5)	75.1%	72.6%
EQUITY AND LIQUIDITY RATIOS (%)	**30-06-2018**	**31-12-2017**
Cash loans / Direct deposits	70.3%	71.6%
Cash loans / Total assets	59.1%	59.6%
Direct deposits / Total assets	84.1%	83.2%
Liquidity Coverage Ratio (LCR) (6)	189.4%	194.1%
Net stable funding ratio (NSFR) (7)	154.4%	154.4%
CREDIT RISK RATIOS (%)	**30-06-2018**	**31-12-2017**
Net impaired assets / Cash loans - (net non-performing loans ratio) (8)	4.9%	6.4%
Gross impaired assets / Cash loans (8) - (gross non-performing loans ratio)	9.3%	11.8%
Net bad loans / Cash loans (8)	2.5%	3.8%
Gross bad loans / Gross Cash loans (8)	6.0%	8.5%
Net adjustments to loans (9) / Cash Loans (8) - (Cost of credit %) (11)	0.4%	0.5%
Non-performing loans coverage ratio	50.1%	48.9%
Coverage rate for non-performing loans	60.3%	58.3%
Texas ratio (10)	66.5%	75.0%
SOLVENCY RATIOS (%)	**30-06-2018**	**31-12-2017**
CET1 ratio	14.58%	15.10%
Tier 1 ratio	14.58%	15.10%
Total capital ratio	18.41%	19.50%

(1) *Ratio between "Profit for the year" and the sum of items 140, 150, 160 of the Balance Sheet Liabilities.*
(2) *Ratio between "Net profit" and "Total assets".*
(3) *As in the Reclassified Income Statement.*
(4) *Ratio between operating costs, after deducting IRAP on personnel costs and net of losses connected to operating risks and net banking income.*
(5) *Cost to income ratio calculated by subtracting the component relating to the National Resolution Fund from operating costs.*
(6) *LCR: minimum limit 100% as of 1 January 2018.*
(7) *NSFR: officially effective as of 1 January 2018, with a minimum limit of 100%.*
(8) *Loans are all net of reverse repurchase agreements.*
(9) *Obtained from the sum of items 130 a) and 100 a) in the reclassified income statement.*
(10) *Ratio between gross impaired assets and tangible shareholders' equity, understood as the sum of shareholders' equity and writedowns of impaired assets, and net of intangible assets (item 90 of balance sheet assets).*
(11) *Annualised ratio.*

Accounting standards applied

Declaration of compliance with international accounting standards

This interim 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 2018, pursuant to Community Regulation No. 1606 of 19 July 2002. Schedules and tables are prepared in application of Bank of Italy decrees, exercising the powers established by Article 43 of Italian Legislative Decree 136/2015, with Circular no. 262/05 as subsequently amended.

The interim report on operations at 30 June 2018 was prepared exclusively to determine the semi-annual income for calculating Common Equity Tier 1. This interim report was not prepared in compliance with IAS 34 "Interim Financial Reporting". It therefore does not include certain schedules, comparative figures or 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 interim report was prepared clearly and accurately and truly reflects the economic and financial situation of Banca Sella.

General drafting principles

The interim report consists of a brief operations report, accompanied by tables outlining the main capital and economic figures, the Balance Sheet, Income Statement, Comprehensive Income Statement and the Statement of Changes in Shareholders' Equity. The schedules and tables are prepared in euro.

The Bank uses the "transitional relief" provided for in standard IFRS 9, and therefore this report at 30 June 2018 does not provide comparison data prepared in compliance with the same. Schedules and tables at 31 December 2017 have also been prepared according to the 4th update of the 262/2005 Circular, incorporating the IAS 39 accounting standard.

Preparation is carried out according to the general standards foreseen in IAS 1 and in compliance with the general assumptions of the Systematic Framework. Accounting schedules comply with that foreseen in Bank of Italy Circular no. 262/2005, as amended.

The interim 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 applied as of 1 January 2018.

On 1 January 2018, **standard IFRS 9** took effect, replacing accounting standard IAS 38. This standard:

- Introduces significant changes to the rules used to classify and measure financial assets, which will be based on the method used to manage contractual cash flows ("business model") and the contractual characteristics of the financial instruments ("solely payment of principal and interest" - SPPI - criteria). These rules may entail different methods for classifying and measuring financial instruments compared to IAS 39;

- It introduces a new impairment accounting model based on an expected approach, compared to the current incurred-type model set forth in IAS 39, based on the concept of lifetime expected loss which will lead to an anticipation of losses on financial instruments to be included within the scope of application of the new standard and more generally a structural increase in value adjustments;
- It impacts hedge accounting by rewriting the rules for the designation and management of accounting hedges and aims to guarantee greater alignment between risk management objectives and the subsequent representation in the financial statements.

Due to the entry into force of IFRS 9, a revision of the prudential rules for calculating the absorption of capital on expected credit losses is also established.

Already in 2016, the Bank launched a special project targeted at analysing the impacts of the accounting standard and guiding the process of adjustment into line with the new accounting standard which replaced IAS 39. Specifically, in order to achieve regulatory compliance, the project identified 3 areas of focus:

- Models area;
- Operating area;
- Implementation area.

For each of the first two working areas, an assessment phase has been defined in preparation for the phase of defining the methodology and functional requirements (design phase) for the purpose of implementation.

Implementation of the shared planning and associated activities falls under the third area.

The entire project was developed with the involvement of the reference departments of the Bank and the active participation of the Board of Directors and Top Management.

At 31 December 2017, with reference to this work, and in particular to the new classification and measurement requirements, the Bank had:

- Identified the criteria for classifying financial instruments within the new categories established under the accounting standard, based on the business model and characteristics of the relative contractual cash flows;
- Applied the criteria as identified to classify portfolios existing at 31 December 2017.

Business model analysis was done by mapping the portfolios contained in the Bank's banking and trading books and assigning a business model to each one.

To that end, we note that financial instruments in the Bank's banking book were assigned the business models of "held to collect" or "held to collect and sell", based on the purpose for which they are held and expected turnover from the assets.

We also note that any disposals of financial instruments are in any case be held compatible with the "held to collect" business model in the cases of (i) securitisation transactions that do not involve accounting derecognition of the receivable, (ii) transfers determined by adverse changes in the credit risk of the counterparty and (iii) any infrequent or insignificant disposals, to be evaluated on a case by case basis. An "other" business model was assigned to the business structures that make up the Bank's trading portfolio, in order to reflect trading intentions.

For the purposes of classifying financial instruments into the new categories established in IFRS 9, the business model analysis was supported through analysis of contractual flows ("SPPI Test") for financial instruments in the "Held to collect" and "Held to collect and sell" portfolios.

To that end, the Bank has developed systems and processes to analyse the portfolio of existing debt securities and loans in order to determine whether the characteristics of the contractual cash flows allow for measurement at the amortised cost ("held to collect" portfolio) or at fair value through other comprehensive income ("held to collect and sell" portfolio).

This analysis was done contract by contract (or instrument by instrument) through the definition of specific clusters based on the homogeneous features of the transactions and through the use of an internally developed tool for mass analysis of the characteristics of contracts with respect to the requirements of IFRS 9.

The Bank has not established a requirement to measure significant amounts of financial assets at fair value through profit and loss, which are currently measured at amortised cost or at fair value through comprehensive income, as the relative contractual flows cannot be considered remunerative only of principal and interest.

Lastly, we note that equity securities are measured at fair value through profit and loss or through other comprehensive income as a function of their features and the reason for which they were acquired. UCITS units are measured at fair value through profit and loss, following regulatory specifications which exclude the possibility of classifying these instruments as equity instruments.

With reference to the models being developed, and relative to the impairment requirements introduced by the standard, the Bank has further developed its own models in order to comply with the dictates of the new accounting standard.

The scope of exposures subject to impairment was also extended in order to include, in addition to other financial instruments measured at amortised cost and significant off balance sheet exposures, credit exposures measured at fair value through other comprehensive income (OCI).

Additionally, specific adjustments were made to the parameters of probability of default (PD), loss given default (LGD) and exposure at default (EAD), used to calculate expected credit loss (ECL), and a new model was developed to assess stage allocation for non-impaired exposures between stage 1 and stage 2.

Specific adjustments were made to the PD, LGD and EAD parameters as calculated for regulatory purposes in order to ensure full consistency, net of varying regulatory requirements, between accounting and regulatory treatment. The main changes were aimed at:

- removing the conservatism required solely for regulatory purposes;
- introducing point in time adjustments replacing the "through the cycle" adjustments established for regulatory purposes;
- including forward looking information;
- extending credit risk parameters to a multi-year outlook.

Lifetime PD curves, obtained by combining observed default rates with macroeconomic forecasts, were calibrated to reflect point in time and forward looking characteristics regarding expected portfolio default rates.

The recovery rate incorporated in LGD through the cycle was adjusted in order to remove the margin of conservatism and reflect more current recovery rates, as well as expectations for future trends and discounted at the effective interest rate or the best approximation of the same.

