2020

Consolidated interim financial report at 30 June 2020

Gruppo Banco Desio

Contents

Directors and Officers
(Banco di Desio e della Brianza S.p.A.)

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Chairman	Stefano Lado
Deputy Chairman	Tommaso Cartone
Chief Executive Officer and General Manager	Alessandro Maria Decio*
Directors	Graziella Bologna* Valentina Maria Carla Casella Ulrico Dragoni Cristina Finocchi Mahne Agostino Gavazzi* Egidio Gavazzi* Tito Gavazzi* Giulia Pusterla Laura Tulli

* *Members of the Executive Committee*

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Chairman	Emiliano Barcaroli
Acting Auditors	Rodolfo Anghileri Stefania Chiaruttini
Substitute Auditors	Stefano Antonini Silvia Re Massimo Celli

General Management

Chief Executive Officer and General Manager	Alessandro Maria Decio
Deputy General Manager	Angelo Antoniazzi

Financial Reporting Manager as per art. 154-bis CFA

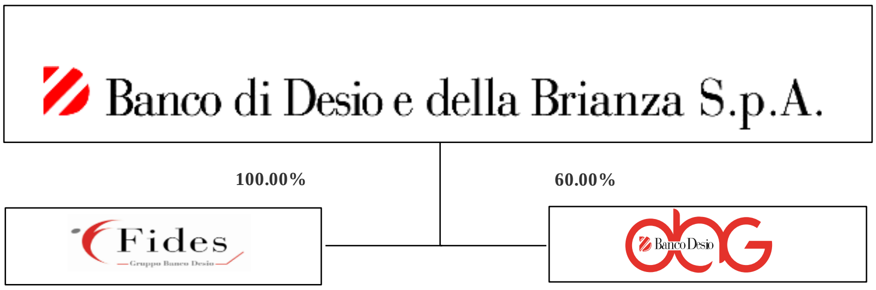
Financial Reporting Manager	Mauro Walter Colombo

Independent Auditors

Independent Auditors	Deloitte & Touche S.p.A.

The Banco Desio Group

The scope of consolidation of the Banco Desio Group at 30 June 2020 includes the following companies:



Introduction

This consolidated interim financial report at 30 June 2020 of the Banco Desio Group, made up of the interim report on operations and the condensed interim financial statements, has been prepared pursuant to art. 154-ter of Legislative Decree 58/1998 ("Consolidated Finance Act" or CFA), implementing Legislative Decree 195 of 6 November 2007 (the so-called "Transparency Directive") as well as for the determination of the profit for the period in order to calculate own funds and drawn up in accordance with International Financial Reporting Standards as endorsed by the European Community under Regulation 1606 of 19 July 2002, as better indicated in the section "Basis of preparation and accounting policies”

In particular, the consolidated interim financial report at 30 June 2020 is prepared in accordance with IAS 34 "Interim Financial Statements", as well as the provisions issued by the Bank of Italy in its Circular 262 of 22 December 2005 and subsequent updates.

The figures and ratios included in the interim report on operations refer to the balance sheet of the condensed interim financial statements and to the reclassified income statement, as disclosed in the appropriate paragraph, in turn prepared starting from the income statement of the condensed interim financial statements.

The results of the first half of 2020 were influenced by the health crisis caused by the spread, from the end of February, of the Covid-19 virus whose effects on the economy in general and on the results of the activity and on the overall financial performance of the Banco Desio Group remains uncertain as to possible developments in future scenarios.

We highlight the specific information dedicated to the description of the context in which this financial information was prepared, strongly affected by the pandemic (see note "Covid-19" on page 12), as well as the uncertainties and significant risks related to it that may also have a significant impact on the expected results, which depend on many factors that are beyond management's control.

The disclosure also contains the specific disclosure referred to in the Bank of Italy's Communication "Guidelines of the European Banking Authority relating to reporting and disclosure requirements to the public on the exposures subject to measures applied in light of the Covid-19 crisis" of 30 June 2020.

In defining the contents of the explanatory notes, account was also taken of the indications referred to in Consob's Warning Notice no. 8/20 of 16 July 2020 (see the note "Implications of the Covid-19 epidemic on the half-year financial report at 30 June 2020" on page 76).

This consolidated interim report is subject to a limited review by Deloitte & Touche S.p.A.

This is a translation of the Italian original "Relazione Finanziaria Semestrale Consolidata al 30 giugno 2020" and has been prepared solely for the convenience of international readers. In the event of any ambiguity, the Italian text will prevail.

Interim report on operations
at 30 June 2020

Key figures and ratios

Balance sheet

Amounts in thousands of Euro	30.06.2020	31.12.2019	Change amount	%
Total assets	14,860,859	14,192,062	668,797	4.7%
Financial assets	3,477,259	3,365,922	111,337	3.3%
Due from banks [1]	1,066,021	619,794	446,227	72.0%
Loans to customers [1]	9,703,246	9,567,686	135,560	1.4%
Property, plant and equipment [2]	219,541	226,305	-6,764	-3.0%
Intangible assets	18,085	18,194	-109	-0.6%
Due to banks	1,995,605	1,603,208	392,397	24.5%
Due to customers [3]	9,686,545	9,445,899	240,646	2.5%
Debt securities in issue	1,647,866	1,749,103	-101,237	-5.8%
Shareholders' equity (including Net profit/loss for the period)	958,892	965,108	-6,216	-0.6%
Own Funds	1,027,322	1,038,147	-10,825	-1.0%
Total indirect deposits	15,679,693	15,562,375	117,318	0.8%
of which: Indirect deposits from ordinary customers	*9,643,626*	*9,721,680*	*-78,054*	*-0.8%*
of which: Indirect deposits from institutional customers	*6,036,067*	*5,840,695*	*195,372*	*3.3%*

[1] on the basis of Circular 262 the balance of this caption includes held to collect (HTC) debt securities measured at amortised cost, which in these key figures are shown under financial assets

[2] the balance of this item includes the right of use ("RoU Assets") equal to €47.4 million (Euro 51.7 million at 31 December 2019) for operating lease contracts falling within the scope of application of IFRS 16 Leases, which came into effect on 1 January 2019

[3] the balance of this item does not include the liability recognised in Due to customers for operating lease contracts falling within the scope of application of IFRS 16, which came into effect on 1 January 2019

Income statement [4]

Amounts in thousands of Euro	30.06.2020	30.06.2019	Change amount	%
Operating income	193,094	200,698	-7,604	-3.8%
of which: Net interest income	*104,759*	*106,988*	*-2,229*	*-2.1%*
Operating costs	134,871	137,797	-2,926	-2.1%
Result of operations	58,223	62,901	-4,678	-7.4%
Profit (loss) from continuing operations after tax	10,091	24,250	-14,159	-58.4%
Non-recurring profit (loss) after tax	-493	-149	-344	230.9%
Net profit (loss) for the period	9,598	24,101	-14,503	-60.2%

[4] from the reclassified income statement.

Key figures and ratios

	30.06.2020	31.12.2019	Change amount
Capital/Total assets	6.5%	6.8%	-0.3%
Capital/Loans to customers	9.9%	10.1%	-0.2%
Capital/Due to customers	9.9%	10.2%	-0.3%
Capital / Debt securities in issue	58.2%	55.2%	3.0%
Common Equity Tier 1 (CET 1)/Risk-weighted assets *(Common Equity Tier 1 ratio)* [5] [6]	13.8%	13.0%	0.8%
Core Tier 1 capital (T1)/Risk-weighted assets *(Tier 1 ratio)* [5] [6]	13.8%	13.0%	0.8%
Total Own Funds/Risk-weighted assets *(Total capital ratio)* [5] [6]	14.3%	13.7%	0.7%
Financial assets/Total assets	23.4%	23.7%	-0.3%
Due from banks/Total assets	7.2%	4.4%	2.8%
Loans to customers/Total assets	65.3%	67.4%	-2.1%
Loans to customers/Direct customer deposits	85.6%	85.5%	0.1%
Due to banks/Total assets	13.4%	11.3%	2.1%
Due to customers/Total assets	65.2%	66.6%	-1.4%
Debt securities in issue/Total assets	11.1%	12.3%	-1.2%
Direct customer deposits / Total assets	76.3%	78.9%	-2.6%
	30.06.2020	**30.06.2019**	**Change amount**
Cost/Income ratio	69.8%	68.7%	1.1%
Net interest income/Operating income	54.3%	53.3%	1.0%
Result of operations/Operating income	30.2%	31.3%	-1.1%
Profit (loss) from continuing operations after tax/Capital [7] [8]	2.1%	4.9%	-2.8%
ROE [7] - annualised [8] [9]	2.1%	4.3%	-2.2%
Profit (loss) from operations before tax/Total assets (ROA) [8]	0.2%	0.5%	-0.3%
	30.06.2020	**31.12.2019**	**Change amount**
Net doubtful loans/Loans to customers	1.3%	1.3%	0.0%
Net non-performing loans/Loans to customers	3.4%	3.6%	-0.1%
% Coverage of doubtful loans	62.6%	61.5%	1.2%
% Coverage of doubtful loans, gross of cancellations	64.1%	63.1%	1.0%
% Total coverage of non-performing loans	47.7%	45.5%	2.2%
% Coverage of non-performing loans, gross of cancellations	48.8%	46.7%	2.1%
% Coverage of performing loans	0.62%	0.49%	0.13%

Structure and productivity ratios

	30.06.2020	31.12.2019	Change amount	Change %
Number of employees	2,193	2,198	-5	-0.2%
Number of branches	253	257	-4	-1.6%
Amounts in thousands of Euro				
Loans and advances to customers per employee [10]	4,420	4,342	78	1.8%
Direct deposits from customers per employee [10]	5,163	5,081	82	1.6%
	30.06.2020	**30.06.2019**	**Change amount**	**%**
Operating income per employee [10] - annualised [8]	176	181	-5	-2.8%
Result of operations per employee [10] - annualised [8]	53	53	0	0.0%

[5] Consolidated capital ratios for Banco Desio. The ratios for the scope of consolidation for regulatory purposes at Brianza Unione level at 30 June 2020 are: Common Equity Tier1 10.7%; Tier 1 11.5%; Total capital ratio 12.8%.

[6] Capital ratios at 30 June 2020 are calculated in application of the transitional arrangements introduced by EU Regulation 2017/2395; the ratios calculated without application of these provisions are the following: Common Equity Tier1 13.15%; Tier 1 13.16%; Total capital ratio 13.72%

[7] equity excluding net profit (loss) for the period;

[8] the amount reported at 30 June 2019 is the final figure at the end of 2019;

[9] the annualised ROE at 30 June 2020 does not take into consideration the annualisation of the Net non-recurring operating profit;

[10] based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.

The macroeconomic scenario

The macroeconomic picture

International scenario

In the first half of 2020, the effects of the Covid-19 pandemic were reflected in the production activity and aggregate demand of all economies. The marked and progressive deterioration of the outlook for economic activity and global trade flows for the current year is accompanied by considerable risks of a deeper recession. The deterioration in growth prospects translated into a hefty decline in stock market indices and a sharp rise in volatility and risk aversion. In all the main countries the monetary and fiscal authorities have put in place strong expansionary measures to support household and business income, credit to the economy and liquidity on the markets.

The epidemic, which officially started in China in January, spread worldwide in a few months, with particular intensity in Europe and the United States. Most of the countries affected launched stringent containment measures, including restrictions on the movement of people, the interruption of numerous production activities, the closure of schools and the suspension of public events. The epidemic is having strong repercussions on employment in all countries.

All current scenarios on the trend in global GDP incorporate a strongly negative evolution in the first half of the year, followed by an upturn in the second half and a marked recovery in 2021; however, analysts' assessments cover a very broad range. The speed of the recovery in the economy depends not only on the evolution of the pandemic, developments in international trade and financial markets, but also on the effects on certain service sectors and the consequences on consumer confidence and income. The timeliness and effectiveness of the economic policy measures being introduced at a global level will be crucial.

The forecasts of international institutions have been revised downwards repeatedly. Those released by the International Monetary Fund (IMF) in June envisage a 4.9% drop in world GDP this year. The contraction is likely to be more pronounced in advanced countries, where so far measures to contain the epidemic have on average been more extensive and stringent. The risks remain oriented downwards. The repercussions of the contagion on international trade could lead to a contraction in global trade in 2020 of around 10%, an intensity similar to that seen in 2009. In the major advanced economies, where consumer prices were already rising below central banks' targets, long-term inflation expectations that can be inferred from returns on financial markets have fallen further.

United States

In the first quarter of 2020, the United States' GDP recorded a 5.1% decline in annualised quarterly terms. The available indicators show a generalised deterioration in economic activity, after a fourth quarter of 2019 marked by varied trends. In the manufacturing sector, the purchasing managers' index showed an initial drop in February, continuing to fall in the months that followed, to an exceptional extent in the services sector. Economic policy remains highly expansive: suffice to think that, compared with the crisis of 2009, the Trump Administration has allocated measures equal to more than double the previous ones (2,000 billion dollars vs. 790 billion in 2009) above all to mitigate the negative effects on domestic demand and, particularly, on household consumption. Capital expenditure has been falling, accentuating the fragility of non-financial firms, particularly in the non-residential investment sector. New requests for unemployment benefits quickly reached extraordinarily high levels, recording the largest drop in employment since December 2008. This value could also underestimate the real worsening in the US labour market, as statistical surveys are carried out at the beginning of the month. In May the unemployment rate stood at 13.3% (vs. 3.4% before Covid-19), whereas it was 11.1% in the first June surveys: considering the economic and social context, it seems premature to speak of a genuine turnaround.

According to the International Monetary Fund, in the United States, which is heading towards the presidential elections in November in a very tense social climate, the expected contraction in GDP in 2020 will be 8%, with a rebound to 4.5% in 2021.

Emerging Economies

The economic situation is slowing down in the main Emerging Markets. The fundamentals of the major oil-producing countries improved thanks to the recovery in prices over the last month (+26% m/m, -35% y/y)

In China, GDP contracted by 6.8% year-on-year in the first quarter of 2020, the worst figure since 1992, when the Beijing National Statistics Office began to publish periodic data. The result was undoubtedly influenced by the severe containment measures adopted against Covid-19, which interrupted production in entire regions of the country, vital for the national production system and for global supply chains. In the first few months of the year, the assessments of the purchasing managers of Chinese companies, in both manufacturing and services, recorded a greater fall than that seen at the beginning of the financial crisis in 2008-2009. Industrial production and retail sales also dropped significantly, well beyond the expectations expressed during the previous weeks. In April, with the contagion blocked, there was an initial return to normality. On the price front, the June survey showed a recovery (+2.5%), undoubtedly linked to the end of the lockdown period.

With reference to the other "BRIC" countries (Brazil, Russia, India and China), the information discounts the trend of the epidemiological curve in each area. In India, GDP achieved a positive +3.1% in the first quarter of 2020, 10 basis points down on the previous quarter. Inflation in March showed a change of +5.8%, down from +7.4% at the end of 2019. In Brazil, GDP fell by -0.2%, versus the trend (+1.6%) recorded in the previous quarter. In May, consumer price inflation registered an annual change of +2.1%, down from +4.5% at the end of 2019. In Russia, GDP growth in the first quarter of 2020 was +1.6% (vs. +2.1% the previous quarter), while consumer prices stood at +3.2%, down on the previous survey.

Eurozone

The GDP of the Eurozone fell by -14.4% in the first quarter of 2020, due to the effect of the Covid-19 pandemic. Within the Eurozone, France recorded a drop of -21.4% in annualised quarterly terms, Germany -8.9%. The lockdown effect weighed on all the economic variables of the Area, above all industrial output, which fell by -17.1% in April (-27.9% y/y). The first available data for May relating to the main countries in the area indicate a recovery in production: in France there was a rebound of +19.6% (-23% y/y), in Germany of +7.8% (-19.4% y/y). In April, new manufacturing orders registered a change of -34.7% y/y, within which the drop in Germany (-37%) stood out, which was then confirmed by the initial surveys in May (-29.4%).

May for most countries marked the exit from lockdown and a gradual recovery in social and economic activity. This was reflected in retail sales which, although down by -5.2% y/y, recovered in May (+17.8%) compared with the previous month. In this context, France is an exception with a drop in retail sales of -13.1%.

Despite the beginning of "phase 2", the confidence indices of businesses and consumers still remain very negative; in May, the unemployment rate increased slightly compared with the previous month, reaching 7.4%.

With reference to consumer prices, inflation fell to +0.1% in May (vs. +0.3% in April and +1.2% in the same period of the previous year): within this figure, on the other hand, the core component (i.e. without the more volatile components) remained stable at +1.2% (vs. +1.0% in May 2019).

Italy

In Italy, in the first quarter of 2020, GDP fell by 21.2% in annualised quarterly terms, suffering heavily from the effects of the lockdown. This is the heaviest drop from 1995 to the present day. National demand, net of inventories, contributed -5.6% (private consumption -4.0% and capital expenditure -1.6%), while net foreign demand contributed -0.8%.

In May, the seasonally adjusted index of industrial production fell by -20.3% y/y (-43.4% in the previous month), with generalised decreases in energy goods (-7.2%), consumer goods (-19.9%), intermediate goods, which can only be used once in the production process (-22.4%) and capital goods (-22.9%). Retail sales fell by -13.4%, but recovered compared with April (+25.4%) thanks to the end of the lockdown.

Consumer and business confidence indices remain negative in June as well; the unemployment rate in May rose (7.8% vs. 6.6% in April).

The harmonised index of consumer prices, already historically very low, entered negative territory (-0.2%, vs. +0.1% in April), while core inflation (net of unprocessed food and energy goods) is higher, remaining stable at +0.9%.

The estimates updated by the Bank of Italy assume a basic scenario in which Italy's GDP is expected to contract by -9.2% this year, followed by a gradual recovery in the next two years (+4.8% in 2021 and +2.5% in 2022). The fiscal policy measures to give direct support to demand included in the "Cure Italy" and "Relaunch" decrees, should provide a significant contribution in mitigating the contraction of GDP during the current year, measurable according to the traditional multipliers at over 2 percentage points.

Covid-19

In the first few months of 2020, the Covid-19 pandemic unleashed its effects on the production and aggregate demand of all economies. The worsening growth outlook translated into a sharp drop in stock market indices and a sharp rise in volatility and risk aversion. In all the main countries, monetary and fiscal authorities have put in place strong expansionary measures to support household and business income, credit to the economy and liquidity on the markets; in parallel, supervisory authorities have approved measures to ease banks' capital and liquidity requirements.

The following is a summary of the main support measures adopted or being adopted during 2020. With reference to the information requested by Consob with Recommendations no. 6/2020 "Covid 19 - Calling attention to financial disclosures" and no. 8/2020 "Covid 19 - Calling attention to financial disclosures", please refer to the content of the notes in the sections "Basis of preparation and accounting policies" and “Information on risks and related hedging policy”.

Government interventions

State aid in the European context

The European institutions have activated the suspension clause of the Stability Pact, i.e. the rules that Member States have to follow in the area of public finances.

In addition, on 19 March 2020 the European Commission adopted a Temporary Framework to allow Member States to take full advantage of the flexibility provided by the rules on state aid to support the economy in the current Covid-19 emergency. Along with many other support measures that can be used by Member States under the existing rules on state aid, the temporary framework allows Member States to ensure that businesses of all kinds have sufficient liquidity and to maintain the continuity of economic activity during and after the Covid-19 epidemic.

This temporary framework, based on article 107 (3) (b) of the Treaty on the Functioning of the European Union, provides for five types of aid:

- direct grants, selective tax breaks and advance payments: Member States will be able to set up schemes to grant up to € 0.8 million to a company in urgent need of liquidity;
- state guarantees for bank loans contracted by businesses: Member States will be able to provide state guarantees to allow banks to continue providing loans to customers who need them;
- subsidised public sector loans to businesses: Member States will be able to grant loans with favourable interest rates to businesses. These loans can help businesses meet immediate working capital and investment needs;
- guarantees for banks that channel state aid to the real economy: some Member States plan to exploit banks' existing lending capacities and to use them as a channel for supporting businesses, especially small and medium-sized enterprises. The framework makes clear that such aid is considered direct aid to the customers of the banks and not to the banks themselves and provides guidelines to minimise any distortion of competition between banks;
- short-term export credit insurance: the framework introduces additional flexibility as to how to demonstrate that some countries constitute uninsurable risks on the market, thus allowing states to offer short-term export credit insurance coverage, where necessary.

On 3 April, the European Commission extended the Temporary State Aid Framework adopted on 19 March 2020 to allow Member States to accelerate the research, testing and production of coronavirus-related products, to protect jobs and further support the economy.

Modification of the temporary framework also widens the range of existing types of support that Member States can provide to firms in difficulty. For example, it now allows Member States to grant zero-interest loans, loan guarantees covering 100% of the risk or to provide capital up to a nominal value of € 0.8 million per company. This can also be combined with "*de minimis*" aid (bringing aid per company to Euro 1 million) and other types of aid. This possibility should be particularly useful for meeting the urgent liquidity needs of small and medium-sized enterprises very quickly. The modification will be effective until the end of December 2020.

On 14 April 2020, as part of the temporary state aid framework, the European Commission approved an aid package to support the Italian economy to deal with the effects of the Covid-19 epidemic. In order to implement these measures immediately, the Ministry of Economic Development made the guarantee request form for up to € 25 thousand available online. Circular 13/2020 of Mediocredito Centrale, the manager of the Guarantee Fund, also communicated that "following the authorisation granted by the European Commission" on 16 June, the amendments to art. 13 of the Liquidity for Companies decree (23/2020) are applied to requests for admission to the Fund submitted from 19 June 2020; as a result, companies and professionals can apply to banks for loans covered 100% by the SME Guarantee Fund of up to 30 thousand euro and with a ten-year term.

On 21 April 2020, the European Commission also approved two additional support schemes, for a total of 150 million euro, for the agriculture, forestry, fishing and aquaculture sectors in the context of the Covid-19 pandemic.

Italian government decrees

To counteract the negative effects that the Covid-19 emergency is having on the national socio-economic fabric and to prevent the transitory crisis from producing permanent effects, in the first few months of the year the Italian government has implemented a series of measures of extraordinary necessity and urgency. Among these, we note, in particular, Decree Law 18/2020 issued on 17 March 2020 "Measures to strengthen the National Health Service and economic support for families, workers and businesses related to the Covid-19 epidemiological emergency" (the "**Cure Italy**" decree) and Decree Law 23/2020 issued on 8 April 2020, "Urgent measures regarding access to credit and tax obligations for companies, special powers in strategic sectors, as well as interventions on health and work, extension of administrative and procedural terms" (the "Liquidity decree") which, within their vast sphere of intervention, contain a series of provisions that are important for the banking system.

The Cure Italy decree acts along four main lines of intervention. First of all, the resources available to the health system have been enhanced, also aimed at hiring doctors and nurses and increasing the number of intensive care units. Secondly, measures to support household income are being introduced through a multiplicity of tools, most of which are intended to strengthen social safety nets throughout the country for employees and for self-employed workers and specific sectors. In particular, the existing social safety nets, such as the Ordinary Redundancy Fund[1], the Wage Integration Fund and the Redundancy Fund in Derogation have been extended to all companies forced to limit or stop business due to Covid-19, reducing the working hours of employees in whole or in part. In addition, the decree suspends lay-offs for economic reasons for the duration of the emergency. The third line of intervention relates to support for corporate liquidity, put at risk by the collapse of demand following the block on economic activity, through the banking system and the use of the Central Guarantee Fund. The Italian government's primary objective is to prevent the difficulties of the real economy from escalating due to a lack of liquidity and a credit squeeze. The following matters are foreseen in particular:

- the temporary postponement of deadlines for payments of tax and social contributions;
- the obligation to maintain banks' credit lines[2] to respond promptly to the exceptional nature and urgency of liquidity, especially of small and medium-sized enterprises (SMEs);
- recognition to banks by the State of guarantees on one third of the loans subject to a moratorium. At the same time, the Central Guarantee Fund for SMEs has been strengthened, in terms of resources and

[1] the introduction of "National Covid-19" as a new explanation for a banking transaction.

[2] Banks are obliged to: i) grant the suspension of mortgage and loan repayments until 30 September; ii) keep available any amounts not yet drawn down on lines of credit and iii) not to revoke lines of credit and advances already granted.

operating methods, and a public guarantee has been given on the exposures assumed by Cassa Depositi e Prestiti in favour of banks and financial intermediaries that provide loans to companies affected by the emergency that operate in specific sectors.

The fourth line of intervention of the Cure Italy decree concerns aid for the sectors that have been damaged the most, such as the tourism/hotel sector, transport, catering and bars, culture (cinemas, theatres), sports and education.

Among the tax changes made by this decree, there is art. 55 "Financial support for businesses" which introduces important measures in favour of selling non-performing loans. In particular, the company that completes the sale of pecuniary claims against defaulting debtors by 31 December 2020, has the possibility of transforming the deferred tax assets (DTA) deriving from the following components into tax credits:

- tax losses not yet deducted from taxable income on the date of sale;
- the notional return exceeding total net income, not yet deducted or used as a tax credit on the date of sale (so-called ACE Excess);

for a total amount not exceeding 20% of the nominal value of the receivables sold, with a maximum limit of 2 billion euro of gross value of the receivables sold for each company (taking into account all sales made by 31 December 2020 by companies linked together by control relationships). These provisions are not applicable to companies for which the state of financial difficulty or the risk of financial difficulty or the state of insolvency has been ascertained.

Lastly, of the other measures introduced by the Cure Italy decree, mention should be made of art. 106, which allows companies to extend the deadline for approval of their financial statements for the year ended 31 December 2019 to 180 days, establishing, also by way of derogation from the current articles of associations, the possibility of voting electronically or by correspondence, of attending the meeting remotely by video/audio conferencing equipment and, lastly, the possibility of designating for the ordinary or extraordinary meetings the representative envisaged by art. 135-undecies of Legislative Decree 58 of 24 February 1998.

The Cure Italy decree was converted into Law 27/2020, which was published in the Official Journal on 29 April 2020. The main changes introduced during the process of conversion into law include the extension of the beneficiaries of the “first home” mortgage solidarity fund, the so-called Gasparrini Fund, providing, among other things, for the suspension of mortgage loans of up to 400 thousand euro (the previous threshold was 250 thousand euro), as well as of mortgages granted through the Guarantee Fund for first home purchase loans, managed by CONSAP S.p.A.

The **Liquidity Decree** introduces urgent measures regarding access to credit and postponement of obligations for companies, as well as special powers in sectors of strategic importance and justice, to deal with the consequences of the coronavirus emergency. In particular, it ensures the granting of credit for 400 billion euro to the economy (on top of the 350 billion subject to a moratorium or guaranteed by the Cure Italy decree); it also envisages:

- specific measures to facilitate access to credit, to support liquidity, exports, internationalisation and capital investment; among these, enhancement of the guarantees granted through SACE Simest, a company of the Cassa Depositi e Prestiti Group, on loans of companies affected by the emergency, provided that the loans are intended for production activities located in Italy;
- faster payment of suppliers by the public administration;
- strengthening of special powers in areas of strategic importance and financial transparency obligations; among these, an extension of the "golden power", i.e. the instrument that allows the State to authorise in advance corporate operations in companies operating in strategic sectors for the country system, such as banking, insurance, water and energy, in order to block hostile takeover bids;
- other tax and accounting measures, such as a further postponement of tax obligations by workers and businesses, and other measures, such as the temporary postponement of the deadline for adjourning

civil and criminal proceedings pending at all judicial offices, as well as suspension of the deadline for carrying out any act of civil and criminal proceedings.

On 14 May 2020, the Government adopted urgent measures in the field of health, support for work and the economy, as well as social policies, connected to the epidemiological emergency caused by Covid-19 ("**Relaunch Decree**"). The main measures to support businesses include:

- a non-refundable contribution in favour of persons carrying on business and self-employment activities, one-man businesses with VAT number, including companies carrying on agricultural or commercial activities, also in the form of a cooperative, with turnover in the last tax period of less than 5 million euro. The contribution is due if turnover in April 2020 was less than two thirds of the turnover in April 2019.
- the exemption from paying the IRAP balance due for 2019 and the first instalment, equal to 40%, of the IRAP advance due for 2020 for companies with revenues of between 0 and 250 million and self-employed workers with a corresponding amount of income. The obligation to pay advances for the 2019 tax period remains valid;
- for persons engaged in a business, art or profession, who have suffered a decrease in turnover of at least 50% in March, April and May compared with the same months of the previous tax period, a tax credit of 60% of the monthly amount of the rent for non-residential properties used for industrial, commercial, craft, agricultural, tourist activities or for the habitual and professional exercise of a self-employed activity;
- abolition of payment of the first instalment of IMU (State and Municipality quotas) due on 16 June 2020 for owners of properties classified in cadastral category D/2, i.e. hotels and guest-houses, providing their owners are also the managers of the activities carried on there. The decree also provides the same facility for bathing, maritime, lake and river establishments;
- the reduction in expenses incurred by low voltage electrical utilities other than domestic use, with reference to the items in the utility bill identified as "meter transport and management" and "general system charges";
- strengthening the capital of small and medium-sized enterprises, with the possibility for natural persons to detract and for legal entities to deduct, for 2020, 20% of the amount invested by the taxpayer in the share capital of one or more joint-stock companies, in limited partnerships, limited liability companies, also simplified, cooperative enterprises, which do not operate in the banking, financial or insurance sector. The maximum amount of investment that can be detracted/deducted must not exceed 2,000,000 euro;
- additional rules to simplify and speed up venture capital-raising operations through increases in capital of companies;
- authorisation to Cassa Depositi e Prestiti S.p.A. (CDP) to set up a specific fund, called the "Relaunch Fund", to which assets and legal relationships can be contributed by the Ministry of Economy and Finance. It can be divided into sectors and its resources will be used to support and relaunch the Italian economy, in compliance with the European Union regulatory framework on State aid adopted to cope with the Covid-19 emergency or at market conditions.
- establishment of the "SME Capital Fund", the management of which will be entrusted to Invitalia S.p.A., the national agency for the attraction of investments and company development. The purpose of the fund will be to subscribe, by 31 December, participatory financial instruments issued by the companies already indicated in the previous point;
- establishment at the Ministry of Economic Development of the "Fund for safeguarding employment levels and the continuation of business activities", with a budget of 100 million euro for 2020 and an increase in the national fund to support access to rental housing, of the fund to cover the guarantees granted to small and medium-sized enterprises, of ISMEA (Institute of services for the agricultural food market) for guarantees to SMEs in the agro-food sector, the first home loan guarantee fund, the fund for the purchase of vehicles with low CO_2 emissions, of the integrated promotion fund established by

the "Cure Italy" decree, of the 394/81 fund for the internationalisation of SMEs, with the further establishment of a guarantee fund aimed at relieving small and medium-sized enterprises that draw on credits for internationalisation from the costs and administrative burdens deriving from the need to provide bank guarantees and insurance for part of the loans obtained;

- establishment at the Ministry of Economic Development of a "Technology Transfer Fund", aimed at promoting initiatives and investments useful for the enhancement and use of research results at companies operating on the national territory, with particular reference to innovative start-ups;
- further rules aimed at strengthening public support for the birth and development of innovative start-ups, acting within the ambit of "Smart&Start Italia";
- the provision that the regions and autonomous provinces, other territorial bodies, Chambers of Commerce can adopt direct aid measures, out of their own resources, up to an amount of 800,000 euro per company, granted in the form of direct grants, tax benefits and payment or other forms, such as repayable advances, guarantees, loans and equity investments.

Monetary policy interventions

Financing operations

At the meeting of 12 March 2020, the Governing Council of the ECB approved some significant changes to refinancing operations, while leaving the interest rate on the main refinancing operations and interest rates on marginal loans and deposits unchanged. In particular:

- an increase in the nominal amounts required for access to TLTRO III and an improvement in the conditions applied;
- the introduction of new refinancing operations (LTRO).

With reference to TLTRO (Targeted Longer-Term Refinancing Operations) III, the maximum total amount that counterparties are entitled to borrow has been increased, for all future operations, from 30% to 50% of the stock of eligible loans as of 28 February 2019, while the 10% limit of the stock of eligible loans, applied to determine the amount of funds obtainable in each transaction, has been removed. Particularly favourable conditions are applied in the period from June 2020 to June 2021: during this period, the interest rate on TLTRO III transactions will be 25 basis points lower than the average rate applied in the Eurosystem's main refinancing operations (MRO - Main Refinancing Operations).

In the same period, for counterparties that have net lending between 1 April 2020 and 31 March 2021 that is not negative, the interest rate applied on existing TLTRO III will be 25 basis points lower than the average interest rate applied on the Deposit Facility in the same period and, in any case, not exceeding -0.75%.

The option to repay the amounts borrowed under TLTRO III before their final maturity was brought forward one year by the settlement of each operation (instead of two years), starting from September 2021.

On 30 April 2020 the Governing Council decided to further relax the conditions applied with reference to the interest rate and the incentive mechanism. In particular:

- for the period from 24 June 2020 to 23 June 2021 the interest rate on all TLTRO III operations will be 50 basis points (instead of 25) lower than the average rate applied to MROs in the same period (currently 0%);
- for counterparties whose net lending in the period 1 March 2020 - 31 March 2021 is not negative, the interest rate applied from 24 June 2020 to 23 June 2021 on all TLTRO III transactions will be 50 basis points (instead of 25);
- for banks that achieve this net lending target, more favourable conditions will be applied for the duration of the operations; otherwise the remuneration scheme originally envisaged will apply, in other words: "base" rate equal to the average of the MRO rate over the life of the operation, reduction of

this rate in the event of exceeding a certain net lending benchmark in the period 1 April 2019 - 31 March 2021, up to a minimum equal to the average of the DF rate. Lastly, the net lending threshold, in excess of the benchmark, to be reached in order to benefit from the maximum rate reduction, was reduced from 2.5% to 1.15%.

The Governing Council of the ECB, at its meeting on 7 April 2020, approved measures aimed at loosening the eligibility criteria and the risk control system applied to the activities that can be lodged as collateral for the Eurosystem's refinancing operations, in response to the economic and financial crisis caused by the Covid-19 pandemic. The measures introduced are aimed at widening the availability of guarantees, facilitating banks' access to financing and supporting credit for businesses and households by strengthening the use of guaranteed loans and a general increase in risk tolerance by the Eurosystem.

These temporary interventions will remain in force until the end of the pandemic emergency purchase programme (PEPP). By the end of 2020, the Governing Council will assess whether an extension is needed to continue ensuring adequate availability of guarantees for counterparties.

On 22 April 2020 the Governing Council of the ECB adopted temporary measures (applicable until September 2021) to mitigate the effects on the availability of collateral to guarantee refinancing operations of possible rating downgrades of negotiable assets due to the Covid-19 pandemic.

In particular, the Governing Council introduced a grandfathering regime under which negotiable assets and issuers that met the minimum credit quality requirements for the eligibility of guarantees at 7 April 2020 (BBB- for all activities, with the exception of the ABS) will continue to be eligible in the event of rating downgrades, provided their rating remains equal to or greater than credit step 5 on the Eurosystem's harmonised rating scale (equivalent to a BB rating).

The measures adopted therefore offer protection against potential risks of a downgrade and consequent ineligibility of all negotiable assets (securities) included in the Group's counterbalancing.

On 30 April 2020, the Governing Council of the ECB decided, temporarily, to carry out longer-term refinancing operations for the pandemic emergency (PELTRO) to support the liquidity of the Eurozone's financial system and help preserve the orderly functioning of money markets by providing effective liquidity support after the expiry of the additional LTROs carried out since March 2020. Counterparties participating in PELTRO will be able to benefit from the easing of the eligibility criteria applicable to assets that can be lodged as collateral, which are in force until the end of September 2021.

Market liquidity support

At the same meeting on 12 March 2020, in addition to the current asset purchase programme (APP), the ECB activated a temporary window to increase the purchase of securities, up to the end of the year, for a total of 120 billion euro, with a view guaranteeing favourable financing conditions for the real economy in a context of considerable uncertainty.

Faced with the rapid spread of the epidemic and the onset of significant turbulence in financial markets, on 18 March the Governing Council, during an extraordinary meeting, introduced a new programme for the purchase of public and private securities for the pandemic emergency (PEPP) for a total of 750 billion euro.

The purchases, which will be carried out in a flexible manner over time, involving types of assets and in different jurisdictions, will continue at least until the end of the current year and, in any case, for as long as the epidemic persists; they will concern all financial assets covered by the APP, including government bonds issued by Greece, which have not hitherto been admitted to the Eurosystem's programmes. The Governing Council has also included commercial paper with adequate creditworthiness on the list of assets eligible under the programme to purchase bonds issued by non-financial companies of countries in the Eurozone (Corporate Sector Purchase Programme, CSPP).

Regulatory and supervisory interventions by institutions

The European institutions - European Commission, European Council and Parliament - the Italian and European Supervisory Authorities - EBA, ESMA, ECB/SSM, Bank of Italy, SRB - international institutions - IASB, Basel Committee - are adopting a series of measures to deal with the effects of the Covid-19 pandemic on the economy. These are measures designed to support banks in mitigating the economic impact of the pandemic.

Regulatory interventions

Capital requirements

The European Central Bank (ECB), on 12 March 2020, issued a press release "ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus" which indicated important measures with reference to the capital and liquidity requirements of banks, for the duration of the Covid-19 pandemic, which in all respects represents a situation of severe systemic stress.

Specifically, the ECB has envisaged, among other things:

- the possibility of operating temporarily below the level of capital established by the Pillar II Capital Guidance (P2G), the capital conservation buffer (CCB) and the liquidity coverage ratio (LCR);
- the possibility of partially using Additional Tier 1 or Tier 2 Capital to meet the requirement of Pillar II, anticipating a measure contained in the Capital Requirements Directive V (CRDV), which was due to come into force in 2021. These measures help free up capital that banks can use to support the economy. In this regard, the ECB underlined the fact that banks should not use the positive effects of these measures to increase dividends or bonuses;
- application of the preferential treatment to non-performing exposures (NPE) currently envisaged for loans guaranteed by official export credit agencies to exposures that become non-performing and which benefit from public guarantees granted for the Covid-19 emergency (i.e. a minimum coverage of 0% for seven years as part of the so-called "calendar provisioning" envisaged by the Addendum).
- The ECB also indicated that maximum flexibility regarding NPE reduction strategies will be ensured, taking into account the extraordinary nature of current market conditions.

On 26 June 2020, the European Commission adopted EU Regulation 873/2020 containing a number of measures for easing capital requirements, such as:

- an amendment to the transitional provisions of IFRS 9 "Financial Instruments", which allows banks to sterilise in a declining manner the capital impacts associated with the increase in loan loss adjustments recorded in the period 2020-2024 of stage 1 and 2 portfolios compared with 1 January 2020. In particular, the amendment provides for the re-introduction into Tier 1 capital of a progressively declining share of the higher adjustments equal to 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024;
- on the bank's request, the possibility to sterilise any unrealised gains and losses accumulated as of 31 December 2019 and recognised in the financial statements under "Changes in the fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI)", corresponding to exposures to central administrations, regional administrations or local authorities for the period 2020-2022;
- bringing forward the date of application of (a) SMEs Supporting Factor, (b) Infrastructure Supporting Factor and (c) fairer calibration of salary- or pension-backed loans;
- once approved, the application of the EBA's regulatory technical standards (RTS) on the prudential treatment of software; the latest revision of the CRR introduced provisions to modify the regulatory treatment of software assets, envisaging their exclusion from the deductions from CET 1. The EBA was commissioned to develop technical standards (still being drafted, with a June 2020 deadline), to specify how to apply this exemption. The date of application of the new prudential treatment of

software was set at 12 months from the entry into force of the above RTS. To free up capital and support the digital investments of the banks, the Commission has proposed to bring forward the date of application to the date on which the Technical Standards come into force;

- the amendments to the Regulation on the prudential backstop for non-performing loans ("calendar provisioning"), or the extension of the preferential regime envisaged for loans guaranteed by Export Credit Agencies (SACE in Italy) as regards the provisioning obligations (0% for the first 7 years, 100% provision only in the eighth year), to all loans guaranteed by the State (only for the guaranteed portion of the loan);
- As regards the leverage ratio, the change in the compensation mechanism associated with the discretion of the competent authority to allow banks to temporarily exclude exposures in the form of central bank reserves from the calculation of the leverage ratio.

Liquidity requirement

With reference to the liquidity requirement, the ECB has granted the possibility to supervised banks to operate also under 100% of the liquidity coverage ratio. The ECB has clarified the temporary nature of the measures taken, reiterating their validity until further notice.

Classification of exposures for accounting and prudential purposes

Various authorities and standard setters have expressed themselves regarding the prudential and accounting rules on credit risk: European Commission, Ecofin, ECB, EBA, ESMA, IASB, BCBS. The general recommended line is to fully utilize the flexibility of accounting and prudential rules in order to support families and businesses affected by the pandemic.

The suggested flexibility is also to avoid excessive pro-cyclical effects; at the same time, the authorities have stressed the importance of banks continuing to measure risks accurately and transparently.

More specifically, the indications provided by the authorities can be grouped into the following areas:

- classification as forborne;
- classification as performing/non-performing;
- updating of macroeconomic scenarios;
- assessment of a significant increase in credit risk (SICR) for IFRS 9 purposes;
- accounting for the effects (gain/loss from forbearance) relating to contractual changes deriving from customer support measures;
- inclusion of state guarantees in the calculation of ECL for IFRS 9 purposes;
- financial disclosures.

Classification as forborne

The European Banking Authority (EBA) intervened on this specific aspect with a document dated 25 March 2020 called "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of Covid-19 measures", which discussed the accounting and prudential issues relating to the potential reclassification of loans as a result of public and private moratoriums and other forms of support adopted in response to the pandemic.

In particular, the EBA specifies that the public and private moratorium measures granted in connection with the pandemic, being designed to mitigate systemic risks and not specific needs of a single debtor, must not be automatically classified as forbearance measures, neither for the purpose of classifying the loans that benefit from it, nor for IFRS 9 purposes (i.e. for transfers between risk stages, particularly transfers to stage 2 and consequent recognition of the expected lifetime loss instead of the 12-month loss), as well as for the prudential classification of positions among non-performing loans.

That said, the EBA recalls that, even in this specific circumstance, the banks are called upon to assess the creditworthiness of the debtors who benefit from the moratorium and, consequently, to consider reclassifying those debtors that show a deterioration in their creditworthiness.

In carrying out these assessments - which may concern a large audience of debtors - banks will have to shy away from automatic approaches and give preference to risk-based analyses. Furthermore, once the moratoriums are over, particular attention must be paid to companies that have late payments or other signs of deterioration in their creditworthiness.

On 2 April 2020, the EBA also published the document called "Guidelines on legislative and non-legislative moratoriums on loan repayments applied in light of the Covid-19 crisis", which gives detailed criteria that must be respected for the public and private moratoriums granted by 30 June 2020, so that they are not classified as exposures subject to onerous concessions or restructurings. The guidelines also establish that banks must continue to identify promptly any situations of possible financial difficulty on the part of debtors and provide for consistent classification in accordance with the regulatory framework.

The EBA's guidelines refer both to moratorium measures based on legislation and to measures based on private initiatives that have "general scope", i.e. granted by banks in order to prevent systemic risk by giving widespread support to all companies temporarily in difficulty due to the pandemic. It should be noted that the guidelines set out a series of conditions that must all be satisfied in order for a moratorium measure to be considered "of general scope":

1. the moratorium finds its source in national law or private initiative. In the latter case, the measure must be based on an intervention scheme widely shared within the banking sector, in order to guarantee uniformity in the moratoriums granted by the various credit institutions;
2. the moratorium is applied in relation to a broad spectrum of debtors, determined on the basis of general criteria, such as belonging to a certain type of customers (retail, SME, etc.), originating from one of the areas most affected by the pandemic, the type of exposure (mortgage, lease, etc.), belonging to a production sector that has been particularly affected, etc;
3. the measure is based solely on a modification of the payment deadlines and, therefore, may consist of a suspension of payments, a rescheduling of them, or a temporary reduction in the capital and/or interest to be paid. The moratorium, therefore, cannot entail the modification of other contractual clauses (such as, for example, the interest rate);
4. the moratorium is applied on the same conditions to all subjects that benefit from it;
5. the measure is not granted on loans stipulated after the date on which the moratorium was announced;
6. the moratorium is established in order to cope with the emergency generated by the Covid-19 pandemic and is applied before 30 June 2020.

If it meets the requirements listed above, the moratorium measure must not be qualified as a "forbearance measure" unless it was already so at the time of application of the measure.

Classification as performing/non-performing

The moratoriums granted in the context of the Covid-19 pandemic generate impacts on the recognition and reporting of past due loans as the past due calculation takes the agreed changes in payment deadlines into account; consequently such concessions should, in the short term, lead to a reduction in transfers to non-performing exposures as a result of suspending the deadlines for calculating loans that are past due.

