2018

Report on operations and consolidated financial statements at 31 December 2018

Gruppo Banco Desio

Contents

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

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FINANCIAL REPORTING MANAGER AS PER ART. 154-BIS CFA

Financial Reporting Manager	Mauro Walter Colombo

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Independent Auditors	Deloitte & Touche S.p.A.

First-time adoption of IFRS 9 and IFRS 15

1 - *IFRS 9 – FINANCIAL INSTRUMENTS*

IFRS 9 – Financial Instruments replaced *IAS 39 – Financial Instruments: Recognition and Measurement* with effect from 1 January 2018. The replacement of IAS 39 was promoted by the IASB mainly to respond to concerns that emerged during the financial crisis regarding the timeliness of the recognition of impairment losses on financial assets. IFRS 9 was published by the IASB on 24 July 2014 and was approved at European Community level when the Official Journal of the European Union published EU Regulation no. 2016/2067 of 22 November 2016.

1.1 - MAIN CHANGES INTRODUCED BY IFRS 9 COMPARED WITH IAS 39

Classification and measurement

As regards the criteria for the classification and measurement of financial instruments:

- only basic financing instruments, or "lending arrangements", which management does not intend to sell, can be accounted for at amortised cost (need to evaluate all of the contractual clauses by testing the cash flows generated by the instrument - the so-called "SPPI test", for Solely Payments of Principal and Interest);
- the classification and consequent measurement of financial instruments will essentially depend on:
  a) the way in which the entity manages financial assets to generate cash flows (e.g. for the purpose of collecting cash flows, for the purpose of collecting cash flows and selling or trading them, etc.) to be formalized in so-called "business models";
  b) characteristics of the product that can lead to a measurement at Fair Value through Profit or Loss (FVPL), mandatory for having failed to pass the SPPI test;

Impairment

With reference to the criteria for determining the impairment on financial assets not measured at FVPL:

- for the purpose of calculating impairment, the introduction of loan portfolio segmentation into three stages with an increasing level of credit risk (due to changes over time):
  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;
- calculation of impairment based on expected losses, determined on the basis of past events, reasonable current conditions and "supportable" future forecasts (current model based on losses incurred but not recorded);
- 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.

The first two stages overlap in the definition of performing loans, to which a collective devaluation is currently applied, based on the concept of losses incurred but not recorded. The essential difference compared to the current model for calculating collective write-downs lies in the determination of expected losses at 12 months for stage 1 exposures, and, even more important, throughout the entire expected life of exposures for those classified in stage 2.

1.2 - THE TRANSITION TO IFRS 9

A Steering Committee was established in 2016, involving General Management, the Administration Department, the Chief Risk Officer function and the Organisational Processes and Products Department, to establish the guidelines, direct the activities of the Working Group, ratify the results and make key decisions for the project. As a result of the various project activities performed, on 22 November 2017 the Steering Committee ratified the overall picture of the choices and the application rules defined in the so-called "IFRS 9 Methodological Framework" and therefore reflected in the internal regulations that were submitted to the approval of the Board of Directors of the Group entities (Banco di Desio e della Brianza S.p.A., Banca Popolare di Spoleto S.p.A., Fides S.p.A.) starting with the Parent Company on 30 November 2017.

The purpose of this disclosure is therefore to explain:

- the main impacts on book net equity caused by first-time adoption (FTA) of the new standard;
- the main decisions made as regards application of the framework methodology (such as allocation of securities to the business models defined according to the new accounting standard and application of the "Fair Value through Other Comprehensive Income (FVOCI) option" for equity-based securities not recorded under "Equity investments");
- the main changes in accounting policy due to the introduction of the new standard.

1.3 - SUMMARY OF THE MAIN EFFECTS OF FTA AT 1 JANUARY 2018

The accounting effects of FTA did not have any impact on the closing balances for 2017, to which the previous standard (IAS 39) continued to apply, but they did on 1 January 2018, affecting the opening balances of assets and liabilities with the contra entry going to book net equity and taxation (current and deferred); as a result of the legislative and regulatory changes and the application solutions applied, the accounting effects were as follows.

	Classification and measurement	Impairment - stage 1 and stage 2	Impairment - stage 3	Total
Financial assets	9,201	(590)		8,611
- debt securities held to collect	5,616	(590)		5,026
- debt securities held to collect & sell	3,585			3,585
Loans to ordinary customers		(19,836)	(77,098)	(96,934)
Guarantees and commitments		179		179
Total financial instruments	**9,201**	**(20,247)**	**(77,098)**	**(88,144)**
Associated tax assets/liabilites	(3,043)	5,839	21,201	23,997
Total effect on shareholders' equity*	**6,158**	**(14,408)**	**(55,897)**	**(64,147)**
- of wich : recorded in the valuation reserve	7,428	718		8,146
- of wich : recorded in other reserves - FTA reserve	(1,270)	(15,126)	(55,897)	(72,293)

* Including the effect on minority interests for Euri 9.7 milion

The most significant effects of FTA of IFRS 9 "Financial Instruments" concern the new impairment models, namely:

- for 19.8 million euros, before tax, from application of the staging model for the allocation of performing loans to stages 1 and 2 and from the calculation of the expected credit loss at 12 months (for loans in stage 1) and over the entire lifetime (for loans in stage 2);
- for 77.1 million euros, before tax, from the introduction of sales scenarios in the valuation of non-performing loans (stage 3), with different weightings in the determination of the expected loss based on the subdivision of NPLs at 31 December 2017, based on the strategic decision whether to manage them or sell them.

Own funds and capital ratios including the effects of IFRS 9 were calculated at 31 March 2018, in application of both the transitional regime and the rules applicable "when fully operational" in 2023.

1.4 - CLASSIFICATION AND MEASUREMENT: MAIN ASPECTS

IFRS 9 provides a single model for the classification and measurement of financial assets which, on the one hand, is based on the business reason why they are held (the so-called "business model") and, on the other, the contractual characteristics of their cash flows (SPPI test); the combination of these two aspects determines whether the financial assets are recognised at amortised cost, at fair value through profit or loss or at fair value recognised directly in equity.

Characteristics of cash flows of financial instruments

With regard to the characteristics of cash flows, for the credit sector:

- we defined at policy level which contractual characteristics must be analysed to reach a conclusion on whether the SPPI test has been passed and the quantitative threshold (put by the Working Group at 2%) that should be respected so as not to compromise the characteristics of "basic lending arrangements" when carrying out the so-called "benchmark test";

- we also carried out modular analyses, taking into account the size of the portfolios and their segregation into clusters with the same characteristics. Different approaches were used for retail and corporate loan portfolios.

The analyses revealed only marginal cases that could lead to fail the SPPI test, because of specific contractual clauses or the nature of the loan - in particular market conditions. Therefore, even if we did not identify any existing contracts with characteristics that might suggest the failure of the test, we still decided to rationalize certain products of Group banks (with specific reference, for example, to the presence of covenants and the consistency between the benchmark and the frequency of repricing on changes in interest rates).

As for the debt securities in the proprietary portfolio, we carried out a detailed examination of the characteristics of the cash flows of the instruments classified at amortised cost and in the category of financial assets available for sale according to IAS 39, without identifying any cases of failure to pass the SPPI test under IFRS 9.

As regards open and closed-end mutual investment funds classified under financial assets held for sale according to IAS 39, based on the in-depth analyses that we performed and the recent clarifications provided by the IFRS Interpretation Committee, they would have to be measured at fair value through profit or loss (FVPL).

As regards equities, the paragraph below entitled "*Equity instruments: FVOCI Option*" explains the general criteria that will guide the choice and its formalisation with reference to the equity instruments held in portfolio.

Lastly, it should be noted that, consistent with the approach adopted at 31 December 2017, the Banco Desio Group has decided not to use the fair value option (with separate recognition in equity of changes in fair value attributable to its own creditworthiness) for the stock of financial liabilities outstanding at 1 January 2018 at the time of first-time adoption.

Business model: main application impacts

As regards the business models, they have been defined at individual entity level:

- for the loan portfolio, a single business model called "Held To Collect" (measurement of instruments at amortised cost, i.e. the same as under IAS 39);
- for the proprietary securities portfolio, one business model called "Held To Collect" (measurement of instruments at amortised cost), another called "Held to Collect and Sell" - HTC&S (measurement at fair value through other comprehensive income - FVOCI) and another for "Trading" (measurement at fair value through profit or loss - FVPL).

A materiality threshold of 5% per year has been set for Held to Collect portfolios to allow sales that are frequent, but not particularly large (both individually and in aggregate), or for those that are quite large but infrequent; similarly, a time to maturity threshold of 95% has been set to allow sales close to maturity. At the same time, the parameters were established to identify sales that are consistent with this business model as they are attributable to an increase in credit risk. Also any sales of financial assets as part of securitisations that do not qualify for derecognition are considered compliant with a Held To Collect business model, similar to the sale of impaired financial assets.

In general terms, the method adopted by the Group's credit management entities, versus both retail and corporate counterparties, is a form of Held to Collect business model. As regards the proprietary securities portfolio, based on our analyses, the securities classified at 31 December 2017 at amortised cost generally show a reduced level of movement in line with the management strategy of a Held to Collect business model. As regards debt securities classified on the same date as Assets available for sale, the adoption of a Held to Collect and Sell business model was defined for most of the portfolios.

Only in limited cases there has been a change in management intent and therefore in the measurement criteria (from amortised cost to FVOCI and vice versa) at the time of the allocation of financial instruments on FTA.

The effects on the balance sheet figures on FTA at 1 January 2018 compared with the balances at 31 December 2017 derive from:

- recognition of the valuation reserve for 3.6 million euros (pre-tax), for securities previously measured at amortised cost and recorded at fair value on first-time adoption (FTA);
- the elimination of the valuation reserve previously recorded for 5.6 million euros (pre-tax), for securities previously measured at fair value through other comprehensive income and recorded at amortised cost on FTA.

Equity instruments: FVOCI Option

As regards non-trading equity instruments, IFRS 9 offers the possibility to classify them at Fair Value through Other Comprehensive Income (FVOCI); this is an irrevocable choice and in this case no recycling to the income statement is envisaged, even if the instrument is sold. This possibility is called the "FVOCI option". The distinctive features of this category are the following:

- Capital at fair value
- Dividends recognised in the income statement
- Changes in fair value recorded in an appropriate equity reserve (OCI)
- No recycling of the reserve to the income statement when the instrument is sold
- *No impairment*

IFRS 9 does not specify when this option can be applied.

Considering that all of the equity instruments in the AFS portfolio at 31 December 2017 are held as a strategic investment rather than to maximize the value of the instruments by trading them, the Banco Desio Group has decided that it is more coherent to exercise the FVOCI option for these equity instruments, for a total of 52.3 million euros.

1.5 - EXPECTED CREDIT LOSSES: MAIN ASPECTS FOR THE RECOGNITION OF THE IMPAIRMENT

The general approach defined by IFRS 9 to estimate impairment is based on a process designed to identify any deterioration in credit quality of a financial instrument at the reporting date compared with the date of initial registration. For the assignment of loans to the various stages (known as "staging" or "stage allocation"), the standard establishes to identify significant changes in credit risk with reference to the following main aspects:

- the change in creditworthiness compared with initial recognition of the financial asset;

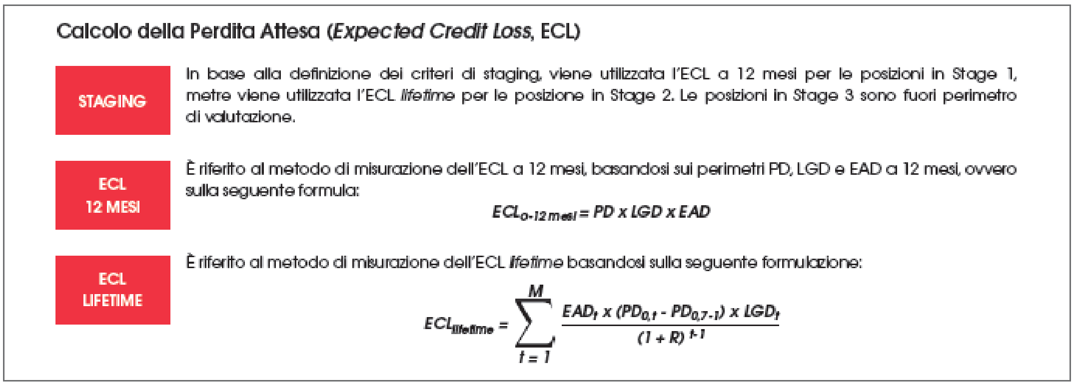
- the expected life of the financial asset;
- forward-looking information that can influence credit risk.

The main characteristics of the impairment model defined by the Banco Desio Group, as defined in the so-called "IFRS 9 framework methodology", are as follows.

Model for calculating the expected loss on performing exposures (stage 1 and stage 2)

The key elements of the new model for calculating impairment adopted by the Banco Desio Group for performing exposures are as follows:

- parameters for determining a significant increase of credit risk have been defined for the purpose of correctly allocating performing exposures to stage 1 or stage 2;
- tracking methods for the credit quality of portfolios of financial assets measured at amortised cost and at fair value recognised directly in equity;
- inclusion of forward-looking factors and, in particular, of macroeconomic scenarios in the process of estimating "Lifetime forward-looking PD" as a parameter. The Banco Desio Group is developing linear regression models (so-called "satellite models") to estimate the change in internal rates of deterioration with respect to the performance of certain key variables. When estimating risk parameters, we have to consider both regulatory information and macro-economic information derived from external and internal sources (e.g. system rates of deterioration and macro-economic variables needed to estimate the correlation with internal rates of deterioration);
- discounting of expected credit losses at the balance sheet date, using the effective interest rate determined at the time of initial recognition or an approximation of it;
- calculation of the expected loss based on the definition of the staging criteria or calculating the Expected Loss at 12 months for positions classified in stage 1 and the Lifetime Expected Loss for financial assets classified in stage 2. The following chart shows a summary of the methods for calculating the Expected Credit Loss (ECL).



Calculation of expected credit loss (ECL)

STAGING

Based on the definition of the criteria of staging, the 12-month estimated credit loss is used for positions in Stage 1, while lifetime ECL is used for positions in Stage 2. Positions in Stage 3 are outside the scope of assessment

12-MONTH ECL refers to the method of measuring ECL at 12 months, based on Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) at 12 months which can be expressed in the following formula:

ECLo-12months=PD+LGD+EAD

ECL LIFETIME

It refers to the method of measuring lifetime ECL based on the following formula:

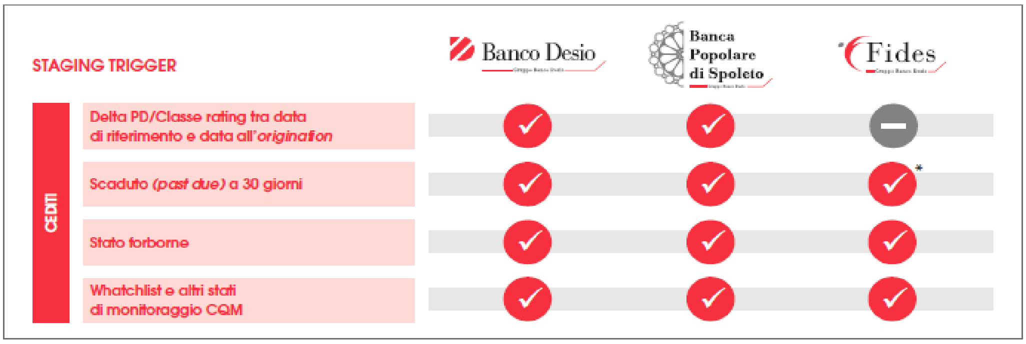
Significant increase in credit risk: staging rules

The elements that constitute the main determinants to be taken into consideration when evaluating transfers from stage 1 and stage 2 of loans, guarantees and irrevocable commitments are the following:

- any change in the probability of default compared with what it was at the time of the instrument's initial recognition in the financial statements. This is therefore an assessment carried out by adopting a "relative" criterion, which constitutes the main "trigger";
- the presence of an expired balance that has been such for at least 30 days. In these circumstances, the credit risk of the exposure is presumed to have "increased significantly", with the result that the exposure gets transferred to stage 2 (if it was previously included in stage 1);
- any renegotiations that qualify as "forbearance measures" which, on a presumptive basis, entail the classification of the exposure among those whose credit risk has significantly increased compared with their initial recognition;
- the presence of other conditions such as the activation/enhancement of certain indicators of credit monitoring systems ("watchlist" and other "internal monitoring" stages) specifically identified as additional "triggers" which, presumably, identify the credit risk of the exposure as "significantly increased".

With reference to the subsidiary Fides S.p.A., the presumption of significant deterioration of the creditworthiness with 30 days past due is considered refutable (or "rebuttable"), so the allocation of the credit positions in stage 2 takes place considering 60 days of continuous past due to keep in suitable account the peculiarities of the "assignment of one-fifth of salary" business. The reasons for this choice are dictated by the desire to make the classification more coherent with the specification of the product, which frequently sees delays in collections due to the complexity of the administrative/operational processes involved in managing the product, rather than a specific credit risk.

The following chart summarizes the staging rules of the Banco Desio Group for loans, guarantees and other irrevocable commitments.



(*) As expressly indicated by the standard, the presumption of significant deterioration of the creditworthiness of loans that are 30 days past due is rebuttable on the basis of reasonable and documentable evidence indicating that the creditworthiness has not actually deteriorated even if 30 days past due (IFRS 9 B5.5.20). Considering the analyses carried out, in order to reflect the peculiarities of the fifth of salary assignment business handled by FIDES, it is expected to allocate its loans to Stage 2 once they are 60 days past due.

LOANS AND RECEIVABLES
Delta PD/rating class between reference date and origination date
Past due 30 days
Forborne state
Watchlist and other credit quality monitoring (CQM) states

With particular reference to a Significant Increase in Credit Risk (SICR) in terms of changes in the Probability of Default (PD), we adopted the criterion of a change in rating class as defined by the system of rating in use. This involved a comparison between:

– the change in the PD of the rating class associated with the counterparty at the reporting date and that calculated at the origination date of the position;

– the thresholds identified on the basis of the association of rating model and sub-model and rating class (and defined according to whether the rating model at the origin of the position is comparable with what it is at the reporting date).

For certain categories of exposures in the proprietary securities portfolio, the so-called "low credit risk exemption" established in IFRS 9 is used. This means that we identify any exposure that has a rating equal to or better than "investment grade" (or similar quality) at each reference date as low credit risk exposures to be classified in stage 1. A number of specific considerations have to be made in connection with the "staging" process of securities. In purchase and sale transactions subsequent to the first purchase, which form part of the normal, day-to-day management of such positions, there is now a need to identify a method to identify sales and reimbursements in order to determine the residual quantities of individual transactions, so that their credit rating at the initial recognition date can be compared with what it is at the reporting date. It was decided that the first-in-first-out (FIFO) method was the one that best reflected the way in which portfolios were managed by front office staff, also making it possible to update the credit rating of the issue or issuer continuously on the basis of new purchases.

The following chart summarizes the staging rules of the Banco Desio Group for the proprietary securities portfolio.

SECURITIES
Rating difference between reporting and subscription date

With particular reference to the rating difference, exposures that at the reporting date have a downgrade of 2 notches compared with the date of purchase are classified in stage 2.

Calculation of the expected loss: main characteristics of forward-looking scenarios

The method for estimating satellite models defined by the Banco Desio Group to include the forward-looking component in the estimate of the lifetime PD of irrevocable loans, credit lines and margins has the following main features:

– construction of the model by taking an econometric approach aimed at identifying the relationships between the default rates observed and a set of macroeconomic and financial variables, considered representative of the trend in the Italian and European economy;

– choice of a stepwise-forward regression approach for estimating relationships between the variables. This methodology starts exclusively from the most explanatory macroeconomic variables, to which the remaining variables are progressively added until a model that is deemed satisfactory is achieved;

- based on a re-elaboration of the default rates calculated by the Chief Risk Officer (CRO) following the segmentation of the rating system in use, three satellite models have been developed, one for the Corporate segment, one for Individuals and one for Small Businesses, with identification of the following key regressors:
  a) nominal Italian GDP and Italian unemployment for the Corporate model;
  b) 3-month Euribor, European inflation and the rate of return on long-term Italian Treasury Bonds (BTP) for the Individuals model;
  c) Italian inflation and Italian unemployment for the Small Business model;
- the expected trend of the macroeconomic variables identified as key regressors has been used to condition the lifetime probability of default (PD).

Calculation of the expected loss: exposure at default (EAD)

Irrevocable loans, guarantees and margins - For the purpose of calculating the expected lifetime loss, the exposure expected on the date of default (EAD) at the various maturities is estimated using a differentiated approach based on the macro-type of product:

- amortising exposures (e.g. mortgages, leases and personal loans);
- non-amortising exposures (e.g. lines of credit, factoring);
- off-balance sheet exposures (e.g. endorsement credits, margins on lines of credit).

Specifically, the amount of the EAD will be equal to:

- the amortised cost at each reporting date (early termination events have not been considered to date) and
- the Credit Line Margin (an off-balance sheet exposure) weighted for the credit conversion factor (CCF) taken from regulatory reporting.

Lastly, products that do not have an expiry date are given a default maturity of 12 months, while to those with a maturity of less than 12 months can be applied a coefficient that adjusts the amount of the provision according to the number of months that the product remains in that category.

Debt securities – To calculate the exposure at default (EAD) of securities, a reconstruction of the bonds' linear repayment plans is used with coupon plans showing the cash flows for each tranche. The EAD is therefore considered equal to the expected debt over the residual life of each individual exposure.

Calculation of expected loss: loss given default (LGD)

Irrevocable loans, endorsement credits and margins - As regards the determination of the forward structures of lifetime LGD, we intend to use the parameter calculated by the recalibrated econometric model in order to incorporate the effect of the time lag of the exposure to which the LGD refers to on the "residual debt" variable that makes up the "value to loan". In other words, we plan to keep the LGD calculated in this way constant throughout the residual life of the financial instruments.

Debt securities - The LGD is assumed to remain constant over the entire time horizon of the financial asset under analysis and is a function of two factors:

- the ranking of the instrument;
- the classification of the country to which the issuing entity belongs.

Calculation of the expected loss on non-performing exposures (stage 3)

For the exposures classified in stage 3 (non-performing), we did not see any impact from the application of IFRS 9 as regards classification.

The studies carried out since the last few months of 2017, having regard to the ITG's "Inclusion of cash flows expected from the sale on default of loan" of the staff of the IFRS Foundation and subsequently considering the "Guidelines for less significant Italian banks on the management of non-performing loans" published by the Bank of Italy in January 2018 for the proactive management of non-performing loans, have led the Banco Desio Group to adopt the logic of impairment calculated on the non-performing portfolio in order to include forward-looking factors in scenario evaluations.

We then defined the application choices for multi-scenario assumptions in which were considered not only the internal recovery scenario (with the same assessment logic and minimum loss criteria as at 31 December 2017), but also the disposal scenario, in line with:

- the declared objectives of the business plan for which recovery of impaired assets is foreseen, also by transferring them;
- what was communicated on 27 March 2018 with reference to the approval by the Parent Company's Board of Directors of a programme of sale of NPLs for a gross value of 1.1 billion euros, within which it was also foreseen a securitisation transaction using the procedure for the issuance of a guarantee on the securitisation of non-performing loans on senior securities ("GACS")granted by the Italian State aimed at deconsolidating Banco Desio Group loans for a gross value of 1.0 billion euros.

Consequently, at FTA the recoverable amount of NPLs is determined for each cluster based on the weighted average of expected recoveries through the internal work-out process, i.e. at expected realisable values; scenarios are weighted according to the expected level of sales in relation to the Group's NPE strategy.

1.6 – EVOLUTION OF THE CREDIT QUALITY ON THE FIRST APPLICATION OF THE MODEL FOR THE CALCULATING EXPECTED LOSSES UNDER IFRS 9

Cash exposures to customers

The following tables compare the evolution of the credit quality of cash exposures to customers at the time of first application of the model for calculating expected losses with the characteristics mentioned previously.

Amounts in thousands of Euro	31.12.2017 IAS 39					
	Gross exposure*	% of total loans and receivables	Write-downs	Coverage ratio	Net exposure	% of total loans and receivables
Doubtful loans	1,155,051	10.8%	(660,878)	57.2%	494,173	5.0%
Unlikely to pay	451,670	4.2%	(130,329)	28.9%	321,341	3.3%
Past due non-performing loans	9,644	0.1%	(1,234)	12.8%	8,410	0.1%
Total non-performing loans	**1,616,365**	**15.1%**	**(792,441)**	**49.0%**	**823,924**	**8.4%**
Performing exposures	**9,078,600**	**84.9%**	**(40,662)**	**0.45%**	**9,037,938**	**91.6%**
Total loans to customers	**10,694,965**	**100.0%**	**(833,103)**	**7.8%**	**9,861,862**	**100.0%**

Amounts in thousands of Euro	01.01.2018 FTA adoption IFRS9					
	Gross exposure *	% of total loans and receivables	Write-downs	Coverage ratio	Net exposure	% of total loans and receivables
Doubtful loans	1,155,051	10.8%	(737,976)	63.9%	417,075	4.3%
Unlikely to pay	450,230	4.2%	(130,329)	28.9%	319,901	3.3%
Past due non-performing loans	9,641	0.1%	(1,234)	12.8%	8,407	0.1%
Total non-performing loans	**1,614,922**	**15.1%**	**(869,539)**	**53.8%**	**745,382**	**7.6%**
Performing exposures	**9,074,942**	**84.9%**	**(55,397)**	**0.61%**	**9,019,545**	**92.4%**
Total loans to customers	**10,689,864**	**100.0%**	**(924,936)**	**8.7%**	**9,764,928**	**100.0%**

* The difference in gross exposure derives from the revision of the model for amortisation of the "full fair value"

The effect on net exposure to customers after first-time adoption of IFRS 9 was 96.9 million euros, of which:

- 14.7 million euros from the application of the new model for calculating the expected loss on performing exposures (as a result of the split between stage 1 and stage 2);
- 77.1 million euros from adoption of the disposal scenario in the measurement of non-performing loans classified in stage 3;
- 5.1 million euros due to revision of the amortisation model for the "full fair value" recognised at the time of acquisition of Banca Popolare di Spoleto on instalment loans at that time in line with the risk definitions introduced by IFRS 9.