Lifetime EAD is calculated starting with the book values of the amortised cost and cash flows until maturity of the exposures, considering the possibility of conversion when using the agreed upon margins.

The process identified to include macroeconomic scenarios in the risk parameters is also consistent with the macroeconomic forecast processes used by the Group for other risk management purposes (such as the processes adopted to create the budget, define the Risk Appetite Framework and calculate capital requirements relative to credit risk in ICAAP stress tests).

A key aspect deriving from the new accounting model required to calculated expected credit losses is represented by the Stage Allocation model used to transfer exposures between Stage 1 and Stage 2 (with Stage 3 equivalent to non-performing loans), in which Stage 1 mainly includes (i) newly disbursed loans, (ii) exposures with no significant impairment of credit risk with respect to initial recognition and (iii) exposures with low credit risk exemption at the reporting date.

For the Bank, the stage allocation assessment model is based on a combination of relative and absolute elements. The main elements are:

- comparison of credit rating at the time of disbursement with that at the reporting date at a transaction level, both quantified using internal models, with the use of thresholds set so as to consider all the key variables in each transaction that could influence the bank's expectations regarding changes in creditworthiness over time (e.g. age, maturity, rating at time of disbursement);
- absolute elements such as the backstops established in the regulations (e.g. overdue by more than 30 days);
- additional internal evidence (e.g. forborne classification).

The Bank has opted to apply the low credit risk exemption on investment securities for debt securities, in full compliance with the accounting standard.

Impairment calculated on non-performing exposures was also calculated in line with the requirements of the new accounting standard in order to include (i) adjustments necessary to calculate point in time and forward looking expected losses and (ii) the multiple scenarios applicable to this type of exposure.

In assessing non-performing exposures, all possible sales scenarios were considered when the Group strategy also includes collecting through sale on the market. To that end, the presumed value of recovery for credit exposures will be determined at the portfolio level by calculating a weighted average for expected recoveries through the internal work-out process and expected sales prices, with both scenarios weighted at the level of sales expected for the specific portfolio in the Group strategy.

Finally, regarding hedge accounting, the Bank has decided to make use of the option to continue applying the existing IAS 39 hedge accounting requirements for all hedging operations until the IASB has completed the macro-hedging accounting rules project.

In order to implement the methodological framework and instruments described above in its ordinary operations, the Group has outlined the final IT architecture, and completed development of the organisational processes and procedures in order to integrate the changes required by the standard in line with the project schedule.

In this initial application, the main impacts that IFRS 9 is expected to have on the Bank derive from application of the new expected loss impairment model, which led to an increase in writedowns on non-impaired assets (in particular loans to customers), as well as the application of new rules to transfer positions between different classification stages, as established in the new standard.

Greater volatility was generated in economic and equity results in various reporting periods, due to dynamic movements between the various ”Stages” for financial assets recognised (in particular between ”Stage 1”, which mainly includes newly disbursed positions and all fully performing positions, and between ”Stage 2”, which includes financial instrument positions that have seen a decrease in credit with respect to initial recognition).

This impact is mainly caused by the introduction of the aforementioned disposal scenarios in assessing credit exposures classified in stage 3 and the use of a lifetime ECL for credit exposures classified in stage 2.

Changes in the accounting value of financial instruments due to the transition to IFRS 9 were recognised as a contra-entry to shareholders’ equity at 1 January 2018. Overall effects deriving from the adoption of IFRS 9 in terms of classification and measurement and impairment on CET1, net of fiscal effects were estimated at around -121 bps.

Revision of the prudential rules (CRD/CRR) used to calculate capital absorption also occurred as a consequence of IFRS 9 taking effect. To that end, Regulation EU 2017/2395, published on 27 December 2017, establishes the option for financial institutions to adopt a transitional regime in which the writedowns consequent to the adoption of the impairment model found in the new standard can be added to CET1 over a phase-in period of 5 years, starting in 2018. Banca Sella has adopted the transitional regime to measure the impacts of the new standard on its regulatory capital. The adoption of this phase-in period involved an impact of around -25 bps on CET1.

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

Significant events during the first half and after the end of the half

On 1 January 2018, accounting standard IFRS 9 took effect.

In June 2018, Banca Sella and the B2Holding Group signed a contract to transfer impaired loans for around € 180 million (total accounting value). This transaction, which had a positive impact on the income statement and further improved Banca Sella capital ratios, included both secured and unsecured positions.

On 24 July 2018, Banca Sella Holding - both on its own behalf and representing Banca Sella and Biella Leasing - and the Group's Union Representatives signed an Agreement to access extraordinary benefits from the Solidarity Fund for professional retraining and requalification and to support employment and income for loan personnel ("early departure") and to make use of expanded solidarity contracts.

Business continuity, strategy and profitability for 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 the financial risks, on tests to reduce the value of assets (impairment tests) and on uncertainties in the use of estimates, the Board of Directors confirms that it has a reasonable expectation that the Bank can continue its operations in the foreseeable future and therefore attests that this 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 a disclosure relating to financial risks, impairment tests and uncertainties in the use of estimates, please refer to the information provided below and the comments on operating trends.

Summary of the macroeconomic situation

During the first half of 2018, the expansive phase seen in the main world economies continued. At the same time, growth was more varied and less synchronised.

In the United States, after a weak start to 2018, the economy appeared to strengthen during the second quarter, mainly due to the appearance of the effects of the tax reform introduced by the Trump administration. All GDP components made positive contributions, especially private consumption and investments in businesses. Growth appears to have also been supported by other temporary factors, which would suggest a more moderate rate of growth in coming months. In the eurozone, during the initial months of 2018, a generalised tendency towards a slowdown compared to the energetic 2017 affected the various economies in correspondence with the lack of support from net exports and lower liveliness seen in the aggregate for domestic investments. This more contained growth likely continued in the second quarter, supported in particular by internal demand. In Japan, the contraction seen during the first quarter interrupted the long expansive phase in course, followed by signs of recovery in economic activity during subsequent months. In the emerging economies, while significantly different conditions persisted, an overall trend towards consolidation of growth trends was confirmed, in the context of a macroeconomic situation that has become more challenging, with normalisation of monetary policies by the main advanced economies, the appreciation of the US dollar, commercial tensions, rising oil prices and geopolitical conflicts.

In terms of consumer prices, inflation in the eurozone, which averaged 1.3% during the first few months of 2018, accelerated in subsequent measurements, reaching 2% in the June update. The trend observed was supported by the growing positive contribution from volatile components - energy and food - in correspondence with base inflation, which remained essentially stable and contained. At its June meeting, the European Central Bank confirmed that the asset purchase program begun in March 2015 will continue at the rate of € 30 billion per month set in January 2018 until September, then falling to € 15 billion per month in October and December 2018, reaching its end, depending on inflation trends in line with the Governing Council's medium-term outlook. The Bank also communicated that policy rates will remain at current levels at least until the summer of 2019 and for the time necessary to ensure that inflation continues to converge towards levels below but near 2%. With reference to reinvestment in securities reaching maturity, the ECB confirmed that this policy will be continued well beyond the time frame of conducting purchases and until necessary, contributing to maintaining conditions of abundant liquidity. In the US, inflation rose from 2.1% year over year at the end of 2017 to 2.8% year over year in June 2018, driven by increases in all the major sub-categories, especially those related to energy. Continuing its current cycle of increasing rates, starting from zero, that began in December 2015, the Federal Reserve increased the cost of money by 25 basis points at its March and June meetings, bringing the Fed funds spread to 1.75-2.00%. The US central bank is also continuing to decrease its budget, gradually reducing the amounts reinvested in matured securities.

During the first half of 2018, credit activities in the Italian banking system continued along the path of moderate expansion. At the end of May, 1,366 billion loans had been provided to the private sector, with a 2.46% growth trend compared to the same month the prior year, correcting the figure for securitisations carried out. Loans to non-financial companies grew by 1.2% annually (-5.3% at 732 billion was the unadjusted figure for securitisations), while loans issued to households increased by 2.8% (+0.5% at 634 billion, the unadjusted figure).

During the initial months of 2018, the process of reducing impaired loans starting in July of the previous year continued. In May 2018, gross non-performing loans had fallen by 19% year over year to 163 billion, against which banks had raised coverage rates to 70%, a good 8 percentage points above the level seen the previous twelve months.

On the funding side, a contraction still continued in the stock of bonds issued, although at a slower rate compared to the past, showing a 4% downward trend in May. Conversely, the progress of demand deposits continued to be strong, at +9.1%, to the benefit of all direct deposits, which in May saw a growth trend of 0.8%.

Differentials of rates payable and receivable were further diminished during the six months, going from 1.83% in December 2017 to 1.78% in May. The significant competitive pressure applied to pricing of loans to customers was only partially balanced by the reduction in the cost of funding, particularly for institutional counterparty securities.