Article 18 of the EBA "Guidelines on the application of the definition of default under art. 178 of Regulation (EU) No 575/2013" of 18 January 2017 (in force for the Group from 31 December 2020) established, in relation to legislative moratoriums, that the calculation of past due loans would be interrupted during the period of suspension of payments, leading to an extension of the period of 90 days as a trigger for the transfer of exposures to non-performing loans.

The EBA guidelines of 2 April 2020 referred to above equate moratoriums granted on a private basis in response to Covid-19 to public moratoriums; consequently, the latter also benefit from the interruption of the calculation of past due loans, providing they comply with the requirements of the EBA guidelines.

The EBA reiterates that the concessions made for Covid-19, in situations where there is practically no change in the present value of the cash flows subsequent to the contractual modification, are not to be considered onerous, they do not involve a transfer to default and represent a temporary relief for those who are unable to fulfil their contractual obligations because of the interruption of activities due to the pandemic.

The EBA underlines that banks are still obliged to evaluate the possible classification of customers benefiting from moratoriums under unlikely-to-pay, considering the debtor's ability to cope with the new payment plan (regardless of any public guarantee) and excluding the transfer of these loans to the "onerous restructuring" portfolio.

In this regard, the EBA recognizes that there may be difficulties in making individual assessments for the purpose of classifying a loan as non-performing; in this case the banks must adopt a risk-based approach (e.g. taking into account the sectors most exposed to the long-term effects of the crisis, such as transport, tourism, hotel, retail trade). It will therefore be important, after the suspensions linked to the Covid-19 moratoriums, to intercept those exposures that will show delays in payment with respect to the new repayment plans, for the purpose of timely classification as non-performing.

Updating of macroeconomic scenarios

In accordance with IFRS 9, the determination of expected credit losses (or, in any case, on all financial instruments that fall within the scope of application of this standard) must always be the result of a joint analysis of the following factors:

- an objective and probability-weighted amount determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and demonstrable information that is available without excessive cost or effort at the reporting date on past events, current conditions and forecasts of future economic conditions (in this case, the reference is to the inclusion of so-called "forward-looking" macroeconomic scenarios).

In the context of IFRS 9, information on future macroeconomic scenarios in which the Group is likely to operate and which clearly affect the situation of debtors with reference to both the "riskiness" of the migration of exposures to classes of lower quality (which would involve "staging") and recoverable amounts (involving the determination of the expected loss on exposures).

The crisis triggered off by the Covid-19 pandemic has produced a deterioration in the economic outlook: the context of pronounced uncertainty limits the reliability of available information, making the task of producing detailed long-term forecasts extremely difficult.

In June 2020, the ECB published a document entitled "Eurosystem staff macroeconomic projections for the Euro Area", which was followed by the "Macroeconomic projections for the Italian economy (coordinated by the Eurosystem)" published by the Bank of Italy in June.

Assessment of a significant increase in credit risk (SICR) for IFRS 9 purposes

Analysis of a significant increase in credit risk and, therefore, the identification of exposures to be included in stage 2 is, as indicated in IFRS 9, a multi-factor, holistic analysis which takes into account the changes in default risk over the expected life of the financial instruments. In this regard, ESMA, in its statement of 25 March 2020, indicated that when economic support programmes for businesses implemented by governments reduce the risk of default on a financial instrument, they must be appropriately considered in the assessment; a moratorium should not therefore be considered *per se* representative of a significant increase in the credit risk of the financial instrument. In addition, the specific circumstances related to the

Covid-19 epidemic are an adequate motivation to refute the presumption of a significant increase in credit risk for loans that are past due by more than thirty days. This provision also constitutes a significant change with respect to the ordinary rules of the IFRS 9 standard and will produce effects on transfers to stage 2. ESMA also invites banks to consider collective approaches, also recommended by the ECB, to evaluate a significant increase in credit risk; in other words, given the difficulty in identifying risk factors or indicators at the individual debtor level, the use of a top-down logic is suggested, i.e. starting from the risk level of specific portfolios (e.g. sectors most affected, such as tourism, hotel, air travel) and the credit rating prior to the Covid-19 pandemic.

For staging purposes, the EBA also underlines the need to distinguish those exposures that will suffer a temporary deterioration in their credit standing from those that will undergo a structural deterioration: a transfer to stage 2 must only be considered for the latter.

Accounting for the effects (gain/loss from forbearance) relating to contractual changes deriving from customer support measures

ESMA is of the opinion that banks ought to assess whether support and economic relief measures could lead to a change in the characteristics of the financial assets and, consequently, their derecognition also in relation to the substantial nature of the change. This assessment must include both qualitative and quantitative criteria. In light of current circumstances, the Authority reiterates that it is unlikely that the change would be considered substantial and lead to derecognition, if the financial support measures provide temporary relief to the debtors affected by the Covid-19 epidemic and the net economic value of the loan is not significantly affected. In any case, the entities must provide adequate disclosure of the accounting policies adopted to determine the substantial nature of the change.

Inclusion of state guarantees in the calculation of ECL for IFRS 9 purposes

The guarantee measures of sovereign states provided in conjunction with legislative moratoriums or other support measures have different characteristics in different jurisdictions, but they share the fundamental one of guaranteeing partial or complete recovery of the loans being supported.

On the basis of IFRS 9, ESMA reiterates that such guarantees impact the measurement of expected losses insofar as they can be considered an integral part of the contractual conditions governing the loans and are not recognised independently. In this regard, ESMA recalls with reference to the first aspect that the guarantee does not have to be explicitly established in the contractual clauses (as envisaged by the Transition Resource Group for Impairment in December 2015): for example, this is the case of public guarantees provided jointly with large-scale debt moratoriums or economic support measures. The Authority stresses the importance of providing adequate information regarding the assessments made.

Financial reporting

In line with the ESMA statements published in March 2020 and in attention call no. 6/20 of 9 April 2020 "Covid 19 - Calling attention to financial disclosures", Consob underlines the importance that issuers provide updated information (i) on risks related to Covid-19 that may have an impact on the economic and financial situation, (ii) on any measures taken or planned to mitigate these risks, as well as (iii) an indication of a qualitative and/or quantitative nature of the potential impacts that have been considered when estimating the company's future performance. In relation to reports subsequent to 31 December 2019, it also draws the attention of directors to carefully evaluate the importance of business planning in order to consider the main risks related to the pandemic that could preclude the achievement of strategic objectives and/or compromise business continuity. These elements could constitute an indication that the assets entered in the financial statements may have suffered impairment, highlighting the need to estimate the recoverable value of the asset. Specific assessments will also be made on the other areas of the financial statements that could be impacted by the crisis.

With another call for attention no. 8/20 of 16 July 2020, on the recommendations provided by ESMA in the public statement "Implications of the Covid-19 outbreak on the half-yearly financial reports" of 20 May 2020, which it referred to in full, Consob put particular emphasis on the following aspects: (i) the importance when preparing half-yearly reports of the assessments that the directors are required to make pursuant to IAS 36 "Impairment of assets" (IAS 36 paragraphs 9 and 12), with particular reference to the fact that the effects of the Covid-19 epidemic may constitute indicators of impairment that require specific checks to be made on the recoverability of the assets, (ii) attention to the description of uncertainties and significant risks associated with Covid-19, especially if they cast doubt on business continuity, (iii) as regards the description of the impacts of the Covid-19 epidemic on the income statement, inclusion of information, also on a quantitative basis, in a single note of the interim financial report, in order to make users of the financial statements understand the overall impact of the pandemic on the economic results of the period, (iv) where available, presentation of detailed and specific information in relation to the impacts, present and future, of COVID-19 on strategic planning and plan targets, economic performance, financial situation and cash flows, with particular emphasis on measures adopted or planned to face and mitigate the impacts of COVID-19 on activities and economic results, indicating the implementation status.

Public disclosures

With its communication of 1 July 2020, the Bank of Italy implemented the Guidelines of the European Banking Authority (EBA) on reporting and public disclosure requirements for exposures subject to measures applied in light of the Covid-19 crisis (EBA/GL/2020/07). The Guidelines require that information be provided on a half-yearly basis starting from 30 June 2020:

1) loans subject to "moratoriums" that fall within the scope of the EBA Guidelines on legislative and non-legislative moratoriums on loan payments applied in the light of the Covid-19 crisis
2) loans subject to forbearance measures applied following the Covid-19 crisis;
3) new loans guaranteed by the State or other public body.

Initiatives of the Banco Desio Group

Worker safety

The initiatives undertaken at Group level, always in line with the indications of the Government Authorities, have constantly aimed at protecting the health and safety of workers and safeguarding business continuity.

To handle the epidemic, a collegial body called the Operational Prevention Committee was set up immediately. It oversaw all stages of event assessment and definition of the prevention and operational measures to be implemented by reconciling the emergency regulatory framework established by the competent Authorities and the technical-organisational measures that were necessary, also in terms of Safety and Prevention to protect workers' health. For the entire duration of the emergency, Group companies operated seamlessly for each service provided by the bank.

In relation to "231 risks", the action taken has been reported to the Supervisory Body - SB 231 - and to the Compliance Function regarding compliance with the provisions contained in the Consolidated Law on Occupational Health and Safety (Legislative Decree no. 81/2008).

The Parent Company's Board of Directors was kept constantly informed about the evolution of the crisis and on management of the emergency with dedicated communications.

From an operational point of view, as of February, a Healthcare Unit was set up by the Company Doctor to follow the evolution of the emergency and coordinate the necessary countermeasures. The Doctor kept the Bank constantly informed through daily updates and analyses, sharing proposals to cope with the emergency.

The Healthcare Unit's main areas of intervention were as follows:

- definition of guidelines on the action to be taken in the event of contact with people who test positive for coronavirus;
- study on the effectiveness of the various protective devices and identification of correct devices to be provided to employees;

- definition of guidelines on the management of pregnant women and immunosuppressed persons or chronic pathologies, also through the study and evaluation of specific cases;
- analysis of the international epidemiological emergency in order to implement specific action for employees returning from foreign countries.

The Company Doctor also takes part in meetings with the Workers' Representatives for Safety, the Employer, the Head of the Prevention and Protection Service, the Real Estate Function, in order to provide immediate support with regard to any reports of critical health issues that may emerge during the meetings.

With reference to the strategic initiatives adopted, the main ones are reported below.

- Remote work: working from home was introduced for Banco Desio Group Head Office Personnel and also for certain people in the Commercial Network, taking care to safeguard the continuity of service to customers, calibrating times and methods of service to the public, taking into account the prescriptions and limitations introduced by national and local provisions introduced during the lockdown; this way of working from home, which was promptly and widely adopted, did much to mitigate the risk of contagion.

  Remote work was made possible by strengthening the technology infrastructure.

  The results obtained are remarkable:

  - for the corporate centre, the weekly average of personnel who worked from home was over 85%; this figure is currently lower as some of the staff are now working in the office on a shift basis. The company protocols comply with the regulations currently in force in terms of distancing, measuring body temperature and monthly supplies of PPE (masks, etc.);
  - for the distribution network, in addition to the use of remote working, remote methods of interaction were introduced with customers who, in cases of need, had access to the branches only by appointment and in compliance with the measures to prevent the risk of contagion (including the use of PPE or distancing).

- Branch closures: the time limit for the provision of services to customers was communicated to customers from time to time through notices outside the premises and information on the corporate website of the parent company, on the home page, recalling the availability of alternative channels to the traditional branch, such as the opportunity to use ATMs or Web Banking, which were functioning and operational.

- Answers to employees and customers: In the most critical phase of the epidemic, an additional telephone service was set up to serve customers and Group employees. The service provided a support plan for personnel and customers through a team of colleagues who provided answers on corporate procedures, information and customer services. The support was provided through the preparation of a dedicated e-mail address for requests from colleagues and a dedicated telephone number for customers.

- Information to branches: Group personnel have been constantly updated on emergency developments and the adoption of prevention protocols to be applied. In addition, from time to time steps were taken to prepare the signs to be affixed in the branches for the benefit of colleagues and customers.

- Procurement and cleaning: cleaning has been and is still carried out on a more rigorous basis than usual (every day, with the use of specific sanitizing products); protection masks, hand sanitizing gel and disposable gloves are distributed in all Head Office and Network structures. Plexiglass protection screens have been installed at cash desks.

- Information to staff: with the evolution of the health emergency and, consequently, the containment measures ordered by the Council of Ministers and by the individual Regions, detailed indications on company provisions were made available to all staff and kept constantly updated; the attention to internal communication was also underlined through a dedicated newsletter.

Commercial activity

In compliance with the operating restrictions imposed by measures to combat the spread of the virus and in an effort to remain close to all our customers, the Covid-19 emergency was dealt with by the Group on a reactive basis, placing the resources involved in a safe environment and allowing commercial activities to continue, also through remote working.

With this in mind, the reduction of Network and Head Office personnel was started as early as 24 February, activating remote work in a very short period of time as it was considered an emergency; to protect customers and employees in compliance with the Prime Ministerial Decree of 11 March 2020, the provision of cashier services in the morning was limited and the Group continued to make every effort to reduce the need for colleagues to move from home.

From Monday 16 March, the Bank's operations were guaranteed with no more than 30% of colleagues at Head Office and no more than 50% at the Network structures, guaranteeing basic services which was our responsibility to customers; on the same date, the new opening hours of the branches came into force and, in compliance with the Decree, they were communicated to customers through the Bank's website in the "Covid -19 Coronavirus emergency" section and via email to those who had given their consent to receive information. In the communication, customers were reminded not to go to the branch except for transactions that could not be postponed and it was emphasised that almost all banking operations could be performed via the internet and mobile banking, as well as at ATM points. We also suggested calling branches for information.

Given that we understood the strong economic impact of the epidemic on people and companies and in line with our values as a territorial bank, close to households and businesses, we took the following action to support our customers: extension of the "ABI Credit Agreement 2019" in favour of companies, steps to support corporate and retail customers such as suspension of the principal portion of mortgages for 6 or 12 months, free renegotiation fees where applicable, no change in the rates and charges applied, non-compulsory extension of the explosion-fire insurance coverage for mortgage and land loans.

The Group then shared and promoted the support measures introduced by the "Cure Italy" decree of 17 March 2020 and the "Liquidity" decree of 8 April 2020.

In order to facilitate and not hinder this process and at the same time to protect the health of customers and colleagues, an innovative procedure was activated, a remote service for the collection of requests in a simplified manner by certified e-mail (PEC) and subsequently by digital signature (Osiride).

The digital signature is a new and valuable service for the bank and customers, created in full Covid-19 emergency to exchange documents online and obtain the customer's digital signature on them with full legal validity; this method has contributed considerably to the automation and simplification of operating processes, with higher safety standards, eliminating paper and making the "remote" relationship with customers more agile and secure.

From 20 March, a plan was implemented which provided for the formation of a team to support all colleagues involved in customer relationships to facilitate procedures, information and services offered. The support was provided through:

- an email address (distantimauniti@bancodesio.it) for colleagues' requests;
- a dedicated telephone number (0362 613999) for customers' requests.

Through these dedicated channels, the team responded to questions, requests for information and news introduced by the various legislative decrees on the Covid-19 emergency.

During the same period, another measure was implemented to guarantee the provision of essential services to our customers and the operational continuity of our bank, authorising - on an exceptional basis and only for ninety days - the possibility to communicate stock market trading orders by telephone.

Following the agreement reached with the Bank's trade union representatives, a staff attendance plan was organised at the end of March for April, which was then extended for the months of May and June. In light of this protocol and the state of the emergency, a further reduction in cashier and advisory services was decided.

In April, the following services were ensured by appointment:

- cashier services on Mondays and Wednesdays only from 8.30 to 13.00;
- advisory services on Monday, Wednesday and Friday for the whole day.

In this way, colleagues' presence at branches was reduced to 50% on Monday and Wednesday, and to 40% on Tuesday, Thursday and Friday.

Credit and loans

With reference to the disbursement of loans, the social and economic emergency brought about by Covid-19 led to the need for proactive credit risk management. To this end, a series of initiatives were put in place to provide support to customers and to monitor requests and their stage of processing on a daily basis.

In particular, the Bank:

- launched certain measures in advance of the government's initiatives, allowing customers to suspend repayment of long-term loans for up to 12 months.
- adopted automated processes for the management of the moratoriums envisaged by the Cure Italy Decree as well as dedicated task forces to allow a faster and more adequate response to customers. This commitment meant that, as of 30 April, 21 thousand applications for a moratorium on loans for a total of Euro 2.6 billion had already been processed for households and companies and 5 thousand applications for microloans of less than Euro 25 thousand had been approved with simplified procedures for a total value of approximately Euro 100 million.
- dedicated company policies were developed for loans of up to Euro 30 thousand, as provided for in article 13, m) and m-bis) of the Liquidity Decree, with a more streamlined approval process than the normal one, while respecting the credit merit analysis and regulatory obligations (e.g. anti-money laundering, privacy, etc.).

  In order to speed up the process of requesting the guarantee from MCC, collaboration was started with an additional provider and a task force of about 40 people was set up in May which allowed processing up to about a thousand dossiers per day, approving about 11 thousand requests to date.
- With regards to loans for an amount greater than Euro 30 thousand, lines of strategy have been drawn up in order to support customers with new finance or renegotiations.

All loan operations carried out by the Bank as a result of the health emergency have been appropriately coded so that we can govern and monitor the situation day-by-day.

The concessions or suspensions carried out for legislative "Covid" purposes have not been classified as forborne (according to the indications provided by the supervisory authorities). In the case of a moratorium decided by the Bank, specific assessments are carried out only for positions with companies that already had a higher level of risk before the outbreak of the pandemic, to verify whether or not to consider renegotiation as a forbearance measure, with a consequent transfer to stage 2.

To assess how the macroeconomic scenario is likely to evolve, estimates of impacts on the sector and the tools available to deal with the crisis and the new scenario that will emerge at the end of the emergency were examined in depth.

This activity, which is still in progress, involves the integration of "Covid-driven" indicators provided by external companies so as to define a clustering of the loan portfolio on the basis of risk and to identify the strategies to be activated in terms of support and risk mitigation.

As regards the management of non-performing loans, the expected performance levels were reviewed and closer monitoring was begun on all the main exposures. Attention was given to developments relating to the difficulties of the period in the operational management of the UTP portfolio with an estimate of the impact on the recovery of doubtful loans due to the deferral of court proceedings and the suspension of procedural deadlines. As of today, we cannot exclude potential impacts from the cancellation of mortgage enforcements on real estate until 31 July and from the possibility of requesting new ones only from 1 September 2020.

Particular attention was paid to recoveries from private individuals, also in order to mitigate potential reputational risks that in this context can derive from the credit recovery action and from the steps involved in reclassifying the loan to doubtful (letter of formal notice, etc.).

Another aspect to which particular attention has been paid concerns the management of requests for suspension of payments (and remodelling requests) of "unlikely to pay" customers (excluded from the "Cure Italy" decree). In this context, it was decided to evaluate the requests for suspension for the UTP portfolio even if outside the perimeter of the law.

As of 30 June, the following have been granted:

a) legislative moratoriums with reference to approximately 10 thousand instalment financing relationships with a total exposure of 1.1 billion euro,

b) ABI moratoriums with reference to approximately 1,300 relationships for a total exposure of 0.2 billion euro,

c) moratoriums granted by the Bank outside the ambit of the decree and ABI for more than 12 thousand relationships with a total exposure of approximately 1.6 billion euro (of which over 8 thousand for 0.7 billion euro of exposure to customers with the remainder being to non-financial companies),

d) loans of up to 25 thousand euro backed 100% by the Guarantee Fund for SMEs (art.13 of the Liquidity Decree) equal to more than 9 thousand relationships for a total of approximately 0.2 billion euro,

e) loans of more than 25 thousand euro backed 100% by the Guarantee Fund for SMEs (art.13 of the Liquidity Decree) equal to approximately 600 relationships for a total of approximately 0.2 billion euro.

The disclosure required by the European Banking Authority (EBA) regarding the reporting and disclosure obligations to the public on the exposures subject to measures applied in light of the Covid-19 crisis (EBA/GL/2020/07) is provided below, for which the Bank of Italy has communicated to the Group the obligation to provide information to the public on a half-yearly basis starting from 30 June 2020. In particular, the Guidelines require that information be provided on:

1) loans subject to "moratoriums" which fall within the scope of the EBA's Guidelines on legislative and non-legislative moratoriums on loan payments applied in light of the Covid-19 crisis (EBA/GL/2020/02);

2) loans subject to forbearance measures applied following the Covid-19 crisis;

3) new loans guaranteed by the State or other public body.

Template 1: Information on loans and advances subject to legislative and non-legislative moratoria

	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non performing				Performing			Non performing			
			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
Loans and advances subject to moratorium	2,873,500	2,840,308	97,624	531,915	33,192	26,378	32,875	35,384	28,135	5,698	20,681	7,249	5,659	7,172	7,221
of which: Households	860,517	842,160	38,951	162,043	18,357	15,299	18,225	13,020	9,336	2,230	7,403	3,684	3,102	3,663	3,347
of which: Collateralised by residential immovable property	655,967	640,522	33,047	125,096	15,445	13,067	15,445	9,774	6,930	1,856	5,700	2,844	2,385	2,844	2,508
of which: Non-financial corporations	1,987,972	1,973,136	56,567	365,085	14,836	11,079	14,650	22,162	18,597	3,398	13,150	3,565	2,557	3,510	3,874
of which: Small and Medium-sized Enterprises	1,396,074	1,387,823	31,922	253,852	8,251	6,065	8,110	14,513	12,506	1,760	8,508	2,007	1,353	1,970	3,091
of which: Collateralised by commercial immovable property	677,672	668,698	38,791	168,829	8,974	8,233	8,974	11,928	9,919	2,370	7,949	2,009	1,871	2,009	599

Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

	Number of obligors	Gross carrying amount							
			Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was offered	19,372	2,873,500							
Loans and advances subject to moratorium (granted)	19,372	2,873,500	1,088,853	24,104	1,042,056	5,679	1,778,968	46,797	
of which: Households		860,517	130,256	17,573	83,459	5,679	724,582	46,797	
of which: Collateralised by residential immovable property		655,967	64,588	14,301	19,885		591,379	44,703	
of which: Non-financial corporations		1,987,972	952,345	6,531	952,345		1,035,627		
of which: Small and Medium-sized Enterprises		1,396,074	741,365	4,367	741,365		654,709		
of which: Collateralised by commercial immovable property		677,672	364,328	1,008	364,328		313,344		

Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: forborne	Public guarantees received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	370,188	179	333,622	374
of which: Households	75,074			70
of which: Collateralised by residential immovable property				
of which: Non-financial corporations	293,759	30	258,327	304
of which: Small and Medium-sized Enterprises	239,058			254
of which: Collateralised by commercial immovable property				

Business Continuity Management

In particular, business continuity management has ensured the operational continuity of critical and systemic processes through:

- the creation of separate teams to handle the core treasury and operational liquidity processes, working at the usual location, remotely from home and in the recovery room;
- the progressive use of remote working based on the evolution of the emergency and government instructions;
- progressive implementation of laptops for all other employees involved in critical processes.

The following steps were also carried out:

- 100 new laptops activated for remote working;
- the recording of financial orders from mobile phones activated;
- internal call centre "Distanti ma Uniti" activated;
- video conferencing system (MS Teams) and directory system federation (MS Active Directory Federation Service) activated;
- the crisis management process envisaged by corporate regulations has been activated - the emergency level was raised to 3 (defined as "extraordinary");
- the Crisis Management Committee (CMC) was convened and activated for emergency management;
- periodic participation in institutional discussions of CODISE (COmitato DI SErvizio for the management of crises in the banking system chaired by the Bank of Italy), ABI, COBAN, BCM Observatory.

Logical Safety and Physical Safety Management

In response to the extraordinary needs that have emerged in recent weeks related to the Covid-19 emergency, the Group has:

- increased by 1500 the number of user authentication licences (RADIUS system) in remote connection, considerably increasing the possibility of remote working;
- enhanced the perimeter of the Company's virtual private network (VPN) (around 500 users connected remotely so that they can work from home); in particular, licences were acquired to extend the number of users and systems were duplicated to increase performance and ensure that the service had a high level of reliability;
- strengthened security measures against cyber attacks;
- enhanced monitoring of extraordinary activities (sanitisation, ATM loading, etc.) on days that branches were closed (Tuesday and Thursday);
- adopted extraordinary security measures for the management of customer flows in branches at peak periods (e.g. pension payments);
- started a pilot project (branches with sliding doors) concerning the use of "anti-theft" technology for active management of the daily flow of customers (failure to comply with the rules laid down by the DPCM, etc.);
- access and attendance at the Desio and Spoleto offices are monitored on a daily basis.

Capital markets and the banking system in Italy

Money and financial markets

On 4 June 2020, the ECB confirmed interest rates (zero the reference rate, -0.50% on deposits). The Governing Council has decided on some changes to the Pandemic Emergency Purchase Programme (PEPP) which will be increased by 600 billion euro and therefore brought to 1,350 billion euro with an extended time horizon at least until the end of June 2021.

After the extraordinary decisions taken in March, the Fed confirmed its monetary policy during the June meeting. The rates therefore remained unchanged between 0% and 0.25%. In March it also announced a series of new measures to support the economy and facilitate the functioning of financial markets (a substantially unlimited QE on Treasury and other securities).

In the first ten days of July, the 3-month Euribor was again in negative territory (-0.43%, vs. -0.38% the previous month); the 10-year IRS rate, on the other hand, was -0.15% (vs. -0.10% in June). On the bond market, 10-year benchmark rates declined in the USA (0.67%, having been 1.80% at the end of 2019) and rose in the Eurozone; in Germany, the benchmark rate came to -0.50% (from -0.33% at the end of 2019), while in Italy it was 1.38% (up from 1.18%).

International share prices grew on a monthly basis. In detail, the Dow Jones Euro Stoxx index rose by 6.7% m/m (-4.6% y/y), the Standard & Poor's 500 index by 6.3% (+7.4% y/y) and the Nikkei 225 index by 10.2% (+6.8% y/y). Similarly, the major European stock market indices showed positive monthly performances; the FTSE Mib rose by +11.6% (-6.4% y/y), in France the CAC40 rose by +10.3% (-8.5% y/y), while in Germany the DAX30 rose by +11.8% (+1.0% y/y). The main banking indices tended to be rising on a monthly basis: the Italian FTSE Banks index rose by +19.8% m/m (-10.6% y/y), the Dow Jones Euro Stoxx Banks by +18.7% m/m (-26.7% y/y) and the S&P 500 Banks rose by +12.4% m/m (-17.6% y/y).

Banking markets

With regard to the banking market, the annual trend in deposits from resident customers in June 2020 increased (+4.7%). Internally, short-term deposits continued to grow (+6.1%, formerly +5.8% at the end of 2019), while bonds decreased (-3.9%, formerly -1.9% at the end 2019). The rise in volumes was accompanied by substantial stability in overall remuneration (0.56%, compared with 0.58% at the end of 2019). In terms of lending, the latest available data confirms the good trend in loans to the private sector (+2.1%, compared with +0.1% at the end of 2019) thanks to the economic measures provided for in the Liquidity Decree; the sector was led by loans to businesses (+1.9%, formerly -1.4% at the end of 2019), and to a lesser extent, to loans to households (+1.3%, formerly +2.4% in December 2019). Lending to the productive sector continues to be influenced by the trend in investments and the economic cycle that, despite the public support put in place following the Covid emergency, it remains of contained and fluctuating intensity. In June rates on new loans to households and businesses remained very low (2.37%). Within them, the interest rate on home purchase loans to households was 1.26% (1.44% in December 2019), while for loans to businesses it came to 1.28% (1.20% at the end of 2019).

The distribution network

The distribution network of the Banco Desio Group at 30 June 2020 consists of 253 branches, compared with 257 at the end of the previous year.

During 2020, the Rome Gregorio VII, Gualdo Cattaneo – San Terenziano, Solfignano Parlesca and Perugia Caduti del Lavoro branches were closed.

It should also be noted that the Pontedera branch will close in September 2020.

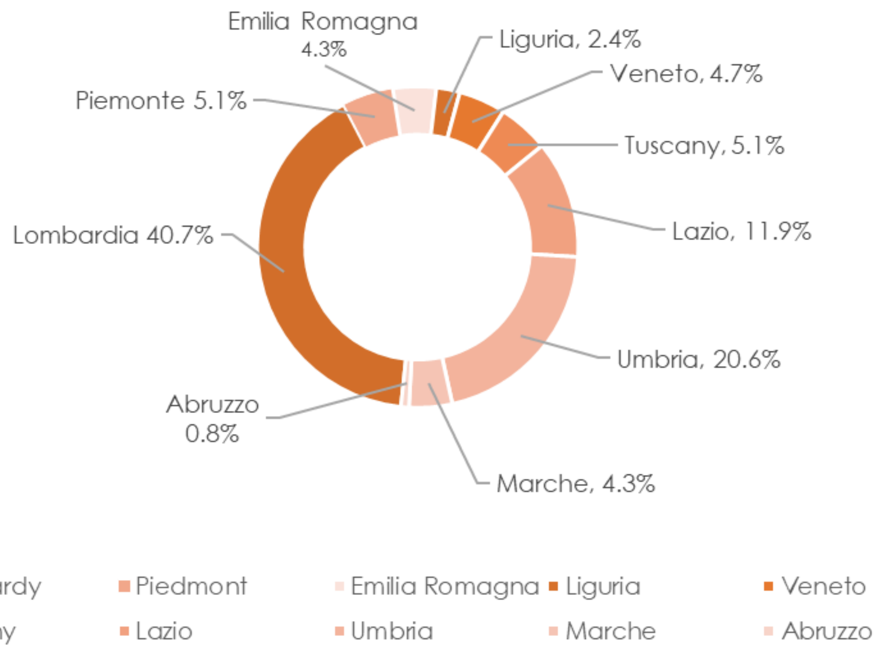
The Banco Desio Group is present in Italy in 10 regions (Lombardy, Piedmont, Veneto, Emilia Romagna, Liguria, Umbria - as Banca Popolare di Spoleto - Lazio, Tuscany, Marche and Abruzzo).

The organisational model envisages:

- a distribution network divided into Territorial Areas, each of which is supervised by an Area Manager, who acts as the principal commercial representative in the area, with clearer hierarchical and functional reporting lines by specialised professional figures (Corporate Bankers, Private Bankers, etc.) and the Branch Network;
- the assignment of specific roles to the resources working at branch level in order to guarantee a more targeted and specialised service to customers, as well as to promote career paths for employees based on their professional characteristics and management potential.

The following chart shows the breakdown of the Company's distribution network by region at 30 June 2020.

Chart no. 1 - **BREAKDOWN OF THE GROUP'S DISTRIBUTION NETWORK BY REGION**



Significant events during the period

Amendments to the Articles of Association di Banco Desio

Banco Desio's Extraordinary Shareholders' Meeting of 23 April 2020 approved the amendments to the Articles of Association concerning adaptation to the provisions on gender balance in the administrative and control bodies of listed companies, issued with Law 160 of 27 December 2019 which amended articles 147 ter, paragraph 1- ter, and 148, paragraph 1- bis, of Legislative Decree 58/98 increasing the share reserved for the less represented gender from one third to two fifths.

Approval of Banco Desio's financial statements and allocation of the result of the year

Banco Desio's Ordinary Shareholders' Meeting of 23 April 2020 approved the financial statements at 31 December 2019. As indicated in the press release of 1 April, in accordance with the Recommendation of the Bank of Italy on the distribution of dividends and in line with the clarifications provided by the European Central Bank, the Board of Directors resolved to maintain the initial proposal for the distribution of dividends, but making payment conditional on the successful reconsideration of the situation connected to the current health emergency.

In particular, payment of the dividend, equal to Euro 0.1036 for each of the 122,745,289 ordinary shares and Euro 0.1244 for each of the 13,202,000 savings shares, will only take place after 1 October 2020, under the condition precedent of compliance of the total distribution of the 2019 dividends with respect to (a) the legislative/regulatory framework of reference and/or any provisions and/or recommendations of the prudential Supervisory Authority as positively assessed by the Board of Directors and subsequently by the Shareholders' Meeting which must be convened for this purpose, together with (b) the evolution of the economic and financial situation of the overall context and of the Bank, it being understood that, if these conditions do not take place by the above deadline, the Board of Directors and therefore the Shareholders' Meeting convened for this purpose will be able to assess whether to take the necessary or appropriate resolutions in line with any provisions and/or recommendations of the Supervisory Authorities, also with reference to the distribution of the dividend to savings shares in compliance with the provisions of art. 31 of the Articles of Association.

The Board of Directors on 30 July 2020 took note of the issue of the Bank of Italy provision of 28 July 2020 which recommends all banks to abstain from paying dividends for the years 2019 and 2020 until 1 January 2021.

With regard to dividends, the resolution passed by the Shareholders' Meeting on 23 April 2020 in accordance with the previous Recommendation of 27 March 2020, as already illustrated in the previous disclosures to the public, remains valid, without prejudice to the extension of the payment suspension period until at least January 1, 2021 compared to the original deadline of October 1, 2020. It follows that the Board of Directors and therefore the Shareholders' Meeting will be able to evaluate the adoption of the necessary or appropriate resolutions, always in line with the recommendations of the Supervisory Authorities, after 1 January 2021, also with reference to the distribution of the dividend at savings shares in compliance with the provisions of art. 31 of the Statute.

With regard to remuneration, the Board of Directors has already approved on 25 June 2020 a revision of the bonus system such as to determine a significant reduction in the variable component ("bonus pool") for the current year.

Appointment of Banco Desio's Board of Directors and Board of Statutory Auditors

The Ordinary Shareholders' Meeting established that the number of Directors for the three-year period 2020-2022 should be 12 and appointed the Board of Directors and the Board of Statutory Auditors in accordance with the rules on gender balance as per Law 160 of 27 December 2019. These bodies - after appropriate resolutions adopted at the Board meeting held after the Shareholders' Meeting - are composed as follows:

Directors	
Stefano LADO	Chairman
Tommaso CARTONE	Deputy Chairman
Alessandro DECIO	Chief Executive Officer and General Manager (E)[3]
Graziella BOLOGNA	(E)
Valentina CASELLA	(I)[4]
Ulrico DRAGONI	(I) (M)[5]
Cristina FINOCCHI MAHNE	(I)
Agostino GAVAZZI	(E)
Egidio GAVAZZI	(E)
Tito GAVAZZI	(E)
Giulia PUSTERLA	(I)
Laura TULLI	(I)
Statutory Auditors	
Emiliano BARCAROLI	Chairman (M)
Rodolfo ANGHILERI	Acting Statutory Auditor
Stefania CHIARUTTINI	Acting Statutory Auditor
Stefano ANTONINI	Alternate Statutory Auditor (M)
Silvia RE	Alternate Statutory Auditor
Massimo CELLI	Alternate Statutory Auditor

The Board of Statutory Auditors was assigned the role of Supervisory Body pursuant to Legislative Decree 231/2001.

The Board of Directors, which met at the end of the Shareholders' Meeting, also approved the following composition of the Committees set up internally:

Executive Committee
Agostino GAVAZZI (Chairman)
Graziella BOLOGNA
Alessandro DECIO
Egidio GAVAZZI
Tito GAVAZZI

Risk Control and Sustainability Committee
Cristina FINOCCHI MAHNE (Chairwoman)
Tommaso CARTONE
Giulia PUSTERLA

Nominations Committee
Cristina FINOCCHI MAHNE (Chairwoman)
Stefano LADO
Laura TULLI

Remuneration Committee
Valentina CASELLA (Chairwoman)
Laura TULLI
Ulrico DRAGONI

Committee for Transactions with Related Parties and Associated Persons
Giulia PUSTERLA (Chairwoman)
Valentina CASELLA
Ulrico DRAGONI

Lastly, the Board of Directors resolved to assign the role of Deputy General Manager to Mr. Angelo Antoniazzi. With reference to the contents of the Code of Conduct and in relation to the termination of

[3] The names with an (E) have been identified as Executive Directors pursuant to the Code of Conduct for listed companies.
[4] The names with an (I) meet the independence requirements both of the Consolidated Finance Act (CFA) and of the Code of Conduct of listed companies.
[5] The names with an (M) are expressed by the minority list that received the highest number of votes.

office of Mr. Angelo Antoniazzi as General Manager, with the simultaneous assumption of the role of Deputy General Manager, we inform you that no indemnity and/or other benefits have been attributed or recognised to him.

Assignment of Banco Desio's independent audit mandate for the years 2021-2029

The Ordinary Shareholders' Meeting resolved to confer the independent audit mandate for the period 2021-2029 to KPMG S.p.A.

Appointment of Fides' Board of Directors

Fides' Ordinary Shareholders' Meeting of 16 June 2020 renewed the Board of Directors for the two-year period 2020-2021, thereby aligning its expiration with that of the Board of Statutory Auditors.

Appointment of the Board of Directors of Desio OBG

The Ordinary Shareholders' Meeting of Desio OBG S.r.l. renewed the Board of Directors for the three-year period 2020-2022.

Supervisory Review and Evaluation Process (SREP)

Following the periodic Supervisory Review and Evaluation Process (SREP), on 21 May 2020, the Bank of Italy informed Banco di Desio e della Brianza S.p.S. and the financial parent company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. of its decision regarding capital, ordering that, from the next report on own funds, the Brianza Unione Group was to adopt the following consolidated capital ratios:

- CET1 ratio of 7.35%, binding for 4.85% (minimum regulatory requirement of 4.50% and additional requirements of 0.35% as a result of the SREP), while the remainder is represented by the capital conservation buffer;
- Tier 1 ratio of 8.95%, binding for 6.45% (minimum regulatory requirement of 6.00% and additional requirements of 0.45% as a result of the SREP), while the remainder is represented by the capital conservation buffer;
- Total Capital Ratio of 11.10%, binding for 8.60% (minimum regulatory requirement of 8.00% and additional requirements of 0.60% as a result of the SREP), while the remainder is represented by the capital conservation buffer.

Participation in TLTRO 3

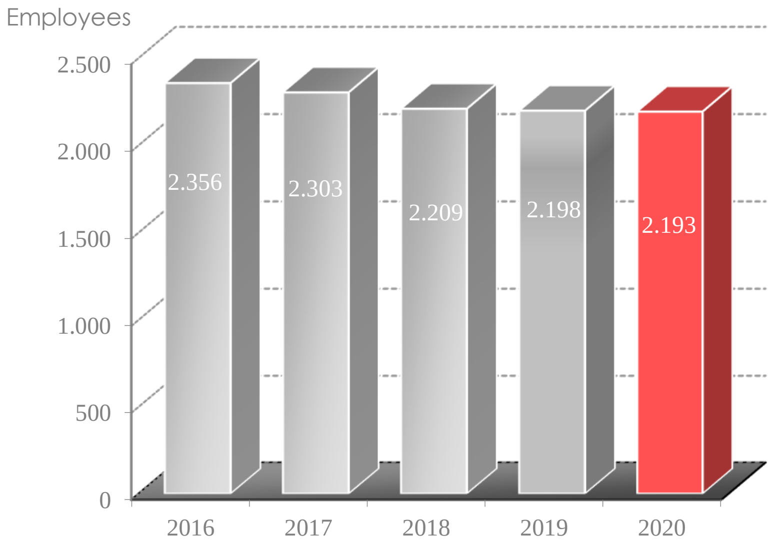
During the first half of the year, the European Central Bank stimulated bank lending by improving the conditions of TLTRO 3. Banco Desio participated in the auction last June for an amount of 1.2 billion euro (against the repayment of 800 million euro), bringing the total of TLTRO loans outstanding at 30 June 2020 to 2 billion euro.

Human resources

At 30 June 2020, the Group had 2,193 employees, a decrease of 5 people (-0.2%) compared with the end of the previous period.

The trend in the Group's workforce in recent years is shown by the chart below.

Graph no. 2 - ***TREND IN GROUP PERSONNEL IN RECENT YEARS***



The following table provides a breakdown of employees by level at the end of the first half of the year, compared with 2019.

Table no. 1 - **BREAKDOWN OF GROUP EMPLOYEES BY LEVEL**

					Change	
No. Employees	**30.06.2020**	**%**	**31.12.2019**	**%**	**Amount**	**%**
Managers	36	1.6%	34	1.5%	2	5.9%
3rd and 4th level middle managers	469	21.4%	467	21.2%	2	0.4%
1rd and 2th level middle managers	573	26.1%	579	26.3%	-6	-1.0%
Other personnel	1,115	50.9%	1,118	51.0%	-3	-0.3%
Group employees	**2,193**	**100.0%**	**2,198**	**100.0%**	**-5**	**-0.2%**

Results of operations

Savings deposits: customer funds under management

Total customer funds under management at 30 June 2020 reached Euro 27.0 billion, representing an increase for some Euro 0.3 billion with respect to the 2019 year-end balance (1.0%), attributable to the upward trend in both indirect (+0.8%) and direct deposits (+1.2%).

The composition and balances that make up this aggregate, with changes during the period, are shown in the following table.

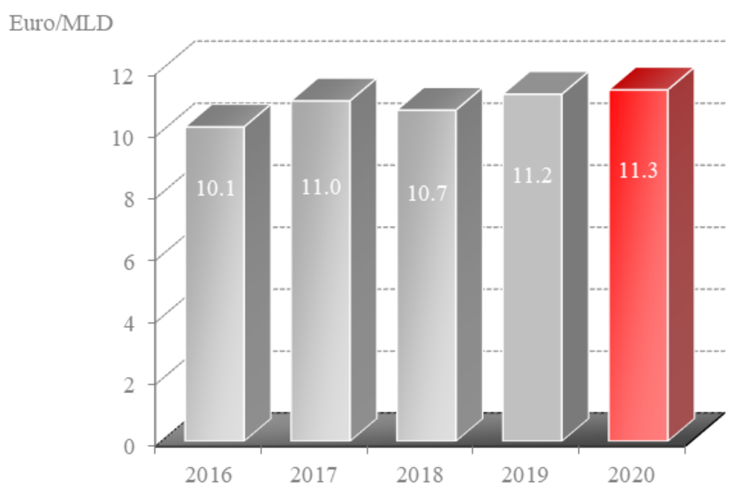
Table no. 2 - **TOTAL CUSTOMER DEPOSITS**

Amounts in thousands of Euro	**30.06.2020**	**%**	**31.12.2019**	**%**	**Change Amount**	**%**
Due to customers	9,686,545	35.9%	9,445,899	35.3%	240,646	2.5%
Debt securities in issue	1,647,866	6.1%	1,749,103	6.5%	-101,237	-5.8%
Direct deposits	**11,334,411**	**42.0%**	**11,195,002**	**41.8%**	**139,409**	**1.2%**
Ordinary customer deposits	9,643,626	35.7%	9,721,680	36.4%	-78,054	-0.8%
Institutional customer deposits	6,036,067	22.3%	5,840,695	21.8%	195,372	3.3%
Indirect deposits	**15,679,693**	**58.0%**	**15,562,375**	**58.2%**	**117,318**	**0.8%**
Total customer deposits	**27,014,104**	**100.0%**	**26,757,377**	**100.0%**	**256,727**	**1.0%**

Direct deposits

Direct deposits at the end of the first half-year amounted to Euro 11.3 billion, an increase of 1.2% which comes from the higher amounts due to customers of Euro 0.2 billion (+2.5%), partially offset by a reduction in debt securities in issue (-5.8%). The trend in direct deposits in recent years is shown in the following chart.

Graph no. 3 - **TREND IN DEPOSITS IN RECENT YEARS**



Indirect deposits

Overall, at 30 June 2020 indirect deposits posted an increase of 0.8% compared with the end of the previous year, rising to Euro 15.7 billion.
This trend is attributable to institutional customer deposits (+3.3%); deposits from ordinary customers, on the other hand, decreased by Euro 0.1 billion (-0.8%), due to the trend in assets under management (-1.3%), partially offset by assets under administration (+0.2%).

The table below shows details of this aggregate with the changes during the period.