Financial assets – debt securities

The following table summarises the effects of applying the expected loss model to the debt securities held by the Banco Desio Group on first-time adoption. The coverage that emerged with respect to the book value of the securities (at fair value if allocated to the Held to Collect & Sell business model or at amortised cost if allocated to the Held to Collect business model) was 0.08% on average.

Bussiness model	Measurement	1 January 2018 gross exposure	Expected loss on securities	% hedging
Held to collect	Amortised cost	748,270	(590)	0.08%
Held to collect & sell	FVOCI	1,430,621	(1,072)	0.07%
Total		**2,178,891**	**(1,622)**	**0.08%**

Recognition of the expected loss on securities measured at amortised cost, booked to the FTA reserve for IFRS 9 had as a contra entry in the balance sheet a reduction in the carrying value of the securities shown under assets, while recognition of the expected loss on securities measured at fair value through other comprehensive income (FVOCI), recorded in the FTA reserve for IFRS 9, did not have as a contra entry the value of the securities shown under assets, already recognised at their fair value, but the valuation equity reserve for *Financial assets designated at fair value through other comprehensive income*.

1.7 - HEDGE ACCOUNTING: CARVE - OUT OPTION

As regards hedge accounting, taking into account the fact that the innovations contained in the new IFRS 9 only concern the general hedge and that the standard provides the possibility of implementing the new IFRS 9 rather than maintaining the previous IAS 39, based on the analyses carried out on the current management of hedging transactions by the Banco Desio Group, we decided to exercise the "carve-out option" on first-time adoption of IFRS 9, for which all types of hedging transactions will continue to be managed in accordance with IAS 39.

This choice will be confirmed from year to year, as long as IFRS 9 is not made mandatory and fully applicable also with reference to hedge accounting.

2 - *IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS*

From 1 January 2018 *IFRS 15 - Revenues from contracts with customers* replaces *IAS 18 - Revenues* and *IAS 11 - Construction contracts*, as well as interpretations *IFRIC 13 - Customer loyalty programmes*, *IFRIC 15 - Agreements for the construction of real estate*, *IFRIC 18 - Transfers of assets from customers* and *SIC 31 - Revenues - Barter transactions involving advertising services*.

IFRS 15 was published by the IASB on 28 May 2014 and was approved at European Community level when the Official Journal of the European Union published EU Regulation no. 2016/1905 of 22 September 2016.

2.1 – KEY ELEMENTS OF THE NEW STANDARD

The standard establishes a new model for revenue recognition, which applies to all contracts signed with customers except for those that fall within the scope of other IAS/IFRS, such as leases, insurance contracts and financial instruments. In particular, the new model provides for the recognition of revenue based on the following 5 steps:

- identification of the contract with the customer: IFRS 15 applies to all contracts entered into with a customer that meet specific criteria. In certain specific cases, IFRS 15 requires an entity to combine/aggregate a number of contracts and to account for them as one sole contract;
- identification of the performance obligations in the contract: a contract constitutes a promise to transfer goods or services to a customer. If the goods or services are distinct, the promise qualifies as a performance obligation and is accounted for separately;
- determination of the price: the transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services. The transaction price may be a fixed amount, but it may include variable or non-cash components;
- allocation of the transaction price to the performance obligations in the contracts: an entity should allocate the transaction price to the various performance obligations in the contract by reference to the stand-alone selling prices of the distinct goods or services envisaged by the contract. If a stand-alone selling price is not directly observable, the entity will need to estimate it. The standard establishes when an entity should allocate a discount or a variable component to one or more performance obligations (or to distinct goods or services) covered by the contract;
- revenue recognition criteria when the entity satisfies a performance obligation: an entity recognises revenue when it satisfies its performance obligation by means of the transfer of goods or the rendering of a service, as established by the contract, to a customer (i.e. when the customer obtains control of the good or service). The amount of revenue to be recognised is that allocated to the performance obligation that has been satisfied. A performance obligation may be satisfied either at a point in time (typically, in the case of goods) or over time (typically, in the case of services). In the case of performance obligations that are satisfied over time, an entity recognises revenue over the relevant period by selecting an appropriate method to measure the progress made with respect to the complete satisfaction of the performance obligation.

2.2 – TRANSITION AND SUMMARY OF THE EFFECTS OF INTRODUCING IFRS 15

The Banco Desio Group has carried out a specific analysis of the main types of revenues generated by contracts with customers in order to identify the potential impacts of applying this standard.

The revenue components deriving from contracts with customers recorded under "Commission income" were examined, particularly with regard to the "Asset management" and "Plastic money" segments, including services linked to current account transactions and "Other operating income".

Our analysis showed that the accounting treatment that we adopted for this matter are already in line with the provisions of the new standard and, therefore, first-time adoption of IFRS 15 should not have any impact on the Banco Desio Group's equity.

In conclusion, based on our analysis, the main effect of introducing the new standard will regard mainly disclosure requirements, according to the Bank of Italy provisions contained in the 5th update of Circular 262 "Bank financial statements: schedules and rules for preparation".

3 – THE EFFECTS OF THE TRANSITION TO IFRS 9 AND IFRS 15

IAS 8 – Accounting standards, changes in accounting estimates and errors provides that the effects deriving from the transition to a new accounting standard are to be recorded in specific equity reserves (the so-called "first-time adoption reserve"), in order to reconstruct the effects that would have been obtained in the balance sheet if the requirements of the new standards were adopted on a continuous basis. The effects on net equity of introducing IFRS 9 were therefore recognised at 1 January 2018 given that no change was found with reference to first-time adoption of IFRS 15, as above mentioned.

In order to present the figures published at 31 December 2017 according to the new official schedules of the Bank of Italy Circular no. 262 (5th update), for comparison with the half-yearly financial report, we have carried out the necessary reclassifications based on the criteria laid down in the Introduction to this document, without changing any of the figures.

This section provides reconciliations of the book balances at 1 January 2018 to explain the new rules for classification and measurement required by IFRS 9, taking into account the decisions made by the Banco Desio Group on first-time adoption of the standard.

3.1 - RECONCILIATION BETWEEN THE ACCOUNTING SCHEDULES PULBLISHED IN THE 2017 FINANCIAL STATEMENTS AND THE NEW IFRS9 ACCOUNTING (CIRCULAR 262 - 5th UPDATE)

The following are reconciliations between the accounting schedules published in the 2017 financial statements and the new accounting schedules introduced with the 5th update of Bank of Italy Circular 262, including the presentation criteria established by IFRS 9.

In these schedules, the accounting balances at 31 December 2017, valued according to IAS 39, are linked to the new items according to the reclassifications resulting from the new criteria introduced by IFRS 9 (considering the business models defined by the Banco Desio Group in application of the new standard and the outcome of the SPPI test), but without applying the new measurement criteria and, therefore, with the same figures for total assets and total liabilities.

Assets

Applying the new classification and measurement rules to financial assets led in particular to:

- reclassification of a portion of debt securities available for sale pursuant to IAS 39, which for 385.6 million euros were allocated to financial assets measured at amortised cost, following the change in the business model;
- the reclassification, due to a change in the business model, of financial assets held to maturity to financial assets measured at fair value through other comprehensive income with an impact of 391.7 million euros;
- the reclassification of mutual funds classified under financial instruments available for sale in accordance with IAS 39, amounting to 38.2 million euros, which have been transferred to assets that have to be valued at fair value through profit or loss pursuant to IFRS 9;
- the reclassification of equity securities classified as financial instruments available for sale in accordance with IAS 39, equal to 52.3 million euros, which have been transferred to financial assets for which the fair value option was irrevocably exercised with impact on equity (without recycling to the income statement).

We would also point out that we did not have to reclassify any loans to banks and customers to the portfolio of assets valued at fair value through profit or loss (FVTPL) as a result of failing the SPPI test.

Furthermore, with reference to the new Circular 262, worth noting are the different methods of presenting financial assets: rather than the previous items *Loans to customers*, *Due from banks*, *Financial assets held to maturity*, *Financial assets available for sale*, *Financial assets designated at fair value through profit and loss* and *Financial assets held for trading*, financial assets now have to be classified under these new captions: *Financial assets designated at fair value through profit or loss, Financial assets designated at fair value through other comprehensive income* and *Financial assets measured at amortised cost.*

Liabilities and equity

As regards financial liabilities, the transition to IFRS 9 did not have any significant impacts in terms of reclassification; in this regard we would only mention the reclassification, equal to 2.1 million euros, of credit risk provisions to cover commitments to disburse funds and financial guarantees issued that, pursuant to the previous version of Bank of Italy Circular 262, were allocated to *Other liabilities* and which are now shown under *Provisions for risks and charges*.

In addition, with reference to Circular 262, also worth noting is the different way of presenting the items: the previous captions *Due to banks*, *Due to customers* and *Debt securities in issue* are now included in *Financial liabilities measured at amortised cost*.

Bank of Italy Circular no. 262 (5th update) - IFRS 9: Assets	Bank of Italy Circular no. 262 (4th update) - IAS 39: 10.Cash and cash equivalents	20. Financial assets held for trading	40. Financial assets available for sale	50. Financial assets held to maturity	60. Due from banks	70. Loans to customers	80. Hedging derivatives	90. Adjustment to financial assets with generic hedge (+/-)	120. Property, plant and equipment	130. Intangible assets	of which: - goodwill	140. Tax assets	*a) current*	*b) deferred*	160. Other assets	**Total assets**
10. Cash and cash equivalents	59,413															**59,413**
20. Financial assets designated at fair value through profit and loss with an impact on the income statement		20,981	38,171													**59,152**
a) Financial assets held for trading		*20,981*														***20,981***
c) Other financial assets that are necessarily measured at fair value			38,171													***38,171***
30. Financial assets designated at fair value through other comprehensive income			1,087,671	391,668												**1,479,339**
40. Financial assets measured at amortised cost			385,625	357,028	1,218,060	9,861,862										**11,822,575**
a) Due from banks			*4,508*	*124,492*	*1,218,060*											***1,347,060***
b) Loans to customers			*381,117*	*232,536*		*9,861,862*										***10,475,515***
50. Hedging derivatives							5									**5**
60. Adjustment to financial assets with generic hedge (+/-)								875								**875**
90. Property, plant and equipment									180,566							**180,566**
100. Intangible assets										17,946						**17,946**
of which: - goodwill											*15,322*					***15,322***
110. Tax assets												212,527	*35,097*	*177,430*		**212,527**
a) current												*35,097*	*35,097*			***35,097***
b) deferred												*177,430*		*177,430*		***177,430***
130. Other assets															163,424	**163,424**
Total assets	**59,413**	**20,981**	**1,511,467**	**748,696**	**1,218,060**	**9,861,862**	**5**	**875**	**180,566**	**17,946**	***15,322***	**212,527**	***35,097***	***177,430***	**163,424**	**13,995,822**

Bank of Italy Circular no. 262 (5th update) - IFRS 9 / Liabilities and shareholders' equity	Bank of Italy Circular no. 262 (4th update) - IAS 39																		Total liabilities and shareholders' equity
	10. Due to banks	20. Due to customers	30. Debt securities in issue	40. Financial liabilities held for trading	60. Hedging derivatives	80. Tax liabilities	*a) current*	*b) deferred*	100. Other liabilities	110. Provision for termination indemnities	120. Provisions for risks and charges:	b) other provisions	140. Valuation reserves	170. Reserves	180. Share premium reserve	190. Share capital	210. Minority interests	220. Net profit (loss) for the period (+/-)	
10. Financial liabilities measured at amortised cost	1,705,928	9,272,337	1,708,320																**12,686,585**
a) Due to banks	*1,705,928*																		***1,705,928***
b) Due to customers		*9,272,337*																	***9,272,337***
c) Debt securities in issue			*1,708,320*																***1,708,320***
20. Financial liabilities held for trading				7,976															**7,976**
40. Hedging derivatives					4,724														**4,724**
60. Tax liabilities						30,226	*3,425*	*26,801*											**30,226**
a) current						*3,425*	*3,425*												***3,425***
b) deferred						*26,801*		*26,801*											***26,801***
80. Other liabilities									208,818										**208,818**
90. Provision for termination indemnities										28,962									**28,962**
100. Provisions for risks and charges:									2,143		46,547	*46,547*							**48,690**
a) commitments and guarantees given									*2,143*										***2,143***
c) other provisions											*46,547*	*46,547*							***46,547***
120. Valuation reserves													38,307						**38,307**
150. Reserves														761,201					**761,201**
160. Share premium reserve															16,145				**16,145**
170. Share capital																67,705			**67,705**
190. Minority interests																	52,785		**52,785**
200. Net profit (loss) for the period (+/-)																		43,698	**43,698**
Total liabilities and shareholders' equity	**1,705,928**	**9,272,337**	**1,708,320**	**7,976**	**4,724**	**30,226**	**3,425**	***26,801***	**210,961**	**28,962**	**46,547**	**46,547**	**38,307**	**761,201**	**16,145**	**67,705**	**52,785**	**43,698**	**13,995,822**

3.2 - RECONCILIATION BETWEEN THE BALANCE SHEET AT 31DECEMBER 2017(WICH REFLECTS THE NEW IFRS 9 RULES ON THE PRESENTATION) AND THE BALANCE SHEET AT 1 JANUARY 2018(WICH REFLECTS THE NEW IFRS 9 RULES ON THE MEASUREMENT AND IMPAIRMENT)

The following is the reconciliation between the balance sheet at 31 December 2017 (IAS 39), which includes the reclassifications required by the new IFRS 9 classification rules, as explained above, and the balance sheet at 1 January 2018 (IFRS 9). The accounting balances at 31.12.2017 shown in these tables (with figures calculated in accordance with IAS 39) have been changed in application of the new measurement and impairment rules, in order to determine the opening balances which are IFRS 9 compliant.

Assets

AssetsBank of Italy Circular no. 262 (5th update)	31.12.2017 (a)	Effects of the transition to IFRS 9				01.01.2018 (c) = (a) + (b)
		Classification and measurement	Impairment - stage 1 and stage 2	Impairment - stage 3	Total effects of FTA (b)	
10. Cash and cash equivalents	59,413					59,413
20. Financial assets designated at fair value through profit and loss with an impact on the income statement	59,152					59,152
a) Financial assets held for trading	*20,981*					*20,981*
c) Other financial assets that are necessarily measured at fair value	*38,171*					*38,171*
30. Financial assets designated at fair value through other comprehensive income	1,479,339	3,585			3,585	1,482,924
40. Financial assets measured at amortised cost	11,822,575	5,616	(20,426)	(77,098)	(91,908)	11,730,667
a) Due from banks	*1,347,060*	*2*	*(148)*		*(146)*	*1,346,914*
b) Loans to customers	*10,475,515*	*5,614*	*(20,278)*	*(77,098)*	*(91,762)*	*10,383,753*
50. Hedging derivatives	5					5
60. Adjustment to financial assets with generic hedge (+/-)	875					875
90. Property, plant and equipment	180,566					180,566
100. Intangible assets	17,946					17,946
of which:						
- goodwill	15,322					15,322
110. Tax assets	212,527	(2,101)	4,444	21,201	23,544	236,071
a) current	*35,097*	*503*	*846*	*2,119*	*3,468*	*38,565*
b) deferred	*177,430*	*(2,604)*	*3,598*	*19,082*	*20,076*	*197,506*
130. Other assets	163,424					163,424
Total assets	**13,995,822**	**7,100**	**(15,982)**	**(55,897)**	**(64,779)**	**13,931,043**

Effects of classification and measurement

The different classification of financial assets in the new categories established by IFRS 9 and the different measurement metrics led to a positive impact (before taxes) on consolidated equity for a total of 9.2 million euros, as detailed below.

The adjustment of the carrying value of financial assets deriving from allocation to the business models defined by the Banco Desio Group in application of the new standard, essentially attributable to the debt securities portfolio, is attributable to the following factors:

- allocation of financial assets valued at amortised cost in a Held to Collect & Sell business model, with consequent restatement of the carrying amount and recognition in the valuation reserve of the fair value changes that have taken place in the meantime (3.6 million euros);

- allocation of financial assets available for sale to a Held to Collect business model, leading to a recalculation of the carrying value and cancellation of the negative AFS reserve (5.6 million euros).

Impairment effects

Application of the new impairment rules ("expected credit losses") on *Financial assets measured at amortised cost* (cash exposures) had a negative impact (before taxes) on consolidated net equity of 97.5 million euros, as detailed below:

- higher write-downs to performing cash loans for 19.8 million euros attributable (i) to the allocation of part of the performing portfolio to stage 2, based on of stage allocation criteria defined earlier, with the consequent need to calculate the expected loss for the entire residual life of the financial assets and (ii) inclusion in the calculation of expected losses of forward-looking parameters arising from future macroeconomic scenarios. The impact of FTA is almost entirely due to the increase in adjustments to positions classified in stage 2;
- higher write-downs to performing securities for 0.6 million euros, essentially due to allocation of the securities portfolio to stage 1;
- greater write-downs to non-performing loans of 77.1 million euros, mainly as a result of inclusion in the calculation of expected losses of forward-looking parameters with the inclusion of the sale scenario envisaged in the corporate objectives for the reduction of NPLs.

Liabilities and equity

Liabilities and shareholders' equityBank of Italy Circular no. 262 (5th update)	31.12.2017 (a)	Effects of the transition to IFRS 9				01.01.2018 (c) = (a) + (b)
		Classification and measurement	Impairment - stage 1 and stage 2	Impairment - stage 3	Total effects of FTA (b)	
10. Financial liabilities measured at amortised cost	12,686,585					12,686,585
a) Due to banks	*1,705,928*					*1,705,928*
b) Due to customers	*9,272,337*					*9,272,337*
c) Debt securities in issue	*1,708,320*					*1,708,320*
20. Financial liabilities held for trading	7,976					7,976
40. Hedging derivatives	4,724					4,724
60. Tax liabilities	30,226	942	(1,395)		(453)	29,773
a) current	*3,425*					*3,425*
b) deferred	*26,801*	*942*	*(1,395)*		*(453)*	*26,348*
80. Other liabilities	208,818					208,818
90. Provision for termination indemnities	28,962					28,962
100. Provisions for risks and charges:	48,690		(179)		(179)	48,511
a) commitments and guarantees given	*2,143*		*(179)*		*(179)*	*1,964*
c) other provisions	*46,547*					*46,547*
120. Valuation reserves	38,307	7,403	690		8,093	46,400
150. Reserves	761,201	(1,245)	(13,416)	(47,864)	(62,525)	698,676
160. Share premium reserve	16,145					16,145
170. Share capital	67,705					67,705
190. Minority interests	52,785		(1,682)	(8,033)	(9,715)	43,070
200. Net profit (loss) for the period (+/-)	43,698					43,698
Total liabilities and shareholders' equity	**13,995,822**	**7,100**	**(15,982)**	**(55,897)**	**(64,779)**	**13,931,043**

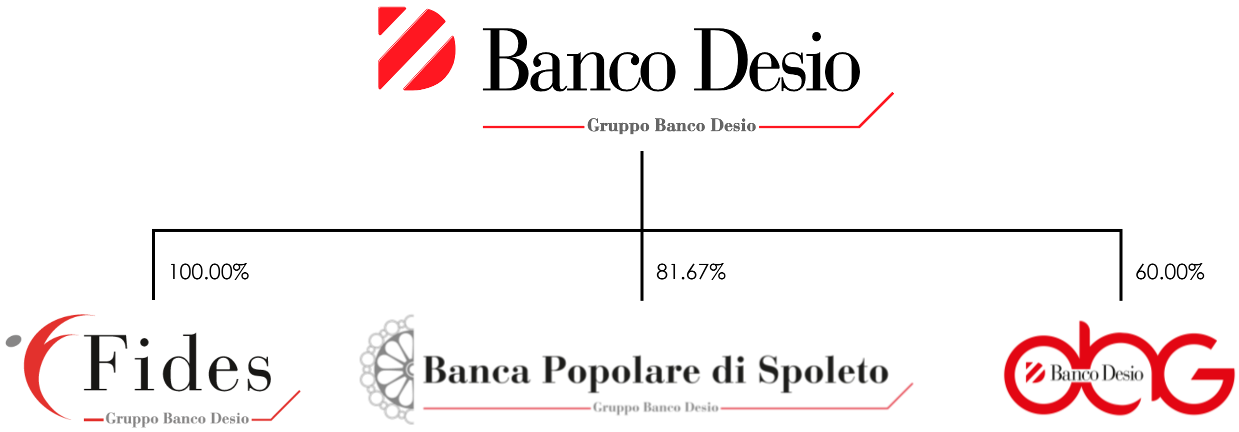
With regard to liabilities, there were lower adjustments (before taxes) for guarantees and commitments to disburse funds for 0.2 million euros recorded under provisions for risks and charges. This decrease derives from the application of the new rules on impairment (including the forward-looking component).

Consolidated equity consequently showed an improvement in the valuation reserves of 8.1 million euros and recognition of an FTA reserve of 62.5 million euros, with an overall impact, including the tax effect on the Banco Desio Group's equity which is negative for 54.4 million euros, to which has to be added the effect on minority interests, of 9.7 million euros.

Consolidated Report on Operations

The Banco Desio Group

The scope of consolidation of the Banco Desio Group at 31 December 2018 includes the following companies:



INTRODUCTION

The figures and ratios included in this Consolidated Report on Operations, as well as the comments on the composition of the captions and the related changes refer to the balance sheet included in the consolidated financial statements and to the consolidated reclassified income statement, as disclosed in the appropriate paragraph, that, in turn has been prepared from the consolidated financial statements.

IFRS 9 "Financial instruments", which replaced IAS 39, came into force on 1 January 2018 with an impact on the classification and measurement of financial instruments and on the logic and methods of calculating adjustments. For the purpose of preparing these financial statements, the comparative figures for the balance sheet and income statement (at 31 December 2017) have been conventionally restated in the financial statement schedules required by the 5th update of Circular 262, as reported in the chapter "Basis of preparation".

In particular, in September the business models that affect the financial assets held for investment purposes by the Bank were changed (as explained in the paragraph "Significant events"). The financial report at 30 September 2018 was prepared in compliance with IAS 34 *Interim Financial Statements* so that 1 October 2018 qualifies as the "reclassification date" (according to the definition in IFRS 9 *Financial Instruments*) for the recognition of the accounting effects of this change in the business models.

1 - KEY FIGURES AND RATIOS

BALANCE SHEET

Amounts in thousands of Euro	31.12.2018	31.12.2017	Change amount	%
Total assets	13,608,036	13,995,822	-387,786	-2.8%
Financial assets	3,081,430	2,281,149	800,281	35.1%
Due from banks [(1)]	285,314	1,218,060	-932,746	-76.6%
Loans to customers [(1)]	9,616,700	9,861,862	-245,162	-2.5%
of which: Loans to ordinary customers	*9,616,700*	*9,861,862*	*-245,162*	*-2.5%*
Property, plant and equipment	179,418	180,566	-1,148	-0.6%
Intangible assets	17,701	17,946	-245	-1.4%
Non-current assets and disposal groups held for sale	0		0	
Due to banks	1,620,824	1,705,928	-85,104	-5.0%
Due to customers	9,254,591	9,272,337	-17,746	-0.2%
Debt securities in issue	1,426,213	1,708,320	-282,107	-16.5%
Shareholders' equity (including Net profit/loss for the period) [(2)]	892,054	927,056	-35,002	-3.8%
Own Funds [(5)] [(6)]	1,056,921	1,089,121	-32,200	-3.0%
Total indirect deposits	14,092,711	14,148,878	-56,167	-0.4%
of which: Indirect deposits from ordinary customers	*8,952,340*	*8,946,523*	*5,817*	*0.1%*
of which: Indirect deposits from institutional customers	*5,140,371*	*5,202,355*	*-61,984*	*-1.2%*

[(1)] on the basis of new Circular 262 - 5th update, the balance of this caption includes held to collect (HTC) debt securities measured at amortised cost; these securities are shown under financial assets in these key figures in the interests of better comparability with the previous period.

INCOME STATEMENT *[(3)]*

Amounts in thousands of Euro	31.12.2018	31.12.2017	Change amount	%
Operating income	400,409	430,950	-30,541	-7.1%
of which: Net interest income	*212,902*	*229,642*	*-16,740*	*-7.3%*
Operating costs	275,519	280,791	-5,272	-1.9%
Result of operations	124,890	150,159	-25,269	-16.8%
Profit (loss) from operations after tax	36,138	46,344	-10,206	-22.0%
Non-recurring profit (loss) after tax	420	-1,385	1,805	n.s.
Net profit for the period [(2)]	35,260	43,698	-8,438	-19.3%

[(2)] pertaining to the Parent Company;

[(3)] from the Reclassified income statement.