Main economic aggregates

Reclassified income statement (in thousands of euro)

Items	30-06-2018 Circular 262/05 5th update (IFRS 9 criteria)	30-06-2017 Circular 262/05 4th update (IAS 39 criteria)	Change % 30-06-2017
10. Interest receivable and similar income	94,654.0	100,525.5	-5.8%
20. Interest payable and similar expenses	(26,423.5)	(25,607.3)	3.2%
70. Dividends and similar income	3,235.7	106.3	2944.0%
NET INTEREST INCOME AND DIVIDENDS	**71,466.3**	**75,024.5**	**-4.7%**
40. Fee and commission income	143,222.1	135,627.6	5.6%
50. Fee and commission expenses	(38,268.1)	(35,562.1)	7.6%
Other operating income - recovery of expenses and other services	11,385.2	11,238.7	1.3%
Variable administrative expenses	(14,211.8)	(11,542.0)	23.1%
Net fees	**102,127.3**	**99,762.2**	**2.4%**
80. Net gains/(losses) on trading activities	3,105.5	3,824.7	-18.8%
90. Net gains/(losses) on hedging activities	10.6	41.5	-74.5%
100. Profit (loss) from sale or repurchase of:			
a) Financial assets measured at amortised cost	1,508.9	(772.3)	-295.4%
b) Financial assets measured at fair value through other comprehensive income	595.2	735.9	-19.1%
110. Net gains/(losses) on other financial assets and liabilities measured at fair value through profit and loss	(479.1)	-	-
NET REVENUES FROM SERVICES	**106,868.4**	**103,591.9**	**3.2%**
NET BANKING INCOME	**178,334.7**	**178,616.5**	**-0.2%**
160. Administrative expenses			
a) personnel expenses	(80,081.9)	(79,714.0)	0.5%
IRAP on net personnel and seconded personnel expenses (1)	(238.1)	(216.6)	9.9%
Total personnel and IRAP expenses	**(80,319.9)**	**(79,930.6)**	**0.5%**
b) Other administrative expenses (other variable expenses deducted)	(62,307.2)	(59,100.9)	5.4%
Recovery of stamp duty and other taxes (1)	18,320.4	18,292.1	0.2%

Total administrative expenses and recovery of taxes	**(43,986.8)**	**(40,808.8)**	**7.8%**
180. Writedowns on tangible fixed assets	(3,927.6)	(3,958.3)	-0.8%
190. Writedowns on intangible fixed assets	(7,333.5)	(6,878.7)	6.6%
200. Other operating expenses/income (after deducting "Recovery of stamp duty and other taxes")	(2,433.5)	(1,013.7)	140.1%
Operating costs	**(138,001.3)**	**(132,590.1)**	**4.1%**
OPERATING PROFIT (LOSS)	**40,333.3**	**46,026.3**	**-12.4%**
170. Net allocations to provisions for risks and charges	(466.9)	(2,756.1)	-83.1%
130. Net value adjustments for credit risk relative to:			-
a) Financial assets measured at amortised cost	(14,301.1)	(19,938.0)	-28.3%
b) Financial assets measured at fair value through other comprehensive income	(64.4)	(6,454.8)	-99.0%
140. Profit/loss from contractual changes without write-offs	(195.7)	-	-
Profit (loss) from goodwill, investments and measurements of tangible and intangible assets	(162.9)	20.2	-906.4%
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES	**25,142.3**	**16,897.6**	**48.8%**
270. Income taxes for the period on continuing operations (after deducting "IRAP on net personnel and seconded personnel expenses")	(8,248.9)	(5,559.1)	48.4%
PROFIT FROM CONTINUING OPERATIONS NET OF TAXES	**16,893.4**	**11,338.5**	**49.0%**
PROFIT (LOSS) FOR THE YEAR	**16,893.4**	**11,338.5**	**49.0%**

(1) The items affected were reclassified base on more appropriate recognition criteria to represent the content of the items based on principles of management homogeneity. Reclassifications are explained in the section following "Income Statement reclassification criteria".

Income Statement reclassification criteria

In order to provide a more easily understandable representation of the income results, an Income Statement has been prepared using presentation criteria more suited to represent the content of the items in accordance with principles of management homogeneity. We also note that the phrasing and figures shown at 30 June 2018 are compliant with the 5th update of Circular 262/2005, amended after accounting standard IFRS 9 took effect, while the column for 30 June 2017 shows figures based on the 4th update of Circular 262/2005, which used the old IAS 39 accounting standard.

The reclassifications involved:

- item 70; "dividends and other income", which is included within net interest income;
- IRAP on the costs for personnel, which is separate from "Income taxes for the period on continuing operations", and included in personnel expenses;
- "recovery of stamp duties and other taxes", which is separate from item 200; "other operating expenses/income" and included in item 150 b) "other administrative expenses";

- “of which interest income on impaired financial assets:” for writebacks due to discounting of interest accrued on impaired assets was reclassified from item 10 to item 130 a);

- ”profit (loss) from goodwill, investments and measurements of tangible and intangible assets” is given by the sum of items 230, 240 and 250 of the income statement.

Banca Sella ended the first half of 2018 with net profit of € 16.9 million, an improvement of € 5.6 million with respect to the same period in 2017 (+49%).

Income from continuing operations before taxes increased by € 8.2 million compared to June 2017, due to lower net value adjustments on loans (around € 5.6 million), lower adjustments to financial assets measured at fair value for € 5.6 million, which in 2017 referred to the writedown on the voluntary FITD (*Fondo Interbancario di Tutela dei Depositi* - Interbank Deposit Protection Fund) scheme, lower provisions for risks and charges for € +2.3 million, which more than compensated for greater operating expense (€ +5.4 million), in the presence of net banking income that was essentially stable (€ -0.3 million).

There were no extraordinary effects in the first half of 2018.

Below are the most significant items within the Reclassified Income Statement, indicating their contribution to the final result and associated comments:

- Net interest income € -3.6 million (-4.7%);
- Net revenues from services € +3.3 million (+3.2%);
- Net banking income € -0.3 million (-0.2%);
- Operating expenses € -5.4 million (+4.1%);
- Value adjustments on loans € +5.6 million (-28.3%).

Net interest income

Progressive net interest income at 30 June 2018 was € 71.5 million, a 4.7% drop with respect to 2017. The drop was affected by the trend in market rates which, in terms of interest income, led to lower interest mainly on loans to customers (around € -5 million) and on the securities portfolio, above all due to lower interest on securities indexed to the inflation rate (around € -3.5 million). In terms of interest expense, interest fell slightly (€ -0.4 million), due to lower interest on bonds and term deposits (for € +3.2 million), more than compensating for greater interest expense deriving from the EMTN (Euro Medium Term Note) bond issue in September 2017 (€ -2.8 million).

The figure was positively influenced by the receipt of dividends from the equity investment in Biella Leasing, acquired in 2017.

Net revenues from services

The reclassified income statement shows a € +2.4 million increase in net fees (+2.4%), mainly due to good performance from managed savings (particularly administered funds, for € 1.4 million), electronic payment systems (around € +0.5 million with respect to the previous year, despite the increase in variable administrative expenses relative to circuits of over € 1.8 million) and trading for third parties, as well as order collection and placement (€ +0.4 million).

The increase in net revenues was also influenced by greater income from without recourse transfers of bad loans (for € 180 million in gross book value) which led to income of € 1.5 million (€ +2.3 million with respect to 30 June 2017), the lower result from trading activities (€ -0.7 million), mainly due to losses in the securities portfolio, and the net result of other financial assets (€ -0.5 million).

Net banking income

The trends described led to total profits of € 178.3 million in terms of net banking income, a 0.2% decrease compared to 30 June 2017.

Operating costs

Operating costs, totalling € 138 million, increased by 4.1% (€ 5.4 million) compared to the same period in the previous year. This increase was affected by other administrative expenses (€ 3.2 million), other operating expenses/income (€ 1.4 million), value adjustments on fixed assets (€ 0.5 million) and personnel expenses (€ 0.4 million).

The increase in other operating expenses/income was influenced by the increase in depreciation of leased third-party properties for € 0.5 million (following remodelling of branches begun in 2017) and by greater redemptions and writedowns following claims, rulings, settlements and losses for € 0.3 million.

The increase in value adjustments on fixed assets was due to investments for growth which, over the last few years, have continued to be significant and constant.

The personnel expenses component (including related IRAP) increased by 0.5% (€ 0.4 million), essentially due to the use of temporary employees (€ +0.6 million).

The increase in operating expenses, while net banking income remained stable, influenced the trend of the cost to income ratio, that is the ratio of operating costs (after deducting IRAP on personnel expenses and net of losses linked to operational risks) to net banking income, which at 30 June 2018 was 76.6%, a decline with respect to the 73.7% recorded at 30 June 2017.

Allocations to provisions for risks and charges

This item improved significantly over 2017, when provisions totalling around € 2.3 million were made against operating risks for fast investigation fees on overdrafts deriving from the use of debit cards.

Value adjustments

As a whole, net value adjustments on financial assets measured at amortised cost were € 14.3 million, down by € 5.6 million compared to 30 June 2017, considering the new regulatory context (IFRS 9 took effect 1 January 2018, replacing accounting standard IAS 39 for the classification and measurement of financial assets). The trend in the first half of 2018 showed that credit quality was substantially maintained, with limited new entries into the impaired category.