Table no. 3 - **INDIRECT DEPOSITS**

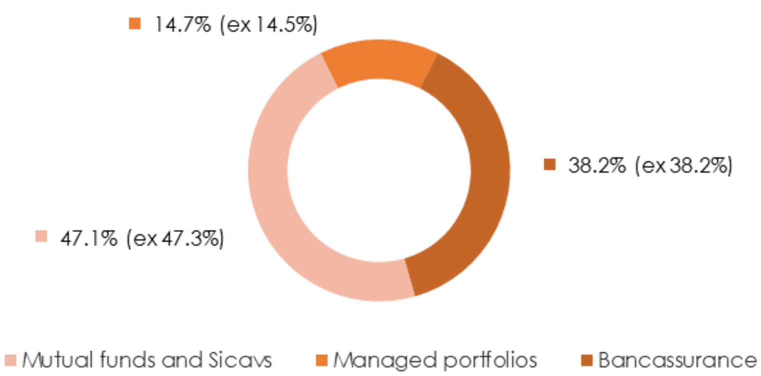
Amounts in thousands of Euro	**30.06.2020**	**%**	**31.12.2019**	**%**	**Change Amount**	**Change %**
Assets under administration	**3,085,231**	**19.7%**	**3,078,702**	**19.8%**	**6,529**	**0.2%**
Assets under management	**6,558,395**	**41.8%**	**6,642,978**	**42.7%**	**-84,583**	**-1.3%**
of which: Mutual funds and Sicavs	*3,088,059*	*19.6%*	*3,144,939*	*20.2%*	*-56,880*	*-1.8%*
Managed portfolios	*965,908*	*6.2%*	*966,037*	*6.2%*	*-129*	*0.0%*
Bancassurance	*2,504,428*	*16.0%*	*2,532,002*	*16.3%*	*-27,574*	*-1.1%*
Ordinary customer deposits	**9,643,626**	**61.5%**	**9,721,680**	**62.5%**	**-78,054**	**-0.8%**
Institutional customer deposits (1)	**6,036,067**	**38.5%**	**5,840,695**	**37.5%**	**195,372**	**3.3%**
Indirect deposits (1)	**15,679,693**	**100.0%**	**15,562,375**	**100.0%**	**117,318**	**0.8%**

(1) institutional customer deposits include securities of the Bancassurance segment of ordinary customers for Euro 2.5 billion (Euro 2.4 billion at 31.12.2019).

The graph below shows the breakdown of indirect deposits from ordinary customers by sector at 30 June 2020. The subsequent chart focuses on the composition of assets under management in the same period, highlighting how, although the "life" bancassurance component constitutes the largest share, mutual funds and Sicavs also increase.

Graph no. 4 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 30.06.2020**

Graph no. 5 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 30.06.2020**

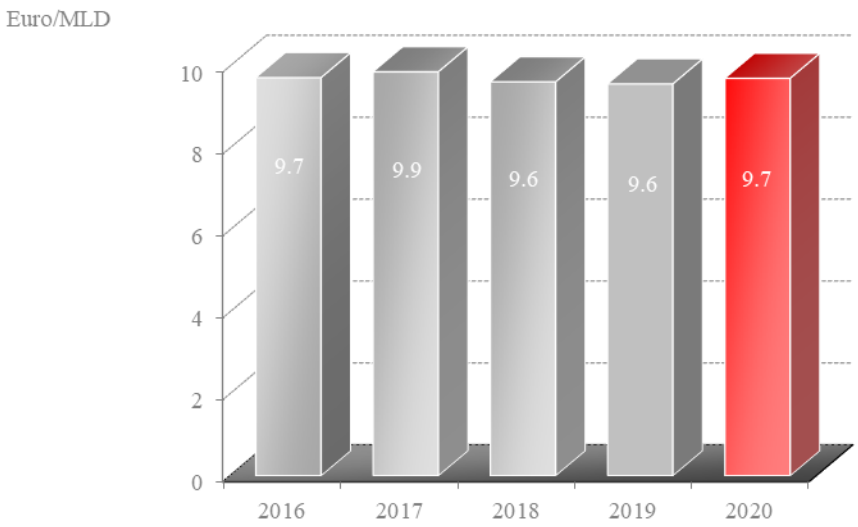


Loans to customers

The total amount of loans to customers at the end of the first half of the year amounted to Euro 9.7 billion, an increase compared with the balance at the end of 2019 (+1.4%), mainly due to the transactions carried out with institutional customers.

The following chart shows the overall trend in customer loans in recent years.

Graph no. 6 - **TREND IN CUSTOMER LOANS IN RECENT YEARS**



The following table shows the breakdown of loans to customers by type at 30 June 2020 (compared with 31 December 2019), which shows a growth in long-term loans, due to loans granted to companies guaranteed by Medio Credito Centrale.

Table no. 4 - **LOANS TO CUSTOMERS**

Amounts in thousands of Euro	**30.06.2020**	**%**	**31.12.2019**	**%**	**Change Amount**	**%**
Current accounts	1,177,285	12.2%	1,418,691	14.9%	-241,406	-17.0%
Repurchase agreements	12,042	0.1%			12,042	n.s.
Mortgages and other long-term loans	7,466,139	76.9%	7,091,759	74.1%	374,380	5.3%
Other	898,436	9.3%	1,057,236	11.0%	-158,800	-15.0%
Loans to ordinary customers	**9,553,902**	**98.5%**	**9,567,686**	**100.0%**	**-13,784**	**-0.1%**
Repurchase agreements	149,344	1.5%	0	0.0%	149,344	n.s.
Loans to institutional customers	**149,344**	**1.5%**	**0**	**0.0%**	**149,344**	**n.s.**
Loans to customers	**9,703,246**	**100.0%**	**9,567,686**	**100.0%**	**135,560**	**1.4%**
- of which non-performing loans	*332,054*	*3.4%*	*340,179*	*3.6%*	*-8,125*	*-2.4%*
- of which performing loans	*9,371,192*	*96.6%*	*9,227,507*	*96.4%*	*143,685*	*1.6%*

Within the distribution of gross loans, including endorsement loans, the percentage of drawdowns by the largest customers at the end of the first half of the current year continues to reflect a high degree of risk diversification, although they are rising.

Table no. 5 - **RATIOS OF CONCENTRATION OF LOANS ON LARGEST CUSTOMERS**

Number of customers	**30.06.2020**	**31.12.2019**
First 10	1.58%	1.07%
First 20	2.50%	1.82%
First 30	3.23%	2.46%
First 50	4.43%	3.57%

The total amount of net non-performing loans made up of doubtful loans, unlikely-to-pay loans as well as past due and/or overdrawn exposures, was Euro 332.1 million, net of loan loss adjustments of Euro 302.9 million, with a decrease by Euro 8.1 million compared with Euro 340.2 million at the end of 2019 due to an increase in the coverage of NPLs. In particular, net doubtful loans totalled Euro 123.8 million, unlikely to pay, Euro 201.5 million and non-performing past due and/or overdrawn exposures Euro 6.8 million.

The following table summarises the gross and net indicators relating to credit risk, where the "Gross non-performing loans/Gross loans ratio is 6.3% and the "Net non-performing loans/Net loans" ratio is 3.4%, substantially in line with the figures at the end of the previous year and largely below the respective targets of 10% and 5% estimated at the end of the Business Plan 2018-2020, and a "Gross doubtful loans/Net loans ratio of 3.3% and a "Net doubtful loans/Net loans" ratio of 1.3%.

Table no. 6 - **INDICATORS OF CREDIT RISK VERSUS CUSTOMERS**

% of gross loans	**30.06.2020**	**31.12.2019**
Gross non-performing loans to customers	6.31%	6.31%
of which:		
- gross doubtful loans	3.29%	3.15%
- unlikely to pay, gross	2.94%	3.13%
- non-performing past due and/or overdrawn exposures,	0.08%	0.04%

% of net loans	**30.06.2020**	**31.12.2019**
Net non-performing loans to customers	3.42%	3.56%
of which:		
- net doubtful loans	1.28%	1.25%
- unlikely to pay, net	2.08%	2.27%
- non-performing past due and/or overdrawn exposures,	0.07%	0.03%

The main indicators on the coverage of non-performing loans are reported below considering, for doubtful loans, the amount of direct write-downs made over the years, together with those relating to performing loans, showing an increase in the coverage level of non-performing loans and an improvement in the risk inherent in the performing loan portfolio, due to the expectations linked to the evolution in the macroeconomic scenario connected with the Covid-19 epidemic.

Table no. 7 - **INDICATORS OF COVERAGE OF LOANS TO CUSTOMERS** (2)

% Coverage of non-performing and performing loans	**30.06.2020**	**31.12.2019**
% Coverage of doubtful loans	62.60%	61.46%
% Coverage of doubtful loans, gross of cancellations	64.12%	63.11%
% Total coverage of non-performing loans	47.70%	45.53%
% Coverage of non-performing loans, gross of cancellations	48.83%	46.72%
% Coverage of performing loans	0.62%	0.49%

For further information on the expected losses recognised at 30 June 2020, please refer to the note entitled "Implication of the Covid-19 epidemic on the interim financial report at 30 June 2020" included in the section "Basis of preparation and accounting policies".

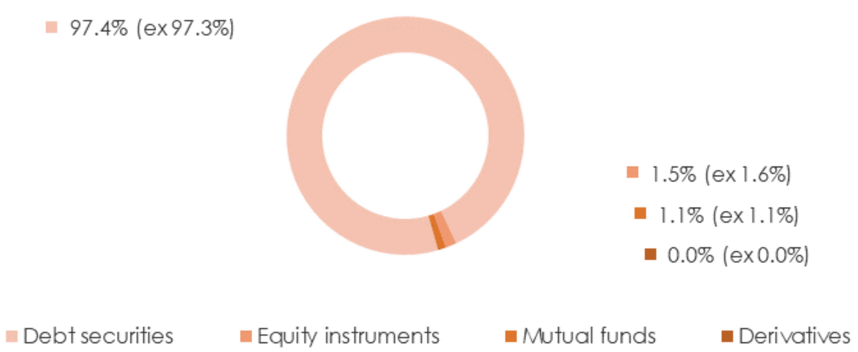
The securities portfolio and interbank position

Securities portfolio

At 30 June 2020, the Group's total financial assets amounted to Euro 3.5 billion, an increase of some Euro 0.1 billion compared with the end of 2019 (+3.3%). Long-term investment policy (held to collect portfolio) is characterised by a significant exposure to Italian government securities. The residual life of securities of the held to collect and sell portfolio has been significantly curtailed (duration 1.36). The Held to Collect category of financial instruments also includes Euro 218.8 million of senior securities of the 2Worlds securitisation subscribed by the Group following the sale of doubtful loans through the GACS scheme guaranteed by the State, while the residual 5% of mezzanine and junior securities held is included in financial assets that have to be valued at fair value through profit or loss.

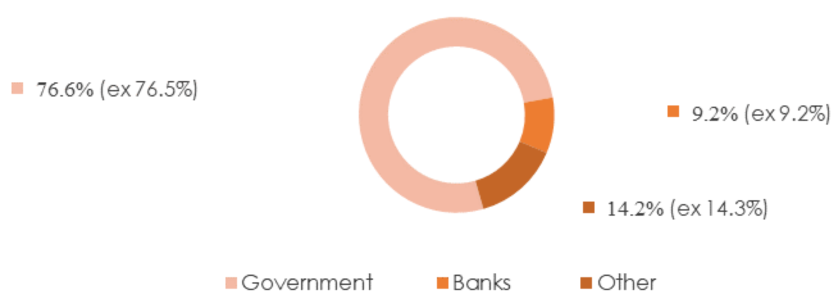
The portfolio breakdown by type of security is shown in the following chart, which shows that prevailing party (97.4%) of the investments still consist of debt securities.

Chart no. 7 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2020 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the first half of the year, 76.5% relates to government securities, 8.7% to securities issued by banks and the remainder to other issuers, as shown by the following chart.

Chart no. 8 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2020 BY TYPE OF ISSUER**



Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 30.06.2020 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

Table no. 8 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO AND ISSUER**

Amounts in thousands of Euro		30.06.2020				31.12.2019	
		Italy	**Spain**	**Romania**	**Total**	**Italy**	**Total**
Financial assets available for trading	Nominal value			1,000	1,000		-
	Book value			941	941		-
Financial assets measured at fair value through other comprehensive income	Nominal value	450,000			450,000	505,000	505,000
	Book value	451,085			451,085	506,813	506,813
Financial assets measured at amortised cost	Nominal value	2,185,711	15,000		2,200,711	2,055,711	2,055,711
	Book value	2,194,886	16,081		2,210,967	2,069,131	2,069,131
Sovereign debt	**Nominal value**	**2,635,711**	**15,000**	**1,000**	**2,651,711**	**2,560,711**	**2,560,711**
	Book value	**2,645,971**	**16,081**	**941**	**2,662,993**	**2,575,944**	**2,575,944**

Table no. 9 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO, ISSUER AND MATURITY**

Amounts in thousands of Euro		Italy	France	Spain	Romania	30.06.2020 Nominal value	Book value
Financial assets available for trading	up to 1 year	-	-	-	-	-	-
	1 to 3 years	-	-	-	-	-	-
	3 to 5 years	-	-	-	-	-	-
	over 5 years	-	-	-	1,000	1,000	941
	Total	-	-	-	1,000	1,000	941
Financial assets measured at fair value through other comprehensive income	up to 1 year	25,000	-	-	-	25,000	25,018
	1 to 3 years	425,000	-	-	-	425,000	426,067
	3 to 5 years	-	-	-	-	-	-
	over 5 years	-	-	-	-	-	-
	Total	450,000	-	-	-	450,000	451,085
Financial assets measured at amortised cost	up to 1 year	495,000	-	-	-	495,000	494,803
	1 to 3 years	475,000	-	-	-	475,000	476,175
	3 to 5 years	720,921	-	-	-	720,921	726,736
	over 5 years	494,790	-	15,000	-	509,790	513,253
	Total	2,185,711	-	15,000	-	2,200,711	2,210,967
Sovereign debt	**up to 1 year**	**520,000**	**-**	**-**	**-**	**520,000**	**519,821**
	1 to 3 years	**900,000**	**-**	**-**	**-**	**900,000**	**902,242**
	3 to 5 years	**720,921**	**-**	**-**	**-**	**720,921**	**726,736**
	over 5 years	**494,790**	**-**	**15,000**	**1,000**	**510,790**	**514,194**
	Total	**2,635,711**	**-**	**15,000**	**1,000**	**2,651,711**	**2,662,993**

Net interbank position

The Group's net interbank position at 30 June 2020 is negative for Euro 0.9 billion, compared with the position at the end of the previous year, which was also negative for Euro 1.0 billion.

Shareholders' equity and capital adequacy

Shareholders' equity pertaining to the Parent Company at 30 June 2020, including net profit for the period, amounts to Euro 958.9 million, compared with Euro 965.1 million at the end of 2019. The negative change of Euro 6.2 million is due to the resolution on the 2019 dividend of Euro 14.5 million, partly offset by the comprehensive income for the period of Euro 8.3 million.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 30 June 2020, also explaining the financial and economic effects related to the consolidation of subsidiaries and associated companies.

Table no. 10 - **RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES AT 30.06.2020**

Amounts in thousands of Euro	**Shareholders' equity**	***of which: net profit (loss) for the period***
Balances of the Parent Company Banco Desio	***951,427***	***10,371***
Effect of consolidation of subsidiaries	7,465	852
Dividends declared during the period	-	-1,625
Consolidated balance of the Banco Desio Group	**958,892**	**9,598**

On 25 January 2018, the Board of Directors of the bank resolved to adopt the transitional arrangements introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of IFRS 9 on own funds and capital ratios. The application of the transitional regime benefits from further changes to the "CRR" introduced by Regulation (EU) 2020/873 of 26 June 2020.

The calculation of Own Funds and of the consolidated prudential requirements, which are transmitted to the Bank of Italy in relation to the prudential supervisory reports (COREP) and statistical reports (FINREP), is made with reference to Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. as it is the financial parent company of the banking group according to European legislation. [6]

The consolidated own funds calculated by the financial parent company Brianza Unione amount to Euro 917.5 million at 30 June 2020 (CET1 + AT1 of Euro 826.7 million, + T2 of Euro 90.8 million), compared with Euro 908.6 million at the end of the previous year. The Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 10.7% (10.0% at 31 December 2019). The Tier 1 ratio (T1/Risk-weighted assets) was 11.5% (10.7% at 31 December 2019), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 12.8% (12.0% at 31 December 2019).

Consolidated Own Funds calculated at the Banco Desio Group level, after the pay out of 40%, amounted to Euro 1,027.3 million at 30 June 2020 (CET1 + AT1 Euro 987.7 million + T2 Euro 39.7 million), compared with Euro 1,038.1 million at the end of the previous year. The Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 13.8% (13.0% at 31 December 2019). The Tier 1 ratio (T1/Risk-weighted assets) was 13.8% (13.0% at 31 December 2019), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 14.3% (13.7% at 31 December 2019).

Following the periodic Supervisory Review and Evaluation Process (SREP), on 21 May 2020, the Bank of Italy informed Banco di Desio e della Brianza S.p.S. and the financial parent company Brianza Unione di Luigi

[6] For more information on Own Funds and the consolidated prudential requirements at the reference date of 30 June 2020 that are the subject of transmission to the Bank of Italy in relation to supervisory reports (COREP) and statistical reports (FINREP), please refer to the explanation given in the attachment "Information on consolidated shareholders' equity".

Gavazzi e Stefano Lado S.A.p.A. of its decision regarding capital, ordering that, from the next report on own funds, the Brianza Unione Group was to adopt the following consolidated capital ratios:

- **CET1 ratio of 7.35%,** binding for 4.85% (minimum regulatory requirement of 4.50% and additional requirements of 0.35% as a result of the SREP), while the remainder is represented by the capital conservation buffer;
- **Tier 1 ratio of 8.95%,** binding for 6.45% (minimum regulatory requirement of 6.00% and additional requirements of 0.45% as a result of the SREP), while the remainder is represented by the capital conservation buffer;
- **Total Capital Ratio of 11.10%**, binding for 8.60% (minimum regulatory requirement of 8.00% and additional requirements of 0.60% as a result of the SREP), while the remainder is represented by the capital conservation buffer.

Comparing the new requirements and those previously assigned to the Group[7] with those announced by various competitors, the Group's financial solidity is confirmed.

It should also be noted that with regard to resolution planning for Less Significant Institutions (LSI), the Banco Desio Group has received from the Bank of Italy, as the Resolution Authority, a communication that does not require compliance with an MREL (Minimum Requirement for own funds and Eligible Liabilities to be subject to bail-in).

[7] Based on the Bank of Italy's previous communication on this matter, which was sent to the Parent Company Banco Desio on 27 June 2019, concerning the minimum capital requirements at consolidated level to be respected as a result of the SREP: CET1 ratio of 7.25%, binding for 4.75% (minimum regulatory requirement of 4.5% and additional requirements of 0.25%) with the difference represented by the capital conservation buffer, Tier1 ratio of 8.85%, binding for 6.35% (minimum regulatory requirement of 6.0% and additional requirements of 0.35%) with the difference represented by the capital conservation buffer, and Total Capital Ratio of 11.0%, binding for 8.5% (minimum regulatory requirement of 8% and additional requirements of 0.5%) with the difference represented by the capital conservation buffer.

Reclassified income statement

To allow readers to see figures that better reflect the results of operations, we have prepared a reclassified version of the income statement with respect to the one in the Condensed interim financial statements, which forms the basis of the specific comments.

The presentation criteria for this table are as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- breakdown of profit (loss) for the period between "Current result after tax" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 230 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers, flat-rate tax on long-term loans and recoveries of legal expense, as well as depreciation of leasehold improvements, reclassified respectively as a reduction to caption 180b) "Other administrative expenses" and as an increase in caption 220 "Net adjustments to intangible assets" included in "Operating expenses";
- the time value components of non-performing financial assets (calculated on the basis of the original effective interest rate) and impairment losses on interest on non-performing loans are reclassified from the item "Net interest income" to "Cost of credit";
- the net trading fees relating to consumer credit were transferred from "Net commission income" to "Net interest income";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of financial assets valued at amortised cost" of "Operating income" is reclassified, net of the component of gains (losses) on debt securities at amortised cost, to "Cost of credit" (which also includes caption 130a) "Net impairment adjustments to loans and advances") after "Operating profit";
- the expected loss on securities at amortised cost included in caption 130a) "Net impairment adjustments to financial assets at amortised cost", has been reclassified to caption 130b) "Net adjustments to securities owned" (which also includes the balance of net adjustments for credit risk on securities at fair value with impact on overall profitability);
- costs for operating leases falling within the scope of IFRS 16 "Leases", which came into force on 1 January 2019, booked to item "20. Interest and similar expense" and to item "210. Net adjustments to property, plant and equipment", have been reclassified to item "190 b) Other administrative costs", where the charges incurred on these contracts were recorded in the prior period;
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 200 "Net provisions for risks and charges - other" to caption "Cost of credit", both captions coming after the "Result of operations";
- provisions and expenses of an extraordinary nature or which are "one-off" are reclassified to "Extraordinary provisions for risks and charges, other provisions and expenses";
- the tax effect on "Non-recurring profit (loss)" is reclassified from caption 300 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

The profit for the period decreased by Euro 14.5 million (-60.2%), negatively affected by the cost of credit and net adjustments to securities due to the change in economic scenario with respect to the comparative period.

Table no. 11 - **RECLASSIFIED INCOME STATEMENT**

Captions				Change	
Amounts in thousands of Euro		**30.06.2020**	**30.06.2019**	**Amount**	**%**
10+20	Net interest income	104,759	106,988	-2,229	-2.1%
70	Dividends and similar income	586	1,044	-458	-43.9%
40+50	Net commission income	79,899	81,497	-1,598	-2.0%
80+90+100+110	Net result of financial assets and liabilities	5,419	6,135	-716	-11.7%
230	Other operating income/expense	2,431	5,034	-2,603	-51.7%
	Operating income	**193,094**	**200,698**	**-7,604**	**-3.8%**
190 a	Payroll costs	-83,013	-84,700	1,687	-2.0%
190 b	Other administrative costs	-47,123	-47,829	706	-1.5%
210+220	Net adjustments to property, plant and equipment and intangible assets	-4,735	-5,268	533	-10.1%
	Operating costs	**-134,871**	**-137,797**	**2,926**	**-2.1%**
	Result of operations	**58,223**	**62,901**	**-4,678**	**-7.4%**
130a+100a	Cost of credit	-39,977	-26,921	-13,056	48.5%
130 b	Net adjustments to securities owned	-1,325	2,883	-4,208	n.s.
140	Profit/losses from contractual changes without write-offs	225	-111	336	n.s.
200 a	Net provisions for risks and charges - commitments and guarantees given	-1,878	-850	-1,028	120.9%
200 b	Net provisions for risks and charges - other	-1,390	-1,148	-242	21.1%
	Profit (loss) from continuing operations before tax	**13,878**	**36,754**	**-22,876**	**-62.2%**
300	Income taxes on continuing operations	-3,787	-12,504	8,717	-69.7%
	Profit (loss) from continuing operations after tax	**10,091**	**24,250**	**-14,159**	**-58.4%**
260	Net result of the measurement at fair value of property, plant and equipment and int	0	-260	260	-100.0%
	Provisions for risks and charges, other provisions, one-off expenses and revenue	-728	-74	-654	883.8%
	Non-recurring result before tax	**-728**	**-334**	**-394**	**118.0%**
	Income taxes from non-recurring items	235	185	50	27.0%
	Non-recurring profit (loss) after tax	**-493**	**-149**	**-344**	**230.9%**
330	**Net profit (loss) for the period**	**9,598**	**24,101**	**-14,503**	**-60.2%**
340	Minority interests	0	0	0	n.s.
350	**Profit (Loss) for the period pertaining to the Parent Company**	**9,598**	**24,101**	**-14,503**	**-60.2%**

Note: in consideration of the merger by absorption of the former subsidiary Banca Popolare di Spoleto by Banco Desio on 1 July 2019 with effect for accounting purposes on 1 January 2019, the item "340 Profit (loss) pertaining to minority interests" for the comparative period was restated in order to make it easier to compare the figures.

In order to facilitate the reconciliation of the reclassified income statement with the financial statements, a reconciliation that shows the numbers corresponding to the aggregated captions and reclassified balances is shown below for each period.

Captions		As per financial statements	Reclassifications									Reclassified income statement
	Amounts in thousands of Euro	30.06.2020	Measurement effects on non-performing loans	Fides brokerage commission	Tax/expense recoveries	Expected loss on securities at amortized cost	Depreciation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions, one-off expenses and revenue	Reclassifications IFRS16 - Leases	Income taxes	30.06.2020
10+20	Net interest income	108,461	-2,859	-1,388						545		104,759
70	Dividends and similar income	586										586
	Share of profit for the period of Chiara Vita S.p.A											0
	Share of profit for the period of Chiara Assic.											0
	Share of profit for the period of Istifid S.p.A.											0
	Profit (loss) from equity investments in associates											0
40	Commission income	86,553		-2,403								84,150
50	Commission expense	-8,042		3,791								-4,251
40+50	Net commission income	78,511		1,388								79,899
80+90+100 +110	Net result of financial assets and liabilities	2,030						3,749	-360			5,419
230	Other operating income/expense	17,769			-16,094		756					2,431
	Operating income	**207,357**	**-2,859**	**0**	**-16,094**	**0**	**756**	**3,749**	**-360**	**545**	**0**	**193,094**
190 a	Payroll costs	-83,013										-83,013
190 b	Other administrative costs	-58,412			16,094				1,088	-5,893		-47,123
210+220	Net adjustments to property, plant and equipment and intangible assets	-9,327					-756			5,348		-4,735
	Operating costs	**-150,752**	**0**	**0**	**16,094**	**0**	**-756**	**0**	**1,088**	**-545**	**0**	**-134,871**
	Result of operations	**56,605**	**-2,859**	**0**	**0**	**0**	**0**	**3,749**	**728**	**0**	**0**	**58,223**
130a+100a	Cost of credit	-40,257	2,859			1,209		-3,749	-39			-39,977
130 b	Net adjustments to securities owned	-116				-1,209						-1,325
140	Profit/losses from contractual changes without write-offs	225										225
200 a	Net provisions for risks and charges - commitments and guarantees given	-1,878										-1,878
200 b	Net provisions for risks and charges - other	-1,429							39			-1,390
	Profit (loss) from continuing operations before tax	**13,150**	**0**	**0**	**0**	**0**	**0**	**0**	**728**	**0**	**0**	**13,878**
300	Income taxes on continuing operations	-3,552									-235	-3,787
	Profit (loss) from continuing operations after tax	**9,598**	**0**	**0**	**0**	**0**	**0**	**0**	**728**	**0**	**-235**	**10,091**
	Provisions for risks and charges, other provisions, one-off expenses and revenue								-728			-728
	Non-recurring result before tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-728**	**0**	**0**	**-728**
	Income taxes from non-recurring items										235	235
	Non-recurring profit (loss) after tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-728**	**0**	**235**	**-493**
330	**Net profit (loss) for the period**	**9,598**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**9,598**
340	Minority interests	0										0
350	**Profit (Loss) for the period pertaining to the Parent Company**	**9,598**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**9,598**

Captions		As per financial statements	Reclassifications									Reclassified income statement
Amounts in thousands of Euro		30.06.2019	Measurement effects on non-performing loans	Fides brokerage commission	Tax/expense recoveries	Expected loss on securities at amortized cost	Depreciation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions, one-off expenses and revenue	Reclassifications IFRS16 - Leases	Income taxes	30.06.2019
10+20	Net interest income	110,825	-3,396	-1,087						646		106,988
70	Dividends and similar income	1,044										1,044
	Profit (loss) from equity investments in associates											0
40+50	Net commission income	80,410		1,087								81,497
80+90+100+110	Net result of financial assets and liabilities	6,238	0					-103	0	0		6,135
230	Other operating income/expense	21,482			-15,938		940		-1,450			5,034
	Operating income	**219,999**	**-3,396**	**0**	**-15,938**	**0**	**940**	**-103**	**-1,450**	**646**	**0**	**200,698**
190 a	Payroll costs	-84,628							- 72			-84,700
190 b	Other administrative costs	-59,435			15,938				1,596	- 5,928		-47,829
210+220	Net adjustments to property, plant and equipment and intangible assets	-9,610					- 940			5,282		-5,268
	Operating costs	**-153,673**	**0**		**15,938**	**0**	**-940**	**0**	**1,524**	**-646**	**0**	**-137,797**
	Result of operations	**66,326**	**-3,396**		**0**	**0**	**0**	**-103**	**74**	**0**	**0**	**62,901**
130a+100a	Cost of credit	-27,522	3,396			-2,841		103	-57			-26,921
130 b	Net impairment adjustments for credit risk of financial assets at fair value through other comprehensive income	42				2,841						2,883
130 b	Net adjustments to securities owned	42				2,841						2,883
140	Profit/losses from contractual changes without write-offs	-111										-111
200 a	Net provisions for risks and charges - commitments and guarantees given	-850										-850
200 b	Net provisions for risks and charges - other	-1,205							57			-1,148
	Profit (loss) from continuing operations before tax	**36,680**	**0**		**0**	**0**	**0**	**0**	**74**	**0**	**0**	**36,754**
300	Income taxes on current operations	-12,319									-185	-12,504
	Profit (loss) from continuing operations after tax	**24,361**	**0**		**0**	**0**	**0**	**0**	**74**	**0**	**-185**	**24,250**
260	Net result of the measurement at fair value of property, plant and equipment and intangible assets	- 260										-260
	Provisions for risks and charges, other provisions, one-off expenses and revenue								-74			-74
	Non-recurring profit (loss) before tax	**-260**	**0**		**0**	**0**	**0**	**0**	**-74**	**0**	**0**	**-334**
	Income taxes from non-recurring items										185	185
	Non-recurring profit (loss) after tax	**-260**	**0**		**0**	**0**	**0**	**0**	**-74**	**0**	**185**	**-149**
330	**Net profit (loss) for the period**	**24,101**	**0**		**0 0**	**0**	**0**	**0**	**0**	**0**	**0**	**24,101**
340	Minority interests	0										0
350	**Profit (Loss) for the period pertaining to the Parent Company**	**24,101**	**0**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**24,101**

The main cost and revenue items in the reclassified income statement are analysed below.

Operating income

Core revenues decreased by about Euro 7.6 million compared with the previous period (-3.8%), coming in at Euro 193.1 million. This is mainly due to the decrease in net interest income for Euro 2.2 million (-2.1%), in net commission income, which decreases by Euro 1.6 million (-2.0%) in the result of financial assets and liabilities for Euro 0.7 million (-11.7%), in dividends for Euro 0.5 million (-43.9%) and in other operating income/expense for Euro 2.6 million (-51.7%).

Operating costs

Operating costs, which include payroll costs, other administrative expenses and net adjustments to property, plant and equipment and intangible assets amounted to around Euro 134.9 million and have decreased, with respect to the comparative period, by Euro 2.9 million (-2.1%).

Payroll costs have decreased by 2.0% on the prior period, as well as other administrative expenses, which declined by Euro 0.7 million (-1.5%); The balance of net adjustments to property, plant and equipment and intangible assets came to Euro 4.7 million (-10.1%).

Results of operations

The results of operations at 30 June 2020 therefore amounted to Euro 58.2 million, Euro 4.7 million down on the prior period (-7.4%).

Net profit (loss) from continuing operations after tax

The result of operations of Euro 58.2 million leads to a net profit (loss) from operations after tax of Euro 10.1 million, 58.4% down on the Euro 24.3 million in the comparative period, mainly because of:

- the *cost of credit* (*net impairment adjustments to financial assets measured at amortised cost plus gains (losses) on disposal or repurchase of loans*) of Euro 40.0 million (Euro 26.9 million);
- *net adjustments to securities owned* negative for 1.3 million euro (positive for 2.9 million euro in the comparison period);
- *net provisions for risks and charges* negative for 3.3 million euro (negative for 2.0 million euro in the comparison period);
- *income taxes on continuing operations* of Euro 3.8 million (vs Euro 12.5 million).

Result of non-recurring items after tax

At 30 June 2020 there was a *non-recurring loss after tax* of 0.5 million euro. This item basically consists of:

- the revenue component of Euro 0.4 million relating to the substantial change in a financial instrument subscribed by the bank as part of the interventions made to support the banking system,
- the Euro 1.1 million charge for the extraordinary contribution to the SRM requested by the national resolution authority on 11 June 2020, net of the related tax effects of Euro 0.2 million.

The negative result of Euro 0.2 million in the comparative period is mainly made up of:

- the revenue component of Euro 1.5 million relating to an insurance refund received.

- the Euro 1.6 million charge for the extraordinary contribution to the SRM requested by the national resolution authority on 7 June 2019;
- the net result of the measurement of the works of art at fair value (negative for Euro 0.2 million net of the related (positive) tax effects of Euro 0.1 million.

Profit for the period pertaining to the Parent Company

The total of the *profit from operations after tax* and the *non-recurring profit after tax*, as well as the *result attributable to minority interests*, leads to a net profit for the Parent Company at 30 June 2020 of Euro 9.6 million.

Performance of consolidated companies

In order to provide a breakdown of the performance described above at a consolidated level, the following significant summary data about the individual consolidated companies is provided, together with their financial, operating, risk and structural indices and a commentary on their performance, except for Desio OBG S.r.l. given the nature of this company.

Banco di Desio e della Brianza S.p.A.

Balance sheet

Amounts in thousands of Euro	**30.06.2020**	**31.12.2019**	**Change amount**	**%**
Total assets	14,837,123	14,170,989	666,134	4.7%
Financial assets	3,477,245	3,365,908	111,337	3.3%
Due from banks [1]	1,065,771	619,580	446,191	72.0%
Loans to customers [1]	9,649,518	9,515,696	133,822	1.4%
of which: Loans to ordinary customers	*9,500,174*	*9,515,696*	*-15,522*	*-0.2%*
of which: Loans to institutional customers	*149,344*		*149,344*	
Property, plant and equipment [2]	218,470	225,088	-6,618	-2.9%
Intangible assets	11,291	11,451	-160	-1.4%
Due to banks	1,995,605	1,603,208	392,397	24.5%
Due to customers [3]	9,688,637	9,447,655	240,982	2.6%
Debt securities in issue	1,647,866	1,749,103	-101,237	-5.8%
Shareholders' equity (including Net profit/loss for the period)	951,427	956,871	-5,444	-0.6%
Own Funds	1,026,651	1,036,652	-10,001	-1.0%
Total indirect deposits	15,679,693	15,562,375	117,318	0.8%
of which: Indirect deposits from ordinary customers	*9,643,626*	*9,721,680*	*-78,054*	*-0.8%*
of which: Indirect deposits from institutional customers	*6,036,067*	*5,840,695*	*195,372*	*3.3%*

(1) on the basis of Circular 262 the balance of this caption includes held to collect (HTC) debt securities measured at amortised cost, which in these key figures are shown under financial assets

(2) the balance includes the right of use (RoU) asset of Euro 46.5 million (Euro 50.7 million at 31 December 2019) for operating lease contracts falling within the scope of IFRS 16 - Leases.

(3) the balance does not include the liability for operating lease contracts falling within the scope of IFRS 16, which has been recognised in "Due to customers".

Income statement (4)

Amounts in thousands of Euro	**30.06.2020**	**30.06.2019**	**Change amount**	**%**
Operating income	187,407	193,227	-5,820	-3.0%
of which: Net interest income	97,982	*100,460*	-2,478	-2.5%
Operating costs	131,123	134,336	-3,213	-2.4%
Result of operations	56,284	58,891	-2,607	-4.4%
Profit (loss) from continuing operations after tax	10,864	27,479	-16,615	-60.5%
Non-recurring profit (loss) after tax	-493	-149	-344	n.s.
Net profit (loss) for the period	10,371	27,330	-16,959	-62.1%

(4) from the reclassified income statement

Key figures and ratios

	30.06.2020	31.12.2019	Change amount
Capital/Total assets	6.4%	6.8%	-0.4%
Capital/Loans to customers	9.9%	10.1%	-0.2%
Capital/Due to customers	9.8%	10.1%	-0.3%
Capital / Debt securities in issue	57.7%	54.7%	3.0%
Common Equity Tier 1 (CET 1)/Risk-weighted assets *(Common Equity Tier 1 ratio)* [(5)]	14.9%	14.4%	0.5%
Core Tier 1 capital (T1)/Risk-weighted assets *(Tier 1 ratio)* [(5)]	14.9%	14.4%	0.5%
Total Own Funds/Risk-weighted assets *(Total capital ratio)* [(5)]	15.5%	15.2%	0.3%
Financial assets/Total assets	23.4%	23.8%	-0.4%
Due from banks/Total assets	7.2%	4.4%	2.8%
Loans to customers/Total assets	65.0%	67.1%	-2.1%
Loans to customers/Direct customer deposits	85.1%	85.0%	0.1%
Due to banks/Total assets	13.5%	11.3%	2.2%
Due to customers/Total assets	65.3%	66.7%	-1.4%
Debt securities in issue/Total assets	11.1%	12.3%	-1.2%
Direct customer deposits/Total assets	76.4%	79.0%	-2.6%
	30.06.2020	**30.06.2019**	**Change amount**
Cost/Income ratio	70.0%	69.5%	0.5%
Net interest income/Operating income	52.3%	52.0%	0.3%
Result of operations/Operating income	30.0%	30.5%	-0.5%
Profit (loss) from continuing operations after tax/Capital [(6) (7)]	2.1%	5.1%	-3.0%
ROE [(6) (7) (8)]	2.1%	4.9%	-2.8%
Profit (loss) from operations before tax/Total assets (ROA) [(7)]	0.2%	0.4%	-0.3%
	30.06.2020	**31.12.2019**	**Change amount**
Net doubtful loans/Loans to customers	1.3%	1.3%	0.1%
Net non-performing loans/Loans to customers	3.4%	3.5%	-0.1%
% Coverage of doubtful loans	62.6%	61.4%	1.2%
% Coverage of doubtful loans, gross of cancellations	64.1%	63.1%	1.0%
% Total coverage of non-performing loans	47.8%	45.6%	2.3%
% Coverage of non-performing loans, gross of cancellations	48.9%	46.8%	2.1%
% Coverage of performing loans	0.62%	0.49%	0.13%

Structure and productivity ratios

	30.06.2020	31.12.2019	Change amount	%
Number of employees	2,142	2,148	-6	-0.3%
Number of branches	253	257	-4	-1.6%
Amounts in thousands of Euro				
Loans and advances to customers per employee [(7)]	4,499	4,413	86	1.9%
Direct deposits from customers per employee [(7)]	5,285	5,192	93	1.8%
	30.06.2020	**30.06.2019**	**Change amount**	**%**
Operating income per employee [(9)] - annualised [(7)]	175	178	-3	-1.7%
Result of operations per employee [(9)] - annualised [(7)]	52	51	1	2.0%

[(5)] *capital ratios at 30.06.2020 are calculated in application of the transitional arrangements introduced by EU Regulation 2017/2395; the ratios calculated without application of these provisions are the following: Common Equity Tier1 14.2%; Tier 1 14.2%; Total capital ratio 14.8%*

[(6)] *equity excluding net profit (loss) for the period;*

(7) the amount reported at 30.06.2020 is the final figure at the end of 2019;

(8) the annualised ROE at 30.06.2020 does not take into consideration the annualisation of the net non-recurring operating profit and of the dividends from subsidiaries;

[(9)] *based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.*

The profit for the period decreased by Euro 17.0 million (-62.0%), negatively affected by the cost of credit and net adjustments to securities due to the change in economic scenario with respect to the comparative period.

The total amount of *loans to customers* at 30 June 2020 reached 9.6 billion euro, up on 9.5 billion euro at the end of 2019.

Shareholders' equity at 30 June 2020, including the profit for the period, amounts to Euro 951.4 million, compared with Euro 956.9 million at the end of 2019. The negative change of Euro 5.5 million is due to the resolution on the 2019 dividend of Euro 14.5 million, partly offset by the comprehensive income for the period of Euro 9.0 million.

Shareholders' equity calculated in accordance with the new regulatory provisions defined as *Own Funds*, after the pay-out of 40%, amounts to Euro 1,026.7 million (CET1 + ATI of Euro 987.0 million + T2 of Euro 39.7 million), compared with Euro 1,036.7 million at the end of the previous year.

The Total Capital Ratio, consisting of total Own Funds as a ratio of risk-weighted assets, comes to 15.5%.

Fides S.p.A.

Balance sheet

Amounts in thousands of Euro	30.06.2020	31.12.2019	Change amount	Change %
Total assets	844,361	803,893	40,468	5.0%
Financial assets	15	15	0	0.0%
Due from banks	5,214	4,569	645	14.1%
Loans to customers	832,648	793,523	39,125	4.9%
Property, plant and equipment	1,072	1,218	-146	-12.0%
Intangible assets	1,266	1,216	50	4.1%
Due to banks	779,025	741,748	37,277	5.0%
of which: Due to Group Banks	*778,667*	*741,748*	*36,919*	*5.0%*
Due to customers	3,883	3,729	154	4.1%
Shareholders' equity (including Net profit/loss for the period)	47,551	47,814	-263	-0.6%
Own Funds	45,205	44,982	223	0.5%

Income statement [(1)]

Amounts in thousands of Euro	30.06.2020	30.06.2019	Change amount	Change %
Operating income	6,225	8,223	-1,998	-24.3%
of which: Net interest income	8,136	7,588	*548*	*7.2%*
Operating costs	-3,771	-3,487	-284	8.1%
Result of operations	2,454	4,736	-2,282	-48.2%
Profit (loss) from continuing operations after tax	1,363	3,139	-1,776	-56.6%
Net profit for the period	1,363	3,139	-1,776	-56.6%

(1) from the Reclassified Income Statement.

Key figures and ratios

	30.06.2020	31.12.2019	Change amount
Capital/Total assets	5.6%	5.9%	-0.3%
Capital/Loans to customers	5.7%	6.0%	-0.3%
Capital/Due to Banks	6.1%	6.4%	-0.3%
Total Own Funds/Risk-weighted assets (Total capital ratio)	6.5%	6.9%	-0.4%
Loans to customers/Total assets	98.6%	98.7%	-0.1%
Due to banks/Total assets	92.3%	92.3%	0.0%
	30.06.2020	**30.06.2019**	**Change amount**
Cost/Income ratio	60.6%	42.4%	18.2%
Net interest income/Operating income	130.7%	92.3%	38.4%
Result of operations/Operating income	39.4%	57.6%	-18.2%
Profit (loss) from continuing operations after tax/Capital [(2) (3)]	5.9%	14.1%	-8.2%
ROE [(2) (3)]	5.9%	4.4%	1.5%
Profit (loss) from operations before tax/Total assets (ROA) [(3)]	1.1%	0.6%	0.5%
	30.06.2020	**31.12.2019**	**Change amount**
Net doubtful loans/Loans to customers	0.1%	0.1%	0.0%
Net non-performing loans/Loans to customers	0.4%	0.4%	0.0%
% Coverage of doubtful loans	61.2%	63.7%	-2.6%
% Total coverage of non-performing loans	39.8%	37.6%	2.2%
% Coverage of performing loans	0.07%	0.06%	0.01%

(2) equity excluding net profit (loss) for the period;

Structure and productivity ratios

	30.06.2020	31.12.2019	Change amount	%
Number of employees	51	50	1	2.0%
Amounts in thousands of Euro	**30.06.2020**	**31.12.2019**	**Change amount**	**%**
Loans and advances to customers per employee [(3)]	16,488	16,883	-395	-2.3%
Amounts in thousands of Euro	**30.06.2020**	**30.06.2019**	**Change amount**	**%**
Operating income per employee [(4)] - annualised [(3)]	123	349	-226	-64.8%
Result of operations per employee [(4)] - annualised [(3)]	49	202	-153	-75.7%

[(3)] the amount reported at 30.06.2019 is the final figure at the end of 2019;
[(4)] based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.

At the reference date, the Parent Company Banco di Desio e della Brianza S.p.A. held an investment of 100%.

The profit (loss) from operations after tax at 30 June 2020 comes to Euro 1.4 million, a decrease compared with the prior period of Euro 3.1 million; operating income amounted to Euro 6.2 million, down by Euro 2.0 million compared with 30 June 2019, mainly due to the inclusion in the effective interest rate of income components recognised entirely to the income statement at the time of subscription. Operating costs come in at Euro 3.8 million (vs Euro 3.5 million). The result of operations was Euro 2.5 million (vs Euro 4.7 million). The cost of credit, amounting to approximately Euro 0.3 million, and taxes for Euro 0.6 million (vs Euro 1.4 million) lead to the result for the period.

Loans to customers increased from Euro 793.5 million at the end of 2019 to Euro 832.6 million at the reporting date, an increase of Euro 39.1 million (+4.9%).

Book shareholders' equity at 30 June 2020, including the profit for the period, amounts to Euro 47.5 million, compared with Euro 47.8 million at the end of 2019 (due to the result for the period more than offset by the distribution of dividends). Own Funds for supervisory purposes have risen from Euro 45.0 million at the end of 2019 to Euro 45.2 million.

Other information

Ratings

On 19 May 2020, after its annual rating review, Fitch Ratings lowered the ratings previously assigned to the Bank by one notch. The judgement reflects the considerations behind the recent downgrade in the sovereign rating linked to the expected deterioration in Italy's growth forecasts as a result of the Covid-19 health emergency and the probable repercussions on the banking sector in terms of profitability and asset quality.