KEY FIGURES AND RATIOS

	31.12.2018	31.12.2017	Change amount
Capital/Total assets	6.6%	6.6%	0.0%
Capital/Loans to customers	9.3%	9.4%	-0.1%
Capital/Due to customers	9.6%	10.0%	-0.4%
Capital / Debt securities in issue	62.5%	54.3%	8.2%
Common Equity Tier 1 (CET 4)/Risk-weighted assets (Common Equity Tier 6 ratio) (4) (5)	12.1%	11.5%	0.6%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)(4) (5)	12.3%	11.6%	0.6%
Total Own Funds/Risk-weighted assets (Total capital ratio)(4) (5)	13.6%	13.6%	0.0%
Financial assets/Total assets	22.6%	16.3%	6.3%
Due from banks/Total assets	2.1%	8.7%	-6.6%
Loans to customers/Total assets	70.7%	70.5%	0.2%
Loans to customers/Direct customer deposits	90.0%	89.8%	0.2%
Due to banks/Total assets	11.9%	12.2%	-0.3%
Due to customers/Total assets	68.0%	66.3%	1.7%
Debt securities in issue/Total assets	10.5%	12.2%	-1.7%
Direct customer deposits / Total assets	78.5%	78.5%	0.0%

	31.12.2018	31.12.2017	Change amount
Cost/Income ratio	68.8%	65.2%	3.6%
Net interest income/Operating income	53.2%	53.3%	-0.1%
Result of operations/Operating income	31.2%	34.8%	-3.6%
Profit (loss) from operations after tax/Capital (6)	4.2%	5.2%	-1.0%
Profit (loss) from operations after tax/Capital (6) (R.O.E)(7)	4.3%	5.1%	-0.8%
Profit (loss) from operations before tax/Total assets (ROA)	0.3%	0.5%	-0.2%

	31.12.2018	31.12.2017	Change amount
Net doubtful loans/Loans to customers (8)	1.3%	5.0%	-3.7%
Net non-performing loans/Loans to customers (8)	4.2%	8.4%	-4.2%
% Coverage of doubtful loans (8)	59.3%	57.2%	2.1%
% Coverage of doubtful loans, gross of cancellations (8) (9)	64.5%	61.1%	3.4%
% Total coverage of non-performing loans (8) (9)	42.2%	49.0%	-6.8%
% Coverage of non-performing loans, gross of cancellations (8) (9)	45.6%	52.4%	-6.8%
% Coverage of performing loans (8)	0.54%	0.45%	0.09%

STRUCTURE AND PRODUCTIVITY RATIOS

	31.12.2018	31.12.2017	Change amount	Change %
Number of employees (10)	2,209	2,303	-94	-4.1%
Number of branches	265	265	0	0.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee (11)	4,263	4,233	30	0.7%
Direct deposits from customers per employee (11)	4,734	4,714	20	0.4%

	31.12.2018	31.12.2017	Change amount	Change %
Operating income per employee (11)	177	185	-8	-4.3%
Result of operations per employee (11)	55	64	-9	-14.1%

(4) own funds and capital ratios are calculated at Banco Desio level. The ratios for the scope of consolidation for regulatory purposes at Brianza Unione level at 31 December 2018 are: Common Equity Tier1 9.4%; Tier 1 10.3%; Total capital ratio 12.0%.

(5) own funds and capital ratios at 31.12.2018 are calculated in application of the transitional provisions introduced by EU Regulation 2017/2395; the ratios calculated without application of these provisions are the following: Common Equity Tier1 11.5%; Tier 1 11.6%; Total capital ratio 12.9%.

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

(7) ROE recalculated at the end of 7 taking into account the effects of FTA of IFRS 9 is equal to 5.4%.

(8) the indicators for credit quality and coverage of non-performing loans and performing loans at 31.12.2018 reflect the impact of applying IFRS 9 from 1 January 2018 and of the NPL sales carried out during the period.

(9) also considering non-performing loans of the subsidiary Banca Popolare di Spoleto S.p.A., reported gross of write-downs;

(10) number of employees at the reference date

(11) based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.

2 – UNDERLYING SCENARIO

2.1 - THE MARCOECONOMIC SCENARIO

International scenario

The short-term outlook for the global economy remains favourable overall. The expansion of world economic activity remains solid (+2.6% per year); the general weakness of inflation remains. World trade, while continuing to expand, is decelerating (-1.1% monthly). The expansion phase is starting to mature, but the risk of a global recession still appear to be remote. The economic cycle has remained expansive in the United States, stabilised in the Eurozone and is still positive in Japan. In emerging countries generally, growth is held back by the strength of the US dollar.

While on the one hand the global outlook remains favourable, on the other there remain risks deriving from the possible intensification of economic and political uncertainty. The tensions arising as a result of the protectionist measures introduced by the United States against trading partners could affect business confidence. Geopolitical risks worsened after the USA announced that it was suspending its participation in the nuclear non-proliferation treaty, followed soon after by Russia. Uncertainty about future economic relations between the UK and the EU remains very high. Additional risks are related to the normalisation of monetary policies and the sustainability of the Chinese economy.

However, the current phase of economic expansion presents other peculiarities besides the moderate level of growth: it is long and features low inflation in developed countries, reduced elasticity of international trade with respect to GDP growth, and a limited propensity to invest. At present, it seems that there are none of the factors that usually put an end to periods of expansion: no inflationary pressures have been seen that have caused the central banks to impose restrictive monetary policies, while fiscal policies have remained neutral.

Net of its more volatile components, inflation in the main advanced economies remains moderate: it is close to 2% in the United States and the United Kingdom, while it fluctuates around 1% in the Eurozone. Inflation remains below all-time averages in the main emerging economies.

Monetary policies remained loose in the Eurozone and Japan. The European Central Bank has probably completed the phase of easing monetary policy. The Federal Reserve is geared towards further restricting monetary policy in the coming quarters, but only if the macroeconomic data show encouraging signs. Low inflation and moderate credit dynamics allow monetary authorities to manage the normalisation phase gradually.

United States

The economic forecasts see robust growth in the United States (+3.5% in annualised quarterly terms), driven by the continuous increase in employment and take-home pay of households. Expansion of economic activity has been solid and widespread, supported by all components of domestic demand. Low unemployment and better wage conditions have fuelled private consumption. Investments have also been showing signs of recovery, bolstered by new tax incentives. The forecast is that the scenario of the last few quarters should continue with an average level of growth slightly above potential.

Political risk remains high: the mid-term congressional elections ended up with a Chamber that has a Democratic majority. The Trump administration, which is experiencing a reputational crisis, is having difficulty in implementing the programme on the domestic front and moves in unpredictable ways on the international front. A new trilateral free trade agreement has been reached in the NAFTA area (North American Free Trade Agreement). The future of international trade agreements still seems uncertain. Import duties have recently been raised against international partners who have responded by introducing similar measures for various product sectors.

Consumption, up 2.5%, is still bolstered by favourable fundamentals such as full employment, an increase in net wealth and a reduction in the tax burden. The recent revision of the national finances has lowered the savings rate, stabilising it at around 3%, limiting the room for a possible boost to future spending. This boom cycle in the United States is one of the longest since World War II. Signs of maturity are beginning to show, even if they are hidden by the peculiar characteristics of this cycle: a slowdown in the upward trend of employment, closure of the output gap and a moderate recovery in inflation and in wages.

Non-residential investment is recovering, supported by the consolidation of domestic and international demand. Manufacturing orders give positive indications, favoured by the effects of the tax reform which provides for reductions in tax rates for households and businesses. Residential investment should recover in the coming months and show moderate increases over the next two years.

Inflation is moderate and has not yet responded to the reduction in unused resources, allowing a gradual exit from expansionary monetary policies. It is believed that the framework of the real economy is consistent with a normalisation of monetary policy. The Fed, which will soon be subject to a reorganisation of its Governing Board, is expected to take action during the current year with a rise in interest rates. The gradual downsizing of the US central bank's balance sheet has begun.

Equity valuations are at a premium compared with other advanced markets and profit margins are at an all-time high.

Japan

The Japanese economy continues to grow at a moderate pace. After the unexpected contraction at the beginning of the year, the 2nd quarter posted a significant rebound. The forecasts for the second half of the year are of expansion around the potential (estimated at around 1% by the Bank of Japan), in the wake of domestic demand and full employment. The expected change in GDP could bring growth back to the previous positive trend (+0.7%).

The labour market is increasingly under pressure, with a rising excess in demand that should result in modest wage increases over the next two years. Unemployment is expected to fall to 2.5%. There is resistance in the propensity for consumers to spend, but the trend is still positive. The accumulation of savings shows no sign of decreasing, whether to face an expected future fiscal restriction or because of low inflation expectations.

Inflation, net of energy and food, has been modest (+0.9%), allowing the Bank of Japan to continue its expansive monetary policy. Excluding food and energy, inflation marked a significant slowdown in the middle part of 2018, prompting the Bank of Japan to revise projections downwards several times, indicating that the 2% target will not be reached even at the end of 2020.

As regards the demand for private and public fixed capital formation, the expected weakening of the yen should have a stronger positive impact on profits and capital expenditure than on the trade balance. The foreign channel still provides a positive contribution, thanks to the improvement in exports and a better international cycle. Spending on the 2020 Tokyo Olympics, the global cyclical situation and expansive financial conditions are keeping the trend in non-residential investment up. On the more strictly political side, the management of constitutional reforms and tensions with North Korea may give rise to temporary volatility.

Fiscal policy should be slightly expansive in the coming quarters, prior to the second hike in consumption tax expected in October 2019. The government has outlined a series of measures (increase in public expenditure and business and household subsidies partly aimed at stimulating short term growth and partly at supporting structural growth. The Japanese economy will continue to be characterised by the simultaneous presence of pro-cyclical fiscal and monetary policies.

Emerging Economies

In the main emerging countries, the economic outlook is weakened by the strengthening of the US dollar. The cycle has accelerated in India, whereas in China it has remained in line with estimates, after exceeding expectations in previous quarters. The budgetary fundamentals of the large oil-producing countries have improved with the recovery in oil prices.

In China, despite the matter of tariffs, the acceleration of the service sector has provided the largest contribution to growth and, together with the strengthening of the agricultural sector, it has offset the slowdown in industry. There is still a high trend in the transport sector and an acceleration in financial services, while real estate has continued to decelerate, along with construction. Business confidence remains high, driven by higher profits and turnover. The order backlog, both domestic and foreign, has gone down slightly. Consumer confidence has continued to rise, supported by a good performance by the labour market and an increase in disposable income. Consumption continues to grow strongly. The scenario is that of a slow slowdown in economic growth that could still remain above 6%. Control over financial risk will continue to be one of regulators' top priorities, together with environmental protection and the quality of growth. It is possible that the desire not to fuel further economic imbalances will reduce the room for manoeuvre in fiscal and monetary policy and will contribute to slowing down credit growth, reducing support for investment. While maintaining a generally restrictive policy, the Central Bank slightly eased its monetary squeeze, reducing the compulsory reserve on deposits by 150 basis points. Consumer price inflation is expected to rise moderately above 2% during the year.

In India, economic growth is strong and the expectation is that it will remain vigorous at over +7%, thanks to the support of fiscal policy and a slow recovery in capital investment, favoured by the long-term effects of the reforms that have been implemented. The slowdown in private consumption has been offset by a moderate recovery in investment and inventory accumulation. The foreign channel has contributed negatively to growth as imports have been higher than exports. Growth in the service sector remains vigorous, even if it seems to be slowing down a bit, industry's growth is improving, whereas there has been a downturn in agriculture. The credit trend for individuals and industry is slightly up. Consumer confidence remained moderate. Inflation stayed around 4.5%. This allows the Central Bank to manage any further interest rate hikes from a tactical point of view.

Russia's economic prospects are gradually improving, linked to the expected trend in oil prices. Brazil's prospects, on the other hand, remain fragile now that the presidential elections have taken place. The most critical issues among developing countries are in Turkey, Argentina, South Africa and Venezuela.

Europe

In the Eurozone, growth has been lower due to a deceleration in recent months (+0.6% in September, having been +1.7% in June). In January 2019, the German government revised its growth estimates for the year from 1.8% to 1%, while France showed greater resilience in its figures for the last quarter of the year. The economic situation is mainly driven by domestic demand; net exports, on the other hand, provided a negative contribution. Moderate wage dynamics and ample margins of labour under-utilisation have helped to keep inflation at moderate levels. The dispersion of growth between "core" and "peripheral" countries is expected to be less marked, while the economic situation remains on a growth trend below 2%.

Overall, despite the fact that fiscal policy contribution will remain minimal, an increase in aggregate demand, employment growth and accommodative financial conditions should continue to drive economic growth. Domestic demand has exceeded estimates thanks to consumer spending and a more expansionary investment cycle. The cyclical recovery is associated with a growth in the number of employees and a fall in the unemployment rate, to the lowest levels for the last nine years. Business in the construction sector is also improving.

Political risk and, in particular, the risk of a drift towards populist positions has fallen, but it has not been eliminated completely. The elections that took place in Germany, France and the Netherlands confirm the rise of Euro-sceptic political movements. The outcome of the recent elections in Italy undermines the possibility of stable government majorities. Among the risks are also those relating to the negotiations for the United Kingdom's exit from the EU.

Lending to non-financial companies in the Eurozone is still moderate. The cost of new loans to businesses and households for home purchase is still low; the dispersion of interest rates among Eurozone countries has remained very low.

The Governing Council of the ECB believes that considerable progress has been made towards achieving a lasting inflation profile at below 2%. The ECB, as confirmed by its President Draghi in January, still intends to preserve a large degree of monetary accommodation, keeping interest rates at the current low levels at least until the summer of 2019, reinvesting the repaid capital of the securities due to expire and continuing to consider the purchasing programme as one of the tools that it can use.

In all of the main Eurozone economies, exports were affected at the beginning of the year by the slowdown in world trade. It is therefore reckoned that the contribution made by foreign trade could go from positive to marginally negative.

Italy

In the third quarter of 2018, GDP fell by 0.5% on an annual basis, while household consumption (+0.3%) and public spending (+0.4%) contributed positively to the overall figure. All components of GDP provided negative contributions, with the exception of net exports (+0.1%): domestic demand fell (-0.3%), as did household consumption (-0.1%) and gross capital investment (-0.2%). The seasonally adjusted production index fell sharply in November (-2.6% y/y): the sectors that presented the worst annual changes were the car industry (-19.5%), wood and paper (-10.4%) and chemical products (-4.5 %). New orders acquired by industry turned in a negative growth trend (-0.9%); retail sales, on the other hand, have gone up (+0.4%). In October the unemployment rate increased on a monthly basis (10.6%, formerly 10.4%); again in October, the harmonised index of consumer prices rose (+1.6% versus +1.5% in September), while core inflation (excluding non-processed foods and energy products) came to 0.9% (versus 0.7%).

In January 2019, Istat's figures showed a negative contribution to GDP for the fourth quarter, emphasising the slowdown of the previous quarter.

2.2 - CAPITAL MARKETS AND THE BANKING SYSTEM IN ITALY

Financial and monetary markets

The ECB kept the policy rates unchanged in November (reference rate of zero, -0.40% on deposits). The Governing Council expects reference interest rates to remain at current levels at least until the summer of 2019 and, in any case, as long as it is necessary to ensure that inflation continues to converge at lower levels, but close to 2% in the medium term.

The Fed confirmed the reference range set in September (between 2.00% and 2.25%). During 2019, the US central bank then plans to make further gradual increases in line with a sustained expansion of economic activity, good labour market conditions and inflation close to 2%.

In the first ten days of December, 3-month Euribor is still in negative territory (-0.31%); the 10-year IRS rate, on the other hand, was +0.84%. On the bond market, 10-year benchmark rates rose in the USA (3.12%, having been 2.36% at the end of 2017) and in the Eurozone; in Germany, the benchmark rate came to 0.46% (from 0.37% at the end of 2017), while in Italy it was 3.50% (from 1.75%).

International share prices have been falling month on month. The Dow Jones Euro Stoxx index has fallen by -1.3% m/m (-8% y/y), the Standard & Poor's 500 index by -2.4% (+4.9% y/y) and the Nikkei 225 index by -3.5% (-2.5% y/y). The major European stock market indices showed negative monthly performances; the FTSE Mib index fell by -2.2% (-15.2% y/y), in France the Cac40 index declined by -2.6% (-6.7% y/y), in Germany the Dax30 index decreased by -2.8% (-13.7% y/y). The main banking indices tended to be in decline on a monthly basis: the Italian FTSE Banks declined by -3.2% m/m (-28.6% y/y), the Dow Jones Euro Stoxx Banks by -3.1% (-25.9% y/y) and the S&P 500 Banks by -0.6% m/m (+1.5% y/y).

Banking markets

With regard to the banking market, the annual trend in deposits from resident customers in November 2018 was substantially unchanged (same result at the end of 2017). Analysing this, the principal components were in line with previous postings: short-term deposits rose (+3.3%, compared with +4.1% at the end of 2017) and bonds fell (-16.4%, compared with -16.9% in at the end of 2017). Stationary volumes were accompanied by a fall in overall remuneration (0.70%, compared with 0.76% at the end of 2017). In terms of lending, the latest available data confirms the recovery in loans to the private sector (+2.0%, compared with +1.8% at the end of 2017); the sector is driven by the combined effect of loans to households (+2.8%, the same as at the end of 2017) and businesses (+1.5%, having been -0.5% in December 2017). Lending to the productive sector continues to be influenced by the trend in investments and the economic cycle that, although recovering, remains muted. In November, rates on new loans to households and businesses remained very low (2.57%). Within them, the interest rate on home purchase loans to households was 1.91%, while for loans to businesses it came to 1.54% (recovering from 1.47%, an all-time low in April 2018).

3 – REGIONAL PRESENCE AND THE CORPORATE ISSUE

3.1 - THE DISTRIBUTION NETWORK

The Group's distribution network at 31 December 2018 consists of 265 branches, including 146 in the Parent Company Banco di Desio e della Brianza and 119 of Banca Popolare di Spoleto.

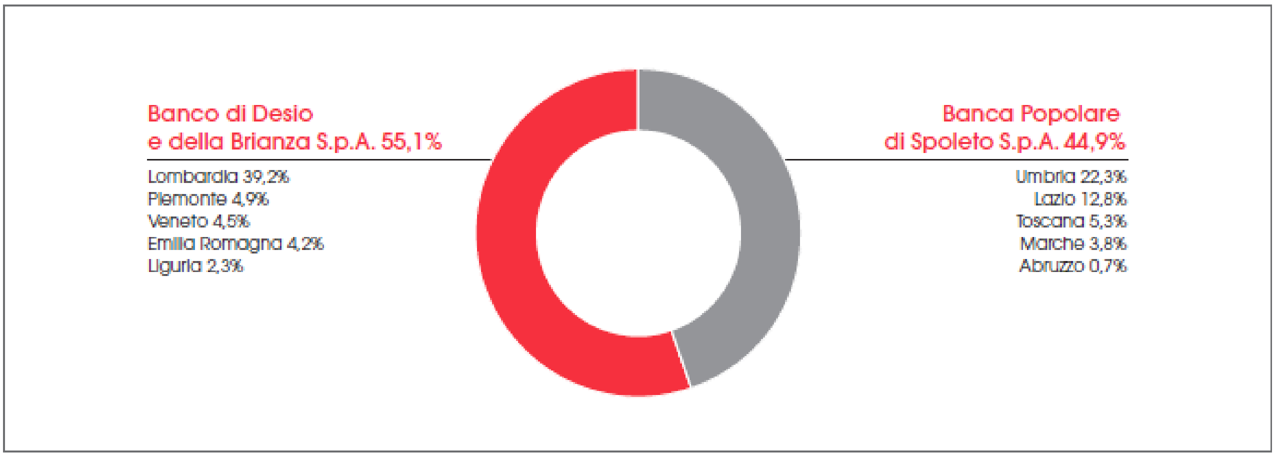
The Group is present in Northern Italy in 5 regions (Lombardy, Piedmont, Veneto, Emilia Romagna and Liguria) under the Banco Desio brand and in Central Italy in 5 regions (Umbria, Lazio, Tuscany, Marche and Abruzzo) under the Banca Popolare di Spoleto brand.

The organisational model, which is the same for both Banco Desio and Banca Popolare di Spoleto, provides in particular for:

- 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 clear 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 analyses by region the companies that form a part of the distribution network at 31 December 2018.

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



Emilia Romagna 4.2%
Liguria 2.3%
Lombardy 39.2%
Piedmont 4.9%

Abruzzo 0.7%
Lazio 12.8%
Tuscany 5.3%
Marche 3.8%

3.2 - SIGNIFICANT EVENTS

Approval of the 2018-2020 Group Business Plan

On 11 January 2018, the Parent Company's Board of Directors approved the Group Business Plan for 2018-2020: in a particularly complex and competitive market scenario, it laid down a strategy aimed at reaffirming the commercial bank model, for private customers and small-medium businesses, according to a process of continuous streamlining of business lines and a gradual reorientation of the model in order to profitably support a range of banking services more and more linked to the technological and behavioural evolution of customers.

The Plan establishes a significant evolution in the distribution model to be realised through an integrated "omnichannel" approach with an off-site offering leading to a steady increase in revenues from the financial advisory channel and the online channel compared with that of the branches; as far as the financial advisors are concerned, over the three years of the Plan the development programme establishes the creation of a network of 100 consultants with a specific investment plan and a target of more than 700 million in additional assets under management (AUM).

With particular reference to non-performing loans, in line with the market context, including implementation of the Supervisory guidelines, the Business Plan establishes the development of a programme for further sales, also having recourse to GACS (*Garanzia Cartolarizzazione Sofferenze*, a State guarantee for the securitisation of NPL), with the aim of reducing the ratio of non-performing loans to gross loans to 10% over the three-year period and the ratio of non-performing loans to net loans ratio to nearly 5%, with an average coverage ratio at the end of the three-year period of around 50%.

In consideration of the resolutions passed on 11 December 2018 with which the respective Boards of Directors approved the project for the absorption of Banca Popolare di Spoleto S.p.A. by Banco di Desio e della Brianza S.p.A., communicated on the same date to the market, following the incorporation plan and the authorisation process now underway, the Banco Desio Group will make the additional necessary changes to the strategic planning documents currently in force with the approval of the new 2020-2022 Business Plan.

Non-performing loans (NPL) disposal programme

On 27 March 2018, in execution of its capital management strategy defined in the last few months of 2017 and included in the 2018-2020 Business Plan approved on 11 January 2018, the Board of Directors of Banco di Desio e della Brianza resolved a plan for the sale of NPLs for a gross value of Euro 1.1 billion. This includes a securitisation that makes use of the Italian State guarantee on the securitisation of doubtful loans on senior securities pursuant to Decree Law 18/2016 ("GACS") aimed at deconsolidating Banco Desio Group loans for a gross value of Euro 1.0 billion (the "Transaction").

The Transaction was structured in order to carry out the significant transfer of the credit risk associated with the securitised loans ("SRT") pursuant to art. 243 et seq. of Regulation (EU) no. 575/2013; the NPLs portfolio sold on 12 June to "2Worlds s.r.l." (the special purpose vehicle or "SPV" set up specifically for this purpose) consists of mortgage or unsecured loan contracts granted by Banco di Desio e della Brianza and by Banca Popolare di Spoleto in favour of secured customers, i.e. with relationships guaranteed by mortgages, and unsecured customers, i.e. with relationships that do not have any collateral.

On 25 June, the SPV issued the following types of asset-backed securities (ABS):

- senior securities for 288.5 million euros, corresponding to 28.8% of the Gross book value (GBV) at the date of identification of the loans at 31 December 2017, to which DBRS Ratings Ltd and Scope Ratings GmbH have given "BBB low" and "BBB" ratings respectively;
- mezzanine securities for 30.2 million euros to which DBRS Ratings Ltd and Scope Ratings GmbH have given "B low" and "B" ratings respectively;
- junior securities for 9.0 million euros, with no rating.

At the date of issue all of these securities (senior, mezzanine and junior) were subscribed by the Banco Desio Group, which on 4 July 2018 then submitted a request to obtain the guarantee on the securitisation of non-performing loans pursuant to Decree Law 18/2016 ("GACS").

At the end of a competitive process that saw the participation of several international institutional investors, on 11 July, the Banco Desio Group accepted the final binding agreement for the sale of 95% of the mezzanine and junior securities, which was finalised on 23 July 2018 by settling the transaction, which in turn permitted the derecognition of the NPLs concerned.

On 3 October 2018, the Banco Desio Group received a formal communication that the Minister of Economy and Finance, with the provision of 5 September, had granted the State guarantee on senior securities issued by the SPV with effect from the date of adoption of this provision, as the conditions laid down in Decree Law 18/2016 had already been fulfilled.

In the financial statements at 31 December 2018, as well as in the quarterly financial report at 30 September 2018, in addition to the economic effects of the Transaction, the relative supervisory benefits are also fully included due to the application of the SRT and the aforementioned State guarantee.

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

In line with IFRIC 21, the Banco Desio Group made the following entries when the "obligating event" occurred:

- standard contribution to the SRM of about 3.9 million euros gross (2.7 million euros for Banco Desio and 1.2 million euros for Banca Popolare di Spoleto). The contribution was paid in June;
- the additional contribution requested by the Bank of Italy in May, as required by Law 208/2015, for approximately 1.5 million euros gross (1.0 million euros for Banco Desio and Euro 0.5 million for Banca Popolare di Spoleto). The contribution was paid in June;
- standard contribution to the DGS of about 4.3 million euros gross (2.5 million euros for Banco Desio and 1.8 million euros for Banca Popolare di Spoleto). The contribution was paid in December.

Subordinated bond loan convertible into shares issued by Banca Carige

On 30 November 2018, the FITD's Voluntary Intervention Scheme subscribed 318.2 million euros of the subordinated bond convertible into shares issued by Banca Carige for a total of 320 million euros, maturing on 30 November 2028. Although Banco Desio is no longer a member of the VIS, it has nevertheless decided to subscribe the remaining 1.8 million euros issued because of a sense of solidarity for the system, given that the banking sector continues to be in difficulty.