At 30 June 2018, the annualised "Net value adjustments to loans/Cash loans (net of repurchase agreements receivable)" came to 0.4%, down compared to the 0.5% seen at 31 December 2017.

Income taxes

Income tax impact on profits from current operations before tax was 32.8%.

Taxes are net of IRAP for personnel expenses, which were reclassified, increasing this component (calculated considering 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).

It should be remembered that the 2016 Stability Law (Law 208 of 28/12/2015) reduced the IRES rate from 27.5% to 24%, effective as of 1 January 2017, with the introduction of additional IRES for the banking sector of 3.5%. The same law also established full deductibility of interest expense following the abolition of the "Robin Hood tax", which had been introduced by Legislative Decree 112/2008.

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

Net income (losses) from trading activities: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net gains (losses) [(A+B) - (C+D)]
1. Financial liabilities held for trading	**119,800**	**98,451**	**(662,457)**	**(47,050)**	**(491,256)**
1.1 Debt securities	119,800	77,411	(662,457)	(47,050)	(512,296)
1.2 Equity securities (other than equity investments)	-	21,040	-	-	21,040
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**	**2,417,382**
4. Derivative instruments	**1,548,944**	**1,193,070**	**(1,543,788)**	**(1,193,070)**	**1,179,348**
3.1 Financial derivatives:	1,548,944	1,193,070	(1,543,788)	(1,193,070)	1,179,348
- On debt securities and interest rates	1,548,944	1,193,070	(1,543,788)	(1,193,070)	5,156
- On equity securities and stock indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	1,174,192
- Others	-	-	-	-	-
3.2 Credit derivatives:	-	-	-	-	-
of which natural hedges associated with the fair value option:	X	X	X	X	-
Total	**1,668,744**	**1,291,521**	**(2,206,245)**	**(1,240,120)**	**3,105,474**

Net change in value of other financial assets and liabilities measured at fair value through profit and loss: breakdown of other financial assets necessarily measured at fair value

Transactions/Income components	Capital gains (A)	Realised profit (B)	Capital losses (C)	Realised losses (D)	Net gains (losses) [(A+B) - (C+D)]
1. Financial liabilities held for trading	**59,495**	**-**	**(321,505)**	**(217,069)**	**(479,079)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	59,495	-	(43,259)	(217,069)	(200,833)
1.4 Loans and advances	-	-	(278,246)	-	(278,246)
2. Financial assets: exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**59,495**	**-**	**(321,505)**	**(217,069)**	**(479,079)**

Net value adjustments for credit risk for financial assets measured at amortised cost: breakdown

Transactions/Income components	Writedowns (1)			Writebacks (2)		Total
	Stage 1 and Stage 2	Stage 3		Stage 1 and Stage 2	Stage 3	30-06-2018
		Write-off	Other			
A. Due from banks	(82,499)	-	-	46,454	-	(36,045)
- loans	(82,041)	-	-	44,372	-	(37,669)
- debt securities	(458)	-	-	2,082	-	1,624
of which impaired loans, purchased or originated:	-	-	-	-	-	-
B. Due from customers	(2,075,527)	(440,802)	(36,916,930)	4,467,431	15,038,332	(19,927,496)
- loans	(2,027,173)	(440,802)	(36,916,930)	4,467,431	15,038,332	(19,879,142)
- debt securities	(48,354)	-	-	-	-	(48,354)
of which impaired loans, purchased or originated:	-	-	-	-	-	-
Total	**(2,158,026)**	**(440,802)**	**(36,916,930)**	**4,513,885**	**15,038,332**	**(19,963,541)**

Net value adjustments for credit risk relative to financial assets measured at fair value through comprehensive income: breakdown

Transactions/Income components	Writedowns (1)			Writebacks (2)		Total
	Stage 1 and Stage 2	Stage 3		Stage 1 and Stage 2	Stage 3	30-06-2018
		Write-off	Other			
A. Debt securities	(191,430)	-	-	127,068	-	(64,362)
B. Loans	-	-	-	-	-	-
- to customers	-	-	-	-	-	-
- to banks	-	-	-	-	-	-
Of which impaired financial assets, purchased or originated	-	-	-	-	-	-
Total	**(191,430)**	**-**	**-**	**127,068**	**-**	**(64,362)**

Main capital aggregates

Reclassified balance sheet (in thousands of euro)

Assets	30-06-2018
Financial assets (1)	1,294,255.8
Loans to banks	2,782,263.3
Cash loans (2)	7,003,441.7
Reverse repurchase agreements	-
Equity investments	105,236.2
Tangible and intangible fixed assets (3)	101,989.1
Tax assets	183,922.4
Other assets (4)	385,926.4
TOTAL ASSETS	**11,857,034.7**
Liabilities and Shareholders' equity	**30-06-2018**
Due to banks	728,882.1
Direct deposits, excluding repurchase agreements payable (5)	9,968,990.5
repurchase agreements payable	7,157.9
Total direct deposits	9,976,148.4
Financial liabilities	17,194.2
Tax liabilities	13,785.8
Other liabilities (6)	336,090.5
Provisions for specific purposes (7)	43,948.5
Shareholders' equity (8)	740,985.2
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**11,857,034.7**

(1) *Obtained from the sum of items 20, 30 and 40, only debt securities from Balance Sheet Assets;*
(2) *Obtained from item 40 b) of the Balance Sheet Assets;*
(3) *Obtained from the sum of items 80 and 90 of the Balance Sheet Assets;*
(4) *Obtained from the sum of items 10, 50, 60 and 120 of the Balance Sheet Assets;*
(5) *Obtained from the sum of items 10 b) and 10 c) of the Balance Sheet Liabilities, net of repurchase agreements;*
(6) *Obtained from items 30, 40, 50 and 80 of the Balance Sheet Liabilities;*
(7) *Obtained from the sum of items 90 and 100 of the Balance Sheet Liabilities;*
(8) *Obtained from the sum of items 110, 130, 140, 150, 160 and 180 of the Balance Sheet Liabilities;*

Funding Policies and ALM (Asset Liability Management)

Regarding funding policies, during the first half of 2018, the Bank continued to operate under its normal policy of healthy and prudent management. Specifically, it acted to maintain a solid liquidity position, which originates from and is based on the ratio, considerably lower than one, between cash loans and direct deposits. The surplus of direct deposits not used in sales assets is allocated to senior bonds (mainly Government) and on sight deposits with the banking parent company, as well as certain short-term deposits with selected banking counterparties, constituting a significant buffer of high quality and easily liquidated assets.

Securities portfolio

At 30 June 2018, the Bank held a securities portfolio of € 1,216 million, which was divided into the following categories, in accordance with accounting standard IFRS 9:

DEBT SECURITIES and UCITS PORTFOLIO *(millions of euro)*	
	30/06/2018
Financial assets measured at fair value held for trading	31.5
Financial assets measured at fair value through other comprehensive income	521.2
Financial assets measured at amortised cost	656.3
Financial assets necessarily measured at fair value	7.1
TOTAL	**1,216.0**

IFRS 9 securities reclassification

Implementation of the new accounting standard IFRS 9 led to the reclassification of financial assets into new accounting categories. In transfers that involved a change of accounting methodology, first time adoption was applied with the creation of specific reserve accounts. Below, we indicate reclassification changes involving transfers from the IAS 39 accounting categories to the new IFRS 9 accounting categories.

Securities held for trading at 31/12/2017 totalled € 7.1 million. These securities were entirely reclassified to financial assets measured at fair value held for trading.

Securities available for sale at 31/12/2017 totalled € 1,040.1 million. These securities were reclassified among financial assets measured at amortised cost for € 284.0 million, among financial assets necessarily measured at fair value (securities that did not pass the SPPI test) for € 43.7 million, among financial assets measured at fair value held for trading for € 16.5 million and among financial assets measured at fair value through comprehensive income for € 695.9 million.

Securities held to maturity at 31/12/2017 totalled € 90.6 million. These securities were entirely reclassified to financial assets measured at amortised cost.