In this scenario, Fitch maintained the Bank's "Stable" outlook, recognising that it had adequate liquidity and a capitalisation capable of withstanding any pressure, even significant pressure, in terms of asset quality. The Bank points out that the coverage level is higher than the average of the LSIs, taking into account the composition of non-performing loans, and that the resilient territorial bank model is confirmed by the significant solidity of its capital and liquidity.

The updated ratings are the following:

Long term IDR: changed to “BB+” Outlook Stable

Viability rating: changed to “bb+”

Short term IDR: changed to “B”

Support Rating: confirmed at "5"

Support Rating Floor: confirmed at "No Floor"

Existence of the conditions of arts 15 and 16 of the Consob's Market Regulations

The conditions laid down in arts. 15 and 16 of the "Market Regulations" adopted with Consob's Resolution 20249 of 28 December 2017 continue to exist. In this case, they refer to Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.a., the holding company of the Parent Company, as reported in the Group's "Annual Report on Corporate Governance and Corporate Structure" required by art. 123-bis of the CFA and made available on Banco Desio's website www.bancodesio.it, in the Corporate Governance section.

Transactions with related parties

For a more detailed description of the procedures that govern transactions with related parties (pursuant to art. 2391-bis of the Italian Civil Code) and with associated persons (pursuant to art. 53 of the CFA), reference should be made to paragraph 5 of the Annual Report on Corporate Governance, which is available on the Parent Company's website pursuant to art. 123-bis of the CFA, at www.bancodesio.it, in the Corporate Governance section. For further information, please refer to the specific section of the Condensed consolidated interim financial statements.

Outlook for the rest of the year and principal risks and uncertainties

In a scenario characterised by a "lightning" global recession likely to rebound on various occasions in the future, but to an extent that is highly uncertain, the time horizon over the coming years to recover what has been lost in 2020 is also far from certain. In this context, the objectives of the 2018-2020 business plan cannot be achieved as they were evidently elaborated on the basis of assumptions that are long gone and certainly devoid of the effects of the Covid-19 pandemic, in a macroeconomic scenario which, among other things, is changing rapidly from day to day. The Group will therefore prepare a new business plan in the latter part of the year on the assumption that the prospective framework will be better defined or definable, so that the plan will be based on new and more up-to-date assumptions, both macroeconomic and for the banking sector.

In the current year, the pressure on net interest income, mainly because of market conditions, is expected to find compensation in the dynamics of volumes, which will benefit from the measures aimed at contrasting the depressive effects of the pandemic, and in the particularly favourable financing conditions guaranteed by the Liquidity Decree.

Regarding credit quality, despite the physiological trend in the cost of non-performing loans, the Group has taken into account what was outlined by the ECB scenario regarding the assessment of the cost of credit risk on performing loans, even though it has been mitigated by the effects of moratoriums and government guarantees. The effects of these assessments will be constantly monitored according to the evolution of the economic situation and, if necessary, adequately updated.

The containment of operating costs, implemented through measures aimed at reviewing the temporal distribution of investments as well as, where possible, renegotiating some supply contracts will continue to be one of the main points of attention, helping to mitigate the pressure on the results of operations.

Barring further deterioration in the scenario, which cannot be ruled out given the exceptional nature and uncertainty of the current situation, we are of the opinion that this year could still end with a positive result. This report has therefore been prepared on a going-concern basis, considering the main risks and uncertainties mentioned previously.

Condensed consolidated interim financial statements at 30 June 2020

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets	30.06.2020	31.12.2019	Change amount	Change %
10. Cash and cash equivalents	50,755	60,816	(10,061)	-16.5%
20. Financial assets designated at fair value through profit or loss	42,693	44,063	(1,370)	-3.1%
a) Financial assets held for trading	4,472	5,807	(1,335)	-23.0%
c) Other financial assets that are necessarily measured at fair value	38,221	38,256	(35)	-0.1%
30. Financial assets designated at fair value through other comprehensive income	522,093	559,634	(37,541)	-6.7%
40. Financial assets measured at amortised cost	13,681,740	12,949,705	732,035	5.7%
a) Due from banks	1,375,279	915,019	460,260	50.3%
b) Loans to customers	12,306,461	12,034,686	271,775	2.3%
50. Hedging derivatives	-	-	-	0.0%
60. Adjustment to financial assets with generic hedge (+/-)	593	624	(31)	-5.0%
90. Property, plant and equipment	219,541	226,305	(6,764)	-3.0%
100. Intangible assets	18,085	18,194	(109)	-0.6%
of which:				
- goodwill	15,322	15,322		
110. Tax assets	202,637	202,765	(128)	-0.1%
a) current	10,954	7,812	3,142	40.2%
b) deferred	191,683	194,953	(3,270)	-1.7%
130. Other assets	122,722	129,956	(7,234)	-5.6%
Total assets	**14,860,859**	**14,192,062**	**668,797**	**4.7%**

Liabilities and shareholders' equity	30.06.2020	31.12.2019	Change amount	Change %
10. Financial liabilities measured at amortised cost	13,378,212	12,850,498	527,714	4.1%
a) Due to banks	1,995,605	1,603,208	392,397	24.5%
b) Due to customers	9,734,741	9,498,187	236,554	2.5%
c) Debt securities in issue	1,647,866	1,749,103	(101,237)	-5.8%
20. Financial liabilities held for trading	7,729	8,138	(409)	-5.0%
40. Hedging derivatives	1,914	2,157	(243)	-11.3%
60. Tax liabilities	12,855	15,816	(2,961)	-18.7%
a) current	-	-	-	0.0%
b) deferred	12,855	15,816	(2,961)	-18.7%
80. Other liabilities	440,172	289,279	150,893	52.2%
90. Provision for termination indemnities	24,995	25,480	(485)	-1.9%
100. Provisions for risks and charges	36,086	35,582	504	1.4%
a) commitments and guarantees given	4,593	2,734	1,859	68.0%
c) other provisions for risks and charges	31,493	32,848	(1,355)	-4.1%
120. Valuation reserves	44,016	45,373	(1,357)	-3.0%
150. Reserves	818,440	792,741	25,699	3.2%
160. Share premium reserve	16,145	16,145		
170. Share capital	70,693	70,693	-	0.0%
190. Minority interests (+/-)	4	4	-	0.0%
200. Net profit (loss) for the period (+/-)	9,598	40,156	(30,558)	-76.1%
Total liabilities and shareholders' equity	**14,860,859**	**14,192,062**	**668,797**	**4.7%**

CONSOLIDATED INCOME STATEMENT

Captions		30.06.2020	30.06.2019	Change amount	Change %
10.	Interest and similar income	127,994	132,926	(4,932)	-3.7%
20.	Interest and similar expense	(19,533)	(22,101)	2,568	-11.6%
30.	**Net interest income**	**108,461**	**110,825**	**(2,364)**	**-2.1%**
40.	Commission income	86,553	87,985	(1,432)	-1.6%
50.	Commission expense	(8,042)	(7,575)	(467)	6.2%
60.	**Net commission income**	**78,511**	**80,410**	**(1,899)**	**-2.4%**
70.	Dividends and similar income	586	1,044	(458)	-43.9%
80.	Net trading income	850	1,004	(154)	-15.3%
90.	Net hedging gains (losses)	-	(103)	103	-100.0%
100.	Gains (losses) on disposal or repurchase of:	1,660	3,614	(1,954)	-54.1%
	a) financial assets measured at amortised cost	(667)	1,922	(2,589)	n.s.
	b) financial assets designated at fair value through other comprehensive income	2,332	1,794	538	30.0%
	c) financial liabilities	(5)	(102)	97	-95.1%
110.	Net result of other financial assets and liabilities designated at fair value through profit or loss	(480)	1,723	(2,203)	n.s.
	b) other financial assets that have to be measured at fair value	(480)	1,723	(2,203)	n.s.
120.	**Net interest and other banking income**	**189,588**	**198,517**	**(8,929)**	**-4.5%**
130.	Net value adjustments/write-backs for credit risk relating to:	(40,373)	(27,480)	(12,893)	46.9%
	a) financial assets measured at amortised cost	(40,257)	(27,522)	(12,735)	46.3%
	b) financial assets designated at fair value through other comprehensive income	(116)	42	(158)	n.s.
140.	Profit/losses from contractual changes without write-offs	225	(111)	336	n.s.
150.	**Net profit from financial activities**	**149,440**	**170,926**	**(21,486)**	**-12.6%**
180.	**Net profit from financial and insurance activities**	**149,440**	**170,926**	**(21,486)**	**-12.6%**
190.	Administrative costs:	(141,425)	(144,063)	2,638	-1.8%
	a) payroll costs	(83,013)	(84,628)	1,615	-1.9%
	b) other administrative costs	(58,412)	(59,435)	1,023	-1.7%
200.	Net provisions for risks and charges	(3,307)	(2,055)	(1,252)	60.9%
	a) commitments for guarantees given	(1,878)	(850)	(1,028)	120.9%
	b) other net provisions	(1,429)	(1,205)	(224)	18.6%
210.	Net adjustments to property, plant and equipment	(8,716)	(8,926)	210	-2.4%
220.	Net adjustments to intangible assets	(611)	(684)	73	-10.7%
230.	Other operating charges/income	17,769	21,482	(3,713)	-17.3%
240.	**Operating costs**	**(136,290)**	**(134,246)**	**(2,044)**	**1.5%**
260.	Net result of the measurement at fair value of property, plant and equipment and intangible assets		(260)	260	-100.0%
290.	**Profit (loss) from current operations before tax**	**13,150**	**36,420**	**(23,270)**	**-63.9%**
300.	Income taxes on current operations	(3,552)	(12,319)	8,767	-71.2%
310.	**Profit (loss) from current operations after tax**	**9,598**	**24,101**	**(14,503)**	**-60.2%**
330.	**Net profit (loss) for the period**	**9,598**	**24,101**	**(14,503)**	**-60.2%**
340.	Net profit (loss) pertaining to minority interests		(625)	625	-100.0%
350.	**Parent Company net profit (loss)**	**9,598**	**23,476**	**(13,878)**	**-59.1%**

	30.06.2020	30.06.2019
Basic earnings per share (Euro)	0.07	0.18
Diluted earnings per share (Euro)	0.07	0.18

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Captions	30.06.2020	30.06.2019
10.	**Net profit (loss) for the period**	**9,598**	**24,101**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Equity instruments designated at fair value through other comprehensive income	-	(86)
50.	Property, plant and equipment	-	46
70.	Defined-benefit pension plans	20	(651)
	Other elements of income, net of income taxes with reversal to income statement		
120.	Cash-flow hedges	145	(581)
140.	Financial assets (other than equities) designated at fair value through other comprehensive income	(1,522)	307
170.	**Total other elements of income (net of income taxes)**	**(1,357)**	**(965)**
180.	**Total comprehensive income (Captions 10+170)**	**8,241**	**23,136**
190.	Total comprehensive income pertaining to minority interests	-	(600)
200.	**Total consolidated comprehensive income pertaining to Parent Company**	**8,241**	**22,536**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.06.2020

	Balance at 31.12.2019	Changes in opening balances	Balance at 01.01.2020	Allocation of prior year results		Changes during the year									Group shareholders' equity at 30.06.2020	Minority interests at 30.06.2020
							Transactions on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income at 30.06.2020		
Share capital:																
a) ordinary shares	63,828		63,828												63,828	
b) other shares	6,865		6,865												6,865	
Share premium reserve	16,145		16,145												16,145	
Reserves:																
a) from profits	768,080		768,080	44,887		(14,457)									798,510	
b) other	24,665		24,665	(4,731)											19,930	4
Valuation reserves:	45,373		45,373											(1,357)	44,016	
Equity instruments																
Treasury shares																
Net profit (loss) for the period	40,156		40,156	(40,156)										9,598	9,598	
Group shareholders' equity	**965,108**		**965,108**			**(14,457)**								**8,241**	**958,892**	
Minority interests	**4**		**4**													**4**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.06.2019

	Balance at 31.12.2018	Changes in opening balances	Balance at 01.01.2019	Allocation of prior year results		Changes during the year									Group shareholders' equity at 30.06.2019	Minority interests at 30.06.2019
							Transactions on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income at 30.06.2019		
Share capital:																
a) ordinary shares	60,840		60,840												60,840	
b) other shares	6,865		6,865												6,865	
Share premium reserve	16,145		16,145												16,145	
Reserves:																
a) from profits	748,003		748,003	19,810											767,813	
b) other	22,982		22,982	4,840											(14,674)	42,496
Valuation reserves:	44,927		44,927											(965)	42,981	981
Equity instruments																
Treasury shares																
Net profit (loss) for the period	36,558		36,558	(24,650)	(11,908)									24,101	23,476	625
Group shareholders' equity	**892,054**		**892,054**		**(11,146)**								**2**	**22,536**	**903,446**	
Minority interests	**44,266**		**44,266**		**(762)**								**(2)**	**600**		**44,102**

CONSOLIDATED CASH FLOW STATEMENT

	30.06.2020	30.06.2019
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**67,310**	**80,777**
- interest received (+)	124,942	128,157
- interest paid (-)	(19,057)	(21,507)
- dividends and similar income (+)	586	1,044
- net commission income (+/-)	77,370	80,410
- payroll costs (-)	(77,892)	(79,653)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(54,250)	(47,047)
- other revenues (+)	19,163	31,692
- taxation (-)	(3,552)	(12,319)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(726,095)**	**(443,887)**
- financial assets held for trading	370	(2,174)
- financial assets designated at fair value through profit and loss		
- other financial assets that are necessarily measured at fair value	(809)	22,292
- financial assets designated at fair value through other comprehensive income	37,206	(249,450)
- financial assets measured at amortised cost	(777,449)	(188,807)
- other assets	14,587	(25,748)
3. Cash generated (absorbed) by financial liabilities	**648,358**	**354,297**
- financial liabilities measured at amortised cost	531,694	282,927
- financial liabilities held for trading	(409)	1,686
- financial liabilities designated at fair value through profit and loss		
- other liabilities	117,073	69,684
Net cash generated/absorbed by operating activities (A)	**(10,427)**	**(8,813)**
B. INVESTING ACTIVITIES		
1. Cash generated by		**15**
- sale of equity investments		
- dividends collected on equity investments		
- sale of property, plant and equipment		15
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(1,412)**	**(3,222)**
- purchase of equity investments		
- purchase of property, plant and equipment	(910)	(2,416)
- purchase of intangible assets	(502)	(806)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	**(1,412)**	**(3,207)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations		(11,908)
- sale/purchase of third party control		
Net cash generated/absorbed by financing activities (C)		**(11,908)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(11,839)**	**(23,928)**

RECONCILIATION

	30.06.2020	30.06.2019
Cash and cash equivalents at beginning of period	**60,816**	**69,219**
Net increase (decrease) in cash and cash equivalents	(11,839)	(23,928)
Cash and cash equivalents: effect of changes in exchange rates	1,778	1,463
Cash and cash equivalents at end of period	**50,755**	**46,754**

CONSOLIDATED INCOME STATEMENT – QUARTER BY QUARTER

Captions	2nd quarter 2020	1st quarter 2020	2nd quarter 2019	1st quarter 2019
10. Interest and similar income	63,917	64,077	66,503	66,423
20. Interest and similar expense	(9,226)	(10,307)	(11,350)	(10,751)
30. Net interest income	**54,691**	**53,770**	**55,153**	**55,672**
40. Commission income	41,500	45,053	46,052	41,933
50. Commission expense	(3,552)	(4,490)	(3,666)	(3,909)
60. Net commission income	**37,948**	**40,563**	**42,386**	**38,024**
70. Dividends and similar income	25	561	587	457
80. Net trading income	221	629	249	755
90. Net hedging gains (losses)	-	-	(87)	(16)
100. Gains (losses) on disposal or repurchase of:	(1,206)	2,866	2,814	800
a) financial assets measured at amortised cost	(1,532)	865	1,912	10
b) financial assets designated at fair value through other comprehensive income	319	2,013	995	799
c) financial liabilities	7	(12)	(93)	(9)
110. Net result of other financial assets and liabilities designated at fair value through profit or loss	1,000	(1,480)	303	1,420
b) other financial assets that have to be measured at fair value	1,000	(1,480)	303	1,420
120. Net interest and other banking income	**92,679**	**96,909**	**101,405**	**97,112**
130. Net value adjustments/write-backs for credit risk relating to:	(22,319)	(18,054)	(19,256)	(8,224)
a) financial assets measured at amortised cost	(22,178)	(18,079)	(19,204)	(8,318)
b) financial assets designated at fair value through other comprehensive income	(141)	25	(52)	94
140. Profit/losses from contractual changes without write-offs	351	(126)	(182)	71
150. Net profit from financial activities	**70,711**	**78,729**	**81,967**	**88,959**
180. Net profit from financial and insurance activities	**70,711**	**78,729**	**81,967**	**88,959**
190. Administrative costs:	(68,029)	(73,396)	(71,225)	(72,838)
a) payroll costs	(40,579)	(42,434)	(42,612)	(42,016)
b) other administrative costs	(27,450)	(30,962)	(28,613)	(30,822)
200. Net provisions for risks and charges	(2,027)	(1,280)	(1,132)	(923)
a) commitments for guarantees given	(1,823)	(55)	(35)	(815)
b) other net provisions	(204)	(1,225)	(1,097)	(108)
210. Net adjustments to property, plant and equipment	(4,333)	(4,383)	(4,453)	(4,473)
220. Net adjustments to intangible assets	(307)	(304)	(351)	(333)
230. Other operating charges/income	9,359	8,410	11,955	9,527
240. Operating costs	**(65,337)**	**(70,953)**	**(65,206)**	**(69,040)**
260. Net result of the measurement at fair value of property, plant and equipment and intangible assets	-	-	(260)	-
290. Profit (loss) from current operations before tax	**5,374**	**7,776**	**16,501**	**19,919**
300. Income taxes on current operations	(877)	(2,675)	(4,974)	(7,345)
310. Profit (loss) from current operations after tax	**4,497**	**5,101**	**11,527**	**12,574**
320. Net profit (loss) of discontinued operations, net of taxes	-		-	-
330. Net profit (loss) for the period	**4,497**	**5,101**	**11,527**	**12,574**
340. Net profit (loss) pertaining to minority interests	-	-	(64)	(561)
350. Parent Company net profit (loss)	**4,497**	**5,101**	**11,463**	**12,013**

EXPLANATORY NOTES

BASIS OF PREPARATION AND ACCOUNTING POLICIES

GENERAL INFORMATION

Declaration of compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements of the Banco Desio Group have been prepared pursuant to art. 154-ter of Legislative Decree no. 58/1998 and for the purposes of determining own funds, in accordance with the applicable IAS/IFRS in force at the reference date, issued by the International Accounting Standards Board (IASB) and related interpretations issued by the IFRS Interpretations Committee (IFRIC) and endorsed by the European Commission, as per EU Regulation 1606 of 19 July 2002.

In particular, the content of the condensed interim financial statements complies with IAS 34 – Interim Financial Reporting, as well as with the enabling regulations for art. 9 of Legislative Decree 38/2005 and the Bank of Italy Circular 262 of 22 December 2005.

Basis of preparation

The condensed consolidated interim financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement, the income statement quarter by quarter and the explanatory notes, which provide, among other things, the information on fair value, the details of the main balance sheet and income statement captions, information on risks and hedging policies, information on transactions with related parties and segment information (as well as information on shareholders' equity reported in an attachment). The condensed consolidated interim financial statements are also accompanied by the interim report on operations.

For the preparation of the financial statements and the contents of the explanatory notes, reference was made to the provisions contained in Circular 262 "*Bank financial statements: schedules and rules for preparation*" of 22 December 2005, as per 6th updated of 30 November 2018. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The condensed consolidated interim financial statements have been prepared in a clear manner to give a true and fair view of the balance sheet, financial position and result for the period of the Banco Desio Group on a going-concern basis, complying with the principle of recognition on an accruals basis and giving preference to economic substance over form in the recognition and representation of transactions.

The accounting standards applied in preparing these financial statements concerning the classification, recognition, measurement and derecognition of financial assets and liabilities, as well as the methods for recognising revenues and costs, are the same as those applied in preparing the financial statements at 31 December 2019.

The separate financial statements used in preparing the consolidated interim financial statements are those prepared by the subsidiaries as of the same reporting date, adjusted - where necessary - to comply with the IAS/IFRS adopted by the Parent Company.

The amounts in the financial statements and the figures reported in the explanatory notes are expressed in thousands of Euro – unless otherwise indicated.

Scope of consolidation and methodology

Investments in subsidiaries

Name	Head office	Type of relationship	Nature of holding	
			Parent company	% held
Fides S.p.A.	Rome	1	Banco Desio	100.00
Desio OBG S.r.l.	Conegliano	1	Banco Desio	60.00

Key

Type of relationship:

1 = majority of votes at the ordinary shareholders' meeting

There have been no changes in the scope of consolidation with respect to the situation at 31 December 2019.

Significant assessments and assumptions in determining the scope of consolidation

The scope of consolidation is determined in accordance with the provisions contained in IFRS 10 - Consolidated Financial Statements. Accordingly, the Parent Company consolidates an entity when the three elements of control are met (1. power over an investee; 2. exposure, or rights, to variable returns from its involvement with the investee; 3. ability to use its power over the investee to affect the amount of the investor's returns). Generally, when an entity is held directly through voting rights, control comes from holding more than half of the voting rights. In other cases, the assessment of control is more complex and requires greater use of judgement, as it means taking into account all relevant factors and circumstances that could lead to control over the entity, such as:

- the purpose and design of the entity,
- the relevant activities, that is, the activities that significantly affect the entity's returns and how they are governed;
- any right, arising from contractual arrangements, that gives the investor the ability to direct the relevant activities, that is, the power to establish the entity's financial and operating policies, the power to exercise the majority of voting rights at meetings of the governing body or the power to appoint or remove the majority of the members of the governing body;
- the Group's exposure to variability of the returns.

Investments in subsidiaries with significant minority interests

Minority interests, voting rights of third parties and dividends paid to third parties

Name	Minority interests %	Dividends paid to third parties
Desio OBG S.r.l.	40.00	-

Investments with significant minority interests: accounting information

Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Net interest and other banking income	Operating costs	Profit (loss) from current operations before tax	Profit (loss) from current operations after tax	Profit (loss) after tax on non-current assets held for sale	Net profit (loss) for the period (1)	Other elements of income, net of income taxes (2)	Comprehensive income (3) = (1) + (2)
Desio OBG S.r.l.	56	-	42	1	-	10	-	44	(38)	-	-	-	-	-	-

Significant restrictions

There are no restrictions (e.g. legal, contractual or regulatory restrictions) on the Parent Company's ability to access the assets, or to use them, and to pay off the liabilities of the Group, such as restrictions on the ability of the Parent Company or its subsidiaries to transfer cash or limitations on transfers of funds in the form of dividends, loans or advances granted to (or from) other Group companies.

Other information

The basis of consolidation, in compliance with IFRS 10, is as follows:

- subsidiaries: assets, liabilities, shareholders' equity, "off-balance sheet" transactions, costs and revenues are included in the relevant items of the consolidated financial statements on a line-by-line basis. Any positive difference emerging from a comparison of the book value of each investment and the relevant portion of the subsidiary's shareholders' equity, left over after any allocation to a specific balance sheet captions, is recognised as goodwill and subjected to impairment testing;
- associates: investments in associates are consolidated using the equity method (this policy was not applicable at the date of the condensed consolidated quarterly financial statements as the Parent Company does not have any investments in associates).

Other aspects

Implications of the Covid-19 epidemic on the interim financial report at 30 June 2020

The guidelines and indications expressed in recent months by various international, European and national institutions have been consistently used by the Group in preparing this half-yearly financial report at 30 June 2020.

Also in consideration of Consob's Call for Attention no. 8/20 of 16 July 2020, the following is an explanation of the main financial statement issues impacted by the Covid-19 epidemic and the solutions adopted by the Group, being well aware of its role in providing the much-needed support to its stakeholders, above all to people and businesses, in the current context characterised by significant levels of uncertainty and volatility

The exceptional characteristics of the current crisis from which economic and financial consequences on people and businesses may derive, depending on the duration of the health and social emergency, as well as the measures already defined and being defined by the Italian government and EU authorities which, for their amount and characteristics, are likely to mitigate the effects of the crisis, but which have not yet been fully defined, make the application of accounting standards based on current market values and forward-looking valuations particularly complex.

The main financial statement aspects affected by the Covid-19 epidemic, the solutions adopted and the impacts on the income statement at the reporting date are described below.

With reference to the overall information linked to Covid-19 contained in this document, please read the sections entitled "Macroeconomic scenario" and “Information on risks and related hedging policy” in the Interim Report on Operations at 30 June 2020.

Classification and valuation of loans according to IFRS 9 in the light of the measures issued by the various supervisory authorities following the Covid-19 epidemic

Regarding the classification, taking into account the indications of the various regulators that have expressed themselves on the subject, the performing positions affected by the moratorium measures based on legislation or decided independently by the Group in response to the Covid-19 emergency are treated as follows:

- they are not normally considered forborne according to prudential regulations nor are they subject to stage 2 classification, also taking into account that there is substantially no change in the present value of the cash flows subsequent to the contractual modification. For positions with companies that had a higher level of risk before the health emergency, specific assessments are carried out in the case of a moratorium decided independently by the Group to verify whether or not to consider renegotiation as a forbearance measure, with consequent transfer to stage 2;
- they are not classified as NPLs (stage 3). In particular, under these circumstances performing loans subject to a moratorium are not classified in the same risk class of past due or overdrawn loans because, in compliance with the requirements of EBA's guidelines, the moratorium interrupts the counting of the days that they are past due. Furthermore, adhering to a moratorium because of Covid-19 is not automatically considered as a trigger event for an unlikely-to-pay loan.

The moratoriums granted to customers already classified among non-performing loans are subject to specific assessment and considered as additional forbearance measures.

As regards the assessment, it should be remembered that IFRS 9 Financial Instruments expressly requires that an entity estimate the expected losses on receivables taking into consideration all information, available currently and in the future, that is deemed reasonable and demonstrable.

The positions of the Supervisory Authorities that have expressed themselves on the subject have agreed to suggest extreme caution in modifying the valuation scenarios, at least in the phase of most acute uncertainty. At the same time, the ECB's suggestion to use a reference scenario anchored to its indications seemed to indicate the intention of the Authorities to want to centrally direct the banks in this particular situation, providing a homogeneous set of parameters for forecasts of future economic trends.

On 4 June 2020, the projections for the Eurozone were announced by the ECB, which published the document "Eurosystem staff macroeconomic projections for the Euro Area", which was followed by the "Macroeconomic projections for the Italian economy" for the three-year period 2020-22 published by the Bank of Italy on 5 June 2020.

So taking into account: (i) the guidance mentioned previously that it was better to focus on long-term prospects to grasp the structural effects of the crisis without emphasising the procyclicality and avoiding mechanical applications of the models for estimating expected credit losses, and (ii) the complexities of applying the ordinary models for estimating expected losses, which consider prospective forecasts for the current year and only the following two years, so with a strong incidence of short-term movements, the Group followed the instructions provided by the various authorities to integrate the ordinary assessment process conditioned by the exceptional and completely new characteristics of the current crisis.

The economic effects of these interventions have been quantified in management terms in Euro 12.0 million (pre-tax) as described below in "Impacts of the Covid-19 epidemic on the income statement at 30 June 2020" and in the note on "Information on risks and related hedging policy" to which reference is made.

The determination of expected losses on non-performing loans (stage 3) also implies significant elements of assessment, with particular reference to estimating the flows deemed recoverable and the related timing of recovery. During the period, there was a deterioration in the quality of part of the customer loan portfolio (substantially due to the slowdown in collections) for which the appropriate interventions were promptly activated in order to manage the contingency of the Covid-19 epidemic and, in any case, to ensure the correct classification and assessment of recoverability of exposures classified as NPL with consequent impact on the cost of non-performing credit for the period and on the increase in the levels of coverage of NPLs compared with 31 December 2019.

Assessment of financial instruments at fair value

For the purposes of this interim financial disclosure, the assessment of financial instruments at fair value was updated on the basis of current market conditions, in line with the provisions of IFRS 13 and the Group's Fair Value Policy.

In particular, for investments at fair value that derive their value directly, in the case of listed securities, or, in the case of investments that are convertible or closely related to instruments that are listed/valued with market multiples, indirectly from market prices (so valued with methods ascribable to fair value levels 1 and 2), the valuations were updated on the basis of stock market prices.

The use of significant judgements in the valuation of the financial instruments in portfolio is to be considered fairly marginal, given that the bank continues to maintain a very prudent allocation. The use of valuation models for the recognition of the fair value of the financial instruments not listed on active markets (Level 3), substantially attributable to units of UCITS of closed-end funds, therefore relates to a minimal portion of the investments held. With particular reference to closed-end investment funds classified under financial instruments mandatorily measured at fair value through profit or loss, the negative effects on the income statement (approximately Euro 0.9 million) caused by updating their valuation on the basis of the latest available NAVs have been recognised.

Impairment test of intangible assets with indefinite life (goodwill) and equity investments

In current market contexts, significantly influenced by the Covid-19 pandemic, impairment tests on the value of intangible assets are also particularly delicate.

In this regard, in accordance with IAS 36 and the impairment policy applicable to intangible assets with an indefinite useful life (goodwill) and equity investments, it should be noted that impairment testing goodwill and equity investments generally refers to the notion of value in use, which presupposes an estimate of the future cash flows that can be generated in the long term through the continuous use of the asset being evaluated; projections relating to the general or sector macro-economic framework are at the basis of the estimates of future cash flows.

Once again, in the current, very particular market context, the Supervisory Authorities have agreed to suggest extreme caution in modifying the assessment scenarios, at least during the phase of most acute uncertainty about the developments of the Covid-19 epidemic, and on the extent and the effects of government measures to support the economy. Likewise, they agreed to suggest caution in using estimates based on highly uncertain hypotheses and assumptions and to consider, as soon as possible, any long-term effects, which represent the temporal reference underlying the logic of impairment testing.

In preparing this information as of 30 June 2020, it was initially thought that in the current market context, normal performance checks and the determination of so-called trigger events for the update of the impairment tests on goodwill and equity investments, were objectively overcome by the pandemic's huge impact on all economic variables, both macro and micro.

This inevitably led to an update during the year of the previous impairment tests carried out at the end of 2019 on the basis of the 2020-2024 projections developed at the time.

In light of these projections for the Eurozone published by the ECB, the information on macroeconomic scenarios was defined internally by the Group, taking the forecasts made by external providers as a point of reference as well. More specifically, for the purposes of the interim financial report, the Group outlined the general trends of a scenario after the Covid-19 epidemic, even if susceptible to further developments that are not foreseeable to date, due to the significant levels of uncertainty that distinguish the extraordinary nature of the pandemic. The scenario outlined can be summarised in the forecast of the GDP trend in Italy, which could decrease by 8-11% in 2020 and then recover by 5-7% in 2021.

In these circumstances, based on the strategic actions already expressed in the 2018-2020 Business Plan that still confirm their validity and reside in the resilient business model, oriented to the diversification of revenues from core credit activities (to SMEs, private individuals, with particular regard to salary/pension-backed loans) and wealth management & protection (with particular regard to the development of non-motor insurance products), as well as in pursuit of increasingly proactive management of non-performing loans and an ever greater operational flexibility in the management of operating costs, we considered the latest forecasts for 2020 and 2021 and their prudent extrapolation on the basis (i) of the so-called "Covid-19 influenced" macroeconomic scenario, (ii) of managerial actions put in place to counter the negative economic effects deriving from the pandemic and (iii) of actions which, regardless of the context in which the Group operates, pertain to the process of renewal and streamlining of the organisational model that the Group recently undertook.

The considerations regarding the possible macroeconomic scenario and the structural strengths of the Group led to a forecast of positive results in 2020 and 2021 and a gradually more sustained recovery of profit in the following years, assuming a cost of risk potentially up to about 70 basis points in 2020, taking into account the effect of the "credit moratoriums", and up to about 95 basis points in 2021, to then drop back to 50 basis points from 2023 onwards.

Conversely, the mass of contrast and support measures put in place by governments and by the supervisory authorities (put briefly: the Liquidity Decree for Italy and opening or announcements of measures aimed at limiting capital absorption or impacts on capital ratios) lead to an estimate of much greater efficiency on the part of "risk-weighted assets" already from the current year.

The reflections on the effects of Covid-19 in updating the trend projections for the time horizon applied, led to consider significant impacts on the components of income (commissions in particular), on loan loss adjustments and on the costs of sanitation measures and protection from the risk of contagion for employees and customers, for the period 2020-2022, highly concentrated in the current year and in 2021, with an extension of the effects still attributable to credit risk in 2022.

In this regard, the Group promptly launched specific initiatives to combat the negative impacts of the pandemic, the beneficial effects of which can be related to these impacts in terms of timing. They focused mainly on supporting liquidity, by participating in the TLTRO 3 auction on 24 June for Euro 1.2 billion against the reimbursement of 800 million of TLTRO 2; on credit support and therefore on the net interest income for the assumption of particularly low risks, based on a consistent moratorium plan, currently realized for 2.9 billion euro and disbursements of medium-term loans pursuant to the liquidity decree for around 0.4 billion; as well as on the renegotiation of the main administrative costs which will presumably offset the extraordinary costs of sanitation or those caused by the pandemic.

The results of the impairment tests, described in further detail below in the section on the "Main balance sheet and income statement captions", confirmed the recoverability of goodwill by highlighting positive margins between the value in use of the CGUs and their book values. This circumstance allows us to confirm the absence of impairment indicators even after the update of the macroeconomic scenario for the COVID-19 epidemic.

In the same way, the forward-looking evidence set out above confirms the recoverability of the deferred tax assets in the financial statements that do not fall within the scope of Law 214/2011 (the so-called "probability test").

Impacts of the Covid-19 epidemic on the income statement at 30 June 2020

With reference to the impacts of Covid-19 on the income statement at 30 June 2020, there is first of all a cost of credit linked to the performing portfolio (stage 1 and stage 2) of loans to customers, endorsement loans and commitments to disburse funds in the first half of 2020 of Euro 15.0 million, of which Euro 12.0 million estimated operationally as the exclusive effect of updating the models for implementing the macroeconomic forecasts impacted by Covid-19. To this must be added an increase in the expected loss on the securities portfolio equal to Euro 1.3 million, substantially attributable to an increase in the risk identified by the model used to calculate expected losses against a substantially stable composition of the securities portfolio; in addition, there is the recognition of higher operating costs of approximately 1.5 million euro incurred to deal with the emergency.

Use of estimates and assumptions in preparing the condensed consolidated interim financial statements

The preparation of the condensed consolidated interim financial statements requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement, and on the disclosures provided in the notes.

Such estimates involves the use of available information and the adoption of subjective assessments, partly based on historical experience, in order to make reasonable assumptions for the recognition of operating events. By their nature, these estimates and assumptions may change from year to year and, therefore, it cannot be excluded that the values currently shown here may in future differ because of a change in the subjective assessments used.

The main areas in which the use of subjective estimates and assessments is applied are:

- the valuation models used for carrying out impairment tests relating to investments and to intangible assets with an indefinite useful life (goodwill);
- quantification of the losses arising from the impairment of loans and financial assets in general;
- determination of the fair value of financial instruments for disclosure purposes;
- the use of valuation models for determining the fair value of financial instruments not quoted in active markets;
- quantification of the provisions for employee benefits and the provisions for risks and charges;
- estimates and assumptions about the recoverability of deferred tax assets;
- the valuation of the assets acquired and liabilities taken on at their fair value as part of the business combination.

The description of the accounting policies applied to balance sheet captions provides more detailed information on the assumptions and subjective assessments used in preparing the condensed consolidated interim financial statements.

Comparability of financial statements

In accordance with IAS 34, the condensed consolidated interim financial statements have to include not only the financial schedules at the reference date, but also comparative figures for the following periods:

- the balance sheet at the end of the previous year;
- the income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement for the corresponding period of the previous year.

Contribution to the Single Resolution Mechanism (SRM) and to the Deposit Guarantee Scheme (DGS)

The European directives governing the resolution mechanisms of banks belonging to the European Union and the functioning of the deposit guarantee schemes came into force during 2015. In particular:

- Directive 2014/59/EU (the so-called "Bank Recovery and Resolution Directive" or BRRD) adopted by the national law with Legislative Decree 180 of 16 November 2015, defines the resolution rules and includes the activation of resolution mechanisms through the establishment of funds financed by ex ante contributions; the target level of these funds, which is to be achieved by 31 December 2024, is 1% of the total amount of protected deposits of the banking system;
- Directive 2014/49/EU (the so-called "Deposit Guarantee Schemes Directive" or DGSD) adopted by the national law with Legislative Decree 30 of 15 February 2016, provides that national deposit protection funds (in Italy, the Interbank Deposit Protection Fund or FITD) should raise funds as a proportion of the guaranteed deposits, to be established by a system of ex-ante- funding to reach the target level of 0.8% of guaranteed deposits by 2024.

Following notification of the contributions by the competent authorities (Bank of Italy as the resolution authority and FITD as the deposit protection authority), the standard and special contributions paid by Group banks have been charged to income statement caption "150 b) Other administrative costs", as indicated in the Bank of Italy communications dated 19 January 2016.

Domestic tax group election

The Italian companies of the Banco Desio Group (except for Desio OBG S.r.l., given its status as an SPV) have chosen to be a "domestic tax group" for the years 2018-2020, governed by arts. 117-129 of the Consolidated Income Tax Law, which was introduced into tax legislation by Legislative Decree no. 344/2003. This law provides an optional system, under which the total income or tax loss of each subsidiary in the tax consolidation - together with withholdings, deductions and tax credits - are transferred to the parent company, which then calculates a single taxable income or tax loss to be carried forward (as resulting from the sum of its own taxable income or tax losses and those of the participating subsidiaries) and, consequently, a single tax liability or tax credit.

Legal audit

These condensed consolidated interim financial statements have been subjected to a limited review by Deloitte & Touche S.p.A., pursuant to the resolution of the Shareholders' Meeting of 26 April 2012.

MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

The accounting policies explained below, which were used in preparing this document, comply with the IAS/IFRS in force on the reference date and have been applied on a going-concern basis.

For the purchase and sale of standard financial assets, i.e. contracts for which delivery is made in a period established by regulations or market conventions, reference is made to the settlement date.

Financial assets designated at fair value through profit or loss (FVTPL)

Classification

Financial assets other than those allocated to *Financial assets measured at fair value through other comprehensive income* and *Financial assets measured at amortised cost* are classified in this category. In particular, this caption includes:

– financial assets held for trading, essentially represented by debt and equity securities and the positive value of derivative contracts held for trading purposes;

– financial assets mandatorily at fair value, represented by financial assets that do not meet the requirements for valuation at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not provide exclusively for repayments of principal and payments of interest on the principal to be repaid (i.e. failed to pass the SPPI test) or that are not held as part of a business model whose objective is to hold the assets with a view to collecting the contractual cash flows (Hold To Collect or "HTC") or whose objective is achieved both through the collection of contractual cash flows and through the sale of financial assets (Hold To Collect and Sell or "HTCS");

– the financial assets designated at fair value, i.e. the financial assets defined as such at the time of initial recognition when the right conditions exist. In these circumstances, an entity can irrevocably designate a financial asset as being measured at fair value through profit or loss, but only if doing so eliminates or significantly reduces an inconsistency in measurement.

In particular, the following are recognised in this item:

– debt securities and loans that are not attributable to the "HTC" or "HTCS" business models (which are therefore included in the "Other/Trading" business model) or which do not pass the SPPI test;

– capital instruments that do not qualify as control, association and joint control instruments held for trading purposes or which were not designated at fair value through other comprehensive income (under the FVOCI option) at the time of initial recognition;

– mutual funds.

The item also includes derivative contracts, recognised as financial assets held for trading, which are presented as assets if the fair value is positive and as liabilities if the fair value is negative. It is only possible to offset the positive and negative current values deriving from transactions in place with the same counterparty if there is a legal right to compensate the amounts recognised in the accounts and the intention is to proceed with settlement of the positions being offset on a net basis.

According to the general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equities for which no reclassification is allowed), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through profit or loss to one of the other two categories envisaged by IFRS 9 (*Financial assets measured at amortised cost* or *Financial assets measured at fair value through* *other comprehensive income*). The transfer value is represented by the fair value at the time of the reclassification and its effects apply prospectively starting from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is recalculated based on its fair value at the reclassification date and this date is considered the initial recognition date for allocation to the various stages of credit risk (stage assignment) for impairment purposes.

Recognition

The initial recognition of financial assets takes place at the settlement date for debt securities and equities and at the execution date for derivatives.

On initial recognition, financial assets measured at fair value through profit or loss are recorded at fair value, which corresponds to the amount paid, without considering transaction costs or income directly attributable to the instrument, which are recorded in the income statement.

Measurement

After initial recognition, financial assets designated at fair value through profit or loss continue to be measured at fair value. The effects of applying this method of valuation are charged to the income statement.

Market prices are used to determine the fair value of financial instruments quoted on an active market. In the absence of an active market, we use generally accepted valuation methods and models, which take into account all risk factors related to the instruments and which are based on data that can be found on the market. For equities not listed on an active market, cost is used as an estimate of the fair value only on a residual basis and limited to a few circumstances, i.e. in the case of non-applicability of the valuation methods, or in the presence of a wide range of possible estimates of fair value, in which cost is the most meaningful estimate.

Derecognition

Financial assets are only derecognised from the financial statements if the sale involves the substantial transfer of all risks and benefits associated with the assets. If, on the other hand, a significant portion of the risks and benefits of the assets sold has been retained, they continue to be recorded in the financial statements, even though ownership of the assets has effectively been transferred.

In the event that it cannot be demonstrated that substantially all of the risks and benefits have been transferred, the financial assets are derecognised if no form of control over them has been retained. By contrast, total or partial retention of such control means that the assets are reported in the balance sheet to the extent of the residual involvement, as measured by the exposure to changes in the value of the assets sold and changes in their cash flows.

Lastly, financial assets sold are derecognised if the contractual rights to collect the cash flows are retained, with a parallel commitment to pay over all such flows, and only them, to third parties without delay.

Financial assets valued at fair value through other comprehensive income (FVOCI)

Classification

Financial assets that meet both of the following conditions are included in this category:

- the financial asset is held according to a business model the objective of which is achieved by collecting the cash flows provided for by contract and by selling it (HTCS) and
- the contractual terms of the financial asset provide, at certain dates, for financial flows represented solely by payments of capital and interest on the amount of the principal to be repaid (i.e. passing the SPPI test).

Equity instruments, not held for trading purposes, are also included in this item, so that at the time of initial recognition, the option for designation at fair value through other comprehensive income (FVOCI option) was exercised.

In particular, the following are recognised in this item:

- debt securities classified according to the HTCS business model that have passed the SPPI test;
- equity interests, which cannot be qualified in terms of control, association and joint control, which are not held for trading purposes, for which the option has been exercised for the designation at fair value through other comprehensive income ("FVOCI option").

According to the general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equities for which no reclassification is allowed), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through other comprehensive income to one of the other two categories envisaged by IFRS 9 (*Financial assets measured at amortised cost* or *Financial assets measured at fair value through profit or loss*). The transfer value is represented by the fair value at the time of the reclassification and its effects apply prospectively starting from the date of reclassification. In the case of reclassification from the category in question to that of amortised cost, the cumulative gain (loss) recorded in the valuation reserve is adjusted to reflect the fair value of the financial asset at the date of the reclassification. On the other hand, in the case of reclassification to the category of fair value through profit or loss, the cumulative gain (loss) previously recorded in the valuation reserve is reclassified from equity to profit (loss) for the year.

Recognition

Initial recognition of financial assets is on the settlement date for debt securities and equities.

At the time of initial recognition, the assets are accounted for at fair value through profit or loss, including transaction costs or income directly attributable to the instrument.

Measurement

After initial recognition, assets classified at fair value through other comprehensive income, other than equity securities, are measured at fair value with recognition to profit or loss of the effects of applying amortised cost, the effects of impairment and any foreign exchange effect, while any other gains or losses deriving from a change in fair value are recognised in a specific equity reserve until the financial asset is derecognised. At the time of the total or partial disposal, the gain or loss accumulated in the valuation reserve is reversed, in whole or in part, to the income statement.

Capital instruments for which the choice has been made for classification in this category are valued at fair value and the amounts recognised in a specific equity reserve must not subsequently be transferred to the income statement, even in the event of sale. The only component referable to the equity instruments in question that is recognised in the income statement is the related dividends.