Tax audit at the Parent Company

On 12 September 2018, the Lombardy Regional Tax Office (Controls Sector - Large Tax Payers Office) initiated a tax audit at Banco di Desio e della Brianza on fiscal year 2015, for the purposes of Direct Taxes, IRAP, VAT and the obligations of the withholding agent. The audit was completed on 14 December 2018 with the notification of the minutes of findings only regarding a presumed incorrect criterion for determining the deductible portion of VAT (on so-called "mixed purchases") in the leasing business, with an alleged undue deduction of Euro 115 thousand. Pursuant to the law, the Bank has submitted its observations pursuant to art. 12, paragraph 7, of Law 212/2000.

Transparency inspection at Banca Popolare di Spoleto

On 13 September 2018 the Bank of Italy delivered the inspection report on the checks carried out at certain branches of Banca Popolare di Spoleto (BPS) with regard to the rules on transparency and fairness of relations between intermediaries and customers. The corporate bodies sent their comments to the Bank of Italy on 13 December 2018; in addition to the organisational-procedural interventions carried out to remedy the aspects requiring attention that emerged from the audits, it provided for the refund in cases where the figures charged to customers were found to be incorrect.

Change in the business models with which financial instruments in the proprietary portfolio are managed

According to IFRS 9 *Financial instruments*, a business model represents the way in which groups (or portfolios) of financial assets are managed collectively to pursue certain strategic corporate objectives, i.e. the collection of contractual cash flows, earning profits by selling them, or a combination of the two, which in relation to the contractual characteristics of the cash flows of the financial assets in question (SPPI test - Solely Payments of Principal and Interest) determines the measurement at amortised cost, at fair value through profit or loss or at fair value recognised in equity. The business model does not therefore depend on management's intentions with respect to a single financial instrument, but at a higher level of aggregation (the portfolio) and is determined by management according to the scenarios that are reasonably expected to occur, also taking into account the methods for measuring the performance of financial assets held under the model, the methods of communication (and remuneration) of performance to managers with strategic responsibilities and of the risks that affect the performance of the business model (and therefore of the financial assets held within the scope of the business model) and the way in which these risks are managed.

On first-time adoption of IFRS 9, in order to allocate the financial instruments to the business models, for the loan portfolio, if the conditions apply, only the Held to Collect (or HTC) business model was defined. This model reflects the operating mode that is always followed by the members of the Banco Desio Group in managing loans granted to retail and corporate customers. For the proprietary portfolio of financial instruments, on the other hand, three business models have been defined: Held to Collect (HTC), Held to Collect and Sell (HTC&S) and Trading (FVTPL), with limited cases in which a change in management's intentions was chosen with respect to the accounting categories established by IAS 39, for which the prevailing destination for bond instruments (mainly Italian government securities) held for investment purposes has been identified by the Banco Desio Group in the categories HTC and HTC&S to a more or less equal extent.

This decision was made following a specific analysis of the performance and management of the securities portfolio over the previous two years, with the aim of ensuring periodic cash flows through the

HTC&S category, while reserving the possibility of taking advantage of market opportunities to sell securities before their maturity (but not on a regular basis); this business model was seen as the main category to which financial investments should be allocated, while reflecting the exposure to market risk by measuring them at fair value with an impact on comprehensive profitability in each reporting period.

Considering the evolution of the context, during the year the Board of Directors of Banco di Desio e della Brianza monitored the effects of the operational decisions made with particular attention (including the "2Worlds" securitisation, for which the GACS was obtained) in order to achieve the strategic objectives defined in the Group's 2018-2020 business plan. In fact, the above plan reiterated the centrality of the credit chain as the main driver of profitability, while pursuing a reduction in the overall risk exposure, accompanied by prudent and conservative management of the proprietary securities portfolio.

Analyses of the results at 30 June 2018 gave further impetus to the implementation of initiatives designed to protect the Group's assets. These included a specific assessment, with the help of an independent external advisor, relating to the overall strategic management of the Group's investment activities to identify the ways in which the business models of the proprietary securities portfolio could be redefined. The Board of Directors of Banco di Desio e della Brianza and of Banca Popolare di Spoleto (the "Group Banks") therefore met on 26 September 2018 to discuss, among other things, the results of this assessment; in this context, the rationale underlying the work of the Finance Department has been critically reviewed with particular regard to the risk profile expressed by the groups of financial assets allocated to the various business models.

The analyses showed how the Group's investment policies led to situations of sometimes considerable misalignment with respect to the objectives and strategic lines defined in the business plan, based on the pursuit of a stable policy of strengthening capital ratios. In light of the conclusions reached, while reiterating the need to maintain a particularly prudent risk profile in managing the securities portfolio, the Group Banks opted for a more decisive management strategy aimed at favouring stability in the collection of medium-long term financial flows of the securities portfolio and therefore mitigation of the risks of weakening the capital ratios (albeit at the expense of taking advantage of any market opportunities).

Operationally, this necessarily involves a change of approach in the overall management of financial assets:

- favouring the HTC portfolio as a category for investment purposes, so as to ensure, on the one hand, certain and stable cash flows with low risk assumption and, on the other hand, a way of managing loans that is more consistent with the sources of financing increasingly oriented towards medium to long-term stability (covered bond issues, EMTN programme),
- the HTC&S portfolio, which showed a strong sensitivity to market risk, as a category destined for short-term treasury activities now of a "residual" nature compared with the past,
- the FVTPL portfolio to exploit market opportunities through short/very short-term (intraday) trading activities according to a defined and limited exposure to market risks (a marginal activity with respect to the Group's core business).

In order to ensure consistent management of the new business models, it was necessary to change the organisational structure of the Parent Company's Finance Department: from 27 September 2018, it is now split into three separate sectors (respectively "ALM" for medium-long term investments, "Trading" and "Treasury", the last two being only for the needs of Banco di Desio e della Brianza in a centralised Group logic). The change in the business models therefore led to a redefinition/integration of the operating limits previously established at Group level and for each individual bank with a view to the new financial asset management processes that have been defined; similarly, a review has been carried out by the Finance Department of the reports produced and integration of the primary indicators included in the Risk Appetite Framework.

From an operational point of view, the management objectives and drivers associated with the new business models determined a need to review the allocation of financial assets among the various portfolios, according to the characteristics of each financial instrument with respect to the new reasons for holding them, i.e. approximately 74% of the HTC&S portfolio outstanding at the date when the change in business models was approved was associated with the HTC/ALM portfolio.

In order to make the new investment management models immediately operational, the amendments to the internal regulations of the Banco Desio Group of the highest level were approved on 26 September 2018 (e.g. the methodological framework of IFRS 9, Group risk management policies, operating policy limits, etc.). In October and November, amendments were made to the internal regulations of the Finance Department relating to the management of the Group's own securities and treasury portfolio, approved on 20 December 2018, reflecting the operational procedures implemented as of 27 September 2018.

The accounting effects of this operation, which only affect the balance sheet, took place on 1 October 2018 (the "reclassification date"), for which the conditions established by IFRS 9 in the case of a change in business models were satisfied (in terms of rarity of occurrence, decision made by senior management following external or internal changes, materiality[1] for operations in general and the fact that they can be demonstrated to third parties).

The financial instruments involved in the change of business model from HTC&S to HTC are mainly represented by sovereign debt securities, as well as corporate bonds for a total nominal value of 1,093 million euros. The relative accumulated loss on the reclassification date of 51.5 million euros (gross of the related tax effect), previously recognised in the other components of comprehensive income (valuation reserve), is eliminated from equity against the fair value of the same financial instruments, which are therefore recognised as if they had always been valued at amortised cost.

It should also be noted that the transactions carried out in financial assets included in the HTC/ALM portfolio after 26 September 2018 are in accordance with the frequency, value and timing of sales, as defined in the accounting standard (IFRS 9 Classification and Measurement) adopted by the Banco Desio Group, according to which the following are considered consistent with an HTC business model in the annual reporting period: (a) indicators of frequency and materiality of sales turnover of less than or equal to 5%, and (b) time to maturity of sales greater than or equal to 95% (thresholds that were not updated when the business models in question were changed).

More specifically, starting from 27 September 2018, there were no purchase or sale transactions with reference to the HTC/ALM portfolio, with the sole exception of the subscription for 1.8 million euros of the

[1] To specifically assess the significance/relevance of the change in the business model, reference was made to the "2018 Conceptual Framework for Financial Reporting" of the IASB and therefore to the expectations of users of the financial statements in relation to the amounts deemed relevant by them; so, in this specific case, for the Banco Desio Group and for the individual Bank concerned, quantitative elements were used such as the size of the HTC&S portfolio potentially subject to reallocation, which was placed in relation to capital amounts such as the entire HTC&S portfolio, the total of financial assets other than loans, total assets and carrying amount of equity at 30 June 2018. In consideration of the strong sensitivity to risk demonstrated by the HTC&S portfolio, associated with the dual purpose of holding financial assets to collect cash flows or to take advantage of any market opportunities to make sales, the "transaction materiality" was also considered in terms of the incidence of the OCI valuation reserve on securities potentially subject to reallocation with respect to equity at 30 June 2018, 31 July 2018 and 31 August 2018, demonstrating a volatility effect on the balance sheet over three months that was not negligible. Even the final figures at 30 September 2018 further corroborated the analyses carried out for the purposes of the resolutions passed on 26 September 2018.

Tier 2 subordinated bond issued by Banca Carige on 30 November 2018, which, having failed the SPPI test, was measured at fair value through profit or loss.

Simulating at the reference date of 30 September 2018 the accounting effects of the change in the business model (BM) in question, which were recognised on the date of the reclassification, 1 October 2018, the following effects on the supervisory coefficients were estimated:

IFRS 9 transitional regime at 30 September 2018	coefficients measured without change in BM			estimated effect because of change in BM			pro-forma coefficients with change in BM		
	CET 1	Tier 1	Total	CET 1	Tier 1	Total	CET 1	Tier 1	Total
Banco Desio Group	11.65%	11.78%	13.28%	0.50%	0.50%	0.50%	12.15%	12.28%	13.78%
Brianza Unione Group	8.80%	9.66%	11.48%	0.25%	0.25%	0.26%	9.05%	9.91%	11.74%

For completeness of information, it should be noted here that on 31 December 2018, the cumulative capital loss in the absence of the transfer amounts to approximately 34.9 million euros (pre-tax), from which the following effects on the supervisory coefficients were estimated:

IFRS 9 transitional regime at 31 December 2018	pro-forma coefficients without change in BM			estimated effect because of change in BM			coefficients measured with change in BM		
	CET 1	Tier 1	Total	CET 1	Tier 1	Total	CET 1	Tier 1	Total
Banco Desio Group	11.85%	11.97%	13.27%	0.30%	0.30%	0.30%	12.15%	12.27%	13.58%
Brianza Unione Group	9.26%	10.12%	11.84%	0.16%	0.16%	0.16%	9.41%	10.28%	12.00%

As regards the representation of the prospective effects on the income, capital and cash flows of the Banco Desio Group deriving from the change in business model, it should be noted that these were reflected in the updated performance forecasts for the 2018-20 Business Plan, developed by the Parent Company's management, taking into account the main drivers of the events of the period, the results achieved at 30 September 2018, the forecasts at 31 December 2018 and the most recent market forecasts available.

These updated performance forecasts, with further projections of future results extended again by the Parent Company's management at 31 December 2022, were used by the respective advisors of Banco di Desio e della Brianza and Banca Popolare di Spoleto in charge of the assessment activities (with reference to the Dividend Discount Model or DDM) as part of the project for absorption of the subsidiary Banca Popolare di Spoleto by the Parent Company Banco di Desio e della Brianza approved by the respective Board meetings held on 11 December 2018, as well as to perform the impairment test on equity investments and goodwill for the financial reporting of the two banks of the Banco Desio Group at 31 December 2018.

Development of the network of financial advisors authorised to provide doorstep banking services

In line with the indications of the 2018-2020 Business Plan on the evolution of the distribution model through an integrated multi-channel approach, in the third quarter of 2018 Consob was informed of the start-up of doorstep banking by Banco di Desio e della Brianza. On 31 December 2018, Banco di Desio e della Brianza started agency relationships with 3 authorised financial advisors. At the same time, work continued to strengthen the network of consultants operating at Banca Popolare di Spoleto which, at the same date, is made up of 33 financial advisors authorised to make off-site offers.

Publication of the judgements with which the Regional Administrative Court of Lazio rejected the appeals against the MEF Decrees of 20 April 2015 relating to the Extraordinary Administration of Banca Popolare di Spoleto and SCS

Two judgements were published on 3 December 2018, with which the Regional Administrative Court of Lazio rejected the claims brought by some former officers of Banca Popolare di Spoleto, as well as its previous Parent Company Spoleto Credito e Servizi Soc. Coop., against the MEF Decrees of April 2015 that had reiterated "now for then" the submission of the two companies to the Extraordinary Administration procedure originally ordered by the same Ministry in February 2013. The Regional Administrative Court declared the objections in part inadmissible and in part unfounded, also condemning the appellants to pay the costs of the proceedings. It should be recalled that the same affair had already been the subject in February 2016 of as many judgements with which the Council of State had rejected the appeals for compliance with the previous judgements of the same Council of February 2015.

Approval of the plan for Banca Popolare di Spoleto S.p.A. to be absorbed by Banco di Desio e della Brianza S.p.A.

On 11 December 2018, the Boards of Directors of Banco di Desio e della Brianza S.p.A. ("Banco Desio" or the "Parent Company") and Banca Popolare di Spoleto S.p.A. ("Banca Popolare di Spoleto" or "BPS") approved the plan for BPS (held 81.67%) to be absorbed by the Parent Company (the "Merger" or "Transaction")

The Merger proposes to complete the operational and business integration that has been in progress for some time between the Parent Company and BPS, making it possible to achieve important benefits in terms of cost and revenue synergies, simplification and overall rationalisation of the Banco Desio Group's organisational structure, especially, but not only, in credit & loans and sales & marketing. The synergies resulting from the Merger will make it possible, among other things, to allocate additional resources to the commercial development of the Banco Desio Group, in order to refine the quality of the products and services offered to customers.

The Transaction also sets the scene for a redefinition of the Banco Desio Group's territorial strategy by rationalising the commercial network. The aim of this, on the one hand, is to safeguard the "Banca Popolare di Spoleto" brand, especially in Umbria; and, on the other hand, to ensure harmonisation of the product portfolio and services offered to customers, which will be helped by strengthening the centralised structures in commercial matters and the policy and management of the credit & loans area.

The Merger will be implemented in such a way as to safeguard the value and skills of all members of staff throughout the Group's territory, maintaining a second HQ in Spoleto that will provide services for the entire Banco Desio Group, while at the same time ensuring efficient reorganisation of the structures in line with the new entity deriving from the Merger.

As a result of the Merger, BPS shareholders will be able to participate directly in the broader industrial and development project of the Banco Desio Group, while benefiting from the liquidity of Banco Desio shares, taking into account the fact that BPS shares are no longer listed after being suspended indefinitely from trading on the MTA (screen-based equities market) by order of Borsa Italiana S.p.A. dated 19 September 2013 and a subsequent order by Borsa Italiana dated 25 September 2017 with which the listing was revoked from 3 October 2017.

On the basis of the indications received from their respective independent financial advisors, the Boards of Directors of the two banks decided on an Exchange Ratio of 1 Banco Desio ordinary share for every 5

BPS ordinary shares. To service the exchange, the Parent Company will authorise a Capital Increase for a maximum nominal amount of 2,987,819.64 euros by issuing up to a maximum of 5,745,807 ordinary shares, with regular rights, with an indication of the nominal value of 0.52 euros, to be assigned to the shareholders of BPS on the basis of the Exchange Ratio.

The ordinary shares of Banco Desio deriving from the Capital Increase and assigned in exchange to the shareholders of BPS will be admitted to trading on the MTA.

The Merger plan will be filed with the Register of Companies in the places where Banco Desio and BPS are located, for it to be registered, subject to the Bank of Italy giving the authorisation required by arts. 56 and 57 of Legislative Decree 385/1993. To this end, the request for authorisation to complete the Merger and the consequent amendments to the articles of associations pursuant to articles 57 and 56 of Legislative Decree 385/1993 were submitted to the Bank of Italy on 13 December 2018.

Subject to obtaining these authorisations and the Report on the Fairness of the Exchange Ratio pursuant to art. 2501-sexies of the Italian Civil Code, the Merger plan will be submitted for examination and approval to the Extraordinary Shareholders' Meetings of Banco Desio and Banca Popolare di Spoleto, which are expected to be convened before the end of May 2019.

The effects of the Merger for statutory purposes will run from the date indicated in the Merger Deed, which, as things stand, is expected to be signed by the end of the first half of 2019. For accounting and tax purposes, BPS's transactions will be recorded in the Parent Company's financial statements from 1 January 2019, assuming that this date is prior to the date of the last registration pursuant to art. 2504-bis of the Italian Civil Code.

As regards Banco Desio, the Merger constitutes a transaction with an "intercompany" related party for the purposes of the "Internal Procedure for transactions with related parties and entities included in the scope of application of art. 136 of the Consolidated Banking Act" approved by the Board of Directors of Banco Desio on 25 November 2010 (as subsequently amended) (the "Banco Desio Procedure"), as it was carried out with one of its own subsidiaries (BPS). Given that BPS should not have any significant interests in other related parties of Banco Desio, the Merger is exempt from the provisions of the Consob Regulation 17221/2010 and subsequent amendments (the "Consob Regulation") and the Banco Desio Procedure, except for the obligation to provide information regarding the Merger in this Report in accordance with art. 5, paragraph 8, of the Consob Regulation.

As regards Banca Popolare di Spoleto, by virtue of the legal control that exists through this investment between the Parent Company and BPS and taking into account the fact that Banco Desio exercises management and coordination activities for BPS pursuant to art. 61 of Legislative Decree 385/1993 as Parent Company of the Banco Desio Group, the Merger constitutes a "significant" transaction between related parties pursuant to the Banco Desio Procedure, implemented by BPS by resolution of the Board of Directors of 30 July 2014 and subsequently supplemented with the Addendum last updated on 22 February 2018 (the "BPS Procedure"). The Committee for Transactions with Related Parties of Banca Popolare di Spoleto was therefore involved in the preliminary phase of the Merger, above all by receiving adequate information. With the support of its own advisor appointed for this purpose, the Committee unanimously expressed its opinion that it was in the interest of BPS and its shareholders to go through with the Merger. It was also said that the terms and conditions of the Merger were acceptable and fair. In accordance with the provisions of art. 5 of the Consob Regulation, BPS prepares an information document drawn up in compliance with Attachment 4 of the same Regulation, which is made available to the public by the deadline and with the methods envisaged by applicable laws and regulations.

Sales to the "Asset Bancari VI" Real Estate Fund run by Polis Fondi S.G.R.p.A.

On 21 December 2018, Banco di Desio e della Brianza signed a deed of sale in which it transferred to "Asset Bancari VI", a closed-end alternative real estate investment fund managed by Polis Fondi S.G.R.p.A., a total of 12 properties owned by the Bank as a result of finance lease receivables in default, for a total value of around 2.4 million euros, plus 0.3 million euros in cash, in exchange for 59 shares of the "Asset Bancari VI" real estate fund of 50,000 euros each for a total of 2.7 million euros, in addition to the 125 quotas, bringing its stake in the Fund to approximately 9.33%.

Further disposals of non-performing loans (NPLs)

Continuing the Group's pro-active strategy for the management of non-performing loans and in line with the guidelines issued by the European Central Bank, on 28 December 2018, further sales were made to a specialist intermediary of loan portfolios consisting of mortgage and unsecured loans classified as doubtful:

- the Banco Desio portfolio, with a total nominal value of about 38.7 million euros, sold for about 4.8 million euros;
- the Banca Popolare di Spoleto portfolio, with a total nominal value of about 49.7 million euros, sold for about 4.9 million euros.

As a result of these sales, taking into account all doubtful items, no gains or losses on disposal were recorded.

Inspections on Anti-Money Laundering

On 17 January 2019, the Bank of Italy notified the inspection report relating to the checks carried out on anti-money laundering pursuant to art. 7 of Legislative Decree 231/2007 at 8 branches of Banco di Desio e della Brianza and 2 branches of Banca Popolare di Spoleto. From the assessments conducted between 5 September 2018 and 16 November 2018, no critical elements or serious deficiencies were found, such as to increase the "low" residual risk calculated in 2017 as part of the self-assessment process for the risks of money laundering and terrorist financing.

4 - LEGISLATIVE DECREE NO. 231/2001

With reference to measures implemented concerning the administrative liability of companies for offences committed by their officers and/or employees, in 2004 the Board of Directors of the Parent Company approved the adoption of an Organisation and Management Model for the prevention of criminal offences contemplated by Legislative Decree no. 231/2001 (hereinafter "Model 231"). This Model has been implemented over time in compliance with subsequent provisions of the law and is published on the Group's website.

Further information on Model 231 and on the Supervisory Body pursuant to the aforementioned Legislative Decree 231/2001 (the role of which has been performed since 2012 by the Board of Statutory Auditors) is provided in the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, to which reference should be made.

5 - HUMAN RESOURCERS

5.1 - MANAGEMENT AND BREAKDOWN OF THE RESOURCERS

In consideration of the strategic guidelines underlying the Group Business Plan for the three-year period 2018-2020, the Human Resources Department is making every effort to support the evolution of the Group's Distribution Model towards an integrated "omnichannel" approach. This is in line with the commercial business decisions and related organisational and IT processes underlying the banking offer. It is also defining initiatives and actions to be taken in various areas during the same time span.

In particular, during the year the "reconversion" of Network roles from "administrative" to "commercial" was progressively implemented, dictated, above all, by the technological evolution ("digitisation") currently in progress and by the behavioural aspects of customers. It is by now having a very strong impact on the banking system as well, with a particular focus on the skills and specific training plans dedicated to the human resources involved and provided with an in-built feedback mechanism, as well as foreseeing support for their gradual insertion in the role and constant monitoring of them.

The main activities relating to Human Resource Management that characterised 2018 are summarised below:

- measures to revise and streamline the organisational structure of the Operations Area at Group level (Development Plan for the "CSO" Operations Area) aimed at a more flexible structure able to perform new and diversified activities. This would be implemented with periods of support for resources in the various new roles, as well as through specific training courses for those involved in role "reconversion", considering that a more extended observation period will allow possible refinements of a managerial nature based on actual business needs;
- closure in the afternoon of cashier operations at another 20 branches of Banco Desio (involving a total of 66 branches), redistributing the staff around the network, in consideration of their various career paths, personal characteristics and growth potential;
- activation, from October 2018, of the second "window" of voluntary access to the Solidarity Fund for 47 resources (who terminated service on 30 November 2018), as defined by the agreement with the Trade Unions which dates back to November 2016, including those affected by the subsequent agreement with the Unions in May 2018, for a total of 136 resources involved at Group level in the two-year period 2017/2018;
- introduction of the new *Affluent Customer Manager* role, in addition to the roles of Private Banker and Corporate Banker, as part of the interventions aimed at making customer segmentation more effective and organic. This will have repercussions on the structure of the distribution network with a view to improving the relationship with our clientele in a market characterised by increased competitiveness and lower customer loyalty;
- following the adoption of Consob Resolution 20307 of 15 February 2018 (the so-called "Intermediaries' Regulation"), implementation of a tutoring model which, with a particularly prudent approach, envisages support activity starting from January 2019. This will involve the autonomous network resources for ESMA purposes in relation to colleagues who are qualified but not yet autonomous in providing advice to customers on financial investments;
- as part of the gradual centralisation of Banca Popolare di Spoleto's corporate functions at the Parent Company, the Auditing Business Office, the Special Credit Office and the Credit and Guarantee

Office of Banca Popolare di Spoleto were absorbed, respectively, by the Internal Audit Department, the Special Credit Area and the Credit and Guarantee Department of Banco di Desio e della Brianza;

- in order to follow up the Bank's plans to provide increasingly punctual service in specialised sectors, we proceeded to identify external professionals specialised in the Leasing and Factoring Sectors in order to bring in-house at Banco di Desio e della Brianza those activities that in the past had been "delegated" to external companies or those that were not particularly developed as the range of services offered to customers did not cover all of their needs (e.g. "without-recourse loans" in the Factoring sector). By the end of the first half of 2019, both sectors are expected to come into operation as part of Banco di Desio e della Brianza, although they have already been shown as part of the organisational structure from the start of the year (Leasing Office and Factoring Office).

With particular reference to the update of the organisational structure, we would highlight the establishment in October 2018 of the "*Bancassurance and Business Development*" Department, as a staff function for the General Manager. The aim is to help the development of the bancassurance business with SMEs and retail customers, acting on the gaps in the current offer and through the adoption of an operating model that is consistent with the evolution of the Group's distribution strategy. This Department will also develop innovative non-core banking services, with a strong focus on customer centricity, promoting actions aimed at increasing, integrating and innovating the business to improve service margins, as well as supporting Fides' commercial proposal by developing qualified partnerships to increase disbursement and margins.

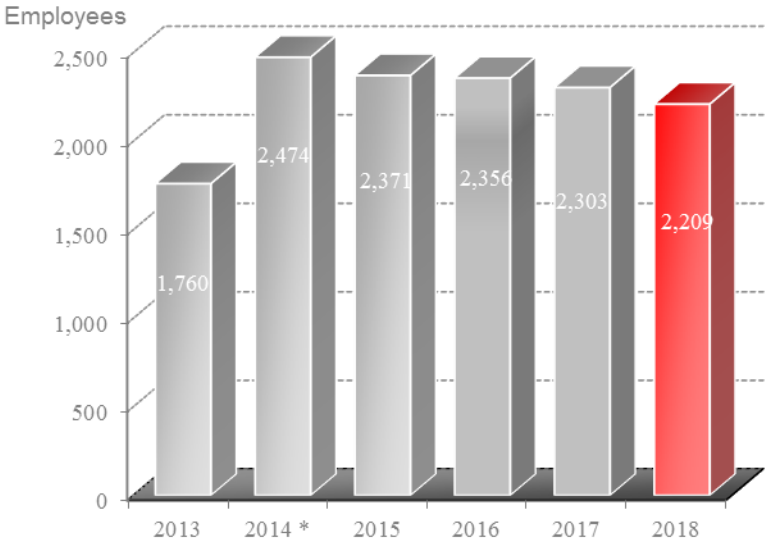
In this regard, it should also be noted that the role of Chief Innovation & Data Officer was established in early 2019, again in staff to the General Manager, with the aim of contributing to the development and coordination of Innovation within the Banco Desio Group, with a particular focus on the exploitation of data and the efficient use of the information assets of Banco Desio.