Financial assets measured at fair value through profit and loss

Financial assets held for trading: Product breakdown

Item/Value	Total 30-06-2018		
	L1	L2	L3
A. Cash assets			
1. Debt securities	19,449,098	12,017,306	77
1.1 Structured securities	-	-	-
1.2 Other debt securities	19,449,098	12,017,306	77
2. Equity securities	-	-	-
3. UCITS units	-	-	-
4. Loans and advances	-	-	-
4.1 Repurchase agreements	-	-	-
4.2 Others	-	-	-
Total (A)	**19,449,098**	**12,017,306**	**77**
B. Derivative instruments			
1. Financial derivatives	-	19,540,831	-
1.1 for trading	-	19,530,537	-
1.2 linked to fair value option	-	-	-
1.3 other	-	10,294	-
2. Credit derivatives	-	-	-
2.1 for trading	-	-	-
2.2 linked to fair value option	-	-	-
2.3 other	-	-	-
Total (B)	**-**	**19,540,831**	**-**
Total (A+B)	**19,449,098**	**31,558,137**	**77**

Financial assets held for trading: Product breakdown

Item/Value	Total 31/12/2017		
	Level 1	Level 2	Level 3
A. Cash assets			
1. Debt securities	6,967,058	200,392	77
1.1 Structured securities	-	-	-
1.2 Other debt securities	6,967,058	200,392	77
2. Equity securities	-	-	-
3 UCITS units	-	-	-
4. Loans and advances	-	-	-
4.1 Reverse repurchase agreements	-	-	-
4.2 Others	-	-	-
Total A	**6,967,058**	**200,392**	**77**
B. Derivative instruments			
1. Financial derivatives:	-	16,114,548	-
1.1 for trading	-	16,103,986	-
1.2 linked to fair value option	-	-	-
1.3 other	-	10,562	-
2. Credit derivatives:	-	-	-
2.1 for trading	-	-	-
2.2 linked to fair value option	-	-	-
2.3 other	-	-	-
Total B	**-**	**16,114,548**	**-**
Total (A+B)	**6,967,058**	**16,314,940**	**77**

Financial assets held for trading mainly consist of debt securities, in particular Italian government securities and bank and corporate bonds. The total at 30 June 2018 is € 31.5 million, and the division of securities is as follows:

- Italian government bonds 25.8%;
- Senior bank bonds 8.2%;
- Bonds issued by banks in the Group 20.7%
- Corporate bonds 45.3%;

Regarding asset allocation, the variable component was almost entirely eliminated, and almost all of the category is invested in medium-term fixed rate securities.

Other financial assets necessarily measured at fair value: product breakdown

Item/Value	Total 30-06-2018		
	L1	L2	L3
1. Debt securities	-	41,233	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	-	41,233	-
2. Equity securities	-	-	-
3. UCITS units	995,429	-	6,033,355
4. Loans and advances	-	-	40,133,139
4.1 Repurchase agreements	-	-	-
4.2 Others	-	-	40,133,139
Total	**995,429**	**41,233**	**46,166,494**

The securities in this category are UCITS units for € 7.1 million. Within the first six months, exposure to this sector has decreased due to the divestment of a short-term UCITS, a 6% trust obligation maturing in 2018, and loans corresponding to receivables carried at fair value, such as mortgages that did not pass the SPPI test after the introduction of IFRS 9 and must therefore be carried at fair value.

Financial assets available for sale: product breakdown

Item/Value	31/12/2017		
	Level 1	Level 2	Level 3
1. Debt securities	982,749,888	13,661,578	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	982,749,888	13,661,578	-
2. Equity securities	-	-	20,629,706
2.1 Carried at fair value	-	-	14,630,566
2.2 Carried at cost	-	-	5,999,140
3. UCITS units	38,676,282	-	5,008,652
4. Loans and advances	-	-	241,514
Total	**1,021,426,170**	**13,661,578**	**25,879,872**

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income: product breakdown

Item/Value	Total 30-06-2018		
	L1	L2	L3
1. Debt securities	517,588,492	3,646,363	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	517,588,492	3,646,363	-
2. Equity securities	-	-	18,530,378
3. Loans and advances	-	-	-
Total	**517,588,492**	**3,646,363**	**18,530,378**

Financial assets held-to-maturity: Product breakdown

	Total 31/12/2017			
	BV	FV		
		Level 1	Level 2	Level 3
1. Debt securities	90,646,368	90,658,767	-	-
- structured	-	-	-	-
- others	90,646,368	90,658,767	-	-
2. Loans and advances	-	-	-	-

This category consists entirely of bonds, mainly Italian government securities and investment grade bank and corporate bonds. At 30 June 2018, the breakdown of various types of securities was as follows:

- CCT (*Certificati di Credito del Tesoro* - Italian Treasury Credit Certificates) 34.7%;
- BTP (*Buoni del Tesoro Poliennali* - Medium-Long Term Italian Treasury Bonds) 21.2%;
- Inflation-indexed BTP 11.6%;
- Senior bank bonds 25.2%;
- Senior corporate bonds 7.3%.

During the second quarter of 2018, this segment decreased by around € 200 million, falling to € 521.2 million at 30 June. To reduce the impact of higher market volatility, the company sought to decrease the portfolio’s OCI in favour of amortised cost.

Minority interests

Minority interests are also considered equity securities, and at 30 June, as required by the IFRS standards, were measured at fair value. The main ones are reported below:

- VISA INC.: Visa Inc. class C shares for a value net of the lock-up clauses of € 16.9 million, for which a positive equity reserve was recognised, compared to initial recognition on 21 June 2016, amounting to roughly € 6,750,000;

- PENSPLAN INVEST SGR S.p.A.: for a fee of around € 373,000, the book value of which was written down during the year for around € 13,000 compared to the value last 31 December, in order to render it consistent with the purchase proposal received from South Tyrol;
- Funivie Madonna di Campiglio (measurement method, shareholders' equity and market multiples): the value remained constant compared to 31 December 2017 at around € 235,000;
- Funivie Folgarida Marilleva (measurement method, shareholders' equity and market multiples): value remained constant compared to 31 December 2017 at around € 120,995.

Financial assets measured at fair value through other comprehensive income: gross value and total value adjustments

	Gross value				Total value adjustments			Total partial write-offs
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt	521,666,170	-	-	-	431,315	-	-	-
Loans and	-	-	-	-	-	-	-	-
Total 30-06-2018	**521,666,170**	**-**	**-**	**-**	**431,315**	**-**	**-**	**X**
of which impaired financial assets, purchased or originated:	X	X	-	-	X	-	-	-

Financial assets measured at amortised cost

This segment includes instruments held for long-term investment purposes and complies with the size parameters established by the Board of Directors.

Securities in this category, and regarding loans to banks and customers, are bonds broken down into the following categories:

- Government securities at 87.8%;
- Senior bank bonds at 5.86%;
- Senior corporate bonds at 6.33%.

During 2018, the size of this segment increased by around € 270 million, with purchases mainly focussed on long-term Italian government securities. The total at 30 June was € 656 million, with an average duration of 4 years. The "loans" sub-item is mainly composed of reciprocal accounts with the Group banks.

Financial assets measured at amortised cost: product breakdown of loans to banks

Type of transaction/Value	Total 30-06-2018 Book value		
	Stage 1 and Stage 2	Stage 3	of which impaired, purchased or originated:
A. Due from Central Banks	**142**	**-**	**-**
1. Time deposits	-	-	-
2. Mandatory reserve	142	-	-
3. Repurchase agreements	-	-	-
4. Other	-	-	-
B. Due from banks	**2,820,598,248**	**-**	**-**
1. Loans and advances	2,782,263,124	-	-
1.1 Current accounts and demand deposits	2,583,965,323	-	-
1.2. Time deposits	114,303,613	-	-
1.3. Other loans and advances:	83,994,188	-	-
- Reverse repurchase agreements	-	-	-
- Financial leasing	-	-	-
- Others	83,994,188	-	-
2. Debt securities	38,335,124	-	-
2.1 Structured securities	-	-	-
2.2 Other debt securities	38,335,124	-	-
Total	**2,820,598,390**	**-**	**-**

Loans to banks: Product breakdown

Type of transaction/Value	Total 31/12/2017			
	BV	FV		
		Level 1	Level 2	Level 3
A. Due from Central Banks	**673**	**-**	**-**	**673**
1. Time deposits	-	X	X	X
2. Mandatory reserve	673	X	X	X
3. Reverse repurchase agreements	-	X	X	X
4. Other	-	X	X	X
B. Due from banks	**2,787,880,645**	**-**	**-**	**2,787,880,645**
1. Loans and advances	2,787,880,645	-	-	2,787,880,645
1.1 Current accounts and demand deposits	2,579,177,523	X	X	X
1.2 Time deposits	111,322,967	-	-	-
1.3. Other loans and advances:	97,380,155	X	X	X
- Reverse repurchase agreements	-	X	X	X
- Financial leasing	-	X	X	X
- Others	97,380,155	X	X	X
2. Debt securities	-	-	-	-
2.1 Structured securities	-	X	X	X
2.2 Other debt securities	-	X	X	X
Total	**2,787,881,318**	**-**	**-**	**2,787,881,318**

Financial assets measured at amortised cost: product breakdown of loans to customers

Type of transaction/Value	Total 30-06-2018 Book value Stage 1 and Stage 2	Stage 3	of which impaired, purchased or originated:
1. Loans and advances	**6,663,308,228**	**340,133,438**	**-**
1.1. Current accounts	608,609,828	69,571,832	-
1.2. Reverse repurchase agreements	-	-	-
1.3. Mortgages	3,635,204,597	202,374,498	-
1.4. Credit cards, personal loans and loans on wage assignments	222,480,146	3,524,378	-
1.5. Financial leasing	-	-	-
1.6. Factoring	-	-	-
1.7. Other loans and advances	2,197,013,657	64,662,730	-
2. Debt securities	**617,945,003**	**-**	**-**
2.1. Structured securities	-	-	-
2.2. Other debt securities	617,945,003	-	-
Total	**7,281,253,231**	**340,133,438**	**-**