The fair value is determined on the basis of the criteria already illustrated for *Financial assets measured at fair value through profit or loss.*

Financial assets valued at fair value through other comprehensive income are subject to verification to see if there has been a significant increase in credit risk (i.e. impairment) as required by IFRS 9, in the same way as *Assets at amortised cost*, with consequent recognition in the income statement of an adjustment to cover expected losses. More specifically, on instruments classified in stage 1 (i.e. financial assets at the time of origination, if not impaired, and instruments for which there has not been a significant increase in credit risk with respect to the initial recognition date), an expected loss at one year is accounted for at each reporting date. On the other hand, for instruments classified in stage 2 (performing loans for which there has been a significant increase in credit risk compared with the initial recognition date) and stage 3 (non-performing exposures), an expected loss is recorded for the entire residual life of the financial instrument. Equities are not subject to the impairment process.

Derecognition

Financial assets are derecognised on the basis of the criteria already explained for *Financial assets valued at fair value through profit or loss.*

Financial assets measured at amortised cost

Classification

This category includes financial assets (loans and debt securities) that meet both the following conditions:

- the financial asset is held according to a business model the objective of which is achieved by collecting the cash flows provided for in the contract (HTC), and
- the contractual terms of the financial asset provide, at certain dates, for financial flows represented solely by payments of capital and interest on the amount of the principal to be repaid (i.e. passing the SPPI test).

In particular, the following are recognised in this item:

- loans to banks in any forms that meet the requirements of the previous paragraph;
- loans to customers in any forms that meet the requirements of the previous paragraph;
- debt securities that meet the requirements of the previous paragraph.

According to the general rules established by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for the management of financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at amortised cost to one of the other two categories envisaged by IFRS 9 (*Financial assets measured at fair value through other comprehensive income* or *Financial assets measured at fair value through profit or loss*). The transfer value is represented by the fair value at the time of the reclassification and its effects apply prospectively starting from the date of reclassification. Gains or losses resulting from the difference between the amortised cost of the financial asset and the related fair value are recognised in the income statement in the case of reclassification between *Financial assets valued at fair value through profit or loss* and to equity, in the relevant valuation reserve, in the case of reclassification between *Financial assets valued at fair value through other comprehensive income*.

Recognition

Initial recognition of a financial asset takes place on the settlement date for debt securities and on the date of disbursement for loans. At the time of initial recognition, the assets are accounted for at fair value, including transaction costs or income directly attributable to the instrument.

In particular, as far as loans are concerned, the disbursement date normally coincides with the date of signing the contract. If they do not coincide, a commitment is made at the time of signing the contract to provide funds and the commitment ends on the date the loan is disbursed. The credit is recognised on the basis of its fair value, equal to the amount disbursed, or at the subscription price, including the costs/income directly attributable to the individual loan and determinable from the origin of the transaction, even if settled afterwards.

Even if costs have these characteristics, they are excluded if they are to be reimbursed by the borrower or can be classified as normal internal administrative costs.

Measurement

After initial recognition, the financial assets under review are measured at amortised cost, using the effective interest rate method: the asset is recognised for an amount equal to the initial recognition value less any principal repayments, plus or minus the cumulative amortisation (calculated using the effective interest rate method) of the difference between this initial amount and the amount at maturity (typically attributable to costs/income charged directly to the individual asset) and therefore net of any adjustments.

The effective interest rate is determined by calculating the rate that equals the present value of future flows of the asset, for both principal and interest, to the amount disbursed including the costs/income related to the asset. By using financial logic, this accounting method makes it possible to distribute the economic effect of the costs/income directly attributable to the financial asset over its expected residual life.

The amortised cost method is not used for assets (valued at historical cost), the short duration of which makes the effect of discounting more or less negligible, for those without a defined maturity and for loans that are revocable.

The measurement criteria are closely linked to the inclusion of the instruments in question in one of the three stages of credit risk foreseen in IFRS 9, the last of which (stage 3) includes the non-performing financial assets, while the others (stages 1 and 2) contain the performing assets.

As regards the accounting representation of these measurement effects, adjustments to this type of asset are recognised in the income statement:

- upon initial registration, for an amount equal to the expected loss at twelve months;
- at the time of subsequent measurement of the asset, where the credit risk has not increased significantly compared with the initial recognition, in relation to changes in the amount of adjustments for expected losses in the following twelve months;
- at the time of subsequent measurement of the asset, where the credit risk has increased significantly compared with the initial recognition, in relation to the recognition of adjustments for expected losses referable to the asset's contractual lifetime;
- at the time of the subsequent measurement of the asset, where the "significance" of this increase has ceased, in relation to the adjustment of the cumulative adjustments to take account of the switch from an expected loss over the lifetime of the instrument to one at twelve months.

The financial assets in question, where they are performing, are subject to an assessment, aimed at defining the adjustments to be recorded in the financial statements, at the level of individual loan (or "tranche"), depending on the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD), derived from the internal rating models in use (Credit Rating System) appropriately adjusted to take into account the provisions of IFRS 9.

If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss in value is measured as the difference between the carrying amount of the asset (classified as "non-performing", like all other relationships with the same counterparty) and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the loss, to be recorded in the income statement, is defined on the basis of an analytical evaluation process or determined by homogeneous categories and, therefore, analytically attributed to each position, taking into account forward-looking information with the inclusion of possible alternative recovery scenarios ("disposal scenario").

Non-performing assets include instruments classified as doubtful, unlikely to pay or past due by more than ninety days in accordance with the rules of the Bank of Italy, consistent with IAS/IFRS and European supervisory standards.

The expected cash flows take into account the expected recovery times and the presumable realisable value of any guarantees.

The original effective rate of each asset remains unchanged over time, even if a restructuring of the relationship has taken place and this has led to a change in the contractual rate, even if the relationship becomes, in practice, a non-interest bearing contract.

If the reasons for making the impairment adjustment cease to apply due to an event occurring after recognition of an impairment, the related value is restored and the amount of the write-back is recognised in the income statement. The write-back may not exceed the amortised cost that the financial instrument would have had if no adjustments had been made previously.

Write-backs associated with the passage of time are posted to net interest income.

Receivables for interest on arrears accrued on non-performing assets are only recorded once they have been collected.

In certain cases, the original contractual conditions are subject to modification by the contract parties during the life of assets in question, loans in particular. When, during the course of an instrument's life, the contractual clauses are subject to change, it is necessary to check whether the original asset has to continue to be recognised in the financial statements or if, on the other hand, the original instrument has to be derecognised from the financial statements with a new financial instrument taking its place.

Generally speaking, changes to a financial asset lead to its cancellation and the recognition of a new asset when the changes are "substantial". The extent to which a change is "substantial" has to be assessed by considering both qualitative and quantitative elements. In some cases, it may be obvious, without resorting to complex analyses, that the changes substantially modify the characteristics and/or contractual flows of a given asset, whereas, in other cases, further analyses (including quantitative ones) will have to be carried out to appreciate their effects and verify whether or not to go ahead with the derecognition of the asset and the recognition of a new financial instrument.

The qualitative and quantitative analyses to define the "substantial nature" of the contractual changes made to a financial asset will have to consider:

- the purposes for which the changes were made: for example, renegotiations for commercial reasons and concessions for the financial difficulties of the counterparty:
  - the former, aimed at holding on to the customer, involves a debtor who is not in a situation of financial difficulty. Cases include all renegotiations that aim to bring the cost of the debt into line with market conditions. Such transactions involve a change in the original conditions of the contract, usually on the debtor's request, to do with the cost of the loan, leading to an economic benefit for the debtor. Generally speaking, it is thought that whenever the bank renegotiates loan to avoid losing a customer, the renegotiation has to be considered substantial, because if it was not carried out, the customer could find alternative funding through another intermediary and the bank would suffer a decrease in its expected future revenues;
  - the latter, which are carried out for "reasons of credit risk" (i.e. forbearance measures), are due to the bank's attempt to maximise recovery of the original loan's cash flows. As a rule, after the changes, the underlying risks and benefits are not substantially transferred, so the accounting

treatment is performed through "modification accounting" - which involves immediate recognition in the income statement caption 140. "Profit/losses from contractual changes without write-offs" of the difference between the carrying amount of the loan and the present value of the new cash flows discounted at the original interest rate - and not through derecognition;

- the presence of specific objective elements (known as "triggers") that affect the characteristics and/or contractual flows of the financial instrument (such as a change in currency or a change in the type of risk to which it is exposed, where it is correlated to parameters of equity and commodity), which are considered to involve derecognition because of their impact (expected to be significant) on the original contractual flows.

Derecognition

Financial assets are derecognised on the basis of the criteria already explained for *Financial assets valued at fair value through profit or loss.*

Recognition of items affecting the income statement

Valuation at amortised cost generates in the income statement a deferral of the transaction costs and ancillary revenues over the life of the financial asset, rather than impacting the income statement on initial recognition.

The interest that accrues over time as an effect of discounting non-performing loans is recognised in the income statement under interest income.

The effects of analytical and general assessments are recognised in the income statement.

The original value of the loan is reinstated when the reasons for the write-down cease to apply, recognising the effects in the income statement.

In the case of loans acquired through business combinations, any higher value recorded in the consolidated financial statements on initial recognition is released through the income statement over the life of the loan, based on the repayment plan, or in full in the year that the loan is repaid.

Loans subject to fair value hedges, are measured at fair value and changes in value are recognised in the income statement under "net hedging gains (losses)", in the same way as the changes in fair value of the hedging instrument.

Hedging transactions

The Banco Desio Group takes advantage of the possibility, envisaged at the time of the introduction of IFRS 9, to continue to fully apply the provisions of accounting standard IAS 39 on the subject of "hedge accounting" (in the carved out version approved by the European Commission) for each type of coverage (both for specific hedges and for macro hedges).

Classification

Hedging transactions are intended to offset certain risks of potential loss on financial assets or liabilities through specific financial instruments, the use of which is intended to cushion the effects on the income statement of the securities being hedged.

The type of hedge used may be:

– fair value hedges (microhedging of fair value): the objective is to hedge the risk of changes in the fair value of the hedged instrument (assets, liabilities or irrevocable commitment not recognised subject to changes in fair value attributable to a particular risk that may affect the income statement, including exchange rate risk);

- cash-flow hedges: the objective is to hedge the change in cash flows attributable to specific risks of the instrument (assets, liabilities or highly probable scheduled transaction exposed to changes in cash flows attributable to a particular risk that may affect the income statement).

Recognition

Derivatives, including hedging instruments, are initially recognised and then measured at fair value.

The recognition of hedging transactions assumes:

- the involvement of counterparties outside the Banco Desio Group;
- a specific designation and identification of financial hedging and hedged instruments used for the transaction;
- definition of the risk management objectives being pursued, specifying the nature of the risk being hedged;
- passing the effectiveness test at the beginning of the hedging relationship and prospectively, with specific measurement procedures and frequency;
- preparation of formal documentation of the hedging relationship.

Measurement

A hedging transaction is defined as effective if the changes in fair value (or future cash flows) of the hedging instrument offset the changes in the financial instrument being hedged within the 80%-125% limits laid down in IAS 39.

Effectiveness tests are performed at each annual or interim balance sheet date, both in retrospective terms, to measure the actual results, and in prospective terms, to demonstrate the expected efficacy for future periods.

If the tests do not confirm the effectiveness of the hedge and, depending on corporate policy, hedge accounting is interrupted from that moment, the hedging derivative is reclassified under trading instruments and the hedged instrument reacquires the method of valuation corresponding to its classification in the financial statements.

Recognition of items affecting the income statement – Fair value hedges

The contra-entries to changes in the fair value of hedging derivatives and of the financial instruments being hedged (to the extent attributable to the hedged risk) are recorded in the income statement.This provision applies even when the hedged item is measured at cost.

Such offsetting is booked through the recognition in the income statement under item 90 "Net hedging gains (losses)" of changes in the value of both the hedged element (as regards the changes produced by the underlying risk factor) and the hedging instrument. Any difference determines the consequent net economic effect.

Recognition of items affecting the income statement – Cash-flow hedges

The gain or loss on the hedging instrument has be treated as follows:

- the share of the gain or loss defined as effective is recorded in equity as a contra-entry to the valuation reserves;
- the ineffective portion of the hedge is booked to the income statement.

In particular, equity has to include the lower of the total gain or loss on the hedging instrument from the start of it and the overall change in fair value (present value of expected cash flows) on the hedged element from the beginning of the hedge. Any remaining gain or loss on the hedging instrument or the ineffective portion is recognised in the income statement.

Derecognition

The recognition of hedging transactions is interrupted when it no longer meets the criteria of effectiveness, when they are revoked, when the hedging instrument or the hedged instrument expire, or when they are cancelled or sold.

If the instrument being hedged is subject to valuation at amortised cost, the difference between the fair value determined at the date of "discontinuing" (interruption of the hedging relationship) and the amortised cost is spread over its residual life.

Equity investments

Classification

The item includes the interests held in associates or companies subject to joint control. The other minority holdings follow the treatment envisaged by IFRS 9, they are classified as *Financial assets valued at fair value through profit or loss (FVTPL)* or *Financial assets valued at fair value through other comprehensive income (FVOCI)*.

The companies in which the Banco Desio Group holds at least 20% of the voting rights (including "potential" voting rights) or in which, despite having a lower share of rights, it has the power to participate in the determination of the financial and management policies of the investee by virtue of particular legal links such as participation in syndicated agreements, are considered companies subject to significant influence (i.e. associates).

Joint ventures are those companies, for which, on a contractual basis, Banco Desio Group and one or more other parties share control, or for which decisions their key activities require unanimous consent of all the parties that share control.

Recognition

Equity investments are recognised on the settlement date. Initial recognition is at cost, including directly attributable ancillary costs. Investments in foreign currency are translated into euro at the exchange rate ruling on the settlement date.

Measurement

Subsequent to initial recognition, equity investments are measured at cost.

At each balance sheet date, tests are carried out to see if there is objective evidence that the investment has suffered an impairment loss.

Impairment occurs when the carrying amount of the asset exceeds its recoverable value, this being the greater of the net selling price (i.e. the amount obtainable from the sale of the asset in a hypothetical transaction between independent parties, net of disposal costs) and its value in use (i.e. the present value of the cash flows expected to be derived from continuing use and disposal of the asset at the end of its useful life).

On completion of impairment testing, in accordance with internal policy, stress tests are also performed on certain key parameters used in the valuation model in order to reduce the recoverable amount to the carrying amount.

As required by IAS 36, impairment testing is performed annually; moreover, at each interim reporting date, steps are taken to verify whether conditions exist that would require impairment tests to be repeated: in particular, monitoring is performed of qualitative and quantitative indicators of presumed impairment of an investment (trigger event).

Any impairment write-downs are charged to the income statement.

If the reasons for making the impairment adjustment cease to apply due to an event occurring after recognition of an impairment, the related asset is written back and the amount of the write-back is recognised in the income statement.

Derecognition

Equity investments are derecognised when the contractual rights on cash flows from financial assets expire or when they are sold, substantially transferring all the risks and benefits of ownership.

Recognition of items affecting the income statement

Dividends are recognised when the right to collect them is established. Gains/losses on disposal are determined based on the difference between the carrying amount of the investment measured at weighted average cost and the purchase price, net of directly attributable transaction costs.

Property, plant and equipment

Classification

Property, plant and equipment include land, buildings, artistic assets, equipment, furniture and fittings and other office equipment. These consist of tangible fixed assets held for use in the provision of services (used for business purposes) and for rental to third parties (investment property) and for which it is deemed that they will be used for more than one financial year. This also includes the rights to use acquired through leasing and relating to the use of a tangible asset (for lessee companies), the assets granted under operating leases (for lessor companies).

Recognition

Property, plant and equipment are initially recorded at purchase price, including all attributable costs of purchasing and bringing the asset to working condition.

On first-time adoption of IAS/IFRS, we made use of the exemption provided by art. 16 of IFRS 1, opting to assess property at fair value as the deemed cost at 1 January 2004. After that date, buildings have been valued at cost.

Extraordinary maintenance costs are attributed to the assets to which they relate. Routine maintenance costs are charged directly to the income statement.

In application of IFRS 16, leases are accounted for on the basis of the right of use model, so that, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for his right to use the underlying asset during the period of the lease.

When the asset is made available to the lessee for its use (initial date), the lessee recognizes both the liability and the asset consisting of the right of use.

Measurement

Property, plant and equipment are shown at purchase cost, including ancillary expenses, less accumulated depreciation and any impairment losses, with the exception of assets used in business and valuable works of art, which are measured according to the value re-determination method.

For property, plant and equipment measured according to the value re-determination method:

- if the carrying amount of an asset is increased following re-determination of the value, the increase must be recognized in other components in the statement of comprehensive income and booked to equity in the revaluation reserve; on the other hand, if a decline in the value of an asset, previously recognized in the income statement, is recovered, the write-back has to be recognized as income;

- if the carrying amount of an asset is reduced following re-determination of its value, the decrease must be recognized in other components in the statement of comprehensive income as a revaluation excess, assuming that there is already a positive valuation reserve for this asset; otherwise, this decrease must be recorded in the income statement.

Property, plant and equipment are systematically depreciated, on a straight-line basis at rates that reflect the residual useful life of the asset in question. Exceptions are made for land and works of art, which are not subject to depreciation because of the uncertainty of their useful life, and in view of the fact that normally their value is unlikely to fall over time. Extraordinary maintenance costs are capitalised and depreciated over the residual useful life of the assets to which they relate.

Impairment tests are performed on an annual basis. If it is ascertained that the carrying amount of an asset is higher than its recoverable value, the carrying amount is adjusted as appropriate in the income statement.

If the reasons for recognising an impairment loss cease to apply, the asset is written back but without exceeding the carrying amount that the asset would have had (net of depreciation) if no impairment losses had been recognised in prior years.

With reference to the right of use, accounted for on the basis of IFRS 16, it is measured using the cost model in accordance with IAS 16 - Property, plant and equipment; in this case, the asset is subsequently depreciated and subjected to impairment testing if any indications of impairment arise.

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

Depreciation and impairment losses, if any, are recognised in the income statement as net adjustments to property, plant and equipment.

Intangible assets

Classification

Intangible assets include goodwill, compensation for abandonment of leasehold premises and software purchase costs. The rights to use acquired under the lease and relating to the use of an intangible asset (for the lessees) are also included, as are the assets granted under operating leasing (for the lessors). Restructuring costs of properties not owned (i.e. "leasehold improvements") are recorded under Other assets.

Recognition

Goodwill is the positive difference between the purchase cost and the fair value of assets and liabilities acquired in business combinations. It is booked to intangible assets when it is actually representative of future economic benefits generated by the assets acquired.

Other intangible assets are stated at cost and are only recognised if they meet the requirements of independent identifiability and separation from goodwill, probable realisation of future economic benefits and reliable measurability of cost.

Measurement

Intangible assets are recognised in the balance sheet at purchase cost, including ancillary charges, less the amount of accumulated amortisation and impairment losses, if any.

Amortisation is calculated on a straight-line basis at rates that reflect the residual useful life of the asset in question.

Goodwill is not amortised as it is considered to have an indefinite useful life; instead, it is subjected annually to an impairment test. The cash-generating unit to which the goodwill was allocated is identified for this purpose. Within the Banco Desio Group, the cash-generating units (CGU) correspond to the legal entities.

The amount of any impairment loss is determined as the amount by which the goodwill's carrying value exceeds its recoverable amount. The recoverable amount is the higher of the cash-generating unit's fair value, net of any selling costs, or its related value in use.

Any impairment write-downs are charged to the income statement, with no possibility of a subsequent write-back.

Compensation for abandonment of leasehold premises is amortised at rates based on the duration of the lease contract (renewal included).

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from them.

Recognition of items affecting the income statement

Amortisation and impairment losses, if any, are recognised in the income statement as net adjustments to intangible assets.

Adjustments to leasehold improvements are recognised in the income statement under other operating charges.

Current and deferred taxation

Income taxes for the year are calculated by estimating the amount of tax due on an accrual basis, in a manner consistent with the recognition in the financial statements of the costs and revenue that generated the taxation in question. In addition to current taxes, calculated according to current tax rules, deferred taxation, arising as a result of timing differences between the amounts recorded in the financial statements and the corresponding tax bases, is also recognised. Taxes therefore reflect the balance of current and deferred taxation on income for the period.

Deferred tax assets are recognised when their recovery is probable, i.e. when it is expected that there will be sufficient future taxable income to recoup the asset. They are shown in the balance sheet under caption *Deferred tax assets*.

Conversely, deferred tax liabilities are shown on the liabilities side of the balance sheet under caption *Deferred tax liabilities.*

In the same way, current taxes not yet paid at the balance sheet date are shown under *Current Tax Liabilities.* In the event of the payment of advances that exceed the final amount due, the amount recoverable is shown under *Current Tax Assets*.

If deferred tax assets and liabilities relate to transactions that were recognised directly in equity without passing through the income statement, these are recorded with a contra-entry to the appropriate equity reserve (e.g. valuation reserve).

Provision for termination indemnities

Measurement

The provision for termination indemnities is recorded in the financial statements using actuarial techniques.

The evaluation is carried out by independent external actuaries according to the accrued benefit method, using the Projected Unit Credit Method. This amount represents the present value, calculated from a demographic/financial point of view, of benefits payable to employees (termination indemnities) for the period of service already accrued, which is obtained by re-proportioning the total present value of the obligation to the period of service already rendered at the valuation date, taking into account the likelihood of resignations and requests for advances.

To determine the discount rate, reference is made to an index which represents the yield on a basket of high quality corporate bonds in the same currency used for payment of the benefits due to employees. In line with prevalent practice, an "AA" class index was selected.

Recognition of items affecting the income statement

The provision for termination indemnities arising from the actuarial valuation, as allowed by IAS 19, is recorded as a contra-entry to the valuation reserves for the component of actuarial gains (losses) and in the income statement under provisions for other components such as accrued interest due to the passage of time (discounting).

Provisions for risks and charges

Provisions for risks and charges for commitments and guarantees given

The sub-item of provisions for risks and charges in question includes the credit risk provisions to cover commitments to disburse funds and guarantees issued that fall within the scope of application of the impairment rules under IFRS 9. In these cases, in principle, we adopt the same methods of allocation between the three stages of credit risk and the same methods of calculation of expected loss with reference to financial assets measured at amortised cost or at fair value through other comprehensive income.

Other provisions for risks and charges

Provisions for risks and charges include provisions made to cover ongoing obligations that are related to work relationship or disputes, also tax disputes, that are the result of past events, for the settlement of which it is probable that there will be an outflow of resources that can be reliably estimated.

Provisions represent the best estimate of the future cash flows needed to settle the obligation at the balance sheet date. In cases where the effect of time is a significant factor, the amounts provided are discounted, taking into account when the obligation is likely to fall due. The discount rate reflects the current value of money, taking into consideration the risks specific to the liability.

The evaluation of long-service bonuses to employees is made by independent external actuaries and follows the same logic as described above for calculating the provision for termination indemnities. Actuarial gains and losses are recognised immediately in the income statement.

Recognition of items affecting the income statement

Provisions are charged to the income statement.

The effects arising from the passage of time for the discounting of future cash flows are recorded in the income statement under provisions.

Financial liabilities measured at amortised cost

Classification

Due to banks, *Due to customers* and *Debt securities in issue* include the various forms of interbank and customer funding, repurchase agreements with the obligation to repurchase in the future and deposits made through certificates of deposit, bonds and other instruments collection fund, net of any repurchased amounts. The payables recorded by the company as a lessee in the context of leasing transactions are also included.

Recognition

Initial recognition of these financial liabilities takes place on the date of the contract, which normally coincides with receipt of the amounts collected or on issue of the debt securities. Initial recognition is at the fair value of the liability, usually equal to the amount received or the issue price, plus any costs or income directly attributable to the individual funding operation or issue.

Measurement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Exceptions to this are short-term liabilities, for which the time factor is negligible, which remain recorded for the amount collected. Lease payables are revalued when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate contract.

Derecognition

Financial liabilities are derecognised on expiration or termination. Repurchasing bonds issued previously also results in their derecognition; the difference between the carrying amount of the liability and the amount paid to repurchase it is recognised in the income statement.

The re-placement of own securities previously repurchased is considered a new issue recognised at the new placement price.

Financial liabilities held for trading

Recognition and classification

The financial instruments included in this caption are recognised on the subscription date or on the date of issue at an amount equal to the fair value of the instrument, without considering transaction costs or income directly attributable to the instrument concerned.

This caption includes, in particular, trading derivatives with a negative fair value.

Measurement and recognition of items affecting the income statement

Financial liabilities held for trading are measured at fair value, booking the effects to the income statement.

Derecognition

Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is sold with the substantial transfer of all the risks and benefits that derive from owning it.

Currency transactions

Recognition

Foreign currency transactions are recorded at the time of initial recognition, in the bank's functional currency, by applying to the exchange rate in force on the date of the transaction.

Measurement

At each annual or interim balance sheet date, items in foreign currency are valued as follows:

- monetary items are converted at the exchange rate ruling at the balance sheet date;
- non-monetary items are measured at cost and are converted at the exchange rate on the date of the transaction;
- non-monetary items measured at fair value are converted at the exchange rate ruling on the balance sheet date.

Recognition of items affecting the income statement

Exchange differences arising on settlement of monetary amounts or on the conversion of monetary items at rates other than those of initial conversion, or conversion of the previous financial statements, are recorded in the income statement in the period in which they arise.

When a profit or loss relating to a non-monetary element is recognised in equity, the exchange difference relating to this element is also recognised in equity. On the other hand, when a profit or loss is recognised in the income statement, the related exchange difference is also recorded in the income statement.

Other information

Valuation reserves

This caption includes valuation reserves of financial assets valued at fair value through other comprehensive income (FVOCI), derivative contracts to hedge cash flows, valuation reserves created under special laws in past years and reserves for the actuarial valuation of employee benefits under IAS 19. They also include the effects of the application of fair value as the deemed cost of property, plant and equipment upon first-time adoption of IAS/IFRS.

Recognition of costs and revenues

Revenues are recognised:

- at a specific moment when the entity fulfils the obligation to transfer the promised asset or service to the customer, or
- over time, as the entity fulfils its obligation to transfer the promised asset or service to the customer.

The asset is transferred when, or during the period in which, the customer acquires control. In particular:

- interest expense is recognised on a pro-rata basis at the contractual interest rate or, in the case of application of amortised cost, at the effective interest rate. Interest income (expense) also includes positive (negative) differentials or margins on financial derivatives accrued at the date of the financial statements:
  a) hedging assets and liabilities that generate interest;
  b) classified in the balance sheet in the trading book, but operationally linked to assets and/or liabilities measured at fair value (fair value option);
  c) operationally linked to assets and liabilities classified as held for trading and providing for the

settlement of differentials or margins on several maturities.

Note that interest income (or interest expense) in the financial statements also includes amortisation for the year of the fair value differences measured with reference to business combinations, due to the greater or lesser profitability accorded to assets classified as receivables and liabilities classified as payables and debt securities in issue. However, in the event of termination of these loans (acquired as the result of a business combination), any higher book value recorded in the financial statements on initial recognition gets fully released through profit and loss in the year that the loan is repaid (as *Net adjustments for credit risk relating to financial assets measured at amortised cost*);

- default interest, which may be provided by contract, is recognised in the income statement only when actually collected;
- dividends are recognised in the income statement when distribution has been approved;
- commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;
- revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (Level 1 and Level 2 of the fair value hierarchy). If these values cannot easily be determined or have a reduced level of liquidity (Level 3), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;
- gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
- revenues from the sale of non-financial assets are recognised on completion of the sale, i.e. when the obligation towards the customer is fulfilled.

Costs are recognised in the income statement according to the accruals principle; the costs related to obtaining and fulfilling contracts with customers are recognised in the income statement in the periods in which the related revenues are recorded. If costs and revenues can be associated in a generic and indirect way, costs are allocated systematically to several periods with rational procedures. Costs that cannot be associated with income are booked immediately to the income statement.

Note that the contributions to the Single Resolution Mechanism (SRM) and the Deposit Guarantee Scheme (DGS) are recognised in the income statement under caption "180 b) Other administrative costs", taking into account the recommendations of IFRIC 21 and the Bank of Italy communication of 19 January 2016. In particular, the contribution (DGS) is accounted for when the "obligating event" takes place, based on the provisions of the new Articles of Association of the Interbank Deposit Protection Fund, under which the Fund builds up financial resources until the target level is reached through the ordinary contributions of the banks that are members at 30 September of each year.

Finance leases

Assets leased to others under finance leases are shown as receivables, for an amount equal to the net investment of the lease. The recognition of financial income reflects a constant periodic rate of return.

Securitisations

Exposures to the securitisation (in the form of junior securities or deferred purchase price) are allocated to Financial assets measured at fair value through profit or loss. However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control[8] introduced by IFRS 10, it is included in the Banco Desio Group's scope of consolidation.

According to the breakdown by type, Financial assets measured at amortised cost include loans to customers involved in securitisations subsequent to 1 January 2004, which do not have the requisites under IFRS 9 for derecognition from the financial statements, or transactions with which loans are assigned to the special purpose vehicle and in which, even if there is formal transfer of legal title to the loans, control over the cash flows deriving from them and the substantial risks and benefits are maintained.

Against these loans and receivables, the consideration received for their sale, net of securities issued by the special purpose vehicle and repurchased by the originator, is allocated to Financial liabilities measured at amortised cost.

[8] Under this definition, an investor controls an entity subject to investment when the investor has power over its key assets, is exposed to variable returns resulting from the relationship with the entity and has the ability to affect those returns by exercising power over it.

INFORMATION ON FAIR VALUE

Qualitative information

The accounting standard IFRS 13 "Fair Value Measurement" defines fair value as the price that would be received for the sale of an asset or that would be paid to transfer a liability in a regular transaction between market participants (the "exit price"). The definition of fair value provided by IFRS 13 makes it clear that fair value measurements are market based and not entity specific.

This standard introduced disclosure requirements about fair value measurements and the inputs used for the measurement of assets and liabilities that are measured at fair value on a recurring or non-recurring basis after initial financial statement recognition, as well as about the effect on comprehensive income of fair value measurements of instruments using effective unobservable inputs.

When a price for the same asset or a liability cannot be found, the fair value is estimated by applying a valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

As required by IFRS 13 and for the purpose of determining the fair value of OTC derivatives, counterparty risk needs to be considered.

The fair value hierarchy provides for 3 levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 2 and 3 inputs). The fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure fair value. A fair value measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised.

Fair value measurement with use of Level 1 inputs

The fair value falls within Level 1 if determined based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A price quoted in an active market provides the most reliable evidence of fair value and, when available, should be used without any adjustments.

An active market is a market in which transactions for an asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fundamental elements are the following:

- Identification of the *principal market* for the asset or liability or, in the absence of a principal market, the *most advantageous market* for the asset or liability;
- the ability of the entity to carry out a transaction in the asset or liability at the price of that market on the valuation date.

The principal market is the market with the greatest volume and level of activity for the asset or liability. In the absence thereof, the most advantageous market is the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability.

Levels of fair value 2 and 3: valuation techniques and inputs used

The fair value of financial assets and liabilities is measured by using valuation techniques that take into account the characteristics of the financial instrument being measured.

For *Level 2* of the fair value hierarchy, the fair value is determined by using a valuation price from an external information provider or a price calculated using internal valuation techniques that use directly or indirectly observable inputs for the asset or liability and include:

- prices quoted for similar assets or liabilities in active markets;
- prices quoted for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability, for example:
    - o interest rates and yield curves observable at commonly quoted intervals;
    - o implied volatilities;
    - o credit spreads;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means ("market-corroborated inputs").

For *Level 3* of the fair value hierarchy, unobservable inputs are used for the asset or liability. Use of these inputs, including those from internal sources, is allowed if there is no observable market information to help make estimates; they should reflect the assumptions that market participants would make in determining the price.

For *Level 3* of the fair value hierarchy and with specific reference to OTC derivatives in foreign currencies, the input relating to credit spread for non-institutional customers is provided by an internal rating model which categorises each counterparty in risk classes with the same probability of insolvency.

Also worth noting is the application of the Credit Value Adjustment (CVA) model for OTC derivatives, in order to highlight the impact of the counterparty's credit quality, an intrinsic factor in the pricing of bonds, but not of derivatives. The method applied consists of determining the fair value by discounting the derivative's positive Mark to Market (MTM) over the residual life of the instrument using the weighted credit spread.

On the other hand, as regards OTC derivatives with a negative MTM, the model applied is the Debit Value Adjustment (DVA), with the aim of highlighting, for the Bank, the impact of its own creditworthiness. The model applies the same formula of discounting the CVA to the negative value (MTM) of the derivative including the credit spread of the Bank.

It should be noted that, in the application of both models (CVA and DVA) and for the purpose of determining the impact of the counterparty's credit quality, or the quality of its credit rating, account has been taken of the effect of reducing credit risk in the presence of collateralisation agreements (CSA).

The fair value of non-financial assets and liabilities (receivables and payables) is determined using the DCF (discounted cash flow) method; the currently used module permits consistent integration in fair value measurement of market factors, financial characteristics of the transaction and credit risk components.

With reference to "assets and liabilities not valued at fair value or measured at fair value on a non-recurring basis" for which the fair value is provided solely for the purpose of the explanatory notes, we would point out the following:

– for loans and receivables, the fair value is calculated for performing positions beyond the short term using the valuation technique that envisages the discounting of expected cash flows, considering, at the free risk rate, the credit risk of the relationship (in terms of PD and LGD measured by the internal rating models in use), while for non-performing and short-term performing positions, the carrying amount is considered a reasonable approximation of the fair value. In general, they are classified in Level 3, except in the case where the significance of the observable inputs compared with the entire assessment is higher than a predetermined threshold (Level 2), or in the event of assets held for sale or transactions being completed at the reference date (Level 1) Taking into account the current context of the credit market, with particular reference to non-performing loans, this fair value (Level 2 and 3), determined taking into account multi-scenario assumptions that provide for the combination between internal management and so-called "disposal scenarios", may not represent the potential exit price because of a certain margin of uncertainty, which is in any case inherent in the various components making up the price considered by a potential third-party purchaser;

- debt and certificates of deposit issued by Group banks are measured at book value, which represents a reasonable approximation of their fair value (Level 3);
- for bonds issued by Group banks, the fair value is measured according to the discounting of future cash flows and applying a credit spread (*Level 2*);
- investment property: fair value is estimated through the use of property market information sources, appropriately adjusted based on parameters such as location, size, age, intended use and maintenance and based on value estimates performed by external independent experts (*Level 3*).

Process and sensitivity of valuations

Valuation techniques and inputs selected are applied consistently, except where events take place that require them to be replaced or modified, such as: new markets develop, new information becomes available, information previously used is no longer available or valuation techniques improve.

The measurement process for financial instruments consists of the phases summarised below:

- for each asset class, market inputs are identified as well as the manner in which they have to be incorporated and used;
- the market inputs used are checked to ensure they are worthy of use in the valuation techniques employed;
- the valuation techniques used are compared with market practices to identify any critical issues and to determine if any changes need to be made to the valuations.

For financial instruments that are measured at fair value on a recurring basis and which are categorised as level 3, no sensitivity analysis is provided due to their nature and the immateriality of the amounts involved, except for the below description.

Fair value hierarchy

For financial assets and liabilities measured at fair value on a recurring basis, their categorisation within the aforementioned fair value hierarchy levels reflects the significance of the inputs used for the valuation.

If the market for assets and liabilities no longer qualifies as active, then the valuation technique and inputs are changed and the assets and liabilities are categorised within a lower level of the fair value hierarchy.

A valuation technique is used consistently from period to period, except where circumstances arise that necessitate the use of a more appropriate technique, such as the development of new markets, the availability of new information or a change in market conditions. This could lead to assets and liabilities measured at different dates being categorised in a different fair value hierarchy.

The policy for the determination of the levels is applied on a monthly basis

Other information

There is nothing to add to the information that has been previously disclosed.

Quantitative information

Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level of fair value

Financial assets/liabilities designated at fair value	30.06.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets designated at fair value through profit or loss	22,973	2,154	17,566	22,255	860	20,948
a) Financial assets held for trading	2,612	1,294	566	4,457	-	1,350
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	20,361	860	17,000	17,798	860	19,598
2. Financial assets designated at fair value through other comprehensive income	451,085	67,865	3,143	509,364	47,267	3,003
3. Hedging derivatives	-	-	-	-	1	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**474,058**	**70,019**	**20,709**	**531,619**	**48,127**	**23,951**
1. Financial liabilities held for trading	-	7,253	476	-	6,874	1,264
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	1,914	-	-	2,157	-
Total	-	**9,167**	**476**	**-**	**9,031**	**1,264**

Key

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

Investments valued on the basis of unobservable inputs (Level 3) are a very limited share of financial assets measured at fair value (3.67% compared with 3.97% at end-2019).

These equity investments are mainly represented by non-controlling interests classified under “Financial assets measured at fair value through other comprehensive income”.

At 30 June 2020, the impact of applying the Credit Value Adjustment and Debit Value Adjustment to the balance sheet values has not been calculated as all outstanding derivative contracts are backed by collateral agreements with counterparties to mitigate credit risk (CSA agreements).

A.4.5.2 Annual changes in financial assets measured at fair value on a recurring basis (Level 3)

	Financial assets designated at fair value through profit or loss							
	Total	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets mandatorily at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	**20,948**	**1,350**	**-**	**19,598**	**3,003**	**-**	**-**	**-**
2. Increases	**1,127**	**742**	**-**	**385**	**140**	**-**	**-**	**-**
2.1. Purchases	176	176	-	-	140	-	-	-
2.2. Profits posted to:	951	566	-	385	-	-	-	-
2.2.1. Income statement	951	566	-	385	-	-	-	-
- of which: capital gains	586	566	-	20	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	-	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	**4,509**	**1,526**	**-**	**2,983**	**-**	**-**	**-**	**-**
3.1. Sales	176	176	-	-	-	-	-	-
3.2. Redemptions	22	-	-	22	-	-	-	-
3.3. Losses posted to:	2,278	1,350	-	928	-	-	-	-
3.3.1. Income statement	2,278	1,350	-	928	-	-	-	-
- of which: capital losses	2,278	1,350	-	928	-	-	-	-
3.3.2. Shareholders' equity		X	X	-	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	2,033	-	-	2,033	-	-	-	-
4. Closing balance	**17,566**	**566**	**-**	**17,000**	**3,143**	**-**	**-**	**-**

A.4.5.3 Annual changes in financial liabilities at fair value (Level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit	Hedging derivatives
1. Opening balance	**1,264**	**-**	**-**
2. Increases	**476**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses posted to:	476	-	-
2.2.1. Income statement	476	-	-
- of which: capital losses	476	-	-
2.2.2. Shareholders' equity		-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**1,264**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits posted to:	1,264	-	-
3.3.1. Income statement	1,264	-	-
- of which: capital gains	1,264	-	-
3.3.2. Shareholders' equity		-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**476**	**-**	**-**

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by level of fair value

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2020				31.12.2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	13,681,740	2,218,543	6,532,281	5,422,900	12,949,705	2,082,037	6,438,674	4,727,585
2. Investment property	1,772			1,936	1,787			1,936
3. Non-current assets and disposal groups held for sale								
Total	**13,683,512**	**2,218,543**	**6,532,281**	**5,424,836**	**12,951,492**	**2,082,037**	**6,438,674**	**4,729,521**
1. Financial liabilities measured at amortised cost	13,378,212		1,632,326	11,739,965	12,850,498		1,736,955	11,205,271
2. Liabilities associated with assets held for sale								
Total	**13,378,212**		**1,632,326**	**11,739,965**	**12,850,498**		**1,736,955**	**11,205,271**

Key

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

INFORMATION ON "DAY ONE PROFIT/LOSS"

IFRS 9 – Financial Instruments requires a financial instrument upon initial recognition to be measured at fair value, which is normally the transaction price (that is, the amount paid for the financial assets and the amount received for the financial liabilities). The foregoing holds true for exchanges of instruments quoted in an active market. If the market for a financial instrument is not active, then valuation techniques are used to determine its fair value. If a difference arises (so-called "day one profit/loss") between the transaction price and the amount determined at the time of initial recognition through the use of valuation techniques and this difference is not recognised immediately in the income statement, then disclosure needs to be provided as per paragraph 28 of IFRS 7, by indicating the accounting policy adopted for the income statement recognition, subsequent to initial recognition of the instrument, of the difference.

In relation to the operations of the Banco Desio Group and based on the internal valuation methodologies currently in use, the fair value of the financial instruments on initial recognition generally coincides with the transaction price; however, if a difference arises between the transaction price and the amount determined using valuation techniques, this difference is immediately recognised to the income statement (see table "7.2 Net change in value of other financial assets and liabilities designated at fair value through profit and loss: breakdown of other financial assets that are mandatorily valued at fair value").

MAIN BALANCE SHEET AND INCOME STATEMENT CAPTIONS

ASSETS

Cash and cash equivalents – caption 10

1.1 Cash and cash equivalents: breakdown

	30.06.2020	31.12.2019
a) Cash	50,755	60,816
b) Demand deposits with central banks	-	-
Total	**50,755**	**60,816**

Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	30.06.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	846	1,294	-	863	-	-
1.1 Structured securities	846	-	-	863	-	-
1.2 Other debt securities	-	1,294	-	-	-	-
2. Equity instruments	1,650	-	-	2,192	-	-
3. Mutual funds	-	-	-	1,282	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**2,496**	**1,294**	**-**	**4,337**	**-**	**-**
B. Derivatives	-	-	-	-	-	-
1. Financial derivatives	116	-	566	120	-	1,350
1.1 for trading	116	-	566	120	-	1,350
1.2 connected with the fair value	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**116**	**-**	**566**	**120**	**-**	**1,350**
Total (A+B)	**2,612**	**1,294**	**566**	**4,457**	**-**	**1,350**

Key

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

Caption "Financial assets held for trading" comprises:

a) Cash assets held for trading;
b) Positive value of derivatives held for trading.

The policy adopted for the categorisation of financial instruments within the three levels of the fair value hierarchy is disclosed in the previous section on "Information on fair value".

All financial instruments included in financial assets held for trading are measured at fair value.

2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparties

Captions/Amounts	30.06.2020	31.12.2019
A. Cash assets		
1. Debt securities	**2,140**	**863**
a) Central Banks	-	-
b) Public administrations	941	-
c) Banks	353	-
d) Other financial companies	846	863
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**1,650**	**2,192**
a) Banks	293	-
b) Other financial companies	-	490
of which: insurance companies	-	-
c) Non-financial companies	1,357	1,702
d) Other issuers	-	-
3. Mutual funds	**-**	**1,282**
4. Loans	**-**	**-**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**3,790**	**4,337**
B. Derivatives		
a) Central counterparties	-	-
b) Other	682	1,470
Total (B)	**682**	**1,470**
Total (A+B)	**4,472**	**5,807**

2.5 Other financial assets mandatorily at fair value: breakdown

Captions/Amounts	30/06/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**860**	**-**	**-**	**860**	**1,440**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	860	-	-	860	1,440
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Mutual funds	**20,361**	**-**	**17,000**	**17,798**	**-**	**18,158**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**20,361**	**860**	**17,000**	**17,798**	**860**	**19,598**

Key

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

The caption "Financial assets mandatorily at fair value" includes units in mutual funds which by their nature do not pass the SPPI test (only payments of principal and interests) envisaged by IFRS 9 "Financial instruments". This caption includes quotas of the private debt fund managed by Clessidra SGR subscribed following completion of a sale of non-performing loans to the fund during 2019; the fair value of the fund units (level 3) is determined by applying the policies provided by the bank for this type of financial instruments.

2.6 Other financial assets mandatorily at fair value: breakdown by borrower/issuer

	30.06.2020	31.12.2019
1. Equity instruments	**-**	**-**
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	**860**	**2,300**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	1,440
d) Other financial companies	860	860
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Mutual funds	**37,361**	**35,956**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**38,221**	**38,256**

Financial assets designated at fair value through other comprehensive income - caption 30

3.1 Financial assets designated at fair value through other comprehensive income: breakdown

Captions/Amounts	30.06.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	451,085	20,598	-	509,364	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	451,085	20,598	-	509,364	-	-
2. Equity instruments	-	47,267	3,143	-	47,267	3,033
3. Loans	-	-	-	-	-	-
Total	**451,085**	**67,865**	**3,143**	**509,364**	**47,267**	**3,003**

Key

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

The caption "Financial assets measured at fair value through other comprehensive income" includes:

- the bond portfolio not intended for trading purposes and not held with the exclusive intent of collecting contractual cash flows;
- equity investments representing voting rights of less than 20% of the share capital of companies for which the so-called "FVOCI option" was adopted on FTA of IFRS 9 "Financial Instruments", or at the time of purchase if it is after 1 January 2018.