This new function will contribute pro-actively to accompanying the evolutionary path of the distribution model with an integrated "omnichannel" approach, also through initiatives aimed at implementing strategic digital applications and solutions to support the business, as well as to boost the services on offer to customers in close correlation with the continuous behavioural evolution, at the same time monitoring best practices and emerging technologies, also at international level, in order to seize the most interesting market opportunities for the Banco Desio Group in various areas.

On 31 December 2018, the Group had 2,209 employees, 94 fewer (-4.1%) than at the end of the previous year.

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

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



*Banca Popolare di Spoleto joined the Banco Desio Group in 2014

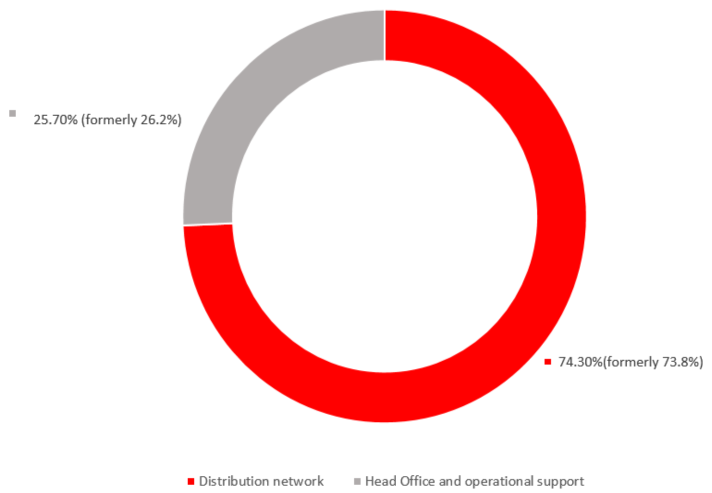
The following table provides a breakdown of employees by level at the end of 2018, compared with the previous year.

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

No. of Employees	**31.12.2018**	**%**	**31.12.2017**	**%**	**change Amount**	**%**
Managers	32	1.4%	31	1.3%	1	3.2%
3rd and 4th level middle managers	454	20.6%	474	20.6%	-20	-4.2%
1st and 2nd level middle managers	583	26.4%	604	26.2%	-21	-3.5%
Other personnel	1,140	51.6%	1,194	51.9%	-54	-4.5%
Group employees	**2,209**	**100.0%**	**2,303**	**100.0%**	**-94**	**-4.1%**

The following chart provides a breakdown of the workforce at the year end between Head Office and operational support and the distribution network.

Chart no. 3 - **BREAKDOWN OF GROUP EMPLOYEES BY AREA**



5.2 - TRAINING

In consideration of the importance that training activities play in the professional development of human resources, in 2018 we implemented programmes that are part of specific company projects for a total of 102,452 man/hours, an average of 6.2 days per employee.

The training hours provided in the previous year were higher (149,605) mainly because of the particular effort that was needed for changes in the regulatory framework. Some training modules planned for the last quarter of 2018 were also transferred to 2019.

In the area of behavioural training, courses were addressed to more limited and targeted corporate clusters, completing activities that had been started previously.

Various technical-professional programmes launched during the last quarter of 2018 will be planned and delivered with greater intensity in 2019; they will also be delivered through different media (e.g. virtual classroom, blended, etc.), thereby introducing elements of methodological innovation.

A further aspect to be considered as an element of discontinuity between the training provided in 2018 and the previous year is due to the number of people who now form part of the "Redundancy Fund".

57.4% of the total training hours were taught in classrooms; the use of this channel has increased compared with the previous year (40%), reducing the proportion of e-learning. As part of the classroom programming, approximately 90 resources belonging to the various Group Corporate Functions performed teaching activities, ensuring that the topics being taught were put into proper context for the participants.

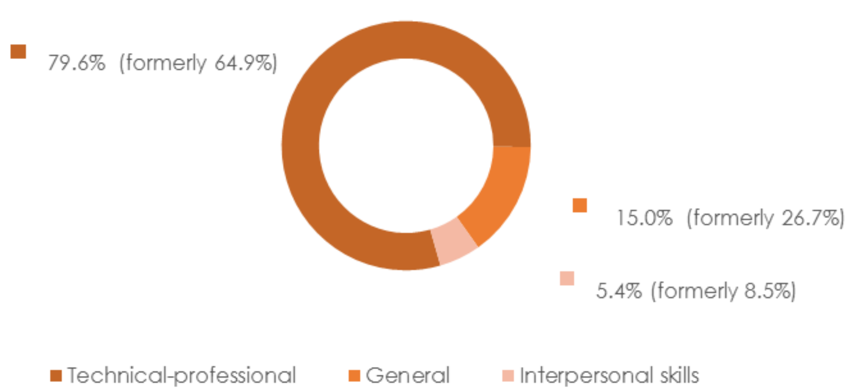
The following is a summary description of the types of training being offered:

- "General" training, which groups together the courses on cross-functional knowledge addressed to all professional families. The standard of professional skills required as a result of changes in the regulatory environment is guaranteed by the courses given in the field of compulsory training (which is included in this group);

- "Technical-professional" training, which includes initiatives aimed at building the technical skills needed to perform a specific role and at consolidating functional skills for the individual's professional profile;
- "Behavioural" training, aimed at developing interpersonal, managerial and organisational skills, which allow members of staff to apply their technical and professional knowledge in the best way possible.

The following chart shows the distribution of training activities in the three types described above:

Chart no. 4 - **TRAINING ACTIVITIES BY TYPE**



The initiatives belonging to "General" training were planned according to specific regulatory contexts. The main areas of intervention are explained below.

With reference to the issue of anti-money laundering, different professional figures (Branch Managers, Supervisors, Deputy Branch Managers, Customer Assistant Coordinators and Customer Assistants) were involved in operational alignment activities, raising awareness of behaviours in compliance with current regulations, in a perspective of continuous strengthening of risk management.

Consistent with the programmes provided, the intention is to propose in 2019 modules set up on specific content areas and defined according to the actual training needs highlighted by the company population. In e-learning mode, the on-line "Anti-money laundering: what has changed" module was released, addressed to all Network professionals and to the corporate structures of the Head Office involved in the various operational steps.

In the field of Health and Safety in the workplace, we implemented the basic and update training programme, which involved those designated as "fire officer" and "first aid officer", as well as the professional update plan for the roles of RSPP (Head of the Prevention and Protection Service), ASPP (Employee for the Prevention and Protection Service) and RLS (Worker Safety Representative). The newly recruited resources were involved in the "general training of workers", while the colleagues nominated as supervisors were involved in specific training sessions.

The contents delivered in e-learning mode - which involved the entire company population - included:

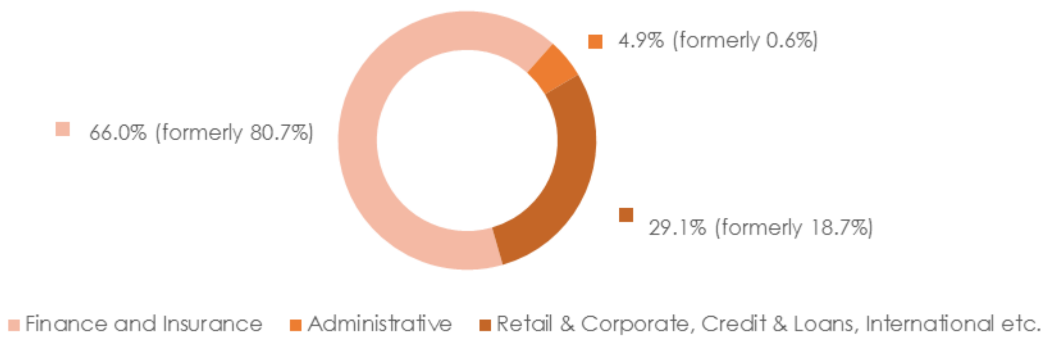
- Cyber Security, distributed through an online form aimed at increasing awareness of cyber risks and threats, activating behaviours that allow the prevention of risk factors;

- Qualified Intermediary Agreement, distributed through an online form and integrated with classroom attendance by approximately 260 resources;
- Whistleblowing - carried out in continuity with the current year - through training sessions carried out both in the classroom and through Skype.

The "Technical-Professional" training accounted for 79.6% of total activities, an increase compared with the previous year (64.8%).

The following chart represents the distribution of training activities in the areas that belong to "Technical-Professional" training:

Chart no. 5 - **"TECHNICAL-PROFESSIONAL" TRAINING BY ISSUES**



The main initiatives grouped together by area of competence are as follows:

- Administration

  Workshop sessions were carried out for new Customer Assistants with a view to facilitating their insertion into the Network by helping them to acquire awareness about the role that they play. Training courses were also held on the new sale processes and CIT, the new interbank procedure.

  As part of the reorganisation and centralisation of the "Operations Area", on-the-job training sessions were held at the Parent Company, with the aim of accompanying the resources in the exercise of the various Network and Head Office roles, which feature a variety of different duties

- Credit & Loans, International, Sales & Marketing and Other

  The following initiatives involved the various professional roles belonging to the credit chain (Area Sales Representatives, Area Credit Managers/Employees, Corporate Managers/Employees, Branch Managers, Supervisors, Deputy Branch Managers, Corporate Managers):

  - Training activities on AIRB, involving a total of 800 resources;
  - Evaluation criteria of Farming Loans, which involved 486 resources;
  - Consumer Credit, which involved a total of 136 resources.

A professional alignment course was organised to consolidate the technical knowledge of the new Branch Managers, consisting of a classroom module supplemented by several days of support at the Credit & Loans Department.

Training sessions for the "International" area involved 94 Area Managers, Branch Managers and Corporate Managers and included - in addition to technical contents - the characteristics of the international market, a focus on political and financial risks as well as operating methods used in exchanges with counterparties that develop a high number of business deals for this area.

With reference to the "Sales & Marketing" area, the Group intensified its training commitment for various professional figures in the Network to launch new products for a variety of customer targets and to help market existing ones, in order to increase the efficiency and effectiveness of commercial development measures.

- Finance and Insurance

The decrease in training hours with reference to the previous year is attributable to the fact that the refresher programme held in 2018 (for 235 resources) provided 30 hours of classes - partially through modules belonging to "Insurance" training - unlike the "Certification of Skills" course given in 2017 in 60 hours, supplemented by the training given on the MiFID II Directive.

In the "Insurance" area, both the first qualification course for the sale of insurance products and the update programme were implemented, completing the 2017/2018 two-year plan (for about 1,260 resources).

As part of "Behavioural" training, a course was created for Affluent Customer Managers in preparation for a strengthening of operational planning and time management skills, as well as the acquisition of skills in the field of Behavioural Finance.

For a group of 63 Corporate Managers, a course was aimed at strengthening interpersonal skills in the relationship with SMEs.

As regards initiatives aimed at equal opportunities, training sessions were held in 2018 on the topic of Work/Life Balance intended for new mothers just back from maternity leave and mothers with adolescent children, as well as a course on Female Leadership for high fliers.

Lastly, we would highlight the importance of initiatives concerning professional reconversion with the aim of providing technical and behavioural tools to the 43 Network resources in various specialist segments.

The attention paid to the growth and development of professional skills has again been acknowledged in 2018 by the Fondo Banche Assicurazioni (FBA), which provided funding for training activities.

5.3 - INDUSTRIAL RELATIONS

In May 2018, an Agreement was signed with the Trade Unions with regards to the Company Bonus for 2017 (ATB) to be paid to employees of Banco Desio Group companies. In line with what already happened in recent years regarding the methods of awarding the productivity bonus, given the rising preference for specific corporate welfare policies aimed at maximising workers' remuneration, it was decided to continue providing a welfare plan, so-called "flexible benefits", for all employees for the 4th consecutive year. Incremental values have been defined with respect to the previous year related to the operating results achieved by the Bank, and more generally by the Group, shifting to employees all of the tax benefits of the welfare plan with respect to the cash payment option and with an accessibility further extended in the choice of services offered.

As part of the negotiations carried out in connection with the 2017 ATB, agreement was also reached to award - exclusively to lower income brackets - an additional one-off contribution to the Pension Fund of 0.5% of their annual salary and related items.

With reference to access to the Solidarity Fund referred to in the Agreement with the Trade Unions of November 2016, as previously mentioned, the integration for access to this Fund was signed with the Unions up to a maximum of 5 resources at Group level, with an extension of the vesting period for pension rights to 30 September 2022; the number of participants actually accepted by the Solidarity Fund was four for Banco di Desio e della Brianza and one for Banca Popolare di Spoleto.

As regards the review of the organisational structure of the Operations Area at Group level (Development Plan for the "CSO" Operations Area), on 21 May 2018 an Agreement was signed with the Trade Unions that approved early closure of the Procedure pursuant to art. 21 of the National Collective Labour Contract compared with the maximum total duration of 50 days. In connection with these interventions, on 12 December 2018, Agreement was reached with the Trade Unions to apply to the National Fund for Employment Support (NFES) for a loan (about Euro 22 thousand) for the bank to apply to training activities in the form of support for resources in the various new roles.

Following the establishment of the Group Committee concerning the "Commercial Policies and Work Organisation", a meeting was held in June with delegates of the Trade Unions in order to assess the reports coming from Network personnel, laying the bases for the organisational methods for subsequent meetings.

Last October, negotiations began with the Trade Unions to repeat the previous year's shared presentation of a training plan financed by the Bank and Insurance Fund (BIF) for 2018; however, while agreeing with the training programmes illustrated and subject to a specific request to be submitted to the Fund, it was not possible for the Company to go ahead as not all of the unions wanted to take part in the proposed Agreement. As a result, we were not able to obtain a loan for a total of 460 thousand euros at Group level (230 thousand euros for each of the two banks).

5.4 - FUTURE ACTIVITIES

In view of the absorption of Banca Popolare di Spoleto into Banco di Desio e della Brianza as described above, the Human Resources Department will be involved in pursuing the complete alignment of the two banks on the various issues, using the support of other corporate functions.

In accordance with the lines of strategy underlying the Group Business Plan for the period 2018-2020, the Human Resources Department will continue with the project of professional conversion of network resources from administrative roles to commercial ones, as well as structuring any new initiatives with an awareness of the increasing importance in the social context of issues such as the work-life balance.

Activities will also be aimed at supporting the evolution of the banking distribution model, increasingly characterised by the need/opportunity of a technological push in harmony with the dynamics dictated by the behavioural aspects of consumers and which strongly influence and impact the banking system.

6 - CONTROL ACTIVITIES

6.1 - THE LEVELS OF CONTROL IN THE MANAGEMENT CONTROL AND COORDINATION FUNCTION

In exercising its management control and coordination function, Banco di Desio e della Brianza S.p.A., in its capacity as Parent Company, uses a triple level of control over subsidiaries, in order to put into effect the specific "coordination model" that has been chosen, taking into account the nature and the size of the activities performed by each company, as well as its specific location, and by identifying the competent in-house functions for the specific control mechanisms.

The first level, of a strategic nature, is aimed at constantly verifying the guidelines provided by the Parent Company and is put into effect mainly by means of the presence on the Boards of Directors of each subsidiary of a certain number of its own officers that would normally represent the majority of Board members.

The second level is of a management type and regards the performance of analysis and the systematisation and measurement of periodic information flows from the subsidiaries, in order to verify the pursuit of strategic objectives in compliance with regulatory provisions, the preparation of adequate reporting on trends and earnings, the analysis of development, research or investment projects and of strategic opportunities, forecast cash flows and the other information needed for the preparation of the Group budget.

The third level is defined as technical-operational and mainly consists of monitoring the internal control system.

Further information on management control and coordination activities is included in paragraph 2.3 of the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

6.2 - THE INTRENAL CONTROL SYSTEM

The internal control system consists of a set of principles of conduct, rules and organisational procedures, which - in compliance with the law, Supervisory Authorities' regulations and corporate strategies - enables proper management of all of the Group's activities, with the involvement of corporate bodies and senior management and, generally, all the personnel.

Detailed information on the internal control system, as well as on the Financial Reporting Manager, and also on systems for risk management and for internal control in relation to the financial reporting process are included in paragraphs 1 and 7 of the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

6.3 - RISK MEASUREMENT AND MANAGEMENT

As regards the specific activities performed by the Parent Company's Risk Management function, whose objective is to ensure adequate controls over the management of various types of risk by adopting integrated processes, reference should be made to Part E of the explanatory notes – Information on risks and the related hedging policy.

7 - RESULT OF OPERATIONS

The following detailed tables and related comments relate to the consolidated balance sheet and income statement aggregates. Information about the individual companies in the Banco Desio Group is provided in chapter "8 – Performance of consolidated companies".

7.1 - SAVINGS DEPOSITS: CUSTOMER ASSETS UNDER ADIMINISTRATION

Total customer funds under management at 31 December 2018 reached 24.8 billion euros, a decrease of around 0.4 billion euros with respect to the previous year-end balance (-1.4%), mainly attributable to the decline in direct deposits (-2.7%) and indirect deposits (-0.4%).

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**

					Change	
Amounts in thousands of Euro	**31.12.2018**	**%**	**31.12.2017**	**%**	**Amount**	**%**
Due to customers	9,254,591	37.3%	9,272,337	36.9%	-17,746	-0.2%
Debt securities in issue	1,426,213	5.8%	1,708,320	6.8%	-282,107	-16.5%
Direct deposits	**10,680,804**	**43.1%**	**10,980,657**	**43.7%**	**-299,853**	**-2.7%**
Ordinary customer deposits	8,952,340	36.1%	8,946,523	35.7%	5,817	0.1%
Institutional customer deposits	5,140,371	20.7%	5,202,355	20.7%	-61,984	-1.2%
Indirect deposits	**14,092,711**	**56.9%**	**14,148,878**	**56.3%**	**-56,167**	**-0.4%**
Total customer deposits	**24,773,515**	**100.0%**	**25,129,535**	**100.0%**	**-356,020**	**-1.4%**

Direct deposits

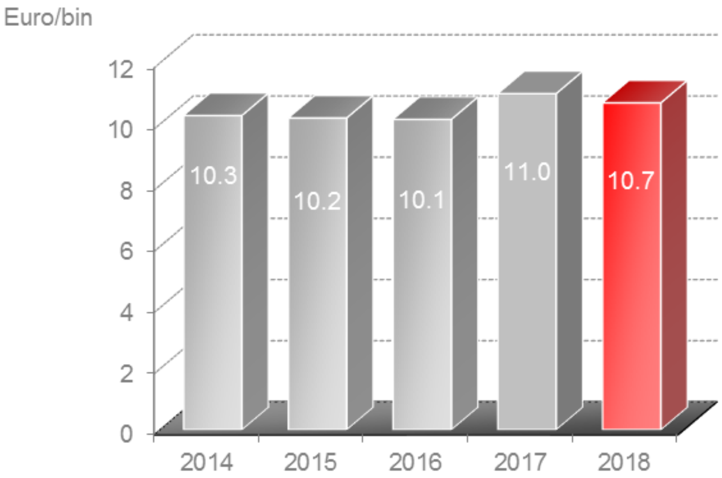
Direct deposits came to 10.7 billion euros, down 2.7% on the previous year's figure, because of the decrease in debt securities in issue (-16.5%) and the reduction in due to customers (-0.2%).

Due to customers of 9.3 billion euros represents the most significant component as it makes up 86.6% of the total balance, of which some 8.1 billion euros relates to demand deposits, that is, current accounts and savings deposits, while some 1.1 billion euros relates to restricted deposits and the remainder relates to other payables.

Debt securities in issue relate to bonds issued and placed by the Group of some 1.4 billion euros (including 0.2 billion euros of subordinated bonds), while and the rest are certificates of deposits.

The trend in direct deposits in recent years is shown in the following chart.

Graph no. 6 - **TREND IN DIRECT DEPOSITS IN RECENT YEARS**



Indirect deposits

Overall, at 31 December 2018 indirect deposits showed a substantial stability (-0.4%) compared with the end of the previous year, remaining at 14.1 billion euros.

This trend is attributable to deposits from institutional customers, down by 62 million euros (-1.2%) to 5.1 billion euros, and ordinary customer deposits, which came in at 9.0 billion euros, with an increase of 5.8 million euros (+0.1%), due to the performance of assets under management (+1.2%), partially offset by a decrease in assets under administration (-1.9%).

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

Table no. 3 - **INDIRECT DEPOSITS**

Amounts in thousands of Euro	**31.12.2018**	**%**	**31.12.2017**	**%**	**Change Amount**	**Change %**
Assets under administration [(1)]	**3,154,614**	**22.4%**	**3,216,089**	**22.7%**	**-61,475**	**-1.9%**
Assets under management	**5,797,726**	**41.1%**	**5,730,434**	**40.5%**	**67,292**	**1.2%**
of which: Mutual funds and Sicavs	*2,525,826*	*17.9%*	*2,405,696*	*17.0%*	*120,130*	*5.0%*
Managed portfolios	*892,092*	*6.3%*	*967,212*	*6.8%*	*-75,120*	*-7.8%*
Bancassurance	*2,379,808*	*16.9%*	*2,357,526*	*16.7%*	*22,282*	*0.9%*
Ordinary customer deposits [(1)]	**8,952,340**	**63.5%**	**8,946,523**	**63.2%**	**5,817**	**0.1%**
Institutional customer deposits [(2)]	**5,140,371**	**36.5%**	**5,202,355**	**36.8%**	**-61,984**	**-1.2%**
Indirect deposits [(1) (2)]	**14,092,711**	**100.0%**	**14,148,878**	**100.0%**	**-56,167**	**-0.4%**

[(1)] the totals at 31.12.2018 are stated net of bonds issued by the Parent Company and placed with the customers of Banca Popolare di Spoleto S.p.A. totalling Euro 25.7 million (Euro 43.0 million at 31.12.2017);

[(2)] institutional customer deposits at 31.12.2018 include securities of the Bancassurance segment of ordinary customers of the Parent Company and of Banca Popolare di Spoleto S.p.A. for Euro 2.1 billion (Euro 2.1 billion at 31.12.2017).

The following chart analyses the indirect deposits from ordinary customers by sector at 31 December 2018, showing that the weighting of managed assets has increased with respect to the prior year. The chart after that analyses the various components of managed assets.

Chart no. 7 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2018**

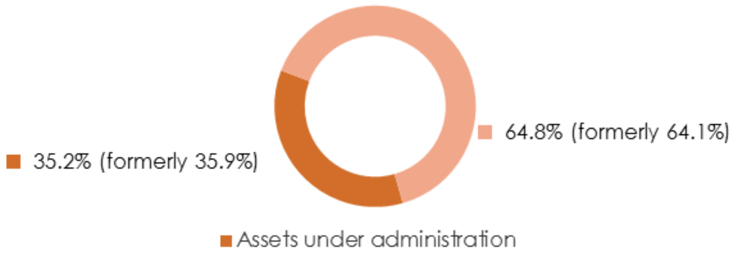
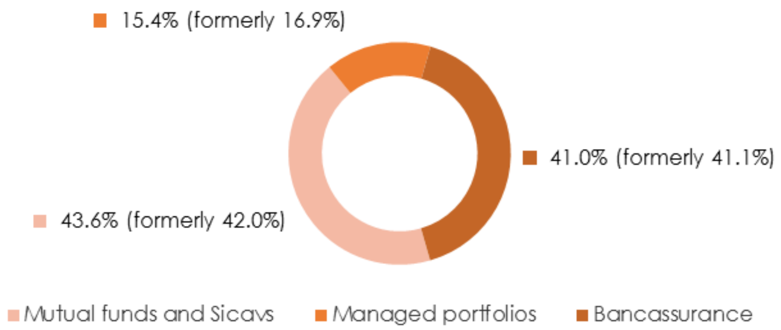


Chart no. 8 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2018**



In 2018 the stock markets showed a sharp increase in volatility and returns below expectations at the beginning of the year. The reasons can be identified mainly in the Fed's monetary policy, which is more restrictive than expected, and in a series of geopolitical issues that affected investors' risk appetite. Above all, trade tensions between the US and China have had an impact on growth expectations. At a geographical level, there were general decreases, whereas as far as the sectors are concerned, cyclical ones have been more penalised. Global bond investors faced a difficult 2018, characterised by rising yields, flattening curves and widening spreads. Emerging market currencies and bonds had their worst performance in recent years. This pricing action is typical end-of-cycle behaviour that sees the markets proceed with caution in a phase of monetary tightening, as the weaknesses gradually become more and more visible.

With regard to Managed Portfolios, in the bond component, the negative result was dictated, on the one hand, by underexposure to interest rate risk on the government component and, on the other, by the positions assumed regarding Emerging Countries and financial subordinates, while the limited exposure to Italian Government securities led to a positive result. In the equity component, in the context of good diversification, the United States, although preponderant, was underweight in favour of Emerging Countries and Asia, while Europe was kept at neutral. At a product level, our preference went above all to the technology and consumer sectors, to the detriment of telephones and public utility services (more sensitive to rate hikes and with very limited growth). We also favoured large-cap and high-dividend stocks.