Due from customers: product breakdown

Type of transaction/Value	Total 31/12/2017 Book value Non-impaired	Impaired: Purchased	Impaired: Other	Fair Value L1	L2	L3
Loans and advances	**6,555,943,821**	**-**	**447,778,393**	**-**	**-**	**7,092,910,536**
1. Current accounts	622,286,910	-	95,705,891	X	X	X
2. Reverse repurchase agreements	2,135,823	-	-	X	X	X
3. Mortgages	3,738,168,668	-	267,044,721	X	X	X
4. Credit cards, personal loans and loans on wage assignments	223,278,520	-	4,337,368	X	X	X
5. Financial leasing	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X
7. Other loans and advances	1,970,073,900	-	80,690,413	X	X	X
Debt securities	**40,027**	**-**	**-**	**-**	**40,027**	**-**
8. Structured securities	-	-	-	X	X	X
9. Other debt securities	40,027	-	-	X	X	X
Total	**6,555,983,848**	**-**	**447,778,393**	**-**	**40,027**	**7,092,910,536**

Financial assets measured at amortised cost: gross value and total value adjustments

	Gross value				Total value adjustments			Total partial write-offs
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	656,572,872	-	-	-	292,745	-	-	**-**
Loans and	9,128,539,594	4,243,073,128	351,855,810	682,284,128	19,663,979	15,159,931	342,150,690	**225,824,625**
Total 30-06-2018	**9,785,112,466**	**4,243,073,128**	**351,855,810**	**682,284,128**	**19,956,724**	**15,159,931**	**342,150,690**	**X**
of which impaired financial assets, purchased or originated:	X	X	-	-	X	-	-	**-**

Credit quality

In the following tables, the term “cash loan exposures” means all cash financial assets related to banks or customers, whatever their accounting portfolio. The term “off balance sheet credit exposures” means all non-cash financial exposures that involve taking on credit risk, whatever the purpose of said transactions.

Equity securities and UCITS units are excluded.

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

Portfolio/Quality	Bad loans	Unlikely to pay	Impaired past-due loans	Non-impaired past-due loans	Other non-impaired exposures	Total
1. Financial assets measured at amortised cost	175,282,263	161,559,076	3,292,099	120,119,154	9,981,732,467	10,441,985,059
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	521,234,855	521,234,855
3. Financial assets carried at fair value	-	-	-	-	-	-
4. Other financial assets necessarily measured at fair value	-	985,381	23,537	268,551	38,896,903	40,174,372
5. Financial assets held for sale	-	-	-	-	-	-
Total 30-06-2018	**175,282,263**	**162,544,457**	**3,315,636**	**120,387,705**	**10,541,864,225**	**11,003,394,286**

On 1 January 2018, IFRS 9 took effect, replacing accounting standard IAS 39 for the classification and measurement of financial assets.

During 2018, provisioning policies for adjustment criteria relative to impaired secured loans were also reviewed, with a double haircut established for new entries to disputes (non-payment subject to revocation and/or to non-performing) based on the precautionary value of the guarantee (43.75%).

In June, the transfer of unsecured loans was carried out for around 110 million in gross book value, as well as a transfer of secured loans for around 70 million in gross book value. In this last category, the strategy remained unchanged, which aims to maximise portfolio value through the sale of specific assets.

During the six months, the transfer of unsecured loans with non-performance of no more than 7 months was completed, for 2.1 million in gross book value.

The trend in the first half of 2018 showed that credit quality was substantially maintained, with limited new entries into the impaired category.

All indicators improved:

- net non-performing loans relative to net cash loans at 4.9% (6.4% in 2017);
- gross bad loans relative to gross loans at 6.0% (8.5% in 2017);
- net bad loans relative to net loans at 2.5% (3.8% in 2017);
- NPL ratio at 9.3% (11.8% in 2017)
- Texas ratio at 66.5% (74.9% in 2017).

The coverage rate for impaired loans was 50.1%, up compared to 48.8% at 31/12/2017. This change is associated with both the adoption of accounting standard IFRS 9, which led to an increase of 6 points, and with the large transfer of non-performing unsecured positions characterised by high impairment percentages, which led to a reduction of 5.1 points.

In line with strategic guidelines and the information referenced by the national and European supervisory bodies, activities during the first part of the year were heavily focused on reducing the amount of bad loans, in respect of which the trend is falling for both gross bad loans (-30%) and net bad loans (-34% after application of IFRS 9).

Bad loans

Net bad loans at the end of the period amounted to € 175.3 million (including securitisation volumes), down by 34% compared to 31/12/2017 (263.8 million). The impact on cash loans was 2.5% (3.8% at 31/12/2017).

During the period in question, the amount of gross new non-performing loans was more contained compared to the previous year. The decrease derives from consistency in credit quality.

Collections recorded on bad loans, including collections of “end-of-life” positions transferred, amounted to € 55.2 million, a 64% increase compared to 2017, when the figure seen during the same period came to € 33.7 million. This improvement is associated with an increase in receipts deriving from disposals and good performance from collections deriving from out-of-court resolutions.

In 2018, two without recourse transfers of bad loans were carried out, with various characteristics: loans with open insolvency proceedings, mortgage loans, unsecured loans nearing end of life with very limited impairment and unsecured loans with in court collection actions complete. As a whole, 183.0 million in gross loans was transferred, an improvement compared to the forecasts seen in the strategic plan.

At 30 June 2018, the number of non-performing positions stood at 3,883. 51.3% were below € 50,000 and 11.5% lower than € 5,000.

In June 2018, the coverage ratio for non-performing positions was 60.3%, compared to 58.3% at the end of the previous year, showing a change of 2 points, which, as already noted, derives from an increase in the coverage ratio due to the application of IFRS 9, using first-time application for 6.9 points and from a decrease of 4.9 points associated with the significant transfer of unsecured positions featuring high coverage percentages.

Based on a recent instruction issued by the Bank of Italy regarding representation of coverage ratios for bad loans, which imposes separation of default interest from the capital portion, if it were to be calculated in this way, the bad loan coverage ratio would be 54.7% with a differential of 5.6 points.

Unlikely to pay positions

Unlikely to pay positions totalled € 162.5 million at the end of the year (net cash exposures including securitisations), down 9.5% compared to 31/12/2017 (179.5 million). The number of customers classified as 'unlikely to pay' was 4,243 (2,007 with an exposure of less than € 5,000).

At 30 June 2018, loans secured by a mortgage guarantee amounted to a net total of € 109 million.

Positions with revocation of credit totalled 1,263, equal to € 27.4 million in net exposure.

The coverage ratio for unlikely to pay positions was 31.5%, whilst at the end of last year it was 25%, an increase of 6.5 points. Also with reference to unlikely to pay, the change in coverage was affected by the first-time application of IFRS 9 for 3.97 points, as well as by an increase in adjustments on secured loans newly classified as revoked unlikely to pay, due to new provisioning policies.

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

Past-due loans

At 30 June 2018, positions classified as past due and in excess of thresholds granted totalled € 3.3 million (net cash exposures including securitisations).

At 30 June 2018, the number of customers with past due loans and loans in excess of threshold totalled 3,994. The portfolio of past due exposures is highly fragmented: 3,897 positions are less than € 5,000.

At 30 June 2018, loans secured by a mortgage guarantee amounted to a net total of € 1.7 million.

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

On the whole, analytical adjustments applied to the total of past due loans and loans in excess of thresholds amounted to € 0.7 million at 30 June 2018.

In June 2018, the coverage ratio for past due exposures was 17.2%, up compared to the previous year.

Forborne loans

Total customers with forbearance status at 30 June 2018 amounted to € 262.7 million (gross exposures, € 304.9 million at 31 December 2017), broken down as follows:

- € 169.6 million in non-performing loans (€ 192.5 million at 31 December 2017);
- € 93.1 million in performing loans (€ 112.4 million at 31 December 2017).

The first half of 2018 saw a reduction in forborne positions, in both the performing and non-performing segments. As a whole, the reduction during the six-month period came to 13.8%, with more significant impacts on forborne performing loans, which fell by 13.8% compared to 31 December 2017, while the decrease for non-performing loans was 11.9%.