3.2 Financial assets designated at fair value through other comprehensive income: breakdown by borrower/issuer

Captions/Amounts	30.06.2020	31.12.2019
1. Debt securities	**471,683**	**509,364**
a) Central banks	-	-
b) Public administrations	451,085	506,813
c) Banks	-	2,551
d) Other financial companies	20,598	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**50,410**	**50,270**
a) Banks	10,000	10,000
b) Other issuers:	40,410	40,270
- other financial companies	2,503	2,363
of which: insurance companies	-	-
- non-financial companies	37,907	37,907
- other	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**522,093**	**559,634**

3.3 Financial assets designated at fair value through other comprehensive income: gross value and total write-downs

		Gross value				Total write-downs			
		First stage	**of which: Instruments with low credit risk**	**Second stage**	**Third stage**	**First stage**	**Second stage**	**Third stage**	**Total partial write-offs**
Debt		471,683	471,683	-	-	479	-	-	-
Loans		-	-	-	-	-	-	-	-
Total	**30/06/2020**	**471,683**	**471,683**	**-**	**-**	**479**	**-**	**-**	**-**
Total	**31/12/2019**	**509,364**	**509,364**	**-**	**-**	**363**	**-**	**-**	**-**
of which: impaired financial assets acquired or originated		X	X	-	-	X	-	-	-

Financial assets measured at amortised cost - caption 40

4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

Type of transaction/Amounts	30.06.2020						31.12.2019					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. Due from central banks	**680,654**	**-**	**-**	**-**	**-**	**680,654**	**335,833**	**-**	**-**	**-**	**-**	**335,833**
1. Time deposits	-	-	-				-	-	-			
2. Reserve requirement	680,654	-	-				335,833	-	-			
3. Repurchase agreements	-	-	-				-	-	-			
4. Other	-	-	-				-	-	-			
B. Due from banks	**694,625**	**-**	**-**	**-**	**306,176**	**387,167**	**579,186**	**-**	**-**	**-**	**297,880**	**283,961**
1. Loans	385,367	-	-	-	-	385,367	283,747	-	-	-	-	283,961
1.1 Current accounts and demand deposits	51,213	-	-				43,568	-	-			
1.2. Time deposits	37,885	-	-				30,155	-	-			
1.3. Other loans:	296,269	-	-				210,024	-	-			
- Repurchase agreements	-	-	-				-	-	-			
- Finance leases	-	-	-				-	-	-			
- Other	296,269	-	-				210,024	-	-			
2. Debt securities	309,258	-	-	-	306,176	1,800	295,225	-	-	-	297,880	-
2.1 Structured securities	3,928	-	-	-	3,890	-	3,920	-	-	-	3,920	-
2.2 Other debt securities	305,330	-	-	-	302,286	1,800	291,305	-	-	-	293,960	-
Total	**1,375,279**	**-**	**-**	**-**	**306,176**	**1,067,821**	**914,805**	**-**	**-**	**-**	**297,880**	**619,580**

Key

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

Stage segmentation takes place in compliance with the following requirements of "IFRS 9 Financial Instruments" in force from 1 January 2018:

a) stage 1 for exposures performing in line with expectations;
b) stage 2 for exposures performing below expectations or that have recorded a significant increase in credit risk compared with when they were originated (or purchased);
c) stage 3 for non-performing exposures.

The balances of item "B. Due from banks" are shown net of adjustments deriving from the application of the models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments".

Amounts due from central banks include the amount of the reserve requirement at the Bank of Italy. For the purpose of maintaining the average level of the reserve in line with the requirement, the amount thereof may fluctuate, even significantly, in relation to the contingent liquidity needs of the Bank.

The Bank's commitment to maintain the reserve requirement amounts to Euro 96.5 million at 30 June (Euro 94.6 million in December 2019).

Amounts due from banks do not include loans and receivables classified as non-performing loans.

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows.

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

Type of transaction/Amounts	30.06.2020						31.12.2019					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
1. Loans	**9,371,192**	**332,054**	**10,425**	**-**	**5,850,756**	**4,355,079**	**9,227,507**	**340,179**	**10,510**	**-**	**5,754,613**	**4,107,791**
1.1. Current accounts	1,088,859	88,426	366	-	-	-	1,327,752	90,939	386	-	-	-
1.2. Repurchase agreements	161,386	-	-	-	-	-	-	-	-	-		-
1.3. Mortgage loans	6,239,964	222,229	9,888	-	-	-	5,898,077	227,515	9,994	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary	837,984	3,756	32	-	-	-	800,223	3,684	34	-	-	-
1.5. Finance leases	151,852	10,354	-	-	-	-	151,430	10,830	-	-	-	-
1.6. Factoring	27,328	16	-	-	-	-	30,033	16	-	-	-	-
1.7. Other loans	863,819	7,273	139	-	-	-	1,019,992	7,195	96	-	-	-
2. Debt securities	**2,603,215**	**-**	**-**	**2,218,543**	**375,349**	**-**	**2,467,000**	**-**	**-**	**2,082,037**	**386,181**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	2,603,215	-	-	2,218,543	375,349	-	2,467,000	-	-	2,082,037	386,181	-
Total	**11,974,407**	**332,054**	**10,425**	**2,218,543**	**6,226,105**	**4,355,079**	**11,694,507**	**340,179**	**10,510**	**2,082,037**	**6,140,794**	**4,107,791**

Key

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

Gross loans amount to a total of Euro 10,064,648 thousand (Euro 9,897,612 thousand at the end of last year), of which Euro 9,429,629 thousand relate to performing loans (9,273,113) and Euro 634,956 thousand to non-performing loans (Euro 624,499 thousand).
Total write-downs on the same loans amount to Euro 361,402 thousand (Euro 329,926 thousand last year), of which Euro 302,902 thousand (vs. 284,320 thousand) relate to non-performing loans and Euro 58,500 thousand to performing loans (45,606 thousand).
As regards non-performing loans, additional details are provided in the section entitled "Information on risks and related hedging policy" to supplement the information already provided.

The table also includes the amounts of receivables sold which have not been derecognised, constituting eligible assets for the Covered Bond programme; at 30 June 2020, these loans and receivables amount to 1,571,545 thousand euro (formerly 1,291,557 thousand euro).

Sub-caption "Mortgage loans" also includes collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 1,787,094 thousand (Euro 1,784,028 thousand at the end of last year).

The sub-caption "Other loans" includes financing operations other than those indicated in other sub-captions (for example, bullet loans, advances on invoices and bills of exchange, import/export advances and other miscellaneous items).

This caption includes the interest accrued at 30 June 2020 that is recoverable from 1 March of the following year, due to application of the new rules for the calculation of interest on banking transactions established in MEF Decree no. 343/2016, which implements art. 120, para. 2, of the Consolidated Banking Law (T.U.B.).

The caption "of which impaired acquired or originated" includes those loans that originated as part of forbearance measures granted on non-performing loans.

The fair value of non-current performing loans is measured using techniques that discount the cash flows expected after considering the related credit risk, while the carrying amount of non-performing and current performing loans is considered to be a reasonable approximation of fair value. Considering current conditions in the loan market, the fair value of non-performing loans might not represent their final exit price, as there is still a certain amount of chance associated with the elements used for the determination of price by potential third-party purchasers.

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows. The value of debt securities is shown net of adjustments deriving from the application of the new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments". This portfolio includes Euro 218,840 thousand of senior notes issued by the "2Worlds s.r.l." SPV following the sale of doubtful loans through use of the "GACS" scheme in 2018.

4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

Type of transaction/Amounts	Total			Total		
	First and second stage	Third stage	of which: impaired assets acquired or originated	First and second stage	Third stage	of which: impaired assets acquired or originated
1. Debt securities	**2,603,215**	**-**	**-**	**2,467,000**	**-**	**-**
a) Public administrations	2,210,968	-	-	2,069,131	-	-
b) Other financial companies	355,014	-	-	364,635	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	37,233	-	-	33,234	-	-
2. Loans to:	**9,371,192**	**332,054**	**10,425**	**9,227,507**	**340,179**	**10,510**
a) Public administrations	52,113	363	-	36,503	377	-
b) Other financial companies	291,466	4,150	-	120,593	4,480	-
of which: insurance companies	5,570	-	-	3,676	-	-
c) Non-financial companies	5,836,666	217,574	4,118	5,136,836	222,429	4,060
d) Households	3,190,947	109,967	6,307	3,933,575	112,893	6,450
Total	**11,974,407**	**332,054**	**10,425**	**11,694,507**	**340,179**	**10,510**

4.4 Financial assets measured at amortised cost: gross value and total write-downs

	Gross value				Total write-downs			Total partial write-offs
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	2,911,228	2,911,228	4,555	-	3,306	4	-	-
Loans	9,415,801	25,186	1,080,429	634,956	24,508	34,509	302,902	**10,966**
Total 30/06/2020	**12,327,029**	**2,936,414**	**1,084,984**	**634,956**	**27,814**	**34,513**	**302,902**	**10,966**
Total 31/12/2019	**11,609,689**	**2,754,758**	**1,047,762**	**624,500**	**24,367**	**23,558**	**284,321**	**12,155**
of which: impaired financial assets acquired or originated	X	X	4,640	9,545	X	139	3,622	-

The table shows the distribution of the exposures measured at amortised cost (both to banks and to customers) and the related adjustments in the three stages with increasing level of credit risk (due to the evolution over time) envisaged by IFRS 9 "Financial Instruments". Stage segmentation takes place in compliance with the following requirements:

a) stage 1 for exposures performing in line with expectations;
b) stage 2 for exposures performing below expectations or that have recorded a significant increase in credit risk compared with when they were originated (or purchased);
c) stage 3 for non-performing exposures.

The breakdown into stages is relevant for the application of the model for the calculation of impairment based on expected losses, determined on the basis of past events, current and conditions and reasonable and "supportable" future forecasts. In particular, the model for the calculation of the expected loss has the following characteristics:

- calculation horizon of the expected loss equal to one year (stage 1) or lifetime (stages 2 and 3);
- inclusion in the impairment calculation model of forward-looking components, such as expected changes in the macroeconomic scenario.

With reference to debt securities only, the so-called "low credit risk exemption" is active, on the basis of which we identified as low credit risk exposures and therefore to be considered in stage 1 the exposures that, at each reference date, will have a rating equal or higher than "investment grade" (or a similar quality), regardless of whether the rating has or hasn't got worse since the time the security was purchased.

Adjustment to financial assets with generic (or "macro") hedges - caption 60

6.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets / Components of the Group	30.06.2020	31.12.2019
1. Positive adjustments	**593**	**624**
1.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets designated at fair value through other comprehensive income	-	-
1.2 total	593	624
2. Negative adjustments	**-**	**-**
2.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets designated at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**593**	**624**

The adjustment to financial assets with generic hedges ("macrohedging") refers to changes in fair value due to fluctuations in interest rates on portfolios of similar assets from the point of view of the financial profile and the underlying risks identified by the Group for the purpose of designating the different fair value macro-hedging relationships for interest rate risk.

At 30 June 2020, the Bank has no more generic hedges in place to cover the interest-rate risk on the portfolios of fixed-rate loans to customers.

Property, plant and equipment - caption 90

9.1 Property, plant and equipment - for business purposes: breakdown of assets valued at cost

Assets/Amounts	30.06.2020	31.12.2019
1. Own assets	**170,332**	**172,775**
a) land	52,778	52,778
b) property	100,346	101,605
c) furniture	4,360	4,627
d) electronic systems	3,082	3,551
e) other	9,766	10,214
2. Rights of use acquired under lease	**47,437**	**51,743**
a) land	-	-
b) property	45,504	49,580
c) furniture	-	-
d) electronic systems	-	-
e) other	1,933	2,163
Total	**217,769**	**224,518**
of which: obtained through enforcement of the guarantees	-	-

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, all property, plant and equipment, including other tangible fixed assets, are measured at cost, except for tangible assets acquired through business combinations and shown in the consolidated financial statements at fair value, pursuant to the IFRS 3.

All categories of property, plant and equipment are depreciated on a straight line basis, except for land and works of art, which are not depreciated.

Under the heading "2. Rights of use acquired under lease", in accordance with IFRS 16 -"Leases" in force from 1 January 2019, right of use assets (or "RoU Assets") under lease agreements, calculated as the sum of the lease payable, initial direct costs, payments made on or before the contract's starting date (net of any incentives received for leasing) and decommissioning and/or restoration costs.

9.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	30.06.2020				31.12.2019			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,772**	**-**	**-**	**1,936**	**1,787**	**-**	**-**	**1,936**
a) land	828	-	-	853	828	-	-	853
b) property	944	-	-	1,083	959	-	-	1,083
2. Rights of use acquired under lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) property	-	-	-	-	-	-	-	-
Total	**1,772**	**-**	**-**	**1,936**	**1,787**	**-**	**-**	**1,936**
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

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

Intangible assets - caption 100

10.1 Intangible assets: breakdown by type

Assets/Amounts	30.06.2020		31.12.2019	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		**15,322**		**15,322**
A.1.1 pertaining to the Group		15,322		15,322
A.1.2 pertaining to minority interests		-		-
A.2 Other intangible assets	**2,763**	**-**	**2,872**	**-**
A.2.1 Carried at cost	2,763	-	2,872	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	2,763	-	2,872	-
A.2.2 Carried at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**2,763**	**15,322**	**2,872**	**15,322**

Intangible assets with an indefinite useful life are subjected to impairment testing at least one a year, particularly at the year end reporting date or in those cases whereby events have occurred that could be indicative of impairment.

Other intangible assets are amortised on a straight-line basis over their useful lives. For compensation for abandonment of leasehold premises, the useful life is the length of the lease agreement, while for computer software it is four years and for application software it is four or five years, based on the useful life specified within the asset category.

Impairment testing of goodwill

According to IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, an impairment test on cash generating units (CGU), which for Banco Desio coincide with the legal entities, is carried out at each period end.

Impairment testing is unchanged with respect to the previous year and is designed to check that the carrying amount of the CGU does not exceed its recoverable amount, defined as the higher of fair value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the CGU.

As indicated in the section entitled "Implications of the Covid-19 epidemic on the half-year financial report at 30 June 2020" of the "General information" of the "Basis of preparation and accounting policies" (to which reference is made), also considering the indications contained in Consob's attention call no. 8/20, for the preparation of this half-yearly financial report, the Banco Desio Group updated the impairment tests on goodwill and equity investments.

The recoverable amount of the CGU has been determined with reference to its value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived from them, using an appropriate discount rate for the time period in which the cash flows will be generated.

In practice, for credit or financial companies, use is made of Free Cash Flow to Equity (FCFE) methodology, or, more specifically, an Excess Capital variant of the Dividend Discount Model (DDM). This methodology determines the value of a company based on future cash flows that it will be capable of distributing to its shareholders, without touching the assets needed to support its expected growth in compliance with regulatory capital requirements imposed by the Supervisory Authorities, discounted using a discount rate that reflects the specific risk premium. Note, however, that despite the term "Dividend Discount Model", the cash flows considered by the model are not dividends expected to be distributed to shareholders, but are cash flows from which a shareholder could benefit and which are surplus to operating capital requirements.

On a basis consistent with that of the prior year financial statements, individual legal entities have been identified as CGUs, taking account of the fact that the Banking Group envisages that the Parent Company shall provide guidance and strategic coordination aimed at the achievement of the objectives concerning the development and earnings of each legal entity and, as a consequence, results are reported autonomously (by means of the management reporting system) in a manner which sees the CGU coincide with the legal entity and, accordingly, management reports, as well as the budget process, analyse, monitor and forecast earnings and financial position based on this approach.

Impairment testing was thus conducted directly on the legal entity Banco di Desio e della Brianza S.p.A on the basis of the criteria and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

To estimate the recoverable amount of the goodwill pertaining to the specific legal entity, reference is made to the so-called "value in use" ("equity value" for banks and financial intermediaries).

"Explicit" time period for the determination of future cash flows

The time horizon for impairment testing is the five year period 2020-2024 for which forecasts have been prepared by Management and approved by the Board of Directors on 30 July 2020. These forecasts take account of the last forecasts for 2020 and 2021 and their prudent extension as better described in "Implications of the Covid-19 epidemic on the half-year financial report at 30 June 2020" .

Including an explicit forecast period of five years makes it possible to minimise potential distortions from using only the time horizon of the Business Plan, which could be strongly influenced by the situation of the banking system that remains complex because of considerable uncertainty in forecasting the macroeconomic scenario due to the prolonged effects of the crisis, the lasting impacts that it has had on the money market and on interest rates, or otherwise linked to extraordinary events for which it is worth trying to normalise the results so as to focus better on the effective medium/long term potential of the entity being tested.

Cash flows

For the valuation of banks and financial intermediaries, an equity side approach to DDM methodology is used for the determination of equity value as, due to the characteristic activities undertaken by a financial intermediary (deposit taking and lending), it is particularly difficult to distinguish between financial payables and operating payables; furthermore, for the Excess Capital approach, cash flows available to shareholders are cash flows from which a shareholder could potentially benefit in excess of operating capital requirements and, thus, they take due account of regulatory capital absorption.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to Ke, the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity.

The equity value of the CGU at the date of testing, determined on the basis of the above procedure, after deducting the book value of shareholders' equity, is then compared with the book value of the specific goodwill pertaining to the CGU in question, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing

The main assumptions used for impairment testing are set out below.

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Tier 1
Banco di Desio e della Brianza S.p.A.	DDM	2020 Budget extended to 2024 (*)	+ 1.37% (formerly 0.71%)	7.50% (formerly 8.33%)	1.00% (formerly 1.50%)	Net results	8.95% (**) (formerly 8.85%)
Fides S.p.A.	DDM	2020 Budget extended to 2024 (*)	-2.07% (formerly - 0.64%)	7.50% (formerly 8.33%)	1.00% (formerly 1.50%)	Net results	8.95% (**) (formerly 8.85%)

(*) Taking into account the latest forecast for 2020 and 2021 and the prudent extension of the same to 2024 by the Management.
(**) *Overall Capital Requirement Tier 1 ratio* assigned with the latest SREP provision

As a result of the impairment testing performed, no write-down was needed of the aforementioned goodwill.

It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets, strongly affected by the Covid-19 pandemic, and could be subject to changes, currently unforeseeable, that could have an impact on the main assumptions applied and, therefore, potentially, also on the results of future years, which could differ from those presented here.

c) Sensitivity analysis

Since the measurement of impairment is rendered particularly complex due to the current macroeconomic and market environment and by the consequent difficulties in forecasting long term earnings, to support the testing performed, stress tests were carried out assuming a change in the main parameters applied for impairment testing.

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the CGU, after having deducted the shareholders' equity allocated thereto, match the carrying amount of goodwill.

CGU	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banco di Desio e della Brianza S.p.A.	29.47% (formerly 17.42%)	435 (formerly 265)
Fides S.p.A.	40.42% (formerly 47.33%)	779 (formerly over 1,000)

Second level impairment tests

In consideration of the fact that the market capitalisation of Banco Desio's shares (ordinary shares plus savings shares) during the year was less than consolidated shareholders' equity, impairment testing of Banco Desio Group (2nd level impairment) was done on the Group as a whole.

Impairment testing has therefore been performed on the basis of the criteria and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

To estimate the recoverable amount of an equity investment, reference is made to the so-called value in use (equity value for banks and financial intermediaries).

"Explicit" time period for the determination of future cash flows

The time horizon for impairment testing is the five year period 2020-2024 for which forecasts have been prepared by Management and approved by the Board of Directors on 30 July 2020. These forecasts take account of the last forecasts for 2020 and 2021 and their prudent extension as better described in "Implications of the Covid-19 epidemic on the half-year financial report at 30 June 2020" .

Including an explicit forecast period of five years makes it possible to minimise potential distortions from using only the time horizon of the Business Plan, which could be strongly influenced by the situation of the banking system that remains complex because of considerable uncertainty in forecasting the macroeconomic scenario due to the prolonged effects of the crisis, the lasting impacts that it has had on the money market and on interest rates, or otherwise linked to extraordinary events for which it is worth trying to normalise the results so as to focus better on the effective medium/long term potential of the entity being tested.

Cash flows

For the valuation of banks and financial intermediaries, an equity side approach to DDM methodology is used for the determination of equity value as, due to the characteristic activities undertaken by a financial intermediary (deposit taking and lending), it is particularly difficult to distinguish between financial payables and operating payables; furthermore, for the Excess Capital approach, cash flows available to shareholders are cash flows from which a shareholder could potentially benefit in excess of operating capital requirements and, thus, they take due account of regulatory capital absorption.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to Ke, the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity.

The equity value of the investment at the date of testing, determined on the basis of the above procedure, is then compared with the book value of the specific Consolidated Own Funds, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing

The main assumptions used for impairment testing are set out below.

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Tier 1
Banco Desio Group	DDM	2020 Budget extended to 2024 (*)	1.07% (formerly 0.63%)	7.50% (formerly 8.33%)	1.00% (formerly 1.50%)	Net results	8.95% (**) (formerly 8.85%)

(*) Taking into account the latest forecast for 2020 and 2021 and the prudent extension of the same to 2024 made by the Management.
(**) *Overall Capital Requirement Tier 1 ratio* assigned with the latest SREP provision

An amount arose from impairment testing that was higher than the average capitalisation of Banco Desio's shares (ordinary shares plus savings shares). Since the latter was higher than the carrying amount of consolidated shareholders' equity at the measurement date, there was no need to write down any of the Group's assets.

It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets, strongly affected by the Covid-19 pandemic, and could be subject to changes, currently unforeseeable, that could have an impact on the main assumptions applied and, therefore, potentially, also on the results of future years, which could differ from those presented here.

c) Sensitivity analysis

Since the measurement of impairment is rendered particularly complex due to the current macroeconomic and market environment and by the consequent difficulties in forecasting long term earnings, to support the testing performed, stress tests were carried out assuming a change in the main parameters applied for impairment testing.

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of consolidated shareholders' equity match the carrying amount at the measurement date.

	% decrease in net future results (RN)	Increase in percentage points of discount rate used for future cash flows (FCFE)
Banco Desio Group	24.92% (formerly 14.06%)	239 (formerly 135)

Tax Assets and Liabilities - asset caption 110 and liability caption 60

The tax assets and liabilities arising from the application of "deferred taxation" originated as a result of the temporary differences between the assets recognised in the financial statements and the corresponding tax values.

The theoretical tax rates applied to the temporary differences are those in effect at the time of their absorption.

Deferred tax assets are recognised when their recovery is probable.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	30.06.2020	31.12.2019
A) With contra-entry to the income statement:				
Tax losses	7,569	329	7,898	
Tax deductible goodwill	3,551	719	4,270	4,479
Write-down of loans to customers deductible on a straight-line basis	144,110	20,065	164,175	175,945
General allowance for doubtful accounts	305		305	305
Statutory depreciation of property, plant and equipment	353		353	351
Provision for guarantees and commitments and country risk	1,263		1,263	752
Provisions for personnel costs	2,500	308	2,808	3,007
Provision for lawsuits	2,746	47	2,793	2,704
Provision for claw-backs	213	43	256	243
Provision for sundry charges	2,362	368	2,730	2,739
Tax provision for termination indemnities	8		8	7
Other	1,733	527	2,260	1,320
Total A	**166,713**	**22,406**	**189,119**	**192,545**
B) With contra-entry to shareholders' equity:				
Cash-flow hedges	1,082	219	1,301	1,301
Tax provision for termination indemnities	987		987	995
Write-down of securities classified at FVOCI	141	34	175	7
Other	84	17	101	105
Total B	**2,294**	**270**	**2,564**	**2,408**
Total (A+B)	**169,007**	**22,676**	**191,683**	**194,953**

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	30.06.2020	31.12.2019
A) With contra-entry to the income statement:				
Tax depreciation of buildings	6,686	871	7,557	7,557
Tax depreciation of property, plant and equipment		16	16	16
Tax amortisation of goodwill	476	96	572	571
PPA of loans and receivables				2,355
PPA of depreciation and amortisation	846	168	1,014	1,014
Other	627	21	648	742
Total A	**8,635**	**1,172**	**9,807**	**12,255**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	585	119	704	632
Revaluation of securities classified at FVOCI	304	62	366	951
Revaluation of equity investments	376	1,523	1,899	1,899
Revaluation of artworks	66	13	79	79
Total B	**1,331**	**1,717**	**3,048**	**3,561**
Total (A+B)	**9,966**	**2,889**	**12,855**	**15,816**

The table shows the deferred tax assets that will be absorbed in future years.

Other assets - caption 130

16.1 Other assets: breakdown

	30.06.2020	31.12.2019
Tax credits - capital	9,328	10,565
Amounts recoverable from the tax authorities for advances paid	21,628	26,523
Withholding tax credits		
Cheques negotiated to be cleared	18,163	19,490
Guarantee deposits		
Invoices issued to be collected	435	630
Debtors for securities and coupons to be collected by third parties	200	
Printer consumables and stationery		
Items being processed and in transit with branches	28,898	20,810
Currency spreads on portfolio transactions	114	614
Investments of the supplementary fund for termination indemnities	145	170
Leasehold improvement expenditure	8,971	9,721
Accrued income and prepaid expenses	7,682	2,317
Other items	27,158	39,116
Total	**122,722**	**129,956**

The "Tax credits - capital" caption mainly relates to

- the reimbursement of Euro 7,261 thousand requested by the Bank in 2012 regarding the deductibility from Ires of the Irap due on the payroll costs of employees and similar personnel. Decree Law 201/2011 provided for the deductibility of IRAP related to payroll costs for IRES purposes, from 2012 fiscal year, and established that this deduction could be claimed by requesting a reimbursement of higher taxes paid, also in previous tax years;
- for Euro 1,127 thousand, to the credit linked to management of the reconstruction loans disbursed after the 2009 earthquake in Abruzzo;

"Amounts recoverable from the tax authorities for advances paid" relate to payments of tax advances that exceed the tax liability as per the applicable tax return; in detail, they refer to:

- a receivable for virtual stamp duty of Euro 13,206 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 930 thousand, as per art. 2, para. 5, of Legislative Decree no. 133 of 30 November 2013.

The "Items being processed and in transit with branches" principally include transactions on securities settled afterwards, Euro 1,920 million; the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 11,048 thousand, cheques being processed, Euro 1,192 thousand, and the recovery of commissions on lines of credit made available to customers, Euro 7,994 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new reference period.

"Currency spreads on portfolio transactions" results from the offset of illiquid positions relating to remittances pertaining to customers' and the bank's portfolios.

"Leasehold improvement expenditure" is depreciated each year in accordance with the residual period of the lease agreement.

"Accrued income and prepaid expenses" include amounts that are not attributable to specific asset captions.

The main sub-captions included in the caption "Other items" are:

- commissions and taxes awaiting collection for Euro 14,170 thousand;
- receivables for 1,942 thousand euro from financial consultants for the amount awarded by way of entry bonus and not yet vested;
- Euro 642 thousand due following currency transactions.

LIABILITIES

Financial liabilities measured at amortised cost - caption 10

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

Type of transaction/Components of the group	30.06.2020				31.12.2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**1,989,422**	X	X	X	**1,579,967**	X	X	X
2. Due to banks	**6,183**	X	X	X	**23,241**	X	X	X
2.1 Current accounts and demand deposits	3,490	X	X	X	10,948	X	X	X
2.2 Time deposits	2,693	X	X	X	3,444	X	X	X
2.3 Loans	-	X	X	X	8,849	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	-	X	X	X	8,849	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Other payables	-	X	X	X	-	X	X	X
Total	**1,995,605**	**-**	**-**	**1,995,605**	**1,603,208**	**-**	**-**	**1,603,208**

Key
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The "Due to central banks" caption reflects the funding facility assigned to the Bank by the ECB as part of the "TLTRO" operation totalling Euro 1,989 billion. To assist this loan, the Bank has lodged collateralised mortgage loans with the ECB (via the A.Ba.Co. procedure).

In June, a "TLTRO II" funding facility was repaid for an amount of Euro 800 million and a new "TLTRO III" funding facility was subscribed for an amount of Euro 1,200 million.

In the comparison period, the caption "Other" referred to the so-called "EIB mortgages".

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

Type of transaction/Amounts	30.06.2020				31.12.2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	8,994,945	X	X	X	8,369,625	X	X	X
2. Time deposits	578,475	X	X	X	1,002,203	X	X	X
3. Loans	55,017	X	X	X	40,373	X	X	X
3.1 Repurchase agreements	-	X	X	X	-	X	X	X
3.2 Other	55,017	X	X	X	40,373	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Finance lease payables	48,196	X	X	X	52,288	X	X	X
6. Other payables	58,108	X	X	X	33,698	X	X	X
Total	**9,734,741**	**-**	**-**	**9,734,741**	**9,498,187**	**-**	**-**	**9,498,197**

Key
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The "3.2 Loans: Other" caption represents loans received from Cassa Depositi e Prestiti that were used to grant reconstruction loans to customers following the 2009 earthquake in Abruzzo.

The main components of "Other payables" relate to: cashier's cheques for Euro 54,618 thousand and cheques for Euro 544 thousand (cashier's cheques for Euro 30,480 thousand and cheques for Euro 546 thousand respectively at the end of the previous year).

The heading "5. Finance lease payables" shows, in application of IFRS16 in force from 1 January 2019, the lease liability, consisting of the current value of the payments which still have to be paid to the lessor at the valuation date.

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

Type of security/Amounts	30.06.2020				31.12.2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	1,638,247	-	1,632,326	-	1,734,567	-	1,736,955	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,638,247	-	1,632,326	-	1,734,567	-	1,736,955	-
2. other securities	9,619	-	-	9,619	14,536	-	-	14,537
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	9,619	-	-	9,619	14,536	-	-	14,537
Total	**1,647,866**	**-**	**1,632,326**	**9,619**	**1,749,103**	**-**	**1,736,955**	**14,537**

Key

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

This caption reflects funding by means of securities, which include bonds and certificates of deposit, the book value of which is measured at amortised cost (or at fair value if the security is hedged), inclusive of accrued interest thereon. The total funds collected are shown net of repurchased securities.

The caption "A.1.2 Bonds: other" includes the Guaranteed Bank Bonds (GGB) issued last year for Euro 575 million.

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest.

The amounts shown in the fair value columns represent the theoretical market value of debt securities in issue.

1.4 Details of caption "10.c) Debt securities in issue": subordinated securities

Bonds	Issue date	Maturity date	Currency	Interest rate	30.06.2020	31.12.2019
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,939	79,938
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	50,110	50,067
Total					**130,049**	**130,005**

During the period, no further subordinated bonds were issued by the Group.

Financial liabilities held for trading - caption 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	30.06.2020					31.12.2019				
	NV	Fair value			Fair value*	NV	Fair value			Fair value*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	X	-	7,253	476	X	X	-	6,874	1,264	X
1.1 For trading	X	-	7,253	476	X	X	-	6,874	1,264	X
1.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**7,253**	**476**	**X**	**X**	**-**	**6,874**	**1,264**	**X**
Total (A+B)	**X**	**-**	**7,253**	**476**	**X**	**X**	**-**	**6,874**	**1,264**	**X**

Key

NV = Nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
Fair value = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date*

Caption 20 "Financial liabilities held for trading" comprises the negative value of derivatives held for trading.

Hedging derivatives - caption 40

4.1 Hedging derivatives: breakdown by type and level

	Fair value 30.06.2020			NV	Fair value 31.12.2019			NV
	L1	L2	L3	30/06/2020	L1	L2	L3	31/12/2019
A. Financial derivatives	**-**	**1,914**	**-**	**130,000**	**-**	**2,157**		**130,000**
1) Fair value	-	-	-	-	-	-		-
2) Cash flows	-	1,914	-	130,000	-	2,157		130,000
3) Foreign investments	-	-	-	-	-	-		-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**		**-**
1) Fair value	-	-	-	-	-	-		-
2) Cash flows	-	-	-	-	-	-		-
Total	**-**	**1,914**	**-**	**130,000**	-	**2,157**		**130,000**

Key

NV = Nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The caption includes the fair value of the derivative financial instruments used to hedge bonds issued by the Bank (cash flow hedge).

Other liabilities - caption 80

10.1 Other liabilities: breakdown

	30.06.2020	31.12.2019
Due to tax authorities	782	630
Amounts payable to tax authorities on behalf of third parties	71,076	26,380
Social security contributions to be paid	3,799	6,634
Dividends due to shareholders	12	14
Suppliers	21,796	23,999
Amounts available to customers	12,616	14,859
Interest and dues to be credited		19
Payments against bill instructions	403	157
Early payments on loans not yet due	11	32
Items being processed and in transit with branches	23,863	25,603
Currency differences on portfolio transactions	152,931	104,980
Due to personnel	9,588	13,599
Sundry creditors	132,596	67,713
Accrued expenses and deferred income	10,699	4,660
Total	**440,172**	**289,279**

The "Amounts payable to tax authorities on behalf of third parties" mainly relate to the F24 tax payments to be made on behalf of customers and to the taxes withheld by the Bank for payment to the tax authorities.

"Items being processed and in transit with branches" are generally settled in the first few days of the next period. The main components thereof relate to:

- bank transfers being processed of Euro 6,665 thousand (Euro 11,775 thousand last year),
- items connected to transactions in securities subsequently settled for Euro 3,516 thousand (Euro 7,241 thousand last year),
- transitory items for the settlement of purchase orders of customers of asset management products (funds and bancassurance) for Euro 5,369 thousand (Euro 1,147 thousand last year),
- to MAV/RAV receipts, payment slips and Sepa direct debit (SDD) collections for Euro 1,921 thousand (Euro 2,660 thousand last year).

The amount of "Currency differences on portfolio transactions" is the result of the offset of illiquid liability positions against illiquid asset positions, in relation to various types of transactions in connection with the accounts of customers and of correspondent banks. The balance of the period is booked under other assets; the change compared with the previous year is attributable to the different dynamics of payments on the portfolio based on the calendar (last day of the business year unlike the previous year).

"Due to personnel" includes the payable relating to early retirement incentives of Euro 8,213 thousand (Euro 11,238 thousand at the end of last year) and the amount due for holiday pay of Euro 813 thousand (Euro 1,813 thousand at the prior year end).

The main items included under caption "Sundry creditors" refer to: bank transfers being processed of Euro 85,660 thousand (Euro 58,019 thousand at the prior year end), sundry creditors for currency transactions, Euro 15,945 thousand (Euro 510 thousand last year), creditors for bills paid of Euro 1,255 thousand (Euro 612 thousand last year), the sums collected for pending disputes awaiting to be attributed for Euro 5,147 thousand (Euro 2,569 thousand last year) and the amount of dividends on the result of the Banco Desio Group at 31 December 2019, equal to Euro 14,359 thousand, pending payment to the shareholders as they are subject to conditions precedent with respect to the regulatory framework as resolved by Banco's

Shareholders' Meeting last 23 April 2020 and the evolution of the economic and financial situation of the overall context.

Provisions for risks and charges - caption 100

10.1 Provisions for risks and charges: breakdown

Captions/Amounts	30.06.19	31.12.2019
1. Credit risk provisions relating to commitments and financial guarantees given	4,593	2,734
2. Provisions for other commitments and other guarantees given	-	-
3. Pensions and similar commitments	-	-
4. Other provisions for risks and charges	31,493	32,848
4.1 Legal and tax disputes	10,753	10,394
4.2 Personnel expenses	9,204	11,921
4.3 Other	11,536	10,533
Total	**36,086**	**35,582**

In caption "1. Provisions for credit risk relating to commitments and financial guarantees given", the risk provision is determined by applying the models for calculating the expected loss defined on first-time adoption of "IFRS 9 Financial Instruments" (1 January 2018).

The "Legal disputes" caption includes provisions made for losses expected to arise from disputes, of which Euro 11,496 thousand relates to legal disputes (Euro 10,977 thousand at the end of last year) and Euro 655 thousand relates to bankruptcy clawback actions (Euro 704 thousand at the end of 2017).

The caption "personnel expenses" includes: the residual accrual to the solidarity fund for 146 thousand euro (15,003 thousand euro last year), the accruals made to the bonus system for 7,056 thousand euro (7,167 thousand euro last year), the accruals for long-service and additional holiday awards for 3,473 thousand euro (3,387 thousand euro last year).

The caption "Other" includes provisions for charges to face other operating risks, provisions inherent to tax dispute for Euro 55 thousand (Euro 56 thousand last year) and provisions for contractual indemnities due to financial advisors. This caption also includes the allocation made for contingent operational risks, which emerged at the end of last year, in relation to the situation of particular legal uncertainty (in the absence of a paramount national ruling) with reference to operations with customers in the consumer credit sector.

Group Shareholders' equity - captions 120, 130, 140, 150, 160, 170 and 180

13.1 "Share capital" and "Treasury shares": breakdown

	30.06.2020	31.12.2019
A. Share capital	**70,693**	**70,693**
A.1 Ordinary shares	63,828	63,828
A.2 Savings shares	6,865	6,865
A.3 Preference shares		
B. Treasury shares		
B.1 Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	**70,693**	**70,693**

The share capital of Banco Desio Brianza, fully subscribed and paid, consists of:

- 122,745,289 ordinary shares with nominal value of Euro 0.52 each,
- 13,202,000 savings shares with nominal value of Euro 0.52 each.

No Group company holds or has held any treasury shares in the course of the period.

Minority interests - caption 190

14.1 Details of caption 210 "Minority interests"

Name	30.06.2020	31.12.2019
Equity investments in consolidated companies with significant minority interests	**4**	**4**
Desio OBG S.r.l.	4	4
Other equity investments	**-**	**-**
Total	**4**	**4**

INCOME STATEMENT

Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	30.06.2020	30.06.2019
1. Financial assets designated at fair value through profit or loss	**69**	**-**	**-**	**69**	215
1.1 Financial assets held for trading	10	-	-	10	7
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	59	-	-	59	208
2. Financial assets designated at fair value through other comprehensive income	**489**	**-**	**X**	**489**	1,085
3. Financial assets measured at amortised cost	**7,561**	**116,388**	**X**	**123,949**	128,445
3.1 Due from banks	1,834	131	X	1,965	1,637
3.2 Loans to customers	5,727	116,257	X	121,984	126,808
4. Hedging derivatives	**X**	**X**	**-**	**-**	-
5. Other assets	**X**	**X**	**1**	**1**	7
6. Financial liabilities	**X**	**X**	**X**	**3,487**	3,174
Total	**8,118**	**116,388**	**1**	**127,994**	**132,926**

Interest on "Financial assets at amortised cost - Loans to customers" is recognised net of default interest accrued and not collected in the reference period on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question accrued at the end of June amounts to Euro 1,078 thousand (Euro 2,111 thousand at the and of June last year).

Conversely, the caption includes default interest pertaining to previous period and collected during the period of Euro 148 thousand (Euro 349 thousand in June last year).

The balance of item "3.2 Loans to customers" at 30 June 2020 is shown net of the release of the time value component of non-performing financial assets of Euro 4,152 thousand (vs. Euro 4,739 thousand) and of the negative adjustments on interest related to non-performing loans for approximately Euro 1,293 thousand (vs. Euro 1,373 thousand).

The interest income on Financial liabilities "3.1 Due from banks" includes Euro 3.5 million (Euro 3.5 million in June 2019) as the benefit deriving from application of the negative interest rate on part of the total loan granted by the Eurosystem to the Banco Desio Group within the ambit of "TLTRO" operations.

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	30.06.2020	30.06.2019
1. Financial liabilities measured at amortised cost	(11,319)	(7,647)	X	(18,966)	(21,428)
1.1 Due to central banks	-	X	X	-	(55)
1.2 Due to banks	(709)	X	X	(709)	(480)
1.3 Due to customers	(10,610)	X	X	(10,610)	(12,439)
1.4 Debt securities in issue	X	(7,647)	X	(7,647)	(8,454)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	(94)	(94)	(36)
5. Hedging derivatives	X	X	(473)	(473)	(637)
6. Financial assets	X	X	X	-	-
Total	**(11,319)**	**(7,647)**	**(567)**	**(19,533)**	**(22,101)**

1.5 Differentials on hedging transactions

Captions	30.06.2020	30.06.2019
A. Positive differentials on hedging transactions:		32
B. Negative differentials on hedging transactions:	(473)	(669)
C. Balance (A-B)	**(473)**	**(637)**

Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	30.06.2020	30.06.2019
a) guarantees given	1,186	1,230
b) credit derivatives	-	-
c) management, brokerage and consulting services:	33,714	31,138
1. trading in financial instruments	-	-
2. trading in foreign exchange	469	491
3. portfolio management	3,911	3,479
3.1. individual	3,911	3,269
3.2. collective	-	210
4. custody and administration of securities	733	744
5. custodian bank	-	-
6. placement of securities	14,061	11,356
7. order taking	2,998	2,658
8. advisory services	-	-
8.1. regarding investments	-	-
8.2. regarding financial structuring	-	-
9. distribution of third-party services	11,542	12,410
9.1. asset management	196	196
9.1.1. individual	196	196
9.1.2. collective	-	-
9.2. insurance products	10,487	9,159
9.3. other products	859	3,055
d) collection and payment services	12,476	14,636
e) servicing related to securitisation	44	80
f) services for factoring transactions	371	57
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	31,848	34,628
j) other services	6,914	6,216
Total	**86,553**	**87,985**

Commissions relating to the "distribution of third-party services" (sub-caption 9.3) are mainly commissions for the distribution of personal loans.

Commissions for "other services" include commission income for transactions for the assignment of one fifth of salary and loans with delegation of payment for Euro 2,589 thousand (Euro 1,880 thousand at 30 June 2019), recoveries of expenses on customer collection and payments for Euro 322 thousand (Euro 385 thousand last year), fees for the Internet banking service of Euro 552 thousand (Euro 911 thousand last year) and recoveries of expenses on mortgage instalments for Euro 697 thousand (Euro 730 thousand last year).

2.3 Commission expense: breakdown

Services/Amounts	30.06.2020	30.06.2019
a) Guarantees received	(176)	(212)
b) credit derivatives	-	-
c) management and brokerage services:	(5,802)	(4,642)
1. trading in financial instruments	(64)	(37)
2. trading in foreign exchange	-	-
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	(650)	(660)
5. placement of financial instruments	-	-
6. offer of securities, financial products and services through financial promoters	(5,088)	(3,945)
d) collection and payment services	(1,617)	(1,280)
e) other services	(447)	(1,411)
Total	**(8,042)**	**(7,575)**

Commissions for "offer of securities, financial products and services through financial promoters" include fees relating to remuneration of the network of financial advisors and agents.

Commissions for "other services" mainly refer to fees for other loan transactions and other payment services.

Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	30.06.2020		30.06.2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	133	0	30	0
B. Other financial assets mandatorily at fair value	0	0	0	0
C. Financial assets valued at fair value through other comprehensive income	453	0	1,014	0
D. Equity investments	0	0	0	0
Total	**586**	**0**	**1,044**	**0**

The table shows the dividends collected on non-controlling interests classified under Financial assets designated at fair value through other comprehensive income.

Net trading income - caption 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**95**	**430**	**(819)**	**(158)**	**(452)**
1.1 Debt securities	67	69	(118)	(121)	(103)
1.2 Equity instruments (other than banking investments)	28	236	(701)	(37)	(474)
1.3 Mutual funds	-	103	-	-	103
1.4 Loans	-	-	-	-	-
1.5 Other	-	22	-	-	22
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**1,790**
4. Derivatives	**65**	**3,089**	**(399)**	**(3,251)**	**(488)**
4.1 Financial derivatives:	65	3,089	(399)	(3,251)	(488)
- On debt securities and interest rates	13	150	(396)	(495)	(728)
- On equities and equity indices	52	2,939	(3)	(2,756)	232
- On currency and gold	**X**	**X**	**X**	**X**	8
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	**X**	**X**	**X**	**X**	-
Total	**160**	**3,519**	**(1,218)**	**(3,409)**	**850**

The captions "1. Financial assets held for trading" and "4. Derivatives" include income from financial assets held for trading.

Caption "3. Other financial assets and liabilities: exchange differences" includes the gains (or losses) arising from the translation of foreign currency assets and liabilities that differ from those held for trading.

Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	30.06.2020	30.06.2019
A. Income relating to:		
A.1 Fair value hedges	-	9
A.2 Hedged financial assets (fair value)	-	407
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash flow hedges	-	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activity (A)	-	**416**
B. Charges relating to:	-	
B.1 Fair value hedges	-	(514)
B.2 Hedged financial assets (fair value)	-	(5)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedges	-	-
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activity (B)	-	**(519)**
C. Net hedging gains (losses) (A-B)	-	**(103)**

The caption includes net hedging gains (losses). The various sub-captions indicate income components arising from the measurement process for hedged assets (mortgage loans) and hedged liabilities (bonds issued by the Group) as well as from the related hedging derivatives.