7.2 - CREDIT MANAGEMENT: LOANS TO CUSTOMERS

The total amount of loans to customers at the end of the year amounted to 9.6 billion euros, a decrease compared with the balance at the end of the prior year (-2.5%), mainly due to the disposals of non-performing loans.

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

Graph no. 9 - **TREND IN CUSTOMER LOANS IN RECENT YEARS**

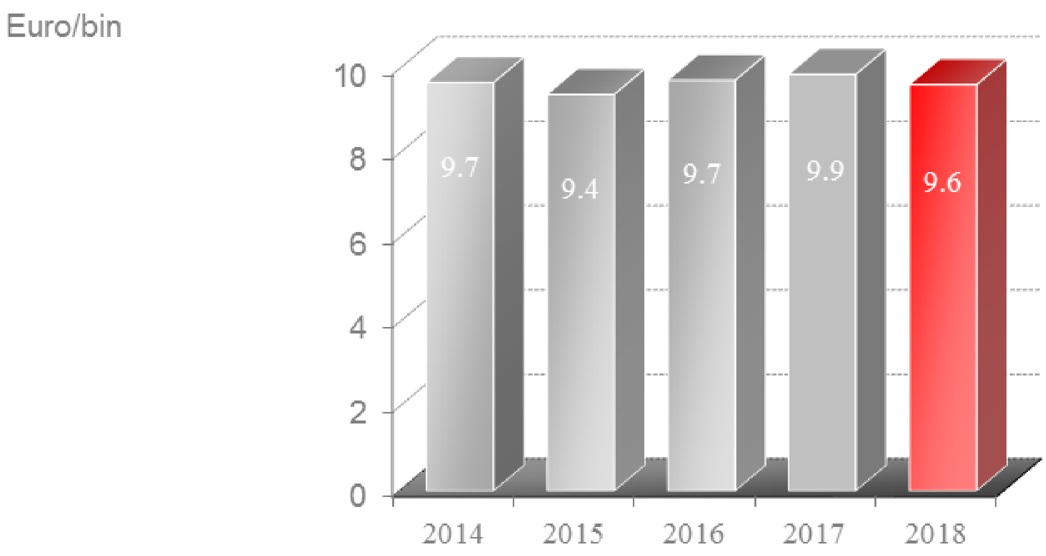


Table no. 4 - **LOANS TO CUSTOMERS**

Amounts in thousands of Euro	31.12.2018	%	31.12.2017	%	Change Amount	Change %
Current accounts	1,589,497	16.5%	1,687,778	17.1%	-98,281	-5.8%
Mortgages and other long-term loans	6,895,602	71.7%	6,971,633	70.7%	-76,031	-1.1%
Other	1,131,601	11.8%	1,202,451	12.2%	-70,850	-5.9%
Loans to customers	**9,616,700**	**100.0%**	**9,861,862**	**100.0%**	**-245,162**	**-2.5%**
- of which non-performing loans	*401,372*	*4.2%*	*823,924*	*8.4%*	*-422,551*	*-51.3%*
- of which performing loans	*9,215,328*	*95.8%*	*9,037,938*	*91.6%*	*177,389*	*2.0%*

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest 50 customers at the end of 2018 continues to reflect a high degree of risk diversification, although amounts are increasing as can be seen from the following table.

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

Number of customers [1]	31.12.2018	31.12.2017
First 10	1.34%	1.12%
First 20	2.21%	1.93%
First 30	2.91%	2.62%
First 50	4.14%	3.81%

[1] *according to the figures of the Parent Company and the subsidiary Banca Popolare di Spoleto S.p.A.*

None of the customers are "Large Exposures" for supervisory purposes; the four positions classified as "Large Exposures" are attributable to balances with the Bank of Italy, the Treasury Ministry, the Guarantee Fund under Law no. 662 of 23.12.1996 and the SPV Two Worlds S.r.l., for a total nominal amount of approximately Euro 3.1 billion, corresponding to around 0.3 billion in terms of total weighted amount.

As a result of the sales of non-performing loans under the "GACS" scheme and first-time adoption of "IFRS 9 Financial Instruments" (the effects of which are explained in the section "First-time adoption of IFRS 9 and IFRS 15" in this report) the total amount of net non-performing loans consisting of doubtful loans, unlikely to pay loans and non-performing past due and/or overdrawn exposures came to 401.4 million euros, net of adjustments for 293.6 million euros, with a decrease of 422.6 million euros compared with 823.9 million euros at the end of 2017. In particular, net doubtful loans totalled 122.5 million euros (formerly 494.2 million), unlikely to pay loans 274.8 million euros and non-performing past due and/or overdrawn exposures 4.1 million euros.

The following table summarises the gross and net indicators of credit risk, where due to the above mentioned sales of non-performing loans, there has been a significant reduction in the ratio of "gross non-performing loans/gross loans" to 7.0% and "net non-performing loans/net loans" to 4.2%, below their respective targets of 10% and 5% forecast at the end of the 2018-2020 Business Plan, while the ratio of "gross doubtful loans/gross loans" has fallen to 3.0% and "net doubtful loans/net loans" to 1.3%.

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

% of gross loans [1]	**31.12.2018**	**31.12.2017**
Gross non-performing loans to customers	6.98%	15.11%
of which:		
- gross doubtful loans	3.02%	10.80%
- unlikely to pay, gross	3.91%	4.22%
- non-performing past due and/or overdrawn exposures, gross	0.05%	0.09%

% of net loans	**31.12.2018**	**31.12.2017**
Net non-performing loans to customers	4.17%	8.35%
of which:		
- net doubtful loans	1.27%	5.01%
- unlikely to pay, net	2.86%	3.26%
- non-performing past due and/or overdrawn exposures, net	0.04%	0.09%

[1] considering the gross value and the write-downs of non-performing loans of Banca Popolare di Spoleto S.p.A. without taking into account the changes needed to represent the acquisition value.

The main indicators on the coverage of impaired loans are reported below considering, for non-performing loans, the amount of direct write-downs made over the years, together with those relating to performing loans. The percentage coverage of impaired loans has increased.

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

% Coverage of non-performing and performing loans [1]	**31.12.2018**	**31.12.2017**
% Coverage of doubtful loans	59.34%	57.22%
% Coverage of doubtful loans, gross of cancellations	64.47%	61.12%
% Total coverage of non-performing loans	42.25%	49.03%
% Coverage of non-performing loans, gross of cancellations	45.65%	52.44%
% Coverage of performing loans	0.54%	0.45%

[1] considering the gross value and the write-downs of non-performing loans of Banca Popolare di Spoleto S.p.A. without taking into account the changes needed to represent the acquisition value.

7.3 - THE SECURITIES PORTFOLIO AND INTERBANK POSITION

Securities portfolio

2018 was a particularly challenging year for the financial market. The increase in rates by the Fed and the progressive reduction of Quantitative Easing by the ECB had an impact on the liquidity and risk appetite of investors. The United States saw negative annual returns on both the stock market (S&P 500) and bond market (10-year Treasuries) for the third time since 1873 (precedents in 1931 and 1969). In Italy, the negative trend was to some people exacerbated by the market distrust of the new executive, which led to a drastic increase in the spread between Italian and German 10-year bonds which, after a first quarter stable below 150 bps, increased starting from May, recording frequent peaks above 300 bps.

After an excellent start, the macroeconomic picture showed a progressive deterioration during the year; Germany and Italy both reported a third quarter decline of 0.2% and 0.1% respectively. Meanwhile, various entities, including the ECB, have revised their estimates of growth and future prices, lowering them to 1.7% and 1.6% respectively, both figures on the decline by two decimals compared with those expected for 2018. The economic slowdown has therefore also affected the 5-year Euro-zone inflation expectation, which moved away from the ECB target to 1.6%. Long-term yields therefore completely reversed the forecasts widely used at the beginning of the year and suffered a reduction, with the yield on the German 10-year benchmark falling from 0.46% to 0.24% at the end of the year.

As the year continued, negative sentiment also extended to equities with widespread losses on all the main price lists: S&P 500: -6.24%; Eurostoxx 50 -14.34%; FTSE Mib -16.15%; Nikkei 225 - 12.08%.

On the other hand, there was greater tranquillity in the forex market, which went through a stable phase after the Euro strengthened in 2017.

Long-term investment policy is characterised by a significant exposure to Italian government securities, while the residual life of Available For Sale securities has been significantly curtailed, also in relation to future commitments to repay the TLTRO II maturities. Also worth noting is the increase in short-term trading activity on the trading portfolio.

At 31 December 2018, the total financial assets amounted to 3.1 billion euros, an increase of 35.1% compared with the end of the previous year.

In particular, during the year, there was a significant increase in the Held To Collect (HTC) investment portfolio, valued at amortised cost, which at 31 December 2018 amounted to about 2,724.8 billion euros (88.4% of the entire proprietary portfolio), also due to the change in the business model described above, while at 31 December 2017, in application of IAS 39, which was in force at the time, the largest part of the portfolio consisted of the Available For Sale (AFS) segment, measured at fair value with an impact on total profitability, which amounted to about Euro 1,511.5 million (66.3% of the entire proprietary portfolio).

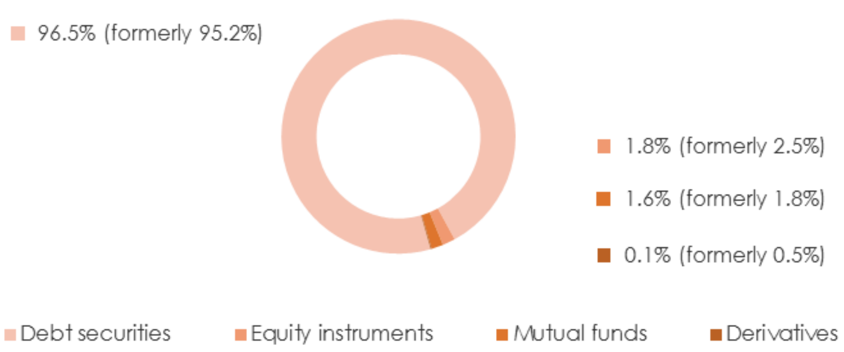
The Held to Collect category of financial instruments also includes 290.3 million euros of senior securities of the 2Worlds securitisation subscribed by the Group following the sale of doubtful loans through the GACS scheme, while the residual 5% of mezzanine and junior securities held is included in financial assets that have to be valued at fair value through profit or loss.

Bonds of the HTC portfolio, diversified by issuer, geographical area and type of rate, have a duration of 2.1 years.

Debt securities held for treasury purposes, classified in the Held To Collect And Sell (HTCS) portfolio, instead present a duration of 0.9 years at the reference date, also in relation to the future commitments to repay the TLTRO II maturities.

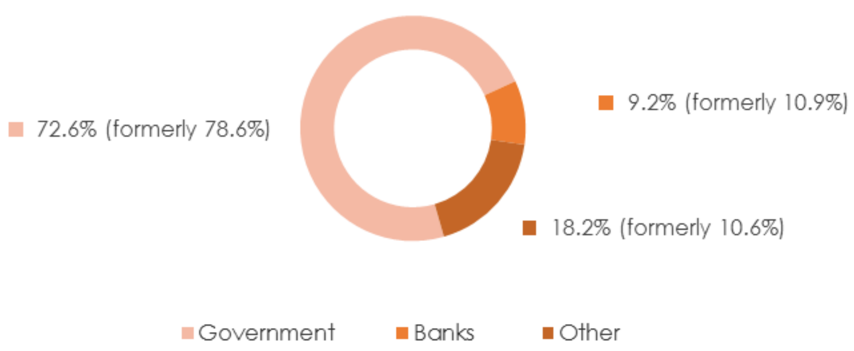
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (96.5%) of the investments still consist of debt securities.

Chart no. 10 - **% BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2018 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the year, 72.6% relates to government securities (down compared with 78.6% of the previous year), 9.2% to securities issued by leading banks and the remainder to other issuers, as shown by the following chart.

Chart no. 11 - **% BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2018 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 31 December 2018 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		31.12.2018			Total	31.12.2017				Total
		Italy	Spain	Portugal		Italy	France	Spain	USA	
Financial assets designated at fair value through profit and loss	Nominal value	2,371	-	-	2,371	2,307	-	-	-	2,307
	Book value	1,521	-	-	1,521	1,533	-	-	-	1,533
Financial assets designated at fair value through other comprehensive income	Nominal value	240,000	-	-	240,000	1,216,147	-	-	8,338	1,224,485
	Book value	241,492	-	-	241,492	1,218,637	-	-	8,225	1,226,862
Financial assets measured at amortised cost	Nominal value	1,940,921	15,000	25,000	1,980,921	320,000	80,000	160,000	-	560,000
	Book value	1,950,485	15,260	27,451	1,993,196	321,699	79,917	162,050	-	563,666
Sovereign debt	**Nominal value**	**2,183,292**	**15,000**	**25,000**	**2,223,292**	**1,538,454**	**80,000**	**160,000**	**8,338**	**1,786,792**
	Book value	**2,193,498**	**15,260**	**27,451**	**2,236,209**	**1,541,869**	**79,917**	**162,050**	**8,225**	**1,792,061**

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

Amounts in thousands of Euro		Italy	Spain	Portugal	31.12.2018 Nominal value	31.12.2018 Book value
Financial assets designated at fair value through profit or loss	up to 1 year	-	-	-	-	-
	1 to 3 years	1	-	-	1	1
	3 to 5 years	-	-	-	-	0
	over 5 years	2,370	-	-	2,370	1,520
	Total	2,371	-	-	2,371	1,521
Financial assets designated at fair value through other comprehensive income	up to 1 year	220,000	-	-	220,000	220,077
	1 to 3 years	20,000	-	-	20,000	21,415
	3 to 5 years	0	-	-	0	0
	over 5 years	0	-	-	0	0
	Total	240,000	-	-	240,000	241,492
Financial assets measured at amortised cost	up to 1 year	-	-	-	-	0
	1 to 3 years	625,000	15,000	25,000	665,000	667,530
	3 to 5 years	803,921		-	803,921	807,199
	over 5 years	512,000	-	-	512,000	518,467
	Total	1,940,921	15,000	25,000	1,980,921	1,993,196
Sovereign debt	**up to 1 year**	**220,000**	**-**	**-**	**220,000**	**220,077**
	1 to 3 years	**645,001**	**15,000**	**25,000**	**685,001**	**688,946**
	3 to 5 years	**803,921**	**-**	**-**	**803,921**	**807,199**
	over 5 years	**514,370**	**-**	**-**	**514,370**	**519,987**
	Total	**2,183,292**	**15,000**	**25,000**	**2,223,292**	**2,236,209**

Net interbank position

The Group's net interbank position at 31 December 2018 is negative for 1.3 billion euros, compared with the position at the end of the previous year, which was also negative for 0.5 billion euros.

During the last quarter of 2018, the Banco Desio Group increased its net interbank debt position by increasing its investments in its own securities portfolio, also correcting the distorting economic effect deriving from the surplus liquidity previously deposited with the Bank of Italy; this originated with the Bank's participation in the "TLTRO II" refinancing transactions with which the Eurosystem offered long-term liquidity, the aim being to facilitate access to credit by the private sector and stimulate the supply of finance to the real economy.

7.4 - SHAREHOLDERS’ EQUITY AND CAPITAL ADEQUACY

The consolidated shareholders' equity of the banking group

Shareholders' equity pertaining to the Parent Company at 31 December 2018, including net profit for the period, amounts to 892.1 million euros, compared with Euro 927.1 million at the end of the previous year. The negative change of 35.0 million euros is due to FTA of IFRS 9 for 54.4 million euros, to payment of the 2017 dividend for 13.3 million euros and the positive result for the period of 32.7 million euros.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 31 December 2018, 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 31.12.2018**

Amounts in thousands of Euro	**Shareholders' equity**	***of which: net profit (loss) for the period***
Parent Company balances at 31 December 2018	***914,514***	***30,955***
Effect of consolidation of subsidiaries	-22,460	12,405
Dividends declared during the period	-	-8,100
Consolidated balances at 31 December 2018	**892,054**	**35,260**

Own Funds and consolidated prudential requirements

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 immediately 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.

On 23 January and 25 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 adoption of the standard, resolved to join the transitional regime introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of the new standard on own funds and capital ratios, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time adoption of the standard and to the increase in expected losses on performing loans compared with the date of first-time adoption of the standard.

Own funds and consolidated supervisory requirements of the financial Parent Company

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 and Brianza S.p.A.

The calculation of Own Funds and of the consolidated prudential requirements at 31 December 2018, which are transmitted to the Bank of Italy in relation to the prudential supervisory reports (COREP) and statistical reports (FINREP), was 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. 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).

The consolidated own funds calculated by the financial parent company amount to 934.0 million euros at 31 December 2018 (CET1 + AT1 of 799.8 million euros, T2 of 134.2 million euros).

The following table shows the consolidated prudential requirements of the financial parent company calculated with and without applying the transitional provisions.

	31.12.2018	
	Application of the transitional regime	Without application of the transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	732,550	
Common Equity Tier 1 - CET1 without application of the transitional provisions		*701,057*
Tier 1 capital	799,843	
Tier 1 capital without application of the transitional provisions		*767,935*
Total own funds	934,021	
Total own funds without application of the transitional provisions		*887,068*
RISK ASSETS		
Risk-weighted assets	7,781,387	
Risk-weighted assets without application of the transitional provisions		*7,726,290*
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	9.414%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional provisions		*9.074%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	10.279%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional provisions		*9.939%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	12.003%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional provisions		*11.481%*

At 31 December 2018 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 previously referred to.

Own funds and consolidated supervisory requirements of the banking group

Following the periodical review and prudential assessment process (SREP), on 4 April 2017, the Bank of Italy notified Banco di Desio e della Brianza the minimum prudential requirements for the banking group it controls. Taking into account the 1.875% capital conservation reserve applicable to Italian banking groups in 2018, they presuppose compliance with the minimum limits indicated below, applicable to the regulatory scope of consolidation of Brianza Unione:

- 6.625% for the Common Equity Tier 1 ratio, binding - pursuant to art. 67-ter TUB - to the extent of 4.8% (of which 4.5% for the minimum regulatory requirements and 0.3% for additional requirements) and the capital conservation buffer for the remainder;
- 8.225% for the Tier 1 ratio, binding - pursuant to art. 67-ter TUB - to the extent of 6.4% (of which 6.0% for the minimum regulatory requirements and 0.4% for additional requirements) and the capital conservation buffer for the remainder;
- 10.375% for the Total Capital ratio, binding - pursuant to art. 67-ter of the CBA - to the extent of 8.5% (of which 8% for the minimum regulatory requirements and 0.5% for additional requirements) and for the remainder from the capital conservation buffer.

The Consolidated Own Funds of the Banco Desio Group, Own Funds at 31 December 2018, after a pay-out that takes into account the proposed allocation of the net profits of Group companies, subject to authorisation by their respective shareholders' meetings, amounted to 1,056.9 million euros (CET1 + AT1 of 954.8 million euros + T2 of 102.1 million euros), a decrease of 32.2 million euros compared with the final balance at the end of the previous year of Euro 1,089.1 million, mainly due to the decrease in Tier 2 capital compared with 31 December 2017, partially offset by the overall profitability for the year.

The following table shows the consolidated regulatory requirements of the Banco Desio Group calculated with and without applying the transitional provisions.

	31.12.2018	
	Application of the transitional regime	Without application of the transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	945,615	
Common Equity Tier 1 - CET1 without application of the transitional provisions		*887,889*
Tier 1 capital	954,783	
Tier 1 capital without application of the transitional provisions		*896,932*
Total own funds	1,056,921	
Total own funds without application of the transitional provisions		*994,283*
RISK ASSETS		
Risk-weighted assets	7,783,310	
Risk-weighted assets without application of the transitional provisions		*7,728,213*
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	12.149%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional provisions		*11.489%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	12.267%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional provisions		*11.606%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.579%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional provisions		*12.866%*

At 31 December 2018 the Banco Desio Group ratios are therefore above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority through the SREP procedure.

	SREP	With transitional regime	Without transitional regime
Common Equity Tier 1 ratio (CET 1 ratio)	6.63%	**12.15%**	11.49%
Tier 1 ratio	8.23%	**12.27%**	11.61%
Total capital ratio	10.38%	**13.58%**	12.87%

7.5 - 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 consolidated 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 amortisation 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 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);
- 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 (loss) from operations after tax" is down by around 10.2 million (- 22.0%) compared with 31 December 2017, mainly due to the negative effect on the cost of credit linked to the sale of doubtful loans by means of a GACS, as mentioned previously. "Non-recurring profit (loss) after tax", on the other hand, benefits from non-recurring revenue components due to an adjustment of the liabilities provided for under the current redundancy plan, compared with the prior period, which included the adjustment of certain investments classified in financial assets available for sale (in application of IAS 39, which was in force at the time).

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

Captions				Change	
Amounts in thousands of Euro		**31.12.2018**	**31.12.2017**	**Amount**	**%**
10+20	Net interest income	212,902	229,642	-16,740	-7.3%
70	Dividends and similar income	3,196	638	2,558	400.9%
40+50	Net commission income	165,656	164,047	1,609	1.0%
80+90+100 +110	Net results on financial assets and liabilities	7,551	23,158	-15,607	-67.4%
230	Other operating income/expense	11,104	13,465	-2,361	-17.5%
	Operating income	**400,409**	**430,950**	**-30,541**	**-7.1%**
190 a	Payroll costs	-171,717	-178,144	6,427	-3.6%
190 b	Other administrative costs	-92,938	-90,588	-2,350	2.6%
210+220	Net adjustments to property, plant and equipment and intangible assets	-10,864	-12,059	1,195	-9.9%
	Operating costs	**-275,519**	**-280,791**	**5,272**	**-1.9%**
	Result of operations	**124,890**	**150,159**	**-25,269**	**-16.8%**
130a+100a	Cost of credit	-76,932	-78,650	1,718	-2.2%
130 b	Net adjustments to securities owned	-3,997	-2,235	-1,762	78.8%
140	Profit/losses from contractual changes without write-offs	-69		-69	n.s.
200 a	Net provisions for risks and charges - commitments and guarantees given	-417	1,563	-1,980	n.s.
200 b	Net provisions for risks and charges - other	-822	-2,493	1,671	-67.0%
	Profit (loss) from operations before tax	**42,653**	**68,344**	**-25,691**	**-37.6%**
300	Income taxes on current operations	-6,515	-22,000	15,485	-70.4%
	Net profit (loss) from operations after tax	**36,138**	**46,344**	**-10,206**	**-22.0%**
250+280	Profit (loss) from investments and disposal of investments	0	41	-41	-100.0%
	Net provisions for risks and charges, other provisions and expenses	636	-3,790	4,426	n.s.
	Non-recurring result before tax	**636**	**-3,749**	**4,385**	**n.s.**
	Income taxes from non-recurring items	-216	2,364	-2,580	n.s.
	Non-recurring result after tax	**420**	**-1,385**	**1,805**	**n.s.**
330	**Net profit (loss) for the period**	**36,558**	**44,959**	**-8,401**	**-18.7%**
340	Net profit (loss) pertaining to minority interests	-1,298	-1,261	-37	2.9%
350	**Parent Company net profit (loss)**	**35,260**	**43,698**	**-8,438**	**-19.3%**

Note: **the balances of the comparative period have been restated conventionally** in the financial statement schedules required by Circular 262 – fifth update. In particular, the "Impairment adjustments to other financial transactions" (referred to in caption "130. d)" of the formats previously envisaged) are transferred to caption "200. a) Provisions for risks and charges - commitments and guarantees given".

"Net interest income" at 31 December 2018 is shown net of the release of the time value component of impaired financial assets, equal to Euro 9,288 thousand, and net of adjustments on interest related to non-performing loans for Euro 3,122 thousand, both reclassified to "Cost of credit" for Euro 6,166 thousand.