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

Portfolio/Quality	Impaired				Non-impaired			Total (net exposure)
	Gross exposure	Total writedowns	Net exposure	Total partial write-offs*	Gross exposure	Total writedowns	Net exposure	
1. Financial assets measured at amortised cost	682,284,128	342,150,690	340,133,438	225,824,625	10,136,968,276	35,116,655	10,101,851,621	10,441,985,059
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	521,666,170	431,315	521,234,855	521,234,855
3. Financial assets carried at fair value	-	-	-	-	X	X	-	-
4. Other financial assets necessarily measured at fair value	1,008,918	-	1,008,918	-	X	X	39,165,454	40,174,372
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 30-06-2018	**683,293,046**	**342,150,690**	**341,142,356**	**225,824,625**	**10,658,634,446**	**35,547,970**	**10,662,251,930**	**11,003,394,286**

Portfolio/Quality	Assets with evident low creditworthiness		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	51,007,312
2. Hedging derivatives	-	-	2,595,055
Total 30-06-2018	**-**	**-**	**53,602,367**

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost: product breakdown of amounts due to banks

Type of transaction/Value	Total 30-06-2018			
	BV	Fair Value		
		L1	L2	L3
1. Due to central banks	**-**	X	X	X
2. Due to banks	**728,882,137**	X	X	X
2.1 Current accounts and demand deposits	19,369,120	X	X	X
2.2 Time deposits	685,468,555	X	X	X
2.3 Loans and advances	23,402,712	X	X	X
2.3.1 Repurchase agreements	-	X	X	X
2.3.2 Others	23,402,712	X	X	X
2.4 Liabilities for repurchase commitments of own equity instruments	-	X	X	X
2.5 Other payables	641,750	X	X	X
Total	**728,882,137**	**-**	**-**	**728,882,137**

Key: BV=book value L1=Level 1 L2=Level 2 L3=Level 3

Due to banks: product breakdown

Type of transaction/Value	31/12/2017
1. Due to central banks	**-**
2. Due to banks	**738,902,027**
2.1 Current accounts and demand deposits	23,985,280
2.2 Time deposits	686,856,222
2.3 Loans and advances	27,012,330
2.3.1 Repurchase agreements	-
2.3.2 Others	27,012,330
2.4 Liabilities for repurchase commitments of own equity instruments	-
2.5 Other payables	1,048,195
Total	**738,902,027**
Fair value - level 1	**-**
Fair value - level 2	**-**
Fair value - level 3	**738,902,027**
Total fair value	**738,902,027**

Due to customers: product breakdown

Type of transaction/Value	31/12/2017
1. Current accounts and demand deposits	8,520,909,813
2. Time deposits	571,641,063
3. Loans and advances	54,620,623
3.1 Repurchase agreements	6,783,339
3.2 Others	47,837,284
4. Liabilities for repurchase commitments of own equity instruments	-
5. Other payables	227,721,588
Total	**9,374,893,087**
Fair value - level 1	**-**
Fair value - level 2	**-**
Fair value - level 3	**9,374,893,087**
Fair value	**9,374,893,087**

Financial liabilities measured at amortised cost: product breakdown of amounts due to customers

Type of transaction/Value	Total 30-06-2018			
	BV	Fair Value		
		L1	L2	L3
1. Current accounts and demand deposits	8,835,209,572	X	X	X
2. Time deposits	500,777,022	X	X	X
3. Loans and advances	49,103,328	X	X	X
3.1 Repurchase agreements	7,157,859	X	X	X
3.2 Others	41,945,469	X	X	X
4. Liabilities for repurchase commitments of own equity instruments	-	X	X	X
5. Other payables	222,318,536	X	X	X
Total	**9,607,408,458**	**-**	**-**	**9,607,408,458**

Financial liabilities measured at amortised cost: product breakdown of securities in issue

	30-06-2018			
	Total			
	BV	Fair Value		
		L1	L2	L3
A. Securities				
1. Bonds	368,739,908	101,007,000	266,518,370	-
1.1 structured	-	-	-	-
1.2 others	368,739,908	101,007,000	266,518,370	-
2. Other securities	-	-	-	-
2.1 structured	-	-	-	-
2.2 others	-	-	-	-
Total	**368,739,908**	**101,007,000**	**266,518,370**	**-**

Securities in issue: product breakdown

Type of securities / Values	Total 31/12/2017			
	Book Value	*Fair Value*		
		Level 1	Level 2	Level 3
A. Securities				
1. Bonds	410,564,233	105,856,000	316,967,548	-
1.1 structured	-	-	-	-
1.2 others	410,564,233	105,856,000	316,967,548	-
2. Other securities	-	-	-	-
2.1 structured	-	-	-	-
2.2 other	-	-	-	-
Total	**410,564,233**	**105,856,000**	**316,967,548**	**-**

Own funds and bank solvency ratios

At 30 June 2018, Banca Sella's Common Equity Tier 1 - CET1 included 668,456,168 ordinary shares, each with a nominal value of € 0.50 (zero point five zero), including share premiums, reserves and profits accrued, for a calculable value of € 734,867,213.

There were no calculable financial instruments in Additional Tier 1 Capital at 30 June 2018. Tier 2 - T2 included subordinate loans issued by Banca Sella at 30 June 2018 equivalent to € 190,786,737.

Regulatory capital

	Total 30-06-2018	Total 31-12-2017
A. Common Equity Tier 1 – CET1 before application of prudential filters	**734,867,213**	**789,928,058**
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(1,112,820)	(133,600)
C. CET1 gross of elements to be deducted and the effects of the transitional regime (A +/- B)	**733,754,393**	**789,794,458**
D. Elements to be deducted from CET1	**52,218,397**	**51,235,699**
E. Transitional regime – Impact on CET1 (+/-)	**45,267,223**	**(3,395,939)**
F. Total Common Equity Tier 1 (Common Equity Tier 1 – CET1) (C – D +/- E)	**726,803,219**	**735,162,820**
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	**190,786,737**	**214,020,305**
of which T2 instruments subject to transitional provisions	**4,000,000**	**7,158,993**
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime - Impact on T2 (+/-)	**-**	**447,464**
P. Total Tier 2 – T2 (M - N +/- O)	**190,786,737**	**214,467,769**
Q. Total own funds (F + L + P)	**917,589,956**	**949,630,589**

Based on prudential regulatory provisions, the total requirement is equal to the sum of the capital requirements prescribed against adjustment of credit measurement, credit and counterparty, , regulatory, market and operating risks. In general, methods used to calculate capital requirements refer to the standardised approach and basic indicator approach (BIA), in terms of operating risk. Banca Sella's capital management policies have the goal of guaranteeing that the capital base is in line with the level of risk taken on, while complying with regulatory requirements and company development plans.

At 30 June 2018, the capital ratios exceeded the minimum requirements set forth in the regulations in effect as of the reporting date:

- The Common Equity Tier 1 ratio is 14.58% compared to the 6.375% minimum;

- The Tier 1 ratio is 14.58% compared to the 7.875% minimum;
- The Total Capital ratio is 18.41% compared to the 9.875% minimum.

Capital adequacy

Categories/Amounts	Non-weighted amounts		Weighted amounts / requirements	
	30-06-2018	31-12-2017	30-06-2018	31-12-2017
A. RISK ASSETS				
A.1 Credit and Counterparty Risk	11,873,205,461	11,705,461,562	4,222,571,634	4,155,258,563
1. Standardised method	11,873,205,461	11,705,461,562	4,222,571,634	4,155,258,563
2. Internal rating-based methodology	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and Counterparty Risk			337,805,731	332,420,685
B.2 Credit evaluation adjustment risk			1,533	4,221
B.3 Regulatory Risk			-	-
B.4 Market risks			4,078,721	244,700
1. Standardised method			4,078,721	244,700
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operating risk			56,888,113	56,888,113
1. Basic method			56,888,113	56,888,113
2. Standardised method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			398,774,098	389,557,719
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			4,984,676,225	4,869,471,488
C.2 Tier 1 capital/Risk-weighted assets (CET1 capital ratio)			14.58%	15.10%
C.3 Tier 1 capital/Risk weighted assets (Tier 1 capital ratio)			14.58%	15.10%
C.4 Total own funds//Risk-weighted assets (Total capital ratio)			18.41%	19.50%

Reconciliation of profits for regulatory purposes

	30-06-2018
Profit for the period	16,893,406
- to the Fund for charity and sundry donations	35,000
- estimated dividends	6,082,951
Profit for regulatory purposes	**10,755,455**

Financial Statement Schedules

at 30 June 2018

Balance Sheet Assets

	Assets	30-06-2018 Circular 262/05 5th update (IFRS 9 criteria)	31-12-2017 Circular 262/05 4th update (IAS 39 criteria)
10.	Cash and cash equivalents	115,811,658	139,631,271
20.	Financial assets measured at fair value through profit and loss	98,210,468	-
	a) Financial assets held for trading	51,007,312	-
	b) Financial assets carried at fair value	-	-
	c) Other financial assets necessarily measured at fair value	47,203,156	-
20.	Financial assets held for trading	-	23,282,075
30.	Financial assets measured at fair value through other comprehensive income	539,765,233	-
40.	Financial assets available for sale	-	1,060,967,620
40.	Financial assets measured at amortised cost	10,441,985,059	-
	a) Loans to banks	2,820,598,390	-
	b) Loans to customers	7,621,386,669	-
50.	Financial assets held to maturity	-	90,646,368
60.	Loans to banks	-	2,787,881,318
70.	Loans to customers	-	7,003,762,241
50.	Hedging derivatives	2,595,055	3,714,514
60.	Value adjustment of financial assets subject to macrohedging (+/-)	83,906,729	87,203,484
70.	Equity investments	105,236,149	88,536,000
80.	Tangible assets	46,332,154	46,768,660
90.	Intangible assets	55,656,937	54,597,645
	of which:		
	- goodwill	12,992,423	13,181,423
100.	Tax assets	183,922,391	157,915,979
	a) current	58,507,979	44,278,141
	b) deferred	125,414,412	113,637,838
120.	Other assets	183,612,911	208,770,791
	Total assets	**11,857,034,744**	**11,753,677,966**