Gains (Losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	30.06.2020			30.06.2019		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	2,518	(3,185)	(667)	4,592	(2,670)	1,922
1.1 Due from banks	-	-	-	150	-	150
1.2 Loans to customers	2,518	(3,185)	(667)	4,442	(2,670)	1,772
2. Financial assets designated at fair value through other comprehensive income	3,116	(784)	2,332	1,851	(57)	1,794
2.1 Debt securities	3,116	(784)	2,332	1,851	(57)	1,794
2.2 Loans	-	-	-	-	-	-
Total assets	**5,634**	**(3,969)**	**1,665**	**6,443**	**(2,727)**	**3,716**
Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	34	(39)	(5)	22	(124)	(102)
Total liabilities	**34**	**(39)**	**(5)**	**22**	**(124)**	**(102)**

This caption includes the net gain (loss) on disposal of financial assets, excluding those held for trading and those designated at fair value through profit and loss, as well as the net gain (loss) from the repurchase of own securities.

The "1.2. Loans to customers" caption includes the net gain (loss) on the disposal of non-performing loans made by the Bank.

The caption "2. Financial assets designated at fair value through other comprehensive income" includes the net gain (loss) on sales of the held to collect & sell security portfolio in the period, inclusive of the release of the related valuation reserve, gross of the tax effect.

As regards financial liabilities, the caption "3. Debt securities in issue" includes the net gain (loss) from the repurchase of own bonds.

Result of financial assets and liabilities designated at fair value through profit and loss - caption 110

7.2. Net change in value of other financial assets and liabilities designated at fair value through profit and loss: breakdown of other financial assets that are mandatorily valued at fair value

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**441**	**365**	**(1,286)**	**-**	**(480)**
1.1 Debt securities	-	360	-	-	360
1.2 Equity instruments	-	-	-	-	-
1.3 Mutual funds	441	5	(1,286)	-	(840)
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**441**	**365**	**(1,286)**	**-**	**(480)**

This item consists of the result of financial instruments which, with the introduction of "IFRS 9 - Financial Instruments", must be valued at fair value through profit or loss, even if they are not held for trading, as they fail to pass the SPPI (Solely Payments of Principal and Interest) test foreseen in the new standard. This item is made up mainly of mutual funds, which by their very nature do not have characteristics compatible with passing the test.

Net adjustments for credit risk - caption 130

8.1 Net adjustments for credit risk relating to financial assets measured at amortised cost: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)		30.06.2020	30.06.2019
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Due from banks	**(655)**	**-**	**-**	**6**	**-**	**(649)**	**564**
- loans	(301)	-	-	-	-	(301)	243
- debt securities	(354)	-	-	6	-	(348)	321
B. Loans to customers	**(13,885)**	**(598)**	**(34,318)**	**82**	**9,111**	**(39,608)**	**(28,086)**
- loans	(13,024)	(598)	(34,318)	82	9,111	(38,747)	(30,604)
- debt securities	(861)	-	-	-	-	(861)	2,518
Total	**(14,540)**	**(598)**	**(34,318)**	**88**	**9,111**	**(40,257)**	**(27,522)**

This caption includes the adjustments and write-backs made against the credit risk of assets valued at amortised cost (loans to banks and customers, including debt securities).

As regards "Write-downs" the figure in the "Write-off" column relates to losses from the write-off of doubtful loans.

"Write-downs – third stage", which arise from the analytical assessment of the probability of recovery of non-performing loans and by discounting cash flows expected to be generated, relate to:

- Doubtful loans for 13,800 thousand euro (18,955 thousand euro in June 2019);
- Unlikely to pay for 19,581 thousand euro (28,897 thousand euro in June 2019);
- Past due loans for 937 thousand euro (460 thousand euro in June 2019).

"Portfolio write-backs" relate to the performing loans portfolio (first and second stage).

"Specific write-backs (Third Stage)" relate to:

- doubtful loans amortised in previous years and with actual recoveries higher than expected for Euro 409 thousand (Euro 729 thousand in June 2019)
- collections of loans previously written down for Euro 4,631 thousand (Euro 7,980 thousand in June 2019)
- measurement write-backs for Euro 4,071 thousand (Euro 9,101 thousand in June 2019).

The adjustments to loans and securities are determined by applying the new models for the calculation of the expected credit losses adopted by the bank in application of "IFRS 9 Financial Instruments".

For further information on the expected losses recognised at 30 June 2020, please refer to the note entitled "Implication of the Covid-19 epidemic on the interim financial report at 30 June 2020" included in the section "Basis of preparation and accounting policies".

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

Transactions/Income components	Write-downs (1)			Write-backs (2)		30.06.2020	30.06.2019
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Debt securities	(461)	-	-	345	-	(116)	42
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
Total	**(461)**	**-**	**-**	**345**	**-**	**(116)**	**42**

This item includes the adjustments deriving from application of the new models for determining the expected loss on the "held to collect & sell" debt securities portfolio in application of "IFRS 9 - Financial Instruments".

Administrative expenses - caption 190

10.1 Payroll costs: breakdown

Type of expense/Amounts	30.06.2020	30.06.2019
1) Employees	(81,366)	(82,461)
a) wages and salaries	(56,803)	(56,408)
b) social security charges	(15,136)	(15,083)
c) termination indemnities	-	-
d) pension expenses	-	-
e) provision for termination indemnities	(65)	(135)
f) provision for post-retirement benefits and similar commitments:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(5,247)	(5,110)
- defined contribution	(5,247)	(5,110)
- defined benefit	-	-
h) equity-based payments	-	-
i) other personnel benefits	(4,115)	(5,725)
2) Other active employees	(194)	(241)
3) Directors and auditors	(1,460)	(1,957)
4) Retired personnel	-	-
5) Recovery of cost of employees seconded to other companies	7	31
6) Reimbursement of cost of third-party employees seconded to the Company	-	-
Total	**(83,013)**	**(84,628)**

The caption "1.g – payments to external supplementary pension funds: defined contribution" includes part of the termination indemnities paid to the state pension scheme and to supplementary pension funds.

Details of caption "1.i) – other employee benefits" are provided in table 12.4 below.

12.4 Other personnel benefits

	30.06.2020	30.06.2019
Provision for sundry charges	(1,670)	(2,778)
Contributions to healthcare fund	(880)	(890)
Training and instruction costs	(155)	(310)
Rent expense of property used by employees	(149)	(173)
Redundancy incentives		45
Other	(1,261)	(1,619)
Total	**(4,115)**	**(5,725)**

The item "Provision for sundry charges" mainly includes the provision to the employee bonus system.

The main components of the "Other" caption include company canteen costs (ticket restaurant) of Euro 919 thousand (Euro 1,001 thousand in June 2019) and costs relating to insurance premiums of Euro 160 thousand (Euro 208 thousand in June 2019).

12.5 Other administrative costs: breakdown

	30.06.2020	**30.06.2019**
Indirect taxes and duties:		
- Stamp duty	(13,458)	(13,145)
- Other	(2,778)	(2,790)
Other costs:		
- IT expenses	(10,682)	(9,668)
- Lease of property and other assets	(812)	(790)
- Maintenance of buildings, furniture and equipment	(3,827)	(3,501)
- Post office and telegraph	(636)	(1,219)
- Telephone and data transmission	(3,014)	(3,186)
- Electricity, heating, water	(1,615)	(2,083)
- Cleaning services	(1,372)	(668)
- Printed matter, stationery and consumables	(401)	(596)
- Transport costs	(515)	(638)
- Surveillance and security	(1,140)	(1,054)
- Advertising	(552)	(1,172)
- Information and surveys	(1,081)	(993)
- Insurance premiums	(519)	(499)
- Legal fees	(902)	(1,403)
- Professional consulting fees	(6,095)	(5,634)
- Various contributions and donations	(21)	(182)
- Sundry expenses	(8,992)	(10,214)
Total	**(58,412)**	**(59,435)**

Sundry expenses include the contribution to the Single Resolution Mechanism (SRM) for Euro 4,531 thousand (Euro 5,953 thousand in June 2019), reimbursements to employees for travel expenses, mileage reimbursements for Euro 251 thousand (Euro 682 thousand in June 2019), expenses for registration of mortgage, injunctions and assignment of receivables for Euro 388 thousand (Euro 497 thousand in June 2019), membership fees for Euro 713 thousand (Euro 807 thousand in June 2019) and subscriptions to newspapers and magazines for Euro 150 thousand (Euro 158 thousand in June 2019).

Net provisions for risks and charges - caption 200

13.1 Other net provisions for risks and charges: breakdown

	Provision	Utilisations	30.06.2020	30.06.2019
Commitments for guarantees given	(2,087)	209	(1,878)	(850)
Charges for legal disputes	(1,339)	75	(1,264)	(1,000)
Other	(198)	33	(165)	(205)
Total	**(3,624)**	**317**	**(3,307)**	**(2,055)**

The item "Commitments for guarantees given" represents the net provision for risks determined by applying the models for calculating the expected loss in accordance with "IFRS 9 Financial Instruments". For further information on the expected losses recognised at 30 June 2020, please refer to the note entitled "Implication of the Covid-19 epidemic on the interim financial report at 30 June 2020" included in the section "Basis of preparation and accounting policies".

Charges for legal disputes include provisions made in the year for expected losses arising from legal disputes and bankruptcy clawback actions.

Other provisions include provisions for other operating risks.

Net adjustments to property, plant and equipment - caption 210

14.1. Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Property, plant and equipment				
A.1 For business purposes	(8,702)	-	-	(8,702)
- Owned	(3,354)	-	-	(3,354)
- Rights of use acquired under lease	(5,348)	-	-	(5,348)
A.2 Held under finance leases	(14)	-	-	(14)
- Owned	(14)	-	-	(14)
- Rights of use acquired under lease	-	-	-	-
A.3 Other	X	-	-	-
Total	**(8,716)**	**-**	**-**	**(8,716)**

The adjustments consist entirely of depreciation computed over the useful lives of the assets.

The item "Rights of use acquired under lease" includes the depreciation charged on RoU Assets recorded in application of IFRS16 "Leases" in force from 1 January 2019 and calculated as the sum of the lease payable, initial direct costs, payments made on or before the contract's starting date (net of any incentives received for leasing) and decommissioning and/or recovery costs.

Net adjustments to intangible assets - caption 220

15.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c)
A. Intangible assets				
A.1 Owned	(611)	-	-	(611)
- Generated internally	-	-	-	-
- Other	(611)	-	-	(611)
A.2 Rights of use acquired under lease	-	-	-	-
Total	**(611)**	**-**	**-**	**(611)**

The adjustments consist entirely of amortisation computed over the useful lives of the assets.

Other operating charges/income - caption 230

16.1 Other operating charges: breakdown

	30.06.2020	30.06.2019
Depreciation of leasehold improvements	(761)	(945)
Losses on disposal of property, plant and equipment	(18)	(7)
Charges on non-banking services	(209)	(308)
Total	**(988)**	**(1,260)**

16.2 Other operating income: breakdown

	30.06.2020	30.06.2019
Recovery of taxes from third parties	15,003	14,444
Recharge of costs of current accounts and deposits	1,691	2,447
Rental and leasing income	52	50
Other expense recoveries	1,869	4,073
Gains on disposal of property, plant and equipment		
Other	142	1,728
Total	**18,757**	**22,742**

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 868 thousand (vs. Euro 1,212 thousand) and other recoveries for various communications to customers of Euro 750 thousand (Euro 1,137 thousand). "Other expense recoveries" include, in particular, recoveries of legal costs relating to various non-performing loans of Euro 403 thousand (Euro 426 thousand), the recovery of investigation costs of various loans for Euro 1,136 thousand (Euro 3,186 thousand), recovery of appraisals in connection with mortgage loans of Euro 36 thousand (Euro 146 thousand), the recovery of sundry expenses relating to lease applications of Euro 35 thousand (Euro 98 thousand).

The main component of the "Other" caption relates to an insurance reimbursement received for Euro 1,450 thousand pertaining to the previous year.

Income taxes on current operations - caption 300

19.1 Income taxes on current operations

Income items/Amounts	30.06.2020	30.06.2019
1. Current taxes (-)	(2,035)	(1,737)
2. Change in prior period income taxes (+/-)	-	-
3. Reduction in current taxes (+)	-	-
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(3,964)	(11,191)
5. Change in deferred tax liabilities (+/-)	2,447	609
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(3,552)**	**(12,319)**

Taxation for the period benefited from the step-up for tax purposes (pursuant to art. 15, paragraph 11, of Legislative Decree 185/2008) of the goodwill recorded by the subsidiary Banca Popolare di Spoleto in the balance sheet by the Parent Company Banco Desio for a total of Euro 7,120 thousand. The positive effect on the result for the period was Euro 931 thousand.

Earnings per share

	30.06.2020		30.06.2019	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Net profit of the Group attributable to the various classes of shares (thousands of euro)	8,500	1,098	20,676	2,800
Average number of shares outstanding	122,745,289	13,202,000	117,000,000	13,202,000
Average number of potentially dilutive shares	-	-	-	-
Average number of diluted shares	122,745,289	13,202,000	117,000,000	13,202,000
Earnings per share (Euro)	**0.07**	**0.08**	**0.18**	**0.21**
Diluted earnings per share (Euro)	**0.07**	**0.08**	**0.18**	**0.21**

INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

The Internal Control and Risk Management System consists of a set of rules, procedures and organisational structures designed to permit the identification, measurement, management and monitoring of major risks. This system has been integrated into the Group's organisational and corporate governance structures.

The system's guidelines have been set out in specific internal regulations. The operational instructions and detailed information regarding the controls in place, at various levels, over business processes are included in specific "Consolidated Texts" by function and Internal Procedures.

The organisational model adopted by the Group envisages that the Risk Management function reports directly to the Chief Executive Officer and participates in the risk management process designed to identify, measure, assess, monitor, prevent, mitigate and communicate the risks assumed or which could be assumed in the conduct of business. This function also covers the subsidiaries, in accordance with the provisions of the relevant Service Agreements.

The Board of Directors approves, at least annually, the Group's "Risk Appetite Framework (RAF)" and the "Policy for risk management", which define risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. Within the context of these documents, specific risk indicators with related attention thresholds are provided at the level of individual legal entity, identifying the competent functions for the specific control mechanisms and providing dedicated information flows. The Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) also form part of the Group's risk management system.

SECTION 1 – RISKS OF THE ACCOUNTING CONSOLIDATION

Quantitative information

Credit quality

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/Quality	Doubtful loans	Unlikely to pay loans	Past due non-performing loans	Past due performing loans	Other performing exposures	Total
1. Financial assets measured at amortised cost	123,755	201,476	6,823	119,153	13,230,533	13,681,740
2. Financial assets designated at fair value through other comprehensive income	-	-	-	-	471,683	471,683
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	860	860
5. Financial assets being sold	-	-	-	-	-	-
Total 30/06/2020	**123,755**	**201,476**	**6,823**	**119,153**	**13,703,076**	**14,154,283**
Total 31/12/2019	**120,018**	**217,062**	**3,100**	**169,506**	**12,951,683**	**13,461,369**

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net amounts)

Portfolio/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total write-downs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs	Net exposure	
1. Financial assets measured at amortised cost	634,956	(302,902)	332,054	10,966	13,412,013	(62,327)	13,349,686	13,681,740
2. Financial assets designated at fair value through other comprehensive income	-	-	-	-	472,162	(479)	471,683	471,683
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	X	X	859	859
5. Financial assets being sold	-	-	-	-	-	-	-	-
Total 30/06/2020	**634,956**	**(302,902)**	**332,054**	**10,966**	**13,884,175**	**(62,806)**	**13,822,228**	**14,154,282**
Total 31/12/2019	**624,501**	**(284,321)**	**340,180**	**12,155**	**13,167,177**	**(48,288)**	**13,121,189**	**13,461,369**

Portfolio/Quality	Assets with an obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	2,822
2. Hedging derivatives	-	-	-
Total 30/06/2020	**-**	**-**	**2,822**
Total 31/12/2019	**-**	**-**	**2,332**

SECTION 2 – RISKS OF THE CONSOLIDATION FOR REGULATORY PURPOSES

1.1 CREDIT RISK

Qualitative information

1. *General aspects*

The Group's lending activity has developed according to the guidelines of the Business Plan, addressed to local economies primarily in the retail, small business and small SME markets. To a lesser extent, our lending activity is directed towards the corporate market.

The activities aimed at individual customers, small businesses (artisans, family businesses and professionals), SMEs and Corporates, and customers in the financial sector, mainly include the following products: loans and deposits; financial, banking and payment services; documentary credit; lease; factoring; financial, insurance and asset management products; debit and credit cards.

Commercial policy is pursued through the Group's branch network based on credit policies geared to supporting local economies. Particular attention is paid to maintaining relationships established with customers and their development in the geographic areas where the Group has traditionally been present and in new markets with the aim of acquiring new market shares and facilitate growth in business volumes. The subsidiary Fides SpA, which makes to private customers in the form of salary/pension-backed loans, advances on termination pay and personal loans, also makes use of agents that are external to the Parent Company's sales network when placing its products. The Group also operates under agreements with the Italian Banking Association and with trade and business associations, signing conventions aimed at providing support to corporate borrowers while carefully monitoring asset quality.

2. *Credit risk management policies*

2.1. Organisational aspects

Factors that generate credit risk involve the possibility that an unexpected change in the creditworthiness of a counterparty in respect of which there is an exposure, might generate a corresponding unexpected change in the market value of the credit position. It follows that not only the possibility of a counterparty's insolvency, but also a simple deterioration of its creditworthiness has to be considered a manifestation of credit risk.

The Group's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Parent Company's Board of Directors has the power to lay down guidelines that have an impact on the running of the Bank and the Group's affairs, as strategic lines and operations, business and financial plans as well as those relating to the Internal Control and Risk Management System. In line with the provisions of Bank of Italy circular 285/2013, the Group has formalised within the Risk Management Department the activities of verification and supervision of the monitoring and debt collection activities carried out by the competent company departments, providing for the right to intervene, where necessary, with regard to the classification of anomalous credit and provisional accruals and postings.

2.2 Systems for managing, measuring and monitoring credit risk

Systems for managing, measuring and monitoring credit risk are developed in an organisational context that involves the whole cycle of the credit process, from initial inquiry and periodic review to final withdrawal and recovery.

During the fact finding stages of the lending process, the Group performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer's financial standing from what is known of the customer and of the customer's economic environment. During the process of granting credit, the Group operates according to guidelines based on risk diversification among various customers operating in different industries and market sectors and on the appropriateness of the credit facility depending on the independent creditworthiness of the borrower, the technical form and the collateral that could be acquired. The analysis and monitoring of risk associated with the lending process is performed with the support of specific operating procedures. The aim of a prompt monitoring system is to identify, as soon as possible, signs of deterioration of exposures in order to intervene with effective corrective measures. To this end, credit exposures are monitored by means of an analysis of relationship trends and by central oversight of risk by means of dedicated procedures. As part of its corporate risk management policy, the Group has set up a system of operating limits and specific Key Risk Indicators (KRI). In the context of monitoring and control, on pre-established thresholds being exceeded, the Risk Management function activates internal procedures for an intervention in order to maintain a risk appetite level consistent with the guidelines laid down in the RAF and the risk management policies.

For risk management purposes, Banco Desio Group uses an internal rating system that classifies each counterparty in risk classes that reflect their probability of default. The classification of performing counterparties is on a scale from 1 to 10. Non-performing loans (past due and/or overdrawn exposures, unlikely-to-pay and doubtful loans) are excluded from the rating assignment.

For the purpose of calculating the capital requirement for credit risk, the Group follows the rules laid down in the regulations for the standardised approach, resorting, for certain counterparties, to the use of ratings provided by authorised, external ECAIs.

2.3 Methods of measuring expected losses

The general approach defined by IFRS 9 - Financial instruments to estimate the impairment is based on a process aimed at highlighting the deterioration of the credit quality of a financial instrument at the reporting date compared with the date of initial recognition. The regulatory indications regarding the assignment of credits to the various "stages" envisaged by the Standard (a process known as "staging" or "stage allocation") do in fact identify significant changes in credit risk by referring to the change in creditworthiness with respect to the initial recognition of the counterparty, the expected life of the financial asset and other forward-looking information that may affect credit risk.

In accordance with IFRS 9, performing loans are broken down into two different categories:

Stage 1: this bucket includes assets that have not suffered a significant deterioration in credit risk. This stage provides for the calculation of the expected loss at one year on a collective basis;

Stage 2: this bucket classifies assets that show a significant deterioration in credit quality between the reporting date and the date of initial recognition. For this bucket the expected loss must be calculated from a lifetime perspective, i.e. over the entire duration of the instrument, on a collective basis.

As part of the ongoing monitoring of the application framework of IFRS 9, given the change in the macroeconomic context due to Covid-19, the Group has analysed the valuation aspects in line with the indications of the various regulators. Considering the climate of considerable uncertainty resulting from this situation, in preparing the consolidated quarterly financial report at 31 March 2020, the Group has taken into account the recommendations contained in a series of documents published by various international institutions (ESMA, EBA, ECB-SSM, IFRS Foundation), aimed at avoiding a mechanical application of international accounting standards and to avoid the use of excessively pro-cyclical assumptions in the models used to estimate the credit losses expected during the pandemic. Furthermore, despite the first revisions of the outlook for the world and local economies were available starting from April 2020 (ECB, OECD, various ECAIs, etc.), the evidence of the numerous caveats underlying these estimates, due to the extreme uncertainty both on the development of the epidemic and on the extent and effects of government measures to support the economy, the Group has cautiously deemed it appropriate to await the macroeconomic projections for Italy in the three-year period 2020-22 drawn up by experts from the Bank of Italy as part of the Eurosystem coordinated exercise, published on 5 June 2020. These projections take into account the transmission of the effects of the pandemic to the economy through multiple channels, such as the drop in international trade and foreign demand, the reduction of international tourist flows, the effects of uncertainty and confidence on companies' propensity to invest, etc.

In this regard, it should also be noted that, beyond the Covid-19 pandemic, Banco Desio has changed its methodology for the inclusion of forward-looking factors, compared with the one used up to the financial statements at 31 December 2019 (as well as the interim financial report at 31 March 2020), by developing specific satellite models derived from the new statistical rating model recently implemented, also taking forecasts made by external providers as a point of reference.

Estimate of Expected Credit Loss – Stage 1 and Stage 2

The model for calculating Expected Credit Losses (ECL) used in testing performing instruments for impairment, differentiated according to the classification of the exposure in Stage 1 or Stage 2, is based on the following formula:

$$ECL = \sum_{t=1}^{T} PDt \times EADt \times LGDt \times (1+r)^{-t}$$

where:

PDt represents the probability of default on each cash flow date. This is the probability of moving from performing to non-performing over the one-year time horizon (1-year PD) or over the entire duration of the exposure (PD lifetime)

EADt represents the counterparty exposure at each cash flow date

LGDt represents the loss associated per counterparty on each cash flow date. This is the percentage of loss in the event of default, based on the historical experience observed in a given observation period, as well as the prospective evolution over the entire lifetime of the exposure;

r represents the discount rate

t represents the number of cash flows

T represents the total number of cash flows, limited to the following 12 months for stage 1 relationships, whereas it refers to the entire residual life for those in stage 2

The models used to estimate these parameters derive from the corresponding parameters developed on the basis of the most recent regulatory guidelines, making specific adaptations to take into account the different requirements and purposes of the IFRS 9 impairment model compared with the regulatory one.

The definition of the above parameters therefore took into account the following objectives:

- removing the elements envisaged for regulatory purposes only, such as the downturn component considered in the regulatory LGD calculation to take into account the adverse economic cycle, the margin of conservatism envisaged for the PD, LGD and EAD and the add-on of indirect costs with the objective of avoiding a double-counting effect on the income statement;
- including the conditions of the current economic cycle (Point-in-Time risk measures) in place of a measurement of the parameters along the economic cycle (TTC - Through The Cycle) envisaged for regulatory purposes;
- introducing forward-looking information on the future dynamics of macroeconomic factors (forward-looking risk) deemed potentially able to influence the borrower's situation;

- extending the risk parameters to a long-term perspective, taking into account the lifetime of the credit exposure to be assessed.

More detailed information is provided below on how the Group has determined the aforementioned IFRS 9 compliant risk parameters, with particular reference to the way in which forward-looking factors have been included.

In this regard, it should be noted that the updating of the historical series of the parameters and consequently of their recalibration is carried out on an annual basis.

Estimate of the PD parameter

The PD parameters were suitably calibrated, using satellite models, to reflect the default rates based on current (PiT) and forward-looking conditions. These parameters must be estimated not only with reference to the twelve months following the reporting date, but also in future years, in order to allow the calculation of lifetime provisions.

For the Group, the lifetime PD curves were constructed by multiplying the 12-month rating migration matrices, divided by segments conditioned by prospective macroeconomic scenarios, with a Markovian approach. The associated lifetime PD curve is associated with each rating class assigned to counterparties through internal models. The main methodological steps used to estimate lifetime PD are listed below:

- construction of the historical Point in Time (PiT) migration matrices for each risk segment defined by the rating models and, on the basis of the average of these matrices, obtaining the 3-year migration matrices for each risk segment;
- determination of future PiT migration matrices for the first three years following the reporting date, obtained on the basis of PiT migration matrices conditioned on the basis of some selected macroeconomic scenarios, via satellite models (Merton method) capable of expressing the sensitivity of the PD measures with respect to changes in the main economic aggregates. These satellite models are differentiated by business and private segment and use specific variables for each segment;
- obtaining the cumulative PDs by rating class and scenario, through Markov chain techniques of the future PiT migration matrices for the first three years, as previously calculated, while from the fourth year onwards the 3-year average preconditioning matrix is used;
- generation of the cumulative lifetime PD curve as the average of the cumulated PD curves of each selected macroeconomic scenario weighted by the respective probabilities of occurrence.

Please refer to the following paragraph "Inclusion of forward-looking factors" for further details on how to construct the PD parameter.

Estimate of the LGD parameter

The LGD values are assumed equal to the regulatory recovery rates calculated over the economic cycle (TTC), suitably adapted in order to remove some elements of prudence represented by indirect costs and by the component linked to the adverse economic cycle (so-called "downturn" component, in addition to the previously mentioned "margin of conservatism").

EAD Estimate

For cash exposures, the EAD parameter is represented, at each future payment date, by the residual debt on the basis of the amortization plan, increased by any unpaid and/or past due instalments.

For off-balance sheet exposures, represented by guarantees and commitments to disburse irrevocable or revocable funds, the EAD is equal to the nominal value weighted by a specific credit conversion factor (CCF - Credit Conversion Factor), determined in accordance with internal models and using the standardised approach for the remaining exposures.

Inclusion of forward-looking factors

For the purpose of determining expected losses, the inclusion of forward-looking information is obtained by considering the effects on the PD and LGD parameters, derived from different macroeconomic scenarios. In detail, the many possible alternative macroeconomic scenarios have been traced to a limited number of scenarios (No. 3) which constitute the input of the so-called "satellite models". Use of these latter models makes it possible to define, through statistical regression techniques, the relationship between a limited number of significant macroeconomic variables, taken as a point of reference, and the decay rates of the various segments. The result of these estimates is used to create stress factors, called "delta scores", distinguished by scenario and risk segments. These "delta scores" are applied using the Merton method to the average Point in Time (PiT) matrix by risk segment, represented by the most recent three-year internal data available on migration between ratings, so as to obtain three future stressed matrices based on macroeconomic forecasts. From the fourth year onwards, to calculate the PD curves, we chose to refer to the long-term matrix.

Subsequently, the construction of the PD curves for each of the 3 scenarios takes place by applying the Markov chain statistical procedure (product of the annual matrices described above). Lastly, the cumulative PiT and lifetime PD curves are generated as the average of the cumulated PD curves of each selected macroeconomic scenario, weighted by the respective probability of occurrence.

The information on the macroeconomic scenarios for Italy in the three-year period 2020-22, as previously recalled, is based on that published by the Bank of Italy on 5 June 2020 as part of the coordinated working of the Eurosystem.

In consideration of the fact that the satellite models have been estimated on the historical series 2009-2018, which therefore includes only the tail-end of the financial crisis of 2008-2009, it is reasonable to assume that they are inevitably affected by a lower sensitivity to systemic shocks. Furthermore, exogenous factors have intervened (state/sector/firm specific interventions) that are generating a freeze effect on the relationship between the default rates and the trends in macro-economic variables, so, unlike the standard conditions of application of the model, there is evidently a bias in the timing between the observation of the new levels assumed by the macroeconomic variable and the change in the default rate.

For this reason, we identified fine-tunings to be made to the standard conditioning logics, in order to adequately treat the specificities deriving from and/or connected to the COVID-19 pandemic. In particular, in the construction of the scenarios underlying the forward-looking conditioning, a one-quarter smoothing is applied in the application of the macroeconomic forecasts for the three years 2020, 2021 and 2022 published by the Bank of Italy and the ECB (however, for greater prudence, the revisions of the ECB's published projections in the Economic Outlook of March 2020 were used for the first quarter of 2020).

In more detail, alongside the "basic" scenario considered most likely (with a 70% probability), an alternative "negative" scenario (with a 5% probability) and a "positive" (with a 25% probability) were prepared.

The following table shows the minimum and maximum values (in the "range of values") referring to the macroeconomic parameters considered in the forward-looking conditioning models (the so-called "satellite models"), for the three scenarios considered most capable of influencing the expected losses of performing loans and the related probabilities of occurrence considered as at 30 June 2020.

	Positive Scenario		**Basic Scenario**		**Negative Scenario**	
Macroeconomic Indicators	**Min**	**Max**	**Min**	**Max**	**Min**	**Max**
Italy - GDP	-6.3	5.8	-9.2	4.8	-13.1	3.5
Italy - Unemployment	10.2	10.3	10.6	11.0	11.1	11.9
Residential property values	290.8	315.0	287.0	288.3	253.8	284.9
Europe - Unemployment	7.5	8.7	9.1	10.1	11.2	12.5
Probability of occurrence	25%		70%		5%	

Analysis of expected losses by sector

In the current macroeconomic context, numerous studies have been carried out on which sectors of the economy are likely to be impacted the most by the current crisis. For the Bank's internal sector analyses, we referred to "The impact of Covid-19 on sectors: the Cerved Industry Forecast (Reloaded)" published by Cerved in May 2020, which identifies the sectors with the best and worst performance expectations in the context of Covid-19.

The following Ateco codes were then identified in the Bank's loan portfolio, attributable to those considered with the worst performance expectations in the study: 55 Accommodation (hotels), 56 Catering, 49 Land transport and transport via pipelines, 18 Printing and reproduction of recorded media, 59 Film production, video production and music recording. For the sectors with the best performance expectations, the following Ateco codes were identified: 46 Wholesale trade (except motor vehicles) and 21 Manufacture of pharmaceutical products and basic pharmaceutical preparations.

By isolating performing exposures for the Ateco codes identified in this way, and not considering exposures backed by a Medio Credito Centrale guarantee in the portfolio at 30 June 2020, it was possible to see the trend in the average levels of coverage, as shown below:

Coverage of the performing portfolio (stages 1 and 2) for the sectors deemed most penalised by Covid-19				
Description of the sector	**EAD 30-06-2020**	**Average coverage**		**Coverage delta**
		30-06-2020	**31-12-2019**	
Accommodation	135 million	1.02%	0.57%	+ 0.45%
Catering	78 million	1.56%	1.39%	+ 0.17%
Land transport and transport via pipelines	80 million	0.84%	0.66%	+ 0.18%
Printing and reproduction of recorded media	42 million	0.67%	0.54%	+ 0.13%
Travel services and tour operators	12 million	0.55%	0.43%	+ 0.12%
Film production, video production and music recording	6 million	0.37%	1.20%	- 0.83%
Total most penalised sectors	**353 million**	**1.03%**	**0.79%**	**+ 0.24%**

Coverage of the performing loan portfolio (stages 1 and 2) for the sectors deemed most favoured by Covid-19				
Description of the sector	**EAD 30-06-2020**	**Average coverage**		**Coverage delta**
		30-06-2020	**31-12-2019**	
Wholesale trade (excluding motor vehicles)	700 million	0.49%	0.54%	- 0.05%
Pharmaceutical products manufacturing	17 million	0.79%	0.94%	- 0.16%
Total most favoured sectors	**717 million**	**0.49%**	**0.55%**	**- 0.06%**

The analysis shows a correlation between the increase in the level of recorded coverage and the performance of the sectors highlighted in the Cerved study.

With reference to the exposures relating to the new loans backed by public guarantee pursuant to Law 662/96 (issued by the Guarantee Fund for SMEs through Medio Credito Centrale, MCC), which for the entire performing loan portfolio at the reporting date express an overall EAD of approximately 380 million euro, the average coverage is approximately 0.07%. On the other hand, as regards the relationships subject to the Covid-19 moratorium (pursuant to law, ABI, Assofin, internal of general scope), which at the reporting date express an overall EAD of approximately 2,873 million euro, the average coverage is 0.99%, which for stage 2 relationships alone (with a total EAD of approximately 532 million euro) rises to 3.89%.
In consideration of these results, the Group did not deem it necessary to integrate the evaluation process with management overlay interventions, which may in any case be reconsidered in the future.

Sensitivity analysis of expected losses

As shown in the paragraph "Use of estimates and assumptions in preparing the condensed consolidated interim financial statements" contained in the section "Basis of preparation and accounting policies", the determination of losses due to impairment of receivables implies significant elements of opinion, with particular reference to the model used to measure losses and related risk parameters, to the triggers deemed to express significant credit deterioration and to the selection of macroeconomic scenarios.

The inclusion of forward-looking factors is a particularly complex exercise, as it requires the formulation of macroeconomic forecasts, the selection of scenarios and their probability of occurrence, as well as the definition of a model capable of expressing the relationship between the aforementioned macroeconomic factors and the default rates of the exposures subject to assessment, as explained in the previous paragraph.

In order to assess how forward looking factors can influence expected losses, it is considered reasonable to carry out a sensitivity analysis in the context of different scenarios based on forecasts consistent with the evolution of the various macroeconomic factors. The innumerable interrelations between the individual macroeconomic factors are, in fact, such as to render a sensitivity analysis of the expected losses based on the single macroeconomic factor barely meaningful.

To this end, for non-impaired exposures (Stages 1 and 2) relating to loans granted to customers, the following shows the variations, in percentage terms, that would occur in the aforementioned losses for the sectors deemed most penalised by Covid-19, as identified above.

More specifically, the sensitivity analysis was carried out by identifying, in the context of exposures classified in stage 1, the exposures with the most risky rating class (rating equal to or greater than 6): assuming for this cluster within stage 1, characterised by potentially higher risk profiles, a transition to stage 2 would result in an increase in expected loss as shown in the following table.

Description of the sector	Coverage delta
Accommodation	+ 197%
Catering	+ 90%
Land transport and transport via pipelines	+ 19%
Printing and reproduction of recorded media	+ 23%
Travel services and tour operators	+ 89%
Film production, video production and music recording	+ 24%
Total most penalised sectors	**+ 103%**

Also considering this greater expected loss, estimated at around 760 thousand euro overall (gross of the theoretical tax effect), in addition to the one recognised in the accounts, there would be an increase in the coverage of performing loans of 0.01% and an increase in exposures in stage 2 of approximately 5%.

2.4 Credit risk mitigation techniques

As part of the process leading up to the provision of credit, whenever possible, the Group acquires real and/or personal guarantees in order to mitigate risk, even if the requirements appear to be satisfied.

For all loans, the main type of real guarantee is the mortgage, primarily related to the technical form of mortgage loans (particularly on residential properties). There are also pledge guarantees on securities and/or money, as well as public guarantees such as guarantees and counter-guarantees issued by the Guarantee Fund for SMEs pursuant to Law 662/96 (Medio Credito Centrale), by SACE or by the European Fund for Investments.

Guarantees received by the Group are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions. The process of collateral management provides for monitoring and specific controls to check their eligibility, in line with the requirements of supervisory regulations.

3. *Non-performing loans*

3.1 Management strategies and policies

The current regulatory framework provides for the classification of non-performing financial assets according to their risk status. Three categories are foreseen: "doubtful loans", "unlikely to pay" and "non-performing past due and/or overdrawn exposures".

- Doubtful loans: exposure to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations, regardless of the loss forecasts made by the intermediary.
- Unlikely to pay: exposures for which the intermediary considers full compliance by the debtor unlikely without recourse to actions such as collection of guarantees, regardless of the presence of amounts due and/or overdrawn.
- Past due and/or overdrawn non-performing exposures: exposures, other than those classified as doubtful or unlikely to pay, with amounts that are past due and/or overdrawn continuously for more than 90 days.

"Exposures subject to forbearance" are also envisaged as a category, referring to the exposures subject to renegotiation and/or refinancing due to the customer's financial difficulties (manifest or in the process of manifestation). These exposures may constitute a subset of non-performing loans (exposures subject to forbearance on non-performing positions) rather than performing loans (exposures subject to forbearance on performing positions). The management of these exposures, in compliance with regulatory provisions with respect to timing and classification procedures, is assisted through specific work processes and IT tools.

The Bank has introduced a policy that lays down the criteria for making adjustments that establish the minimum percentages to be applied in determining expected losses, depending on the type of non-performing loan, the original technical form and the type of collateral. The management of non-performing exposures is delegated to a specific organisational unit, the NPL Department, responsible for identifying strategies for maximising recovery on individual positions and defining the adjustments to be applied to them. The only "non-performing past due/overdue" exposures subject to a collective write-down and with a high probability of reclassification between "performing" exposures are managed by the function delegated to credit performance monitoring, which eventually proceeds to classify among the "unlikely to pay" loans, transferring their management to the NPL Department.

The expected loss is the synthesis of several elements derived from various (internal and external) assessments about the principal debtor's assets and those of any guarantors. Monitoring of the expected loss is constant and compared with the development of the individual position. The Risk Management function periodically monitors compliance with the doubtful percentages foreseen in the policy for managing non-performing loans by reporting any discrepancies to the relevant departments for realignment and monitors the recovery of non-performing loans, both managed directly and through external specialised operators.

The time element linked to the present value of non-performing loans is determined by specific assessments carried out for each type of asset, drawn up on the basis of information relating to the individual legal jurisdiction. In line with the Bank's objectives for the reduction of the Bank's non-performing loans indicated in the business plan, as well as in the Plan for managing NPLs, and with a view to maximising recoveries, the competent corporate functions identify the best management strategy for non-performing exposures. Based on the subjective characteristics of the individual counterparty/ exposure and internal policies, this may involve a revision of the contractual terms (forbearance), assignment to an internal recovery unit or to a specialised third-party operator, sale to third parties in the credit sector (at single exposure level or within a set of positions with the same characteristics).

In execution of its capital management strategy and following the important transactions carried out in previous years, the Group has a NPL ratio (gross non-performing loans/gross loans) which stood at 6.3%. The NPL ratio containment policy continues through initiatives that will allow further improvement in the levels of this indicator.

In particular, considering the limited volumes of past due/overdue positions, the Group's attention is concentrated above all on timely identification of positions classified as performing but with certain critical elements, in order to identify procedures to regularise the situation, where possible, also through appropriate measures of forbearance.

Two types of action are taken to limit the stock of "unlikely-to-pay" loans (UTPs):

1. reduction of inflows to UTP;

2. increase in percentages of recoveries and/or return to "performing"

As business counterparties represent a significant portion, in terms of volume, the focus is more on reducing transfers to UTP for this type of loan.

The methods and operational tools used by the Banco Desio Group, through which the positions that present credit anomalies and critical factors are identified and managed, are regulated and formalised in the internal documentation. In particular, monitoring is strongly focused on analysing the performance of the individual risk positions intercepted through periodic and spot checks, based on the systematic reports produced by the internal IT procedure (Credit Quality Manager) and highlighted by the Monitoring Dashboard. In addition to photographing and periodically monitoring the trend in anomalies, this tool provides an assessment of the individual branches for the purposes of control and eventual intervention, giving each one a ranking based on various risk indicators.

This reporting tool, which is also used to provide support for senior management and the Network, makes it possible to interpret, process and age the data coming from various certified sources, in order to detect the credit quality of the Group Bank, of the Territorial Areas and of the Branches.

3.2 Write-offs

Non-performing exposures for which there is no possibility of recovery (either total or partial) are subject to cancellation from the accounting records ("write-offs") in accordance with the policies in force from time to time, subject to approval by the Group's Board of Directors. Among the strategies identified for containing NPLs, the Group has envisaged for unlikely to pay loans, a management approach based on single name assignments with particular reference to those loans managed with a view to liquidation or total repayment (so-called "gone concern").

As regards the indicators used to assess recovery expectations, the Group has adopted specific analytical assessment policies for non-performing loans which provide for specific percentages of adjustment, distinguishing the presence and type of underlying guarantees (secured or unsecured), the submission of customers to a specific procedure (agreed in advance, settlement liquidators, agreed upon in continuity, crisis due to over-indebtedness, as per art. 67 or art. 182 of the Bankruptcy Law).

3.3 Impaired financial assets acquired or originated

As indicated in "IFRS 9 – Financial Instruments", in some cases, a financial asset is considered non-performing at the time of initial recognition as the credit risk is very high and, in the case of purchase, is purchased at a significant discount (compared with the initial value). In the event that the financial assets in question, based on the application of classification drivers (i.e. SPPI test and business model), are classified among assets valued at amortised cost or at fair value through other comprehensive income, they qualify as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to a specific treatment. Adjustments equal to the lifetime expected credit loss (ECL) are recorded against them, from the date of initial recognition and throughout their life. In light of the above, POCI financial assets are initially registered in stage 3, without prejudice to the possibility of being subsequently transferred to performing loans, in which case a lifetime ECL (stage 2) will continue to be recorded. A "POCI" therefore qualifies as such in the reporting processes and in the calculation of the expected loss.

4. Financial assets subject to commercial renegotiations and exposures subject to forbearance

In the face of financial difficulties on the part of the debtor, exposures may be subject to changes in the contractual terms in favour of the debtor in order to make their repayment sustainable. Depending on the subjective characteristics of the exposure and the reasons for the debtor's financial difficulties, the changes may act in the short term (temporary suspension from payment of the loan principal or an extension of a due date) or in the long term (lengthening the duration of a loan, revision of the interest rate) and lead to classification of the exposure (both performing and non-performing) as "forborne". "Forborne" exposures are subject to specific forecasts with a view to classification, as indicated in the ITS EBA 2013-35 implemented by the Group's credit policies; if the forbearance measures are applied to performing exposures, these are taken into account in the process of assigning the internal management rating and are part of the exposures in stage 2. All exposures classified as "forborne" are included in specific monitoring processes by the relevant company departments.

To be more specific, with the help of suitable IT procedures, these functions monitor the effectiveness of the forbearance measures granted, detecting whether the customer's financial situation is subsequently getting better or worse. If at the end of the monitoring period the position complies with all the criteria required by regulations, it is no longer considered as a forborne loan; otherwise, it remains under forborne exposures.

If considered opportune, branches have the right to review the conditions applied to customer exposures, even when there are no signs of financial difficulty, within the limits of their current decision-making autonomy. In this case, the exposure does not fall into the category of forborne exposures.

Quantitative information

Credit quality

A.1.6 On- and off-balance sheet exposures to banks: gross and net amounts

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. Cash exposures					
a) Doubtful loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
c) Past due non-performing loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
d) Past due performing loans	X	-	-	-	-
- of which: exposures subject to forbearance	X	-	-	-	-
e) Other performing exposures	X	1,376,785	1,153	1,375,632	-
- of which: exposures subject to forbearance	X	-	-	-	-
Total (A)	**-**	**1,376,785**	**1,153**	**1,375,632**	**-**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	18,354	5	18,349	-
Total (B)	**-**	**18,354**	**5**	**18,349**	**-**
Total (A+B)	**-**	**1,395,139**	**1,158**	**1,393,981**	**-**

A.1.7 Regulatory consolidation – On- and off-balance sheet credit exposures to customers: gross and net amounts

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. Cash exposures					
a) Doubtful loans	330,919	X	207,164	123,755	10,966
- of which: exposures subject to forbearance	57,534	X	31,828	25,706	-
b) Unlikely to pay	296,241	X	94,765	201,476	-
- of which: exposures subject to forbearance	145,457	X	36,987	108,470	-
c) Past due non-performing loans	7,796	X	973	6,823	-
- of which: exposures subject to forbearance	1,530	X	204	1,326	-
d) Past due performing loans	X	121,111	1,957	119,154	-
- of which: exposures subject to forbearance	X	8,038	459	7,579	-
e) Other performing exposures	X	12,384,274	59,685	12,324,589	-
- of which: exposures subject to forbearance	X	130,354	7,010	123,344	-
Total (A)	**634,956**	**12,505,385**	**364,544**	**12,775,797**	**10,966**
B. Off-balance sheet exposures					
a) Non-performing	25,811	X	1,942	23,869	-
b) Performing	X	3,833,016	2,710	3,830,306	-
Total (B)	**25,811**	**3,833,016**	**4,652**	**3,854,175**	**-**
Total (A+B)	**660,767**	**16,338,401**	**369,196**	**16,629,972**	**10,966**

Classification of exposures on the basis of external and internal rating

Regulatory Consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given for external rating classes (gross values)

Exposures	External rating class						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**24,574**	**590,678**	**3,590,257**	**702,088**	**81,554**	**28,965**	**9,028,853**	**14,046,969**
- First stage	24,574	550,740	3,493,820	558,133	57,552	24,241	7,617,969	12,327,029
- Second stage	-	39,938	95,805	138,870	22,467	4,724	783,180	1,084,984
- Third stage	-	-	632	5,085	1,535	-	627,704	634,956
B. Financial assets designated at fair value through other comprehensive income	**-**	**-**	**472,162**	**-**	**-**	**-**	**-**	**472,162**
- First stage	-	-	472,162	-	-	-	-	472,162
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total financial assets	**24,574**	**590,678**	**4,062,419**	**702,088**	**81,554**	**28,965**	**9,028,853**	**14,519,131**
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	14,186	14,186
C. Commitments to disburse funds and financial guarantees issued								
- First stage	5,100	370,319	493,106	194,700	12,865	4,858	2,404,765	3,485,713
- Second stage	-	9,027	19,095	11,578	4,331	565	83,269	127,865
- Third stage	-	-	-	811	-	-	21,567	22,378
Total commitments to disburse funds and financial guarantees issued	**5,100**	**379,346**	**512,201**	**207,089**	**17,196**	**5,423**	**2,509,601**	**3,635,956**
Total (A+ B + C)	**29,674**	**970,024**	**4,574,620**	**909,177**	**98,750**	**34,388**	**11,538,454**	**18,155,087**

The attribution of external ratings refers to the positions of the Group proprietary securities portfolio and to loans for which Cerved, an external credit assessment institution (or ECAI) has assigned a credit risk rating.