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	31.12.2018	Measurement effects on non-performing loans	Tax/expense recoveries	Expected loss on securities at amortized cost	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	31.12.2018
10+20	Net interest income	219,068	-6,166							212,902
70	Dividends and similar income	3,196								3,196
40+50	Net commission income	165,656								165,656
80+90+100 +110	Net results on financial assets and liabilities	-17,214					24,405	360		7,551
230	Other operating income/expense	43,484		-34,277		1,897				11,104
	Operating income	**414,190**	**-6,166**	**-34,277**	**0**	**1,897**	**24,405**	**360**	**0**	**400,409**
190 a	Payroll costs	-169,257						-2,460		-171,717
190 b	Other administrative costs	-128,679		34,277				1,464		-92,938
210+220	Net adjustments to property, plant and equipment and intangible assets	-8,967				-1,897				-10,864
	Operating costs	**-306,903**	**0**	**34,277**	**0**	**-1,897**	**0**	**-996**	**0**	**-275,519**
	Result of operations	**107,287**	**-6,166**	**0**	**0**	**0**	**24,405**	**-636**	**0**	**124,890**
130a+100a	Cost of credit	-63,104	6,166		4,607		-24,405	-196		-76,932
130 b	Net adjustments to securities owned	610			-4,607					-3,997
140	Profit/losses from contractual changes without write-offs	-69								-69
200 a	Net provisions for risks and charges - commitments and guarantees given	-417								-417
200 b	Net provisions for risks and charges - other	-1,018						196		-822
	Profit (loss) from operations before tax	**43,289**	**0**	**0**	**0**	**0**	**0**	**-636**	**0**	**42,653**
300	Income taxes on current operations	-6,731							216	-6,515
	Net profit (loss) from operations after tax	**36,558**	**0**	**0**	**0**	**0**	**0**	**-636**	**216**	**36,138**
250+280	Profit (loss) from investments and disposal of investments	-			0					0
	Net provisions for risks and charges, other provisions and expenses		0		0			636		636
	Non-recurring result before tax	**0**	**0**	**0**	**0**	**0**	**0**	**636**	**0**	**636**
	Income taxes from non-recurring items								-216	-216
	Non-recurring result after tax	**0**	**0**	**0**	**0**	**0**	**0**	**636**	**-216**	**420**
330	**Net profit (loss) for the period**	**36,558**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**36,558**
340	Net profit (loss) pertaining to minority interests	-1,298								-1,298
350	**Parent Company net profit (loss)**	**35,260**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**35,260**

Captions		As per financial statements	Reclassifications									Reclassified income statement
Amounts in thousands of Euro		31.12.2017	Measurement effects on non-performing loans	Tax/expense recoveries	Profit (Losses) from associates	Special dividends from equity investments	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges / other provisions and	Impairment adjustments to financial assets	Income taxes	31.12.2017
10+20	Net interest income	231,242	-1,600									229,642
70	Dividends and similar income	6,400				-5,762						638
	Profit (loss) from equity investments in associates				0							0
40+50	Net commission income	164,047										164,047
80+90+100 +110	Net results on financial assets and liabilities	16,343	0			0		931		5,884		23,158
230	Other operating income/expense	45,863		-34,632			2,234					13,465
	Operating income	**463,895**	**-1,600**	**-34,632**	**0**	**-5,762**	**2,234**	**931**	**0**	**5,884**	**0**	**430,950**
190 a	Payroll costs	-178,206							62			-178,144
190 b	Other administrative costs	-125,220		34,632					0			-90,588
210+220	Net adjustments to property, plant and equipment and intangible assets	-9,825					-2,234					-12,059
	Operating costs	**-313,251**	**0**	**34,632**	**0**	**0**	**-2,234**	**0**	**62**	**0**	**0**	**-280,791**
	Result of operations	**150,644**	**-1,600**	**0**	**0**	**-5,762**	**0**	**931**	**62**	**5,884**	**0**	**150,159**
130a+100a	Cost of credit	-79,041						-931	1,322			-78,650
130 b	Net adjustments to securities owned	-9,681								7,446		-2,235
200 a	Net provisions for risks and charges - commitments and guarantees given	3,803								-2,240		1,563
200 b	Net provisions for risks and charges - other	-1,171							-1,322			-2,493
	Profit (loss) from operations before tax	**64,554**	**-1,600**	**0**	**0**	**-5,762**	**0**	**0**	**62**	**11,090**	**0**	**68,344**
300	Income taxes on current operations	-19,636									-2,364	-22,000
	Net profit (loss) from operations after tax	**44,918**	**-1,600**	**0**	**0**	**-5,762**	**0**	**0**	**62**	**11,090**	**-2,364**	**46,344**
250+280	Profit (loss) from investments and disposal of investments	41			0	0						41
	Net provisions for risks and charges, other provisions and expenses		1,600			5,762			-62	-11,090		-3,790
	Non-recurring profit (loss) before tax	**41**	**1,600**	**0**	**0**	**5,762**	**0**	**0**	**-62**	**-11,090**	**0**	**-3,749**
	Income taxes from non-recurring items										2,364	2,364
	Non-recurring profit (loss) after tax	**41**	**1,600**	**0**	**0**	**5,762**	**0**	**0**	**-62**	**-11,090**	**2,364**	**-1,385**
330	**Net profit (loss) for the period**	**44,959**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**44,959**
340	Net profit (loss) pertaining to minority interests	-1,261										-1,261
350	**Parent Company net profit (loss)**	**43,698**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**43,698**

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

Operating income

Core revenues decreased by about 30.5 million euros compared with the previous period (-7.1%), coming in at 400.4 million euros. This trend is attributable:

- to the *net interest income* which, in consideration of the persistent effects of the expansive monetary policy which strongly compresses interest income, shows a reduction of 16.7 million euros (-7.3%);
- to the *net results on financial assets and liabilities* which stood at 7.6 million euros, a reduction of 15.6 million euros;
- to the balance of *other operating income/expense*, down by about 2.4 million euros;

partially offset by the positive contribution from net commissions, up by 1.6 million euros (+1.0%) and *dividends*, which came to 3.2 million euros (formerly 0.6 million euros).

Net results on financial assets and liabilities include capital losses on mutual funds that have to be measured at fair value for 3.1 million euros (in the comparative period, the negative valuation effect of 0.5 million euros was recognised in other comprehensive income in accordance with IAS 39).

The following table analyses *net commission income* by type.

Table no. 13 - **BREAKDOWN OF NET COMMISSION INCOME BY TYPE OF SERVICE**

Amounts in thousands of Euro	**31.12.2018**	**%**	**31.12.2017**	**%**	**change Amount**	**change %**
Collection and payment services	26,098	15.8%	25,107	15.3%	991	3.9%
Placement, custody, admin. of securities & other	22,095	13.3%	21,293	13.0%	802	3.8%
Managed portfolios and order taking	12,636	7.6%	13,777	8.4%	-1,141	-8.3%
Distribution of insurance products	17,417	10.5%	16,628	10.1%	789	4.7%
Maintenance and management of current accounts	73,754	44.5%	73,939	45.1%	-185	-0.3%
Other commission	13,656	8.3%	13,303	8.1%	353	2.7%
Net commission income	**165,656**	**100.0%**	**164,047**	**100.0%**	**1,609**	**1.0%**

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 275.5 million euros and have decreased, with respect to the comparative period, by 5.3 million euros (-1.9%).

In particular, other administrative expenses have increased by 2.4 million euros(+2.6%). The balance includes 8.2 million euros for the ex-ante ordinary gross contributions to the Single Resolution Mechanism (SRM) and to the Deposit Guarantee Scheme (DGS) (7.4 million euros in the prior year).

Payroll costs have decreased by 6.4 million euros (-3.6%) on the prior period, whereas the balance of net adjustments to property, plant and equipment and intangible assets came to 10.9 million euros (-9.9%).

Results of operations

The results of operations at 31 December 2018 therefore amounted to 124.9 million euros, 25.3 million euros down on the prior period (-16.8%).

Net profit (loss) from operations after tax

The result of operations of 124.9 million euros leads to a net profit (loss) from operations after tax of 36.1 million euros, 22.0% down on the 46.3 million euros 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 76.9 million euros (formerly 78.7 million euros), affected by:
  - losses from the sale of loans on completion of the securitisation transaction under the GACS scheme, which involves an Italian State guarantee on the senior securities issued following the securitisation of doubtful loans pursuant to Decree Law 18/2016 and other operations to reduce the stock of NPL;
  - application of the new models for the determination of the expected loss on loans adopted by the bank in application of IFRS 9 starting from 1 January 2018, and therefore not fully comparable with the prior period figure;
- net adjustments to proprietary securities of 4.0 million euros (formerly 2.2 million euros), which during the period includes the adjustments deriving from application of the new models for the determination of the expected loss on the proprietary securities portfolio in accordance with IFRS 9 starting from 1 January 2018 and therefore not comparable with the previous period, which included adjustments to mutual funds and equity instruments in application of IAS 39;
- *net provisions for risks and charges*, including commitments and guarantees given, of 1.2 million euros (previously 0.9 million euros);
- income taxes on current operations of 6.5 million euros (formerly 22.0 million euros).

Result of non-recurring items after tax

At 31 December 2018 there was a *non-recurring profit after tax* of 0.4 million euros. This item basically consists of:

- the revenue component of 2.5 million euros relating to the adjustment of the liabilities recorded to cover the redundancy plan at the end of 2016, reclassified from personnel costs,
- the 1.5 million euros charge for the extraordinary contribution to the SRM requested by the national resolution authority on 25 May 2018 and
- other non-recurring costs relating to participation in system interventions of around 0.4 million euros,

net of the related tax effect (negative for 0.2 million euros).

For the comparative period, *non-recurring profit (loss) after tax* was a loss of 1.4 million euros. This mainly consists of:

- impairment adjustments (net of the use of provisions) recognised:
  - for 2.1 million euros on a minority bank shareholding acquired under a commitment made previously;
  - for 3.6 million euros on the Atlante Fund following the write-off of the value of the banking interests held by the fund;

  both reclassified from net impairment losses on available-for-sale financial assets.
- the negative income components linked to participation in the Interbank Deposit Protection Fund's Voluntary Intervention Scheme (VIS), in particular:
  - 4.4 million euros paid to the VIS during the year for the capital increases of the three banks sold to Cariparma in December, reclassified from the *net results on financial assets and liabilities*;
  - 1.0 million euro for the impairment made on the nominal value of the securitisation tranches of NPLS subscribed by the VIS, reclassified from net impairment *adjustments to financial assets available for sale;*
- income of 5.7 million euros from the special dividend paid by Cedacri S.p.A.;
- interest income of 1.6 million euros relating to the first few months of TLTRO II, recognised on the basis of the lending policies implemented by the Banco Desio Group, which in December 2017 enabled it to achieve higher net lending than the target needed to benefit from negative interest expense at a rate of 0.40%;

net of the related (positive) tax effects of 2.4 million euros.

Parent Company net profit/(loss)

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 31 December 2018 of 35.3 million euros.

8 - PERFORMANCE OF CONSOLIDATED COMPANIES

In order to provide a breakdown of the performances 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 particular nature of this company.

8.1 - BANCO DESIO E DELLA BRIANZA S.p.A.

BALANCE SHEET

Amounts in thousands of Euro	31.12.2018	31.12.2017	change amount	change %
Total assets	10,112,843	10,459,327	-346,484	-3.3%
Financial assets	2,629,146	1,972,882	656,264	33.3%
Due from banks [1]	675,378	1,562,664	-887,286	-56.8%
Loans to customers [1]	6,163,674	6,251,542	-87,868	-1.4%
Property, plant and equipment	134,591	135,293	-702	-0.5%
Intangible assets	2,790	3,044	-254	-8.3%
Non-current assets and disposal groups held for sale	0		0	
Due to banks	1,669,097	1,760,234	-91,137	-5.2%
Due to customers	5,964,901	5,988,799	-23,898	-0.4%
Debt securities in issue	1,338,854	1,602,047	-263,193	-16.4%
Shareholders' equity (including Net profit/loss for the period)	914,514	912,371	2,143	0.2%
Own Funds	1,005,869	1,037,014	-31,145	-3.0%
Total indirect deposits	12,070,358	12,222,163	-151,805	-1.2%
of which: Indirect deposits from ordinary customers	*6,967,942*	*7,057,209*	*-89,267*	*-1.3%*
of which: Indirect deposits from institutional customers	*5,102,416*	*5,164,954*	*-62,538*	*-1.2%*

[1] on the basis of new Circular 262 - 5th update, the balance of this caption includes held to collect (HTC) debt securities measured at amortised cost; these securities are shown under financial assets in these key figures in the interests of better comparability with the previous period.

INCOME STATEMENT [2]

Amounts in thousands of Euro	31.12.2018	31.12.2017	change amount	change %
Operating income	251,363	273,845	-22,482	-8.2%
of which: Net interest income	*121,215*	*130,963*	*-9,748*	*-7.4%*
Operating costs	172,499	174,448	-1,949	-1.1%
Result of operations	78,864	99,397	-20,533	-20.7%
Profit (loss) from operations after tax	30,328	40,001	-9,673	-24.2%
Non-recurring profit (loss) after tax	627	-2,005	2,632	n.s.
Net profit (loss) for the period	30,955	37,996	-7,041	-18.5%

[2] from the reclassified income statement

KEY FIGURES AND RATIOS

	31.12.2018	31.12.2017	Change amount
Capital/Total assets	9.0%	8.7%	0.3%
Capital/Loans to customers	14.8%	14.6%	0.2%
Capital/Due to customers	15.3%	15.2%	0.1%
Capital/Debt securities in issue	68.3%	57.0%	11.3%
Common Equity Tier 1 (CET 6)/Risk-weighted assets (Common Equity Tier 3 ratio) [3]	18.0%	17.1%	0.9%
Core Tier 1 capital (T1) / Risk-weighted assets (Tier 1 ratio) [3]	18.0%	17.2%	0.8%
Total Own Funds / Risk-weighted assets (Total capital ratio) [3]	19.8%	19.9%	-0.1%
Financial assets/Total assets	26.0%	18.9%	7.1%
Due from banks/Total assets	6.7%	14.9%	-8.2%
Loans to customers/Total assets	60.9%	59.8%	1.1%
Loans to customers/Direct customer deposits	84.4%	82.4%	2.0%
Due to banks/Total assets	16.5%	16.8%	-0.3%
Due to customers/Total assets	59.0%	57.3%	1.7%
Debt securities in issue / Total assets	13.2%	15.3%	-2.1%
Direct customer deposits/Total assets	72.2%	72.6%	-0.4%

	31.12.2018	31.12.2017	Change amount
Cost/Income ratio	68.6%	63.7%	4.9%
Net interest income/Operating income	48.2%	47.8%	0.4%
Result of operations/Operating income	31.4%	36.3%	-4.9%
Profit (loss) from operations after tax/Capital [4]	3.4%	4.6%	-1.2%
Profit (loss) from operations after tax/Capital [4] (R.O.E)[5]	3.5%	4.3%	-0.8%
Profit (loss) from operations before tax/Total assets (ROA)	0.4%	0.5%	-0.1%

	31.12.2018	31.12.2017	Change amount
Net doubtful loans/Loans to customers [6]	1.0%	3.9%	-2.9%
Net non-performing loans/Loans to customers [6]	3.5%	6.5%	-3.0%
% Coverage of doubtful loans [6]	62.1%	57.7%	4.4%
% Coverage of doubtful loans, gross of cancellations [6]	69.8%	64.8%	5.0%
% Total coverage of non-performing loans [6]	44.3%	50.2%	-5.9%
% Coverage of non-performing loans, gross of cancellations [6]	50.0%	56.4%	-6.4%
% Coverage of performing loans [6]	0.45%	0.40%	0.05%

STRUCTURE AND PRODUCTIVITY RATIOS

	31.12.2018	31.12.2017	Change amount	Change %
Number of employees	1,316	1,371	-55	-4.0%
Number of branches	146	146	0	0.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee [7]	4,588	4,496	92	2.0%
Direct deposits from customers per employee [7]	5,436	5,459	-23	-0.4%

	31.12.2018	31.12.2017	Change amount	Change %
Operating income per employee [7]	187	197	-10	-5.1%
Result of operations per employee [7]	59	71	-12	-16.9%

[3] capital ratios at 31.12.2018 are calculated in application of the transitional provisions introduced by EU Regulation 2017/2395; the ratios calculated without application of these provisions are the following: Common Equity Tier1 17.7%; Tier 1 17.7%; Total capital ratio 19.5%.

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

[5] ROE recalculated at the end of 2017 taking into account the effects of FTA of IFRS 9 is equal to 4.4%.

[6] the indicators for credit quality and coverage of non-performing loans and performing loans at 31.12.2018 reflect the impact of applying IFRS 9 from 1 January 2018 and of the NPL sales carried out during the period.

[7] 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 (loss) from operations after tax is down by 9.7 million (- 24.2%) compared with 31 December 2017, mainly due to the negative effect on the cost of credit linked to the sale of doubtful loans by means of a GACS. "Non-recurring profit (loss) after tax", on the other hand, benefits from non-recurring revenue components due to an adjustment of the liabilities provided for under the current redundancy plan, compared with the prior period, which included the adjustment of certain investments classified in financial assets available for sale (in application of IAS 39, which was in force at the time).

Loans to customers increased from 6,251.5 million euros at the end of 2017 to 6,163.7 million euros at the reference date, which is 3.5% of the NPL portfolio (formerly 6.5%).

Shareholders' equity at 31 December 2018, including the result for the period, amounts to 914.5 million euros, compared with 912.4 million euros at the end of 2017. The positive change of 2.1 million euros is essentially attributable to the overall profitability for the period of Euro 26.6 million, partially offset by the effects of FTA of IFRS 9 equal to 11.1 million euros and the payment of the dividend for 2017 of 13.3 million euros.

After a payout of 36.01% (based on the proposed allocation of net profit to be approved at the Shareholders' Meeting), capital for supervisory purposes, otherwise known as Own Funds, at 31 December 2018 amounts to 1,005.9 million euros (CET 1 + AT1 913.9 million euros + T2 92.0 million euros). This is 31.1 million euros lower than the amount reported at the end of the prior year, 1,037.0 million euros, due to the reduction in class 2 capital since 31 December 2017.

The Total Capital Ratio, consisting of total Own Funds as a ratio of risk-weighted assets, came to 19.8%.

8.2 - BANCA POPOLARE DI SPOLETO S.p.A.

BALANCE SHEET

	31.12.2018	31.12.2017	Change	
Amounts in thousands of Euro			**amount**	**%**
Total assets	4,200,022	4,158,011	42,011	1.0%
Financial assets	452,981	310,397	142,584	45.9%
Due from banks [(1)]	115,548	87,319	28,229	32.3%
Loans to customers [(1)]	3,389,153	3,535,603	-146,450	-4.1%
Property, plant and equipment	41,624	42,042	-418	-1.0%
Intangible assets	8,328	8,428	-100	-1.2%
Non-current assets and disposal groups held for sale	0		0	
Due to banks	458,078	377,707	80,371	21.3%
Due to customers	3,288,357	3,283,099	5,258	0.2%
Debt securities in issue	87,805	108,447	-20,642	-19.0%
Shareholders' equity (including Net profit/loss for the period)	233,002	273,497	-40,495	-14.8%
Own Funds	283,913	280,588	3,325	1.2%
Total indirect deposits	2,048,300	1,970,253	78,047	4.0%
of which: Indirect deposits from ordinary customers	*2,010,344*	*1,932,852*	*77,492*	*4.0%*
of which: Indirect deposits from institutional customers	*37,956*	*37,401*	*555*	*1.5%*

[(1)] on the basis of new Circular 262 - 5th update, the balance of this caption includes held to collect (HTC) debt securities measured at amortised cost; these securities are shown under financial assets in these key figures in the interests of better comparability with the previous period.

INCOME STATEMENT [1]

Amounts in thousands of Euro	31.12.2018	31.12.2017	Change amount	%
Operating income	*140,004*	*151,182*	-11,178	-7.4%
of which: Net interest income	*79,011*	*88,503*	*-9,492*	*-10.7%*
Operating costs	98,369	101,727	-3,358	-3.3%
Result of operations	41,635	49,455	-7,820	-15.8%
Profit (loss) from operations after tax	11,756	13,709	-1,953	-14.2%
Non-recurring profit (loss) after tax	-207	621	-828	n.s.
Net profit for the year	11,549	14,330	-2,781	-19.4%

[1] from the Reclassified Income Statement

KEY FIGURES AND RATIOS

	31.12.2018	31.12.2017	change %
Capital/Total assets	5.5%	6.6%	-1.1%
Capital/Loans to customers	6.9%	7.7%	-0.8%
Capital/Due to customers	7.1%	8.3%	-1.2%
Capital/Debt securities in issue	265.4%	252.2%	13.2%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) [1]	10.8%	9.9%	0.9%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) [1]	10.8%	9.9%	0.9%
Total Own Funds/Risk-weighted assets (Total capital ratio) [1]	11.6%	10.7%	0.9%
Financial assets/Total assets	10.8%	7.5%	3.3%
Due from banks/Total assets	2.8%	2.1%	0.7%
Loans to customers/Total assets	80.7%	85.0%	-4.3%
Loans to customers/Direct customer deposits	100.4%	104.2%	-3.8%
Due to banks/Total assets	10.9%	9.1%	1.8%
Due to customers/Total assets	78.3%	79.0%	-0.7%
Debt securities in issue / Total assets	2.1%	2.6%	-0.5%
Direct customer deposits/Total assets	80.4%	81.6%	-1.2%

	31.12.2018	31.12.2017	Change %
Cost/Income ratio	70.3%	67.3%	3.0%
Net interest income/Operating income	56.4%	58.5%	-2.1%
Result of operations/Operating income	29.7%	32.7%	-3.0%
Profit (loss) from operations after tax/Capital [2]	5.3%	5.3%	0.0%
Profit (loss) from operations after tax/Capital [2] (R.O.E) [3]	5.2%	5.5%	-0.3%
Profit (loss) from operations before tax/Total assets (ROA)	0.3%	0.5%	-0.2%

	31.12.2018	31.12.2017	Change %
Net doubtful loans/Loans to customers	1.7%	7.0%	-5.3%
Net impaired loans/Loans to customers	5.5%	11.6%	-6.1%
% Coverage of doubtful loans [4]	55.6%	56.7%	-1.1%
% Total coverage of non-performing loans [4]	39.7%	48.0%	-8.3%
% Coverage of performing loans [4]	0.70%	0.54%	0.16%

STRUCTURE AND PRODUCTIVITY RATIOS

	31.12.2018	31.12.2017	Change amount	Change %
Number of employees	849	889	-40	-4.5%
Number of branches	119	119	0	0.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee [5]	3,900	3,944	-44	-1.1%
Direct deposits from customers per employee [5]	3,885	3,783	102	2.7%

	31.12.2018	31.12.2017	Change amount	Change %
Operating income per employee [5]	161	169	-8	-4.7%
Result of operations per employee [5]	48	55	-7	-12.7%

[1] capital ratios at 31.12.2018 are calculated in application of the transitional provisions introduced by EU Regulation 2017/2395; the ratios calculated without application of these provisions are the following: 8.9% (CET 1 ratio); 8.9% (Tier 1 ratio); 9.7% (Total capital ratio).

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

[3] ROE recalculated at the end of 2017 taking into account the effects of FTA of IFRS 9 is equal to 6.8%.

[4] the indicators for credit quality and coverage of non-performing loans and performing loans at 31.12.2018 reflect the impact of applying IFRS 9 from 1 January 2018 and of the NPL sales carried out during the period.

[5] 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 81.67% in this company.

The Profit (loss) from operations after tax is down by 2.0 million (- 14.2%) compared with 31 December 2017, mainly due to the negative effect on the cost of credit linked to the sale of doubtful loans by means of a GACS. The "Non-recurring profit (loss) after tax" is substantially affected by non-recurring cost components relating to the extraordinary contribution to the SRM resolution fund with respect to the comparative period, which included non-recurring items that were positive overall, with a positive tax effect too.
Loans to customers decreased from 3,535.6 million euros at the end of 2017 to 3,389.2 million euros at the reporting date, which is 5.5% of the NPL portfolio (formerly 11.6%).

Shareholders' equity at 31 December 2018, including the result for the period, amounts to 233.0 million euros, compared with 273.5 million euros at the end of 2017. The negative change of 40.5 million euros is due to FTA of IFRS 9 of 49.6 million euros, payment of the dividend for 2017 of 2.9 million euros, partially offset by the positive result for the period of 12.0 million euros.

The Total Capital Ratio (Total Own Funds/Risk-weighted assets) was 11.6%.

8.3 - FIDES S.p.A.

BALANCE SHEET

Amounts in thousands of Euro	31.12.2018	31.12.2017	Change amount	%
Total assets	711,437	641,380	70,057	10.9%
Financial assets	15	15	0	0.0%
Due from banks	2,922	2,481	441	17.8%
Loans to customers	706,240	636,940	69,300	10.9%
Property, plant and equipment	151	101	50	48.9%
Intangible assets	0	947	-947	-100.0%
Due to banks	652,070	580,676	71,394	12.3%
of which: Due to Group Banks	*630,781*	*580,420*	*50,361*	*8.7%*
Due to customers	3,678	2,622	1,057	40.3%
Shareholders' equity (including Net profit/loss for the period)	51,533	50,144	1,389	2.8%
Own Funds	44,736	43,433	1,303	3.0%

INCOME STATEMENT [1]

Amounts in thousands of Euro	31.12.2018	31.12.2017	Change amount	%
Operating income	16,812	17,058	-246	-1.4%
of which: Net interest income	14,539	13,672	867	6.3%
Operating costs	-6,536	-6,148	-388	6.3%
Result of operations	10,276	10,910	-634	-5.8%
Profit (loss) from operations after tax	7,175	7,208	-33	-0.5%
Non-recurring profit (loss) after tax	0	0	0	n.s.
Net profit for the year	7,175	7,208	-33	-0.5%

[1] from the Reclassified income statement

KEY FIGURES AND RATIOS

	31.12.2018	31.12.2017	Change amount
Capital/Total assets	7.2%	7.8%	-0.6%
Capital/Loans to customers	7.3%	7.9%	-0.6%
Capital/Due to Banks	7.9%	8.6%	-0.7%
			0.0%
Total Own Funds/Risk-weighted assets (Total capital ratio)	7.6%	8.2%	-0.6%
Loans to customers/Total assets	99.3%	99.3%	0.0%
Due to banks/Total assets	91.7%	90.5%	1.2%

	31.12.2018	31.12.2017	Change amount
Cost/Income ratio	38.9%	36.0%	2.9%
Net interest income/Operating income	86.5%	80.2%	6.3%
Result of operations/Operating income	61.1%	64.0%	-2.9%
Profit (loss) from operations after tax/Capital [(2)]	21.6%	16.8%	4.8%
ROE [(2)]	21.6%	16.8%	4.8%
Profit (loss) from operations before tax/Total assets (ROA)	1.9%	1.6%	0.3%

	31.12.2018	31.12.2017	Change amount
Net doubtful loans/Loans to customers	0.1%	0.1%	0.0%
Net impaired loans/Loans to customers	0.4%	0.5%	-0.1%
% Coverage of doubtful loans	64.2%	63.4%	0.8%
% Total coverage of non-performing loans	39.6%	36.6%	3.0%
% Coverage of performing loans	0.06%	0.07%	-0.01%

STRUCTURE AND PRODUCTIVITY RATIOS

	31.12.2018	31.12.2017	Change amount	Change %
Number of employees [(3)]	44	43	1	2.3%

Amounts in thousands of Euro	31.12.2018	31.12.2017	Change amount	Change %
Loans and advances to customers per employee [(4)]	16,235	14,987	1,248	8.3%

Amounts in thousands of Euro	31.12.2018	31.12.2017	Change amount	Change %
Operating income per employee [(4)]	386	401	-15	-3.7%
Result of operations per employee [(4)]	236	257	-21	-8.2%

[(3)] number of employees at the reference date;

[(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 for the year ended 31 December 2017 was around 7.2 million euros, a slight decrease from the comparative period (-0.5%); net interest income rose to 14.5 million euros (formerly 13.7 million euros), while net interest and other banking income fell to 12.3 million euros (formerly 12.9 million euros), due to the negative contribution of net commission income for 2.2 million euros (formerly 0.8 million euros). The results of operations amounted to 5.1 million euros (formerly 5.5 million euros).