Balance Sheet Liabilities

	Liabilities and shareholders' equity	30-06-2018 Circular 262/05 5th update (IFRS 9 criteria)	31-12-2017 Circular 262/05 4th update (IAS 39 criteria)
10.	Financial liabilities measured at amortised cost	10,705,030,503	-
	a) Due to banks	728,882,137	-
	b) Due to customers	9,607,408,458	-
	c) Securities issued	368,739,908	-
10.	Due to banks	-	738,902,027
20.	Due to customers	-	9,374,893,087
30.	Securities issued	-	410,564,233
20.	Financial liabilities held for trading	17,194,236	16,032,618
40.	Hedging derivatives	86,757,201	90,492,818
60.	Tax liabilities	13,785,801	8,831,132
	a) current	7,904,999	2,201,529
	b) deferred	5,880,802	6,629,603
80.	Other liabilities	249,333,343	260,852,570
90.	Employee severance indemnities	29,242,703	29,583,164
100.	Provisions for risks and charges	14,705,793	26,121,765
	a) commitments and guarantees given	3,759,175	-
	c) other provisions for risks and charges	10,946,618	26,121,765
110.	Valuation reserves	(6,685,051)	1,682,974
140.	Reserves	30,458,242	81,286,567
150.	Share premiums	366,090,483	366,090,483
160.	Capital	334,228,084	334,228,084
180.	Profit (Loss) for the year (+/-)	16,893,406	14,116,444
	Total liabilities and shareholders' equity	**11,857,034,744**	**11,753,677,966**

Income Statement

	Items	30-06-2018 Circular 262/05 5th update (IFRS 9 criteria)	30-06-2017 Circular 262/05 4th update (IAS 39 criteria)
10.	Interest receivable and similar income	100,316,387	100,525,530
	of which interest income calculated using the effective interest method:	5,662,396	-
20.	Interest payable and similar expenses	(26,423,447)	(25,607,286)
30.	**Net interest income**	**73,892,940**	**74,918,244**
40.	Fee and commission income	143,222,060	135,627,596
50.	Fee and commission expenses	(38,268,102)	(35,562,133)
60.	**Net fees**	**104,953,958**	**100,065,463**
70.	Dividends and similar income	3,235,729	106,271
80.	Net income from trading	3,105,474	3,824,734
90.	Net gains/(losses) on hedging activities	10,576	41,480
100.	Profit (loss) from sale or repurchase of:	2,104,101	(36,435)
	a) financial assets measured at amortised cost	1,508,904	-
	a) receivables	-	(772,310)
	b) financial assets measured at fair value through other comprehensive income	595,197	-
	b) financial assets available for sale	-	735,875
110.	Net gains/(losses) on other financial assets and liabilities measured at fair value through profit and loss	(479,079)	-
	b) other financial assets necessarily measured at fair value	(479,079)	-
120.	**Net banking income**	**186,823,699**	**178,919,757**
130.	Net value adjustments for credit risk:	(20,027,903)	(26,392,842)
	a) financial assets measured at amortised cost	(19,963,541)	-
	a) receivables	-	(19,938,009)
	b) financial assets measured at fair value through other comprehensive income	(64,362)	-
	b) financial assets available for sale	-	(2,137,513)
	d) other financial transactions	-	(4,317,320)
140.	Profit/loss from contractual changes without write-offs	(195,716)	-
150.	**Net financial operating gains (losses)**	**166,600,080**	**152,526,915**
160.	Administrative expenses:	(156,600,875)	(150,356,850)
	a) personnel expenses	(80,081,871)	(79,713,968)
	b) other administrative expenses	(76,519,004)	(70,642,882)
170.	Net allocations to provisions for risks and charges	(466,886)	(2,756,051)
	a) commitments and securities issued	(448,377)	-
	b) other net provisions	(18,509)	-
180.	Net value adjustments on tangible assets	(3,927,610)	(3,958,271)

190.	Net value adjustments on intangible assets	(7,333,491)	(6,878,743)
200.	Other operating expenses/income	27,272,064	28,517,043
210.	**Operating costs**	**(141,056,798)**	**(135,432,872)**
240.	Value adjustments on goodwill	(189,000)	-
250.	Income (losses) from the disposal of investments	26,104	20,167
260.	**Profit (Loss) on continuing operations before tax**	**25,380,386**	**17,114,210**
270.	Income taxes for the period on continuing operations	(8,486,980)	(5,775,734)
280.	**Profit/(Loss) on continuing operations after tax**	**16,893,406**	**11,338,476**
300.	**Profit (Loss) for the period**	**16,893,406**	**11,338,476**

Comprehensive Income

	Items	30-06-2018
10.	**Profit (Loss) for the period**	**16,893,406**
	Other comprehensive income net of taxes without transfer to income statement	
20.	Equity securities measured at fair value through other comprehensive income	2,321,143
70.	Defined benefit plans	4,768
	Other comprehensive income net of taxes with transfer to income statement	
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(11,013,171)
170.	**Other comprehensive income, net of tax**	**(8,687,260)**
180.	**Comprehensive income (Items 10 +170)**	**8,206,146**

Statement of Changes in Shareholders’ Equity at 30 June 2018

				allocation of previous year’s profit		Comprehensive income								
				reserves	dividends and other allocations		operations on shareholders’ equity							
	balances at 31/12/2017	Change to opening balances	balances at 01/01/2018	Reserves	Dividends and other allocations	changes in reserves	issue of new shares	purchase of treasury shares	distribution of extraordinary dividends	change in equity	derivatives on treasury	stock options	Comprehensive income 2018	shareholders’ equity at 30/06/2018
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	215,036,486	(58,369,515)	156,666,970	6,639,949	-	901,240	-	-	-	-	-	-	-	164,208,160
b) other	(133,749,918)		(133,749,918)	-	-	-	-	-	-	-	-	-	-	(133,749,918)
Valuation reserves:	1,682,974	319,235	2,002,209	-	-	-	-	-	-	-	-	-	(8,687,260)	(6,685,051)
Equity instruments		-	-	-	-	-	-	-	-	-	-	-	-	
Treasury shares		-	-	-	-	-	-	-	-	-	-	-	-	
Profit (Loss) for the period	14,116,444	-	14,116,444	(6,639,949)	(7,476,494)	-	-	-	-	-	-	-	16,893,406	16,893,406
Shareholders’ equity	**797,404,552**	**(58,050,280)**	**739,354,272**	**-**	**(7,476,494)**	**901,240**	**-**	**-**	**-**	**-**	**-**	**-**	**8,206,146**	**740,985,164**

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REPORT ON REVIEW OF THE ACCOUNTING STATEMENTS PREPARED TO DETERMINE THE PROFIT FOR THE SIX-MONTH PERIOD TO BE INCLUDED IN THE COMMON EQUITY TIER 1 CAPITAL CALCULATION

To the Board of Directors of
Banca Sella S.p.A.

Introduction

We have reviewed the accompanying balance sheet as of June 30, 2018, the income statement, the statement of comprehensive income, the statement of changes in equity for the six-month period then ended and the related explanatory notes (the "Accounting Statements") of Banca Sella S.p.A..

The Accounting Statements have been prepared by the Board of Directors to determine the profit for the six-month period to be included in the Common Equity Tier 1 Capital calculation as of June 30, 2018 in accordance with Regulation (UE) n. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investments firms (the "Regulation").

The Directors are responsible for the preparation of the Accounting Statements in accordance with the criteria described in the explanatory notes. Our responsibility is to express a conclusion on the Accounting Statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Accounting Statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Accounting Statements of Banca Sella S.p.A. as of and for the six-month period ended June 30, 2018 are not prepared, in all material respects, in accordance with the criteria described in the explanatory notes.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our conclusion, we draw attention to the explanatory notes to the Accounting Statements, which describes the basis of accounting. The Accounting Statements have been prepared solely to determine the profit for the six-month period to be included in the Common Equity Tier 1 Capital calculation as of June 30, 2018 in accordance with Regulation. The Accounting Statements do not include the cash flow statement and certain comparative data and explanatory notes that would require to give a true and fair view of the financial position of Banca Sella S.p.A. as of June 30, 2018, and of the results of its cash flow for the six-month period then ended in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our report is intended solely for your information and should not be used for other purposes nor distributed, in whole or in part, to third parties.

DELOITTE & TOUCHE S.p.A.

Signed by
Claudio Crosio
Partner

Turin, Italy
August 13, 2018

This report should be read in conjunction with the Accounting Statements prepared to determine the profit for the six-month period to be included in the Common Equity Tier 1 Capital calculation of Banca Sella S.p.A. as of June 30, 2018 as approved by the Board of Directors of Banca Sella S.p.A. on August 10, 2018, and made available on the Gruppo Banca Sella website www.gruppobancasella.it, in the "Investors Relations" area.

This report has been translated into the English language solely for the convenience of international readers.