The following table gives a reconciliation between the rating classes indicated in table A.2.1 and those provided by the ECAIs Moody's and Cerved, the agencies that the Group uses for external ratings.

Classes of credit quality	Moody's rating	Cerved rating
1	from Aaa to Aa3	A1
2	from A1 to A3	from A2 to A3
3	from Baa1 to Baa3	B1
4	from Ba1 to Ba3	B2
5	from B1 to B3	C11
6	Caa1 or less	C12 and below

Regulatory Consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given for internal rating classes (gross values)

The Group does not use internal rating models for the determination of capital requirements.

The Group uses a rating model to assess individual consumer customers and corporate customers (Retail, Corporate and Financial Businesses and Institutions)

The following table shows performing loans belonging to the above categories with the proportion of each rating class to the overall exposure.

Exposures at 30.06.2020	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
On-balance sheet exposures	59.62%	29.08%	9.51%	1.79%	100%
Off-balance sheet exposures	72.35%	18.21%	8.12%	1.32%	100%

Large exposures

With reference to current supervisory regulations, the situation at 30 June 2020 is reported below:

Description	*Nominal amount*	*Weighted amount*	*Number of positions*
Large exposures	5,466,913	536,992	7

The positions indicated relate to exposures towards the Italian Government, Cassa di Compensazione e Garanzia, the Bank of Italy, the Guarantee Fund pursuant to Law 662/96 at Medio Credito Centrale, the SPV Two Worlds S.r.l., BNP Paribas and Credit Agricole Italia, mainly for dealings as part of the covered bond operations.

1.2 MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK – TRADING PORTFOLIO REPORTED FOR SUPERVISORY PURPOSES

Qualitative information

A. General aspects

Unexpected changes in market interest rates, in the presence of differences in maturities and in the timing of interest rate reviews for assets and liabilities, result in a change in the net interest flow and therefore in net interest income (or "interest margin"). In addition, these unexpected fluctuations expose the Group to changes in the economic value of assets and liabilities.

The information in this section refers only to the Group, given the fact that Fides does not hold any assets.

The Group adopted a strategy to consolidate a return in line with budget, while maintaining a low risk profile through a low portfolio duration.

B. Management and measurement of interest rate risk and price risk

In carrying out its responsibilities for management and coordination, the Board of Directors issued specific rules on controls.

Trading by the Finance Department is subject to operating limits as set out in the "Risk policy" and in internal regulations; in order to mitigate market risk, specific limits have been set for size, duration and Value at Risk (VaR). A specific reporting system is the tool used to provide adequate information to the organisational units involved.

The content and frequency of reports depend on the objectives assigned to each participant in the process. Together with the above controls, the Group also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the risk management function, which operates in complete autonomy from both the operational areas and the subsidiaries.

For the quantification of generic and specific risks, the Group has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum probable loss of a static portfolio with reference to a specific time horizon and at a specific confidence level under normal market conditions. This method has the advantage of allowing the aggregation of positions involving heterogeneous risk factors; it also provides a summary number which, being a monetary expression, is easily used by the organisational structure involved. The VaR model uses involves the Monte Carlo simulation technique which, after appropriate assumptions and correlations, estimates the value of the portfolio by calculating a number of possible revaluations and, given the vector of expected portfolio returns, determines the ideal percentile for distribution. The model uses a confidence interval of 95% with a period of 1 day. The application used to calculate the VaR is provided by Bloomberg.

The internal model is not used in the calculation of capital requirements for market risk.

Quantitative information

Regulatory trading book: internal models and other methodologies used for sensitivity analysis

The monitoring of the "trading portfolio reported for supervisory purposes" performed up to the third quarter shows a structure with limited market risk. The VaR estimated using Monte Carlo simulations at 30.06.2020 amounted to Euro 52.75 thousand, with a percentage of 1.35% of the trading portfolio.

1.2.2. INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

Qualitative information

A. General aspects, management and measurement of interest rate risk and price risk

The measurement of interest rate risk is performed by the risk management function. This activity is carried out for the Group's banks, which covers almost all of the banking book. The whole of the Group's business associated with the transformation of maturities of assets and liabilities, portfolio securities, treasury operations and the respective hedging derivatives are monitored with Asset and Liability Management (ALM) methods using ERMAS5.

The static analysis currently performed allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income. In this context, the results of the banking book for financial statement purposes are also presented, excluding analysis of financial instruments in the trading portfolio for supervisory purposes.

The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of Gap Analysis. The changes in the economic value of assets and liabilities are analysed by applying Duration Gap and Sensitivity Analysis approaches.

The analyses are carried out also considering non-parallel shifts in the yield curve and the application of behavioural models for demand items. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

Quantitative information

Banking book - internal models and other methodologies for the analysis of sensitivity

The Group's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value of own funds.

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date has, however, some peculiarities arising from the current market environment, which sees an increase in demand and short-term deposits; this has led to a physiological decrease in the average duration of liabilities, whereas assets have not undergone any substantial changes in terms of average duration.

The following table shows the impact on net interest income - from a static perspective and in the absence of behavioural models for demand items - of the analyses carried out at 30 June 2020, assuming a parallel shift in the yield curve and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 30.06.2020

	+100 bps	***-100 bps***
% of the expected margin	*15.48%*	*-25.41%*
% of net interest and other banking income	8.23%	-13.45%
% of the result of the year	108.90%	-178.06%
% of shareholders' equity	2.18%	-3.56%

With regard to economic value, the estimated impact of the change with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, showed a risk exposure at 30 June 2020 at levels that do not result in significant impacts on total capital.

The following table shows the changes in the economic value analysed by applying deterministic approaches with parallel shifts in the yield curve.

Risk ratios: parallel shifts in the yield curve at 30.06.2020.

	+100 bps	***-100 bps***
% of the economic value	-16.26%	0.08%

1.2.3. EXCHANGE RATE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

The Group is exposed to exchange risk as a result of its trading activities in foreign exchange markets and investment activities and fundraising with instruments denominated in a currency other than the domestic one.

The exposure to exchange risk is marginal; forex operations are managed by the Finance Department.

Exchange rate risk is managed through operating limits, both by currency areas and by concentration on each currency. In addition, daily and yearly stop-loss operating limits have been set.

B. Hedging of exchange risk

The Group's main objective is to manage exchange risk in a prudent manner, always taking into consideration the possibility of taking advantage of any market opportunities. Transactions that involve taking on exchange risk are managed through appropriate hedging strategies.

Quantitative information

Internal models and other methodologies or the analysis of sensitivity

The Group's exchange risk profile is not particularly significant, given the limited foreign currency exposure of the main asset and liability items and the related hedges put in place through the use of financial derivatives.

1.3 HEDGING POLICIES

A. Fair value hedges

At 30.06.2020 the Group did not have any fair value hedges.

B. Cash flow hedges

The Group uses cash flow hedges to reduce exposure to adverse changes in expected cash flows; the objective is to stabilise the cash flows of the hedged instrument with the flows of the hedging instrument.

To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges.

For hedging, we use derivatives represented by unlisted securities - interest rate swaps - but only to hedge interest rate risk.

The Parent Company has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (IAS). The method used for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

1.4. LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Finance Department with the aim of verifying the Group's ability to meet liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market.

The monitoring of and periodic reporting on liquidity risk is carried out by the Risk Management Office in compliance with the threshold of tolerance for this kind of risk as determined by the Policy for the management of liquidity risk. Treasury activities consist of procuring and allocating available liquidity through the interbank market, open market operations and transactions in repurchase agreements and derivatives.

The management of operational liquidity has the objective of ensuring the Group is capable of meeting expected and unexpected payment commitments in the context of the "normal course of business" (going concern) over a short term time horizon that does not exceed 3 months. The scope of reference of the daily report on operating liquidity refers to items with a high level of volatility and a considerable impact on the monetary base. The monitoring and control of operating limits is carried out through the acquisition of information resulting from collection and payment transactions, management of accounts for services and trading in the financial instruments held in proprietary portfolios.

The counterbalancing capacity model allows us to integrate the report with all of the free assets that can readily be used, both to be eligible for refinancing with the ECB and to be sold. Next to the application of haircuts determined by the ECB for eligible securities, appropriate discount factors are prepared (divided by type of security, rating and currency), also for all securities not eligible, but still considered marketable if appropriately positioned in time buckets.

Further support for the management of liquidity risk is derived from the monitoring of structural liquidity with the primary objective of maintaining an adequate dynamic relationship between assets and liabilities in the medium to long term.

Operations are measured using Asset and Liability Management (ALM) methods through the ERMAS5 application: by developing all of the cash flows generated by operations, it allows us to evaluate and manage in the various time periods any liquidity requirement that the Bank may encounter due to imbalances between inflows and outflows.

The analysis of the overall structural liquidity is developed on a monthly basis using the technique, i.e. showing imbalances by date of liquidation of capital flows over a set time horizon.

In order to evaluate the impact of the negative events on the risk exposure, stress tests are performed at consolidation level. In particular, the events considered are:

- outflow from overdrafts repayable on demand considered non core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) and "on demand" due to the increase in impaired loans;
- decrease in value of the owned securities portfolio (Held to collect and sell "HTCS" and Held to collect "HTC");
- use of available facilities for revocable lines of credit (call risk).

On completion of the analysis, three types of scenarios are created:

1. Idiosyncratic, defined as a loss of confidence by the Group's market;
2. Market, defined as a loss arising from exogenous events and from the impact of a general economic downturn;
3. Combined, being a combination of scenarios 1 and 2.

The time horizon for the simulation of all scenarios is 1 month, a period in which the Group would have to cope with the crisis before commencing structural interventions.

Particular attention is paid to funding policy, which is coordinated by the Finance Department by organising bond issues on the retail market and on the Euromarket. The financing strategies adopted by the Group are focused on a subdivision of funding sources, with a preference for retail as opposed to wholesale customers, as well as on a significant number of counterparties and thus ensuring an adequate diversification of the residual maturities of liabilities.

1.4. OPERATIONAL RISK

Qualitative information

A. General aspects, management and measurement of operational risk

Operational risk is the risk of incurring losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events, inclusive of legal risk (see EU regulation 575/2013).

The Group uses the above definition of operational risk within the operational risk management model that has been approved and embodied within corporate policy.

In this regard, a specific operational risk management macro-process (ORM framework) has been designed that consists of the following phases:

- Identification: recognition, collection and classification of information relating to operational risks;
- Measurement: economic measurement of operational risks linked to the Bank's operations;
- Monitoring and reporting: collection and structured organisation of the results in order to monitor the evolution of operational risk exposure;
- Mitigation and control: risk transfer and improvement of business processes.

To support the operational risk management model, the following processes have been formalised:

- Loss Data Collection – structured process for gathering data on operational losses arising within the Group;
- Risk Self Assessment – structured process for the measurement of operational risks designed to have complete vision of risk events in terms of the potential impact and the worst case impact.

The Risk Management function applied company regulations to structure an adequate monitoring and reporting system for operational risk (including IT Risk) by integrating it with the dictates of the supervisory regulations about the provisions regarding coordination between control functions. With respect to the detrimental events gathered in the Corporate Database of Operational Losses, a reporting system was implemented that is capable of providing information concerning the events in question: number of events, gross amount of losses and any recoveries.

In compliance with Bank of Italy regulations, the Group adopted:

- Security Policy;
- Procedure for Accident Management;
- IT Risk Assessment methodology

With regard to the management of risks affecting business continuity during the year, the Business Continuity Plan was reviewed and is being completed: measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), new branches have been identified (replacing the Bologna branch) as Business Continuity sites for resources who cannot operate in smart working. The measures adopted for business continuity management and for the oversight of the IT provider were updated.

For risk management of criminal offences pursuant to Legislative Decree 231/2001 "Regulation of the administrative liability of legal entities, companies and associations with or without legal personality", Group companies have adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned to specific internal bodies.

As regards legal risk, the various corporate functions operate with standard contracts that have previously been vetted by the appropriate business structure. Accordingly, it should be noted that most of the ongoing legal disputes at the year end relate to disputes concerning compensation for damages, alleged usury, compound interest charges and early repayment.

Risk related to outstanding legal disputes

The Banco Desio e della Brianza Group, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions. The following table summarises the outstanding disputes at the end of the period, together with the related provisions:

	Number	***Claim***	***Provisions***
Claw-back suits	14	€ 11.860 million	€ 0.770 million
Other lawsuits	695	€ 123.403 million	€ 9.386 million

The principal disputes (claims in excess of Euro 1 million) involving Banco di Desio e della Brianza are described below:

- Claim of Euro 40.010 million. The former parent cooperative of Banca Popolare di Spoleto SpA as well as some shareholders of the same company notified the Bank and the members of the Board of Directors of the former subsidiary BPS SpA in the period 2014-2016 a summons before the Court of Milan - Specialized Company Section - in order to ascertain: (i) the presumed responsibility of the defendants with regard to the transfer of no. 32 bank branches to BPS (concluded in the first half of 2015) by virtue of the Investment Agreement concluded on 1 April 2014 between the Bank and the Extraordinary Commissioners of BPS, on the assumption that incorrect criteria were used to estimate the value of the business unit and that there was a lack of control over the matter by the BPS Board of Directors and the members of the Related Parties Committee; (ii) the Bank's responsibility for an alleged breach of the commitment assumed in the Framework Agreement to grant a loan of € 15,000,000 to the same cooperative. The first hearing is scheduled for 3 November 2020. In addition to doubts about the legitimacy of the plaintiffs, the arguments are considered entirely instrumental and unfounded and, above all, the abnormal request for compensation is devoid of any probative support;
- Claim of Euro 12.569 million. Following the rejection of the Preventive Technical Assessment established in March 2018, the plaintiff initiated a judgement of merit at the Court of Monza (first hearing on 28 March 2019) to request the return of the amounts made available (transfers and requests for bank drafts), according to the plaintiff, based on false signatures and consequently stolen from his assets for the total of Euro 12,569,843. As things stand at present, the Bank's legal advisor thought that the risk of losing the case was remote, also considering the outcome of the Preventive Technical Assessment. The Judge arranged for a hand-writing check by a court-appointed expert witness, who in the first draft report concluded that all of the signatures could be traced back to the plaintiff. The hearing for the examination of the expert witness's report has been scheduled for 24.09.2020.
- Claim of Euro 7.310 million. With a writ notified in 2013, the Receivership summoned our former subsidiary BPS together with Banca delle Marche and Monte dei Paschi di Siena before the Court of Perugia to

hear ascertained and declared invalid and/or ineffective and/or unenforceable as the receiver of the sale of the loan and, therefore, to hear them condemned, jointly and severally, to pay the sum. The application seems totally unfounded as confirmed by the counsel that we appointed to appear in court. On 2 December 2009 (about three years before the declaration of bankruptcy with judgement on 21 March 2013), the Bank, together with the two other banks, granted a line of credit to the bankrupt company, usable in the technical form of an advance on contracts to public entities and/or the public administration, for an amount of Euro 1 million for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. The Judge rejected all of the preliminary enquiries proposed by the Receivership and scheduled the hearing for 14 October 2020 for clarification of the conclusions without carrying out any investigation work;

- Claim of Euro 3.6 million. The receivership cited Banca Popolare di Spoleto (BPS) before the Court of Perugia - Section specialized in business matters (first hearing set for 4 November 2019) asking for verification of whether under art. 2377 of the Italian Civil Code the resolution of the shareholders' meeting of Banca Popolare di Spoleto S.p.A. of 7 May 2019 which approved the project for the merger of BPS with Banco di Desio e della Brianza S.p.A. can be cancelled for lack of information and incongruity on the determination of the exchange ratio between the shares of the two Banks; the Court condemned BPS to reimburse the Bankruptcy for the presumed damages that it caused as a consequence of the incongruity of the exchange ratio; damages quantified by the counterparty at Euro 3,600,000 or a higher or lower sum that may be decided by the Court. Without prejudice to the fact that, under art. 2504 *quater* of the Italian Civil Code, since the merger deed was registered, the validity of the merger deed could no longer be questioned, the case returned to Court, which reiterated the fairness of the exchange ratio established for the transaction. The proceedings are currently suspended: after the filing of the statements provided by the Code of Procedure (deadline 4/2/2020), the Judge will decide on whether to admit the means of investigation that the parties may request.
- Claim of Euro 3.052 million. The plaintiff has filed suit concerning a loss of capital deriving from operations in financial instruments deemed inconsistent with the risk profile thereof. The Bank appeared before the court to request that the claims be dismissed, given that the contractual documentation had been signed and that the operations appeared to be consistent with the risk profile. The case is at the preliminary stage with the completion of an expert appraisal for the accounting verification of all purchase and sale orders. After the filing of the expert witness's report and completion of the preliminary investigation, the Judge postponed the case to the hearing on 3.12.2020 to clarify the conclusions.
- Claim of Euro 3.0 million. The receivership summoned the BPS to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, so the Bank's operations allowed the party to remain on the market and delay the declaration of bankruptcy. The Court of Terni rejected the plaintiff's claim, which was challenged before the Court of Appeal of Perugia. The Court of Appeal upheld the first-instance decision. On 8 March 2018, notice was served of the appeal to the Supreme Court. The Bank is therefore waiting for the hearing to be scheduled;
- Claim of Euro 2.504 million. The plaintiff initiated a suit at the Court of Monza to request the return of the amounts made available (bank transfers and requests for banker's cheques), according to the plaintiff, based on false signatures and consequently stolen from the plaintiff's assets for the total of Euro 2,504,080 in addition to a request for damages on an equitable basis. The Bank appeared before the court to request that the claim be dismissed, also in consideration of the results of the internal expert's investigations. The case is under investigation and the hearing for the admission of evidence has been scheduled for 06.10.2020.

- Claim of Euro 2.305 million. The receivership summoned the Bank before the Court of Perugia seeking an order, jointly with the directors of the bankrupt company and a subsidiary, to pay the amount of (a) Euro 1.9 million as penalty for the corporate and accounting crimes perpetrated by former officers and (b) Euro 0.4 million for alleged abusive lending by granting a mortgage for the same amount. The inclusion of the Bank in point a) appears to be an error, as the brief does not contain anything that involves the Bank in the acts for which the other defendants (former directors) are called upon to pay the above amount; moreover, the question made to the Bank would seem in any case to be unfounded, as there seems to be no causal link between the loan and the instrumental use that the company made of it while it was operating; and, in any case, there is no evidence of a state of economic difficulty to justify the action in question. The Judge scheduled the hearing for 22 February 2018 for the assignment of the expert appraisal and for the performance of the witness testimony, which did not, however, refer to circumstances related to the Bank's activities. Following completion of the expert appraisal, at the hearing on 23 January 2020 the case was assumed for a decision.
- Claim of Euro 2.0 million. By writ of summons, the counterparty brought legal proceedings against the Bank to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered the Bank to return an amount that was lower than the claim. The counterparty lodged an appeal. The Bank paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree. The Supreme Court has not yet set the date for the hearing.
- Claim of Euro 1.933 million. The receivership summoned Banca Popolare di Spoleto to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the bank to refrain from granting credit, so the Bank's operations allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank appeared in court to defend itself, arguing that the credit lines granted were very low (maximum Euro 60 thousand), so lacking any causal link for the allegation of abusive concession of credit. The investigation authorised by the Judge did not address conduct attributable to the Bank. With a judgement of 15.12.2017, the Court of Terni rejected the request filed against the defendant Banks, believing that the conduct of the credit institutions did not contribute to the bad management of the administrator. On 16 January 2018, an appeal against this judgement was served at the request of the receivership. The suit has been decided.
- Claim of Euro 1.526 million. By writ notified in 2015, the counterparty summoned Banco Desio and the former subsidiary BPS before the Court of Prato to obtain reimbursement of the capital invested in a series of securities and, alternatively, the amount of the loss incurred during the course of the investment. The Banks objected to the merits of the application. An expert appraisal by a graphologist is in progress and an integration has been ordered at the hearing of 12.11.2020.
- Claim of € 1.395 million. A Cooperative Company has sued the Bank before the Court of Spoleto asking to ascertain the nullity, cancellation, termination, pre-contractual and contractual liability, the abuse of a dominant position or at least of economic dependence exercised by BPS, under a contract for the provision of investment services and a contract for the purchase of shares for a total of 36,000 shares issued by the former parent of BPS) for a total of Euro 1,395,365. The shares (partially pledged) were allegedly purchased by the customer through the mediation of the Bank, but with a bank transfer in

2001 directly to the cooperative. The disputed transaction is very old and the protective measures seem to be prescribed, despite the fact that the operations were used for a loan and a guarantee held with our bank which were subsequently extinguished. During the first hearing on 10.02.2020, the Judge took time to consider the Bank's objection about incompetence.

- Claim of Euro 1.136 million. One of the founding members of a cooperative, which is now in liquidation, has alleged that it had obtained, via the cooperative, various loans granted by other banks, upon the issue of guarantees by the cooperative. In July 2013, the founding member claims it had agreed with the cooperative to fully settle the loans obtained from the latter; as a consequence, the cooperative should have arranged for the member to be freed of its guarantee commitments that had been assumed towards the other banks. This, according to the founding member, had not occurred, so he summoned all of the members of the Board of Directors before the Court of Perugia with effect from 23 May 2013 (including a former officer of BPS) and asked that they be convicted, jointly and severally among them and the cooperative, to pay the sum of Euro 1.1 million as compensation for damages. Our former subsidiary BPS appealed by claiming its total lack of involvement in the claims made by the counterparty. The judgement was declared interrupted due to the subsequent opening of the compulsory administrative liquidation of the cooperative bank. The counterparty summarised the judgement, but subsequently passed away and the suit was declared interrupted at the hearing of 14.01.2020.
- Claim of Euro 1.103 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by the Bank and leased to the counterparty plus amounts paid into a current account. The receiver contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court, which has not yet set a date for the hearing. The receivership has served notice of an injunction for a sum of Euro 1,240,712 and the Bank has opposed the injunction, mainly by reason of the legitimacy of the request, including the stance that an appeal had been made to the Supreme Court. The Judge competent to decide on the opposition to the injunction, however, pending the outcome of the Supreme Court's decision, has ordered the Bank to pay a sum of Euro 1,219,537 million and, at the same time, has obliged the receivership not to take delivery of the sum, until the outcome of the decision by the court of third instance (Supreme Court) concerning the appeal lodged by the Bank against the Court of Appeal's decision. The Supreme Court has not yet set the date for the first hearing.
- Claim of Euro 1.0 million. In a preventive summons, the counterparty contends that BPS, by exploiting its bargaining power, refused to grant a mortgage loan requested by the company in 2011 of Euro 1 million for a building project in Frascati, demanding a different form of facility be taken out, namely, a mortgage current account, with an undertaking to convert the financing to a mortgage loan on completion of the project. According to the counterparty's defence, the failure to convert the facility to a mortgage loan, in breach of the alleged agreement, would have given rise to severe financial difficulties for the company. The case presented by the adversary, which is totally unfounded, appears to be somewhat pretentious. Following the drafting of the expert witness's report, the case was postponed for clarification of the conclusions on 14.04.2021.

* * *

Action for damages against former corporate officers of Banca Popolare di Spoleto S.p.A.

For completeness, it should be noted that, under article 72, paragraph 5, of the CBA, after approval has been obtained from the Bank of Italy, the Extraordinary Commissioners of in charge of special administration of the subsidiary Banca Popolare di Spoleto, at the end of their mandate, had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager. On 7 April 2016, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto resolved, among other things, confirmation of the action of responsibility already taken by the Extraordinary Commissioners and its extension against the former Statutory Auditors. It should be noted that this action contains a request for the defendants to be sentenced to pay damages of approximately Euro 30 million, broken down according to their respective responsibilities. The proceedings relating to admission of the evidence and the case brought against the former auditors have been combined. The Judge invited the parties to file a list of the documents that they asked to exhibit. The lawsuit is under investigation and has been postponed to 8 October 2020.

Quantitative information

The number of detrimental events recorded by the Group at 30 June comes to 919. The result of the process of collecting adverse events is summarised in the table below:

Event type	% Events	% gross loss of total	% net loss of total	% Recoveries
INTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination), involving at least one member of the bank	0.22%	1.19%	1.20%	0.00%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	2.61%	8.40%	7.75%	8.41%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	0.33%	3.73%	3.75%	0.00%
RELATIONAL ACTIVITY CONNECTED TO CUSTOMERS, PRODUCTS AND CHANNELS Losses due to inability (not intentional or negligent) to fulfil professional commitments taken with customers (including fiduciary requirements and adequate information on investments)	35.80%	19.29%	19.43%	0.00%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	0.76%	47.53%	47.87%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.44%	0.35%	0.36%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	59.85%	19.50%	19.64%	0.00%
TOTAL Banco Desio e della Brianza Group	**100.00%**	**100.00%**	**100.00%**	**0.71%**

The gross operating loss comes to Euro 2.154 million, for which provisions were made during the period of Euro 0.623 million; recoveries were recorded for Euro 15 thousand, so the net operating loss amounted to Euro 2.138 million.

INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

TRANSACTIONS WITH RELATED PARTIES

Information on the remuneration of directors and managers

For information on the remuneration paid to directors and managers with strategic responsibilities, please refer to the "Report on the Group's Remuneration Policies and fees paid" at 31 December 2019 prepared in accordance with art. 123-ter CFA.

Related party disclosures

The internal procedure ("Internal Regulations") for the management of transactions with related parties and entities included in the scope of application of art. 136 of the CBA, adopted in accordance with Consob Regulation no. 17221/2010 and supplemented in accordance with the Minimum Capital Requirement in respect of risk assets and conflicts of interest with respect to persons linked to the Bank or the Banking Group pursuant to art. 53 TUB, is explained in the Annual Report on Corporate Governance at 31 December 2019. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents/Related Parties" section.

Given that, pursuant to art. 5 of Consob Regulation 17221/2010 and art. 154-ter of the CFA, periodic information has to be provided:

a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation;
b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Group;
c) on changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Group, in the reference period,

there have been no transactions worth mentioning.

***

Transactions with related parties are generally entered into on an arm's length basis and are, in any case, in the Group's interest.

Comparison with the equivalent market or standard conditions is mentioned in the periodic reporting of transactions to the Corporate Bodies.

In this context, there are no transactions outstanding at 30 June 2020 that present particular risk profiles compared with those considered part of the normal course of banking business and related financial activity or that present profiles of atypical/unusual features worthy of note.

The following paragraphs summarise - in a prudential logic of unified management of potential conflicts of interest - existing relationships with the Parent Company, subsidiary companies, associates and other related parties pursuant to art. 53 CBA and/or art. 2391-bis of the Italian Civil Code, included entities treated as per art 136 of CBA also in compliance with Italian laws), highlighting, in particular, the balance of current accounts and of the securities portfolio at the end of the first half of the year.

Parent Company

At the end of the half-year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado SapA at Banco Desio amounted to Euro 148.6 million, of which Euro 147.2 million, relating to the securities portfolio.

It should be recalled that at the end of 2018, a five-year unsecured "bullet" loan was entered into with this Company for a total of 5 million to replace a similar credit line at another bank which was about to expire. This transaction falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers, carried out at market conditions (also on the list of conditions in force for Related Parties according to the specific framework resolution) and included in ordinary credit and loans activity. The related credit balance amounts to Euro 5.0 million.

The service agreement has also been renewed with the same Company governing the reciprocal rights and obligations inherent to the accounting and reporting activities delegated to Banco di Desio e della Brianza SpA for regulatory consolidation purposes pursuant to art. 11 and 99 of EU Regulation no. 575/2013 (CRR). The fees paid to the latter are of a minor amount and have in any case been determined with the same methodology as similar agreements with subsidiaries. It should be noted that this transaction also falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers referred to in the following paragraph "Transactions with Officers and parties related to them".

Transactions with Officers and parties related to them

As for the granting of credit lines approved in the first half of 2020 pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Italian Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of the Group and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 34 positions existing at 30 June 2020 comes to some Euro 13.5 million and the related utilisations amount in total to some Euro 5.7 million.

As regards funding relationships held by Group banks directly with Officers, as well as parties related to them, it should also be noted that the total balances at 30 June 2020 amounted to Euro 107.2 million in amounts due to customers (including approximately Euro 90.7 million in securities portfolios).

The above computation excludes transactions and balances with the parent company as per paragraph I above and with subsidiaries.

Details on to the lending and funding relationships referred to in this paragraph are shown in the following table:

	Balances at 30.06.2020 (in €/million)
Lending transactions:	
Amount granted	13.5
Amount drawn down	5.7
Funding transactions:	
C/c and d/r amount (a)	16.5
Amount of securities portfolios (b)	90.7
Total (a+b)	107.2

In accordance with Consob Resolution no. 15519 of 27 July 2006, it should be noted that the overall incidence of the balances shown in the previous paragraphs, in terms of equity, financial and economic results, is more or less insignificant.

SEGMENT REPORTING

SEGMENT REPORTING

The Banco Desio Group operates by carrying out traditional banking activities, providing asset management services and selling life and non-life bancassurance products.

Consistent with the system of internal reporting used by management to monitor the trend in results and take operating decisions about the allocation of resources, the Group's segment reporting takes account of the organisational and managerial structure described below.

The “banking” sector includes Banco di Desio e della Brianza S.p.A. and the SPV Desio OBG S.r.l.

The "near-banking" segment comprises Fides S.p.A., a financial intermediary that is registered pursuant to art. 106 TUB.

The column "consolidation adjustments" includes the consolidation entries and the intercompany eliminations.

The total of the columns described above is the amount reported in the consolidated half-yearly report of the Banco Desio Group.

Income statement	Banking	Near-banking	Consolidation adjustments	Total 30.06.2020
Net profit from financial and insurance activities [1]	203,571	6,225	(2,209)	207,587
Fixed costs [2]	(147,053)	(3,772)	73	(150,752)
Provisions and adjustments [3]	(43,222)	(463)	-	(43,685)
Profit (loss) from equity investments carried at equity	-		-	-
Gains (losses) on disposal of investments				-
Profit (loss) from current operations before tax	**13,296**	**1,990**	**(2,136)**	**13,150**

[1] including other operating charges/income and profits/losses from contractual changes without cancellations
[2] administrative costs, net adjustments to property, plant and equipment and intangible assets
[3] net impairment adjustments to loans and financial assets, provisions for risks and charges, goodwill

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 30.06.2020
Financial assets	3,477,244	15		3,477,259
Due from banks [4]	1,065,811	5,214	(5,005)	1,066,020
Loans to customers [4]	9,649,624	832,647	(779,025)	9,703,246
Due to banks	1,995,605	779,025	(779,025)	1,995,605
Due to customers	9,735,863	3,883	(5,005)	9,734,741
Debt securities in issue	1,647,866			1,647,866
Indirect deposits, under administration and management	**15,679,693**			**15,679,693**

[4] net of held to collect (HTC) debt securities measured at amortised cost and reported under financial assets

Income statement	Banking	Near-banking	Consolidation adjustments	Total 30.06.2019
Net profit from financial and insurance activities [1]	225,563	8,223	(13,898)	219,888
Fixed costs [2]	(154,225)	(3,489)	4,041	(153,673)
Provisions and adjustments [3]	(29,616)	(179)		(29,795)
Profit (loss) from equity investments carried at equity	-	-		-
Gains (losses) on disposal of investments	-	-		-
Profit (loss) from current operations before tax	**41,722**	**4,555**	**(9,857)**	**36,420**

[1] including other operating charges/income
[2] administrative costs, net adjustments to property, plant and equipment and intangible assets
[3] net impairment adjustments to loans and financial assets, provisions for risks and charges, goodwill

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 31.12.2019
Financial assets	3,365,907	15		3,365,922
Due from banks [4]	619,620	4,570	(4,396)	619,794
Loans to customers [4] [5]	9,515,796	793,523	(741,633)	9,567,686
Due to banks	1,603,208	741,748	(741,748)	1,603,208
Due to customers	9,498,854	3,729	(4,396)	9,498,187
Debt securities in issue	1,749,103	-		1,749,103
Indirect deposits, under administration and management	**14,892,230**		**(17,491)**	**14,874,739**

[4] net of held to collect (HTC) debt securities measured at amortised cost and reported under financial assets
[5] net of doubtful loans classified under Non-current assets and disposal groups held for sale at 30 June 2020

CERTIFICATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ART. 81-*TER* OF CONSOB REGULATION 11971 OF 14 MAY 1999

CERTIFICATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ART. 81-*TER* OF CONSOB REGULATION 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned, Alessandro Decio, Chief Executive Officer, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 *bis* of Legislative Decree 58 of 24 February 1998:

   - the adequacy with respect to the Company and
   - their effective application

   of the administrative and accounting procedures for the preparation of the condensed consolidated interim financial statements during the first half of 2020.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the condensed consolidated interim financial statements at 30 June 2020 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.

3. We also certify that:

   3.1 the condensed consolidated interim financial statements:

   a. have been prepared in accordance with the applicable IAS/IFRS recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002;
   b. agree with the books of account and accounting records;
   c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the consolidation;

   3.2 the interim report on operations includes a reliable analysis of significant events that took place during the first six months of the year and their impact on the condensed consolidated interim financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Desio, 30 July 2020

Chief Executive Officer	Financial Reporting Manager
Alessandro Decio	*Mauro Walter Colombo*

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REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Banco di Desio e della Brianza S.p.A.

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of Banco di Desio e della Brianza S.p.A. and subsidiaries (the "Banco Desio Group"), which comprise the consolidated balance sheet as of 30 June 2020 and the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated shareholders' equity and the consolidated cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of the half-yearly condensed consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of the Banco Desio Group as at 30 June 2020 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Marco De Ponti
Partner

Milan, Italy
3 August 2020

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

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ATTACHMENT: INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY (PARENT COMPANY FINANZIARIA BRIANZA UNIONE)

A. Qualitative information

The Banco Desio Group pays a great deal of attention to its own capital, being well aware both of its function as a factor in defence of the trust of external funders, as it can be used to absorb losses, and of its importance for purely operational and business development purposes.

A good level of capitalisation allows us to address the question of business development with the necessary degree of autonomy and to preserve the stability of the Group.

The policy of the Parent Company, Banco Desio, is therefore to give considerable priority to capital to use it in the best way possible in expanding the business.

The concept of book equity used by the Group is given by the sum of the following liability captions: share capital, valuation reserves, reserves, share premium reserve and net profit (loss) for the period.

B. Quantitative information

Captions	Regulatory consolidation	Insurance companies	Other businesses	Consolidation adjustments and eliminations	30.06.2020
1. Share capital	54,026				54,026
2. Share premium reserve	10,809				10,809
3. Reserves	844,157				844,157
Equity instruments					
(Treasury shares)					
6. Valuation reserves:	44,017				44,017
- Equity instruments designated at fair value through other comprehensive income	25,093				
- Financial assets (other than equities) designated at fair value through other comprehensive income	402				402
- Property, plant and equipment	161				161
- Cash-flow hedges	(1,210)				(1,210)
- Actuarial gains (losses) on defined-benefit pension plans	(3,495)				(3,495)
- Special revaluation laws	23,066				23,066
7. Net profit (loss) of the year (+/-) pertaining to the Group and minority interests	9,501				9,501
Total	**962,510**				**962,510**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amounts	Regulatory consolidation		Insurance companies		Other businesses		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	741	(339)							741	(339)
2. Equity instruments	25,448	(335)							25,448	(335)
3. Loans										
Total 30.06.2020	**26,189**	**(694)**							**26,189**	**(694)**
Total 31.12.2019	**27,373**	**(356)**							**27,373**	**(356)**

SECTION 2 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS

The scope of consolidation, defined in accordance with current prudential regulations, includes companies that have the following characteristics:

– banking, financial and product/service companies, directly or indirectly controlled by the Parent Company and consolidated on a line-by-line basis;

– companies, other than banking, financial and product/service companies, controlled directly or indirectly by the Parent Company exclusively or jointly, or subject to significant influence; the equity method is applied to these companies.

Within the Banking Group, there are no restrictions or impediments to the transfer of capital resources between Group companies.

2.1 Own funds and ratios

The elements included in Own Funds, as the basis of the capital adequacy requirements that banks must satisfy, are defined in accordance with the harmonised rules for banks and investment companies contained in the EU Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) of 26/06/2013 that transpose into EU law the standards defined by the Basel Committee for banking supervision (Basel 3 framework).

The applicable regulation, in compliance with EU directives, indicates the method for the calculation of capital for supervisory purposes. The latter is the sum of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital.

Based on legislation in force, the components of Own Funds are described below:

i. *Common Equity Tier 1 - CET 1* – The components of Common Equity Tier 1 are the following: a) equity instruments, as long as they comply with the conditions set out in art. 28 or, where applicable, in article 29 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point; c) profit not distributed; d) accumulated other comprehensive income; e) other reserves; f) provisions for general banking risks. Components c) to f) are recognised as common equity tier 1 only if they can be used without restriction and without delay by an entity to cover risks or losses as and when the risks or losses arise.

ii. *Additional Tier 1 capital - AT1* – The components of Additional Tier 1 capital are the following: a) equity instruments, where they comply with the conditions set out in art. 52, paragraph 1 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point. The instruments included under a) do not qualify as components of common equity tier 1 or tier 2.

iii. *Tier 2 capital - T2* – The components of Tier 2 are the following: a) equity instruments and subordinated debt, where they comply with the conditions set out in article 63 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point; c) for entities that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 2 of EU Regulation no. 575/2013, general loan provisions, gross of the related tax effect, up to 1.25 % of the risk-weighted exposure amounts computed in compliance with part three, title II, chapter 2 of the Regulation; d) for entities that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of EU Regulation no. 575/2013, the positive amounts, gross of the related tax effect, resulting from the computation in accordance with articles 158 and 159 up to 0.6% of the risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of the Regulation.

Consolidated Own Funds calculated at the Banco Desio Group level, after the pay out of 40%, amounted to Euro 1,027.3 million at 30 June 2020 (CET1 + AT1 Euro 987.7 million + T2 Euro 39.7 million), compared with Euro 1,038.1 million at the end of the previous year.

In January 2018, the Boards of Directors of Banca Popolare di Spoleto and Banco di Desio e della Brianza, taking account of a best estimate of the higher adjustments for expected losses on performing and non-performing loans on first-time application of IFRS 9, resolved to adopt the transitional arrangements for the determination of own funds and capital ratios, introduced by Regulation (EU) 2017/2395 of 12 December 2017 with a view to reducing the impact of first-time application, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time application of the standard and to the increase in expected losses on performing loans compared with the date of first-time application of the standard.

Compared with the previous surveys as at 31 March 2020, the calculation of the capital ratios benefited from the measures to ease capital requirements introduced by EU Regulation 873/2020 and in particular:

- an amendment to the transitional provisions of IFRS 9 "Financial Instruments", which allows banks to sterilise in a declining manner the capital impacts associated with the increase in loan loss adjustments recorded in the period 2020-2024 of stage 1 and 2 portfolios compared with 1 January 2020.
- bringing forward the date of application of a) SMEs Supporting Factor, b) fairer calibration of salary- or pension-backed loans, with a weighting of 35%.

The following table shows the consolidated regulatory requirements of the Banco Desio Group calculated with and without applying the transitional arrangements.

	30.06.2020	
	Application of the transitional arrangements	Without application of the transitional arrangements
OWN FUNDS		
Common Equity Tier 1 - CET 1	986,902	
Common Equity Tier 1 - CET1 without application of the transitional arrangements		*931,501*
Tier 1 capital	987,661	
Tier 1 capital without application of the transitional arrangements		*932,260*
Total own funds	1,027,322	
Total own funds without application of the transitional arrangements		*971,921*
RISK ASSETS		
Risk-weighted assets	7,165,461	
Risk-weighted assets without application of the transitional arrangements		*7,083,580*
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	13.773%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional arrangements		*13.150%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	13.784%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional arrangements		*13.161%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	14.337%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional arrangements		*13.721%*

For the purposes of determining the RWAs, with specific reference to the IFRS9 transitional regime, the calculation criterion provided for by art. 7 bis of Regulation 2017/2395 as amended by EU Regulation 873/2020, in place of the only methodology previously provided for in Article 7.

SECTION 3 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS (FINANCIAL PARENT COMPANY BRIANZA UNIONE)

Under the provisions of articles 11, paragraphs 2 and 3 and 13, paragraph 2 of the CRR Regulation, the banks controlled by a "financial parent company" have to comply with the requirements established by the aforementioned regulation on the basis of the consolidated situation of the financial parent company. As a result, we have had to change the Group's scope of consolidation for supervisory purposes, now calculating capital ratios at the level of Brianza Unione di Luigi Gavazzi and Stefano Lado S.A.p.A., which is the company that controls 52.084% of Banco di Desio e della Brianza S.p.A.

The calculation of Own Funds and of the consolidated prudential requirements at 30 June 2020, which are transmitted to the Bank of Italy in relation to the prudential supervisory reports (COREP) and statistical reports (FINREP), was therefore made with reference to Brianza Union di Luigi Gavazzi e Stefano Lado S.A.p.A. as it is the financial parent company of the banking group according to European legislation. This section therefore presents the results of this calculation, relating to the regulatory scope of the consolidated financial statements drawn up by Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. (the financial parent company).

Following the periodic Supervisory Review and Evaluation Process (SREP), on 21 May 2020, the Bank of Italy informed Banco di Desio e della Brianza S.p.S. and the financial parent company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. of its decision regarding capital, ordering that, from the next report on own funds, the Brianza Unione Group was to adopt the following consolidated capital ratios:

- **CET1 ratio of 7.35%,** binding for 4.85% (minimum regulatory requirement of 4.50% and additional requirements of 0.35% as a result of the SREP), while the remainder is represented by the capital conservation buffer;
- **Tier 1 ratio of 8.95%,** binding for 6.45% (minimum regulatory requirement of 6.00% and additional requirements of 0.45% as a result of the SREP), while the remainder is represented by the capital conservation buffer;
- **Total Capital Ratio of 11.10%**, binding for 8.60% (minimum regulatory requirement of 8.00% and additional requirements of 0.60% as a result of the SREP), while the remainder is represented by the capital conservation buffer.

3.1 Own funds and ratios

The consolidated own funds calculated by the financial parent company Brianza Unione amount to Euro 917.5 million at 30 June 2020 (CET1 + AT1 of Euro 826.7 million, + T2 of Euro 90.8 million), compared with Euro 908.6 million at the end of the previous year.

The following table shows the consolidated prudential requirements of the financial parent company calculated with and without applying the transitional arrangements.

	30.06.2020	
	Application of the transitional arrangements	Without application of the transitional arrangements
OWN FUNDS		
Common Equity Tier 1 - CET 1	768,926	
Common Equity Tier 1 - CET1 without application of the transitional arrangements		*738,070*
Tier 1 capital	826,748	
Tier 1 capital without application of the transitional arrangements		*795,235*
Total own funds	917,545	
Total own funds without application of the transitional arrangements		*885,877*
RISK ASSETS		
Risk-weighted assets	7,163,537	
Risk-weighted assets without application of the transitional arrangements		*7,081,656*
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	10.734%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional arrangements		*10.422%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	11.541%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional arrangements		*11.230%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	12.809%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional arrangements		*12.509%*

At 30 June 2020 the consolidated ratios calculated for the financial parent company are above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority through the SREP procedure referred to previously.