Loans to customers increased from 636.9 million euros at the end of 2017 to 706.2 million euros at the reference date, an incidence of 0.4% of the NPL portfolio (formerly 0.5%).

Shareholders' equity increased from 50.1 million euros at 31 December 2017 to 51.5 million euros at the reporting date (due to the result for the year, partly offset by the distribution of dividends), while *Own Funds* went from 43.4 million euros at the end of 2017 to 44.7 million euros. The *Total capital ratio*, consisting of *Total Own Funds* as a percentage of *Risk-weighted assets*, amounts to 7.6% (8.2% at 31 December 2017).

9 - OTHER INFORMATION

9.1 - TREASURY SHARES

At 31 December 2018, as was the case at the previous year end, the Parent Company Banco di Desio e della Brianza S.p.A. did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi & C. S.a.p.A. and it did not trade in treasury share or shares of its parent company, directly or through a trustee or other person. .

9.2 - RATINGS

On 13 June 2018, following its annual review, the international agency Fitch Ratings Ltd confirmed all of the ratings assigned to Banco di Desio and Brianza SpA.

The ratings are as follows:

- Long term IDR: confirmed at "BBB-" Outlook Stable
- Viability rating: confirmed at "bbb-"
- Short term IDR: confirmed at "F3"
- Support Rating: confirmed at "5"
- Support Rating Floor: confirmed at "No Floor"

9.3 – TRANSACTIONS WITH RELATED PARTIES AND/OR ASSOCIATED PERSONS

For a more detailed description of the procedures that govern transactions with related parties (pursuant to art. 2391-bis of the 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 Group's website pursuant to art. 123-bis of the CFA, along with this report on operations.

Details of transactions with related parties approved by the Board of directors in the course of 2018 are disclosed in Part H of the explanatory notes.

9.4 – INFORMATION ON INCENTIVE PLANS

At the reference date, there are no equity-based payments.

9.5 – REPORT ON THE ADOPTION OF THE CODE OF CONDUCT FOR LISTED COMPANIES

Information about the adoption of the Code of Conduct for listed companies is provided in the Annual Report on Corporate Governance in compliance with art. 123-bis of the CFA, which is available on the Group's website, along with this report on operations, and to which reference should be made.

9.6 – RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank undertakes development with a view to continuous improvement in the customer relationship.
The Banco Desio Group is closely involved in the development of "multichannel" operations, in order to make banking services easier to use, simple and more flexible. Widespread connectivity, mobility, advanced payment services and user-friendly technology have led to an evolution in customers' access to banking services, new models of interpersonal relationships and, consequently, a growing digitisation of services, processes and multi-channel approach to relationships.
As a consequence of this evolution in digital services, the action to strengthen the Group's range of technological solutions offered to customers continued in 2018. In particular, during the year some important projects were finalized or launched in the areas of payment systems and telematic services.
Payment services were also activated via smartphone and the first agreement was finalised with Satispay, an Italian fintech.
In the context of web and mobile banking services, in the second part of the year the bases were laid for a revision of the web platforms dedicated to individuals and companies that will take place in 2019.

9.7 – OPT-OUT FROM OBLIGATION TO PUBLISH INFORMATION DOCUMENTS FOR EXTRAORDINARY OPERATIONS PURSUNAT TO CONSOB REGULATIONS

Pursuant to art. 3 of Consob resolution no. 18079 of 20 January 2012, the Parent Company has exercised its right to opt-out as provided by art. 70, paragraphs 8 and by art. 71, paragraph 1-bis of Consob Regulation 11971/99, effectively exercising its right to opt-out from the obligation to publish information documents required by Attachment 3B of the aforementioned Consob Regulation for significant mergers, demergers, increases in capital by contribution in kind, acquisitions and disposals.

9.8 – STATEMENT OF A NON - FINANCIAL NATURE

In application of Legislative Decree no. 254 of 30 December 2016, Banco di Desio e della Brianza S.p.A., as the parent company, publishes a consolidated non-financial statement as a separate report with respect to the consolidated financial statements, called the "Banco Desio Group's Sustainability Report", which contains the information required by the Decree.

Publication of the Sustainability Report is announced in a press release that indicates the section of the Banco Desio's website where the consolidated non-financial statement is published.

10 - MAIN RISKS AND UNCERTAINTIES AND OUTLOOK FOR THE RESET OF THE YEAR

The consolidated financial statements at 31 December 2018 have been prepared on a going concern basis, since there are no plausible reasons to believe the contrary for the near future. The capital and financial structure and operating performance of the Group provide absolute confirmation of the foregoing.

In the paragraph on the macroeconomic scenario, a description has been provided of trends in the economy and financial markets with the principal risks that they involve, while the controls over the Bank's operations and the various types of risk are described in detail in Part E of the explanatory notes – Information on risks and related hedging policy.

Furthermore, explanatory notes on the levels of control in the management control and coordination function and on the internal control system are included in the relevant paragraphs of this report, with references made, for further detailed information, to the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations.

Based on the key figures for the first year of the 2018-2020 Group Business Plan and the information that can be obtained from the strategic guidelines of the Plan, the following can be stated:

- during 2018, the foundations were laid for the start of the evolutionary process of the distribution model through an evaluation process that required in-depth analysis for decisions that are necessarily longer, also in relation to a macroeconomic scenario that requires that priority be given to further streamlining of processes in close correlation with the programme of instrumental and training investments. These are needed for the reorientation towards a multi-channel model (consisting of branches, financial and web consultants) with which the Group intends to expand its customer base and the methods of operational contact and customer assistance according to their behavioural profiles;
- in the wake of this process, the decision was made in the latter part of 2018 to merge Banca Popolare di Spoleto with Banco di Desio e della Brianza, bringing the unification of the banks into a single entity to benefit even more from the cost and revenue synergies related to reorientation of the business model according to the guidelines indicated in the 2018-2020 Business Plan;
- the macroeconomic prospects, also in the light of recent Italian political events, confirm a trend in the financial margin that will not show elements of discontinuity with the last few months of 2018, i.e. a trend that is not particularly dynamic taking into account the monetary policy forecasts of the EU in 2019 and the effects of the change in the business model, which provide for a strengthening of net interest income from the proprietary securities portfolio, but with a substantial reduction in the proceeds from the purchase/sale of these securities;
- the trend in the cost of credit is expected to be slightly down as, on the one hand, there is confirmation of containment with respect to 2018, both in relation to the expected reduction in default rates (lower non-performing loans in the context of a macroeconomic scenario that is not, at present, expected to change towards a lasting recession) and to the positive effects deriving from the substantial disposals of non-performing loans during 2018; on the other hand, however, it could be affected by some effects deriving from further indications coming from the more updated version of the "calendar provisioning" expected by the Supervisory Authorities during the first half of 2019;

- maintaining constant pressure to contain operating costs, while leaving space to complete the necessary adjustments organised in line with the model's evolution, will continue to represent the primary guideline in the process of making the organisational structures and processes more efficient; in 2019 operating costs will then be able to fully benefit from the reduction in personnel costs resulting from the last voluntary redundancy in 2016 and, at least in part, from the expected synergies deriving from the merger between Banco Desio and BPS with which to cope with the natural turnover of personnel. This without prejudice, on the one hand, to having recourse to the market for those professional-specialist figures that will be considered appropriate for inclusion as part of the process of reorientation of the business model referred to in the previous points and a continuation of the charges deriving from the contributions to the National Resolution Fund and the Deposit Guarantee Scheme.

Desio, 7 February 2019 The Board of Directors

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

ASSETS

Assets	31.12.2018	31.12.2017	Change amount	%
10. Cash and cash equivalents	69,219	59,413	9,806	16.5%
20. Financial assets designated at fair value through profit and loss	60,188	20,981	39,207	186.9%
a) Financial assets held for trading	8,186	20,981	(12,795)	-61.0%
c) Other financial assets that are necessarily measured at fair value	52,002		52,002	
30. Financial assets designated at fair value through other comprehensive income	296,421	1,511,467	(1,215,046)	-80.4%
40. Financial assets measured at amortised cost	12,626,834	11,828,618	798,216	6.7%
a) Due from banks	555,965	1,342,552	(786,587)	-58.6%
b) Loans to customers	12,070,869	10,486,066	1,584,803	15.1%
50. Hedging derivatives	1	5	(4)	-80.0%
60. Adjustment to financial assets with generic hedge (+/-)	684	875	(191)	-21.8%
90. Property, plant and equipment	179,418	180,566	(1,148)	-0.6%
100. Intangible assets	17,701	17,946	(245)	-1.4%
of which:				
- goodwill	15,322	15,322		
110. Tax assets	226,537	212,527	14,010	6.6%
a) current	29,227	35,097	(5,870)	-16.7%
b) deferred	197,310	177,430	19,880	11.2%
130. Other assets	131,033	163,424	(32,391)	-19.8%
Total assets	**13,608,036**	**13,995,822**	**(387,786)**	**-2.8%**

Note: **the balances of the comparative period have been restated conventionally** in the financial statement schedules required by Circular 262 – fifth update. In particular, the securities previously recorded under IAS 39 as "Financial assets available for sale" have been entirely classified as "Financial assets at fair value through comprehensive income" and securities previously recorded under "Financial assets held to maturity" have been reclassified as "Financial assets measured at amortised cost" (of which Euro 124,492 thousand to banks and Euro 624,204 thousand to customers), regardless of the choice made for their subsequent allocation, with effect from 1 January 2018, in the business models required by IFRS 9.

LIABILITIES

Liabilities and shareholders' equity	31.12.2018	31.12.2017	Change amount	%
10. Financial liabilities measured at amortised cost	12,301,628	12,686,585	(384,957)	-3.0%
a) Due to banks	1,620,824	1,705,928	(85,104)	-5.0%
b) Due to customers	9,254,591	9,272,337	(17,746)	-0.2%
c) Debt securities in issue	1,426,213	1,708,320	(282,107)	-16.5%
20. Financial liabilities held for trading	6,046	7,976	(1,930)	-24.2%
40. Hedging derivatives	5,175	4,724	451	9.5%
60. Tax liabilities	23,313	30,226	(6,913)	-22.9%
a) current	1	3,425	(3,424)	-100.0%
b) deferred	23,312	26,801	(3,489)	-13.0%
80. Other liabilities	273,634	210,961	62,673	29.7%
90. Provision for termination indemnities	25,175	28,962	(3,787)	-13.1%
100. Provisions for risks and charges	36,745	46,547	(9,802)	-21.1%
a) commitments and guarantees given	2,377		2,377	
c) other provisions for risks and charges	34,368	46,547	(12,179)	-26.2%
120. Valuation reserves	43,920	38,307	5,613	14.7%
150. Reserves	729,024	761,201	(32,177)	-4.2%
160. Share premium reserve	16,145	16,145		
170. Share capital	67,705	67,705		
190. Minority interests (+/-)	44,266	52,785	(8,519)	-16.1%
200. Net profit (loss) for the period (+/-)	35,260	43,698	(8,438)	-19.3%
Total liabilities and shareholders' equity	**13,608,036**	**13,995,822**	**(387,786)**	**-2.8%**

CONSOLIDATED INCOME STATEMENT

Captions		31.12.2018	31.12.2017	Change amount	%
10	Interest and similar income	270,937	283,490	(12,553)	-4.4%
	of which: interest income calculated using the effective interest method	194,406	203,358	(8,952)	-4.4%
20.	Interest and similar expense	(51,869)	(52,248)	379	-0.7%
30.	**Net interest income**	**219,068**	**231,242**	**(12,174)**	**-5.3%**
40.	Commission income	179,226	175,484	3,742	2.1%
50.	Commission expense	(13,570)	(11,437)	(2,133)	18.6%
60.	**Net commission income**	**165,656**	**164,047**	**1,609**	**1.0%**
70.	Dividends and similar income	3,196	6,400	(3,204)	-50.1%
80.	Net trading income	537	2,865	(2,328)	-81.3%
90.	Net hedging gains (losses)	58	(119)	177	n.s.
100.	Gains (losses) on disposal or repurchase of:	(14,737)	13,605	(28,342)	n.s.
	a) financial assets measured at amortised cost	(23,998)	*1,663*	(25,661)	n.s.
	b) financial assets designated at fair value through other comprehensive income	9,944	*12,787*	(2,843)	-22.2%
	c) financial liabilities	(683)	*(845)*	162	-19.2%
110.	Net result of other financial assets and liabilities designated at fair value through profit and loss	(3,072)	(8)	(3,064)	n.s.
	a) financial assets and liabilities designated at fair value		(8)	8	-100.0%
	b) other financial assets that have to be measured at fair value	(3,072)		(3,072)	n.s.
120.	**Net interest and other banking income**	**370,706**	**418,032**	**(47,326)**	**-11.3%**
130.	Net value adjustments/write-backs for credit risk relating to:	(62,494)	(88,722)	26,228	-29.6%
	a) financial assets measured at amortised cost	(63,104)	*(79,041)*	15,937	-20.2%
	b) financial assets designated at fair value through other comprehensive income	610	*(9,681)*	10,291	n.s.
140.	Profit/losses from contractual changes without write-offs	(69)		(69)	n.s.
150.	**Net profit from financial activities**	**308,143**	**329,310**	**(21,167)**	**-6.4%**
180.	**Net profit from financial and insurance activities**	**308,143**	**329,310**	**(21,167)**	**-6.4%**
190.	Administrative costs:	(297,936)	(303,426)	5,490	-1.8%
	a) payroll costs	(169,257)	*(178,206)*	8,949	-5.0%
	b) other administrative costs	(128,679)	*(125,220)*	(3,459)	2.8%
200.	Net provisions for risks and charges	(1,435)	2,632	(4,067)	n.s.
	a) commitments for guarantees given	(417)	3,803	(4,220)	n.s.
	b) other net provisions	(1,018)	(1,171)	153	-13.1%
210.	Net adjustments to property, plant and equipment	(7,255)	(7,780)	525	-6.7%
220.	Net adjustments to intangible assets	(1,712)	(2,045)	333	-16.3%
230.	Other operating charges/income	43,484	45,863	(2,379)	-5.2%
240.	**Operating costs**	**(264,854)**	**(264,756)**	**(98)**	**0.0%**
280.	Gains (losses) on disposal of investments		41	(41)	-100.0%
290.	**Profit (loss) from current operations before tax**	**43,289**	**64,595**	**(21,306)**	**-33.0%**
300.	Income taxes on current operations	(6,731)	(19,636)	12,905	-65.7%
310.	**Profit (loss) from current operations after tax**	**36,558**	**44,959**	**(8,401)**	**-18.7%**
330.	**Net profit (loss) for the period**	**36,558**	**44,959**	**(8,401)**	**-18.7%**
340.	Net profit (loss) pertaining to minority interests	(1,298)	(1,261)	(37)	2.9%
350.	**Parent Company net profit (loss)**	**35,260**	**43,698**	**(8,438)**	**-19.3%**

	31.12.2018	31.12.2017
Basic earnings per share (Euro)	0.27	0.33
Diluted earnings per share (Euro)	0.27	0.33

Note: **the balances of the comparative period have been restated conventionally** in the financial statement schedules required by Circular 262 – fifth update. In particular, the "Impairment adjustments to other financial transactions" (referred to in caption "130. d)" of the formats previously envisaged) have been transferred to caption "170. a) Provisions for risks and charges - commitments and guarantees given", while "Gains (losses) on disposal of financial assets held to maturity" (referred to in caption "100. d)" of the formats previously envisaged) have been transferred to caption "100. a) Gains (losses) on disposal or repurchase of financial assets measured at amortised cost".

In order to facilitate the comparability of caption "10. Interest and similar income", it should be noted that the balance of the caption at 31 December 2018 includes the release of the time value component of non-performing financial assets of Euro 9,288 thousand, as well as the interest write-downs on NPLs for Euro 3,122 thousand.

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Captions	31.12.2018	31.12.2017
10.	**Net profit (loss) for the period**	**36,558**	**44,959**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Equity instruments designated at fair value through other comprehensive income	(82)	21,561
70.	Defined-benefit pension plans	367	(582)
	Other elements of income, net of income taxes with reversal to income statement		
120.	Cash-flow hedges	(431)	916
140.	Financial assets (other than equities) designated at fair value through other comprehensive income	(1,913)	6,097
170.	Total other elements of income (net of income taxes)	**(2,059)**	**27,992**
180.	Total comprehensive income (Captions 10+170)	**34,499**	**72,951**
190.	Total comprehensive income pertaining to minority interests	(1,718)	(2,701)
200.	**Total consolidated comprehensive income pertaining to Parent Company**	**32,781**	**70,250**

Note: **the balances of the comparative period were restated conventionally** in the tables required by Circular 262 – fifth update. In particular, the "Other elements of income net of income taxes with reversal to profit or loss – financial assets available for sale" (referred to in caption "100" of the format previously provided) have all been transferred to caption "140. Financial assets (other than equities) measured at fair value through comprehensive income".

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31.12.2018

	Balance at 31.12.2017	Changes in opening balances	Balance at 01.01.2018	Allocation of prior year results		Changes during the year									Group shareholders' equity at 31.12.2018	Minority interests at 31.12.2018
							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 30.09.2018		
Share capital:																
a) ordinary shares	118,592		118,592												60,840	57,752
b) other shares	6,865		6,865												6,865	
Share premium reserve	31,594		31,594												16,145	15,449
Reserves:																
a) from profits	721,430	(72,293)	649,137	31,138		(52)									715,228	(35,005)
b) other	17,612		17,612												13,796	3,816
Valuation reserves:	38,840	8,146	46,986											(2,059)	43,920	1,007
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	44,959		44,959	(31,138)	(13,821)									36,558	35,260	1,298
Group shareholders' equity	**927,056**	**(54,432)**	**872,624**		**(13,299)**	**(52)**								**32,781**	**892,054**	
Minority interests	**52,785**	**(9,715)**	**43,070**		**(522)**									**1,718**		**44,266**

Note: the column "Changes in opening balances" includes the changes made to the closing balances of the previous year to recognise the effects on the balance sheet at 1 January 2018 of FTA of IFRS 9 "Financial instruments".

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31.12.2017

	Balance at 31.12.2016	Changes in opening balances	Balance at 01.01.2017	Allocation of prior year results		Changes during the year									Group shareholders' equity at 31.12.2017	Minority interests at 31.12.2017
							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 31.12.2017		
Share capital:																
a) ordinary shares	118,482		118,482										110		60,840	57,752
b) other shares	6,865		6,865												6,865	
Share premium reserve	31,570		31,570										24		16,145	15,449
Reserves:																
a) from profits	707,638		707,638	14,298		(476)							(30)		747,405	(25,975)
b) other	17,612		17,612												13,796	3,816
Valuation reserves:	10,848		10,848											27,992	38,307	533
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	25,537		25,537	(14,298)	(11,239)									44,959	43,698	1,261
Group shareholders' equity	**868,120**		**868,120**		**(11,239)**	**(80)**							**5**	**70,250**	**927,056**	
Minority interests	**50,381**		**50,381**			**(396)**							**99**	**2,701**		**52,785**

CONSOLIDATED CASH FLOW STATEMENT

	31.12.2018	31.12.2017
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**132,051**	**164,908**
- interest received (+)	262,895	280,220
- interest paid (-)	(54,022)	(54,506)
- dividends and similar income (+)	3,196	6,400
- net commission income (+/-)	165,656	164,985
- payroll costs (-)	(169,255)	(178,204)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(119,311)	(101,979)
- other revenues (+)	49,623	67,628
- taxation (-)	(6,731)	(19,636)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**376,204**	**(1,713,540)**
- financial assets held for trading	12,188	(1,964)
- financial assets designated at fair value through profit and loss		
- other financial assets that are necessarily measured at fair value	(17,287)	
- financial assets designated at fair value through other comprehensive income	1,180,594	352,890
- financial assets measured at amortised cost	(796,716)	(2,104,287)
- other assets	(2,575)	39,821
3. Cash generated (absorbed) by financial liabilities	**(480,077)**	**1,575,546**
- financial liabilities measured at amortised cost	(382,799)	1,603,322
- financial liabilities held for trading	(1,930)	1,710
- financial liabilities designated at fair value through profit and loss		(15,908)
- other liabilities	(95,348)	(13,578)
Net cash generated/absorbed by operating activities (A)	**28,178**	**26,914**
B. INVESTING ACTIVITIES		
1. Cash generated by		**241**
- sale of equity investments		
- dividends collected on equity investments		
- sale of property, plant and equipment		241
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(7,645)**	**(9,534)**
- purchase of equity investments		
- purchase of property, plant and equipment	(6,178)	(7,386)
- purchase of intangible assets	(1,467)	(2,148)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	**(7,645)**	**(9,293)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(13,821)	(11,635)
- sale/purchase of third party control		
Net cash generated/absorbed by financing activities (C)	**(13,821)**	**(11,635)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**6,712**	**5,986**

RECONCILIATION

	31.12.2018	31.12.2017
Cash and cash equivalents at beginning of period	**59,413**	**50,472**
Net increase (decrease) in cash and cash equivalents	6,712	5,986
Cash and cash equivalents: effect of changes in exchange rates	3,094	2,955
Cash and cash equivalents at end of period	**69,219**	**59,413**

Consolidated explanatory notes

PART A – ACCOUNTING POLICIES

A.1 GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation 1606 of 19 July 2002, the consolidated financial statements of the Banco Desio Group are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2018 and endorsed by the European Commission.

Section 2 - Basis of preparation

The consolidated financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the explanatory notes; they are also accompanied by the Directors' report on operations.

For the preparation of the consolidated financial statements, reference was made to the Bank of Italy Circular 262 "Bank financial statements: schedules and rules for preparation" of 22 December 2005 as subsequently updated on 22 December 2017. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The consolidated 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 year 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 the financial statements at 31 December 2018 for the classification, recognition, measurement and derecognition of financial assets and liabilities, as well as the methods for recognising revenues and costs, are different from those applied in preparing the financial statements at 31 December 2017. These changes derive essentially from the mandatory application, from 1 January 2018, of the following international accounting standards:

- IFRS 9 Financial Instruments, approved by the European Commission through Regulation no. 2067/2016, which replaced IAS 39 as regards the rules for classifying and measuring financial instruments, as well as the related impairment process;
- IFRS 15 Revenues from contracts with customers, approved by the European Commission through Regulation no. 1905/2016, which involved the cancellation and replacement of IAS 18 and IAS 11.

In light of the above, this document explains in detail the updated accounting policies and provides an analysis of the main items in the financial statements.

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

International accounting standards endorsed at 31 December 2018 with application after 2018

IFRS 16 "Leases"

From 1 January 2019, IFRS 16 - Leases will replace IAS 17 "Leases", as well as interpretations IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentives" and SIC-27 "Evaluating the substance of transactions involving the legal form of a lease".

IFRS 16 was published by the IASB on 13 January 2016 and was approved at European Community level when the Official Journal of the European Union published EU Regulation no. 2017/1986 of 31 October 2017.

The standard is applicable from 1 January 2019, but early application is allowed.

The new standard provides a new definition of lease and introduces a criterion based on control (or "right of use") of an asset to distinguish leasing contracts from contracts for the provision of services, identified as discriminants: the identification of the asset, the absence of the right to replace it, the right to obtain substantially all of the economic benefits deriving from the use of the asset and the right to manage use of the asset underlying the contract. This means that rent, rental and lease contracts that were not previously assimilated to (financial) leases could now fall into the scope of application of the new standard.

Moreover, significant changes have been made to the accounting recognition requirements, introducing a single model for the recognition and assessment of leasing contracts for the lessee. This involves recording the leased asset, including those under operating leases, on the assets side of the balance sheet with a financial payable as the contra entry; there is in any case the possibility of not recognising as leases contracts involving low-value assets (i.e. contracts involving assets with a value less than or equal to Euro 5,000) and leases with a duration of 12 months or less.

The main change, for the lessee, therefore consists in overcoming the distinction between an operating lease and a financial lease as per IAS 17: the lessee has to account for all leasing contracts in the same way, recognising an asset and a liability that then has to be depreciated over the life of the contract (including any renewal or early repayment options, if it is reasonably certain that such options will be exercised).

The liabilities side of the balance sheet includes the lease liability, which consists of the current value of the payments which, at the valuation date, still have to be paid to the lessor, while the assets side of the balance sheet includes the assets consisting of the right of use covered by the contract (so-called "Right of Use Asset" or "RoU Asset"), calculated as the sum of the lease payable, the initial direct costs, the payments made on or before the starting date of the contract (net of any lease incentives received) and the costs of dismantling and/or restoration.

The method of recognising the various elements in the income statement has also changed as a result: while for IAS 17 lease instalments were recognised under "Other administrative costs", on the basis of IFRS 16 requirements, charges accrued on the lease payable will be recorded under "Interest and similar expense" and depreciation charges for the right of use under "Net adjustments to property, plant and equipment/intangible assets".

For contracts involving low-value assets and those with a duration equal to or less than 12 months, the introduction of IFRS 16 does not entail the recognition of the financial liability and the related right of use; instead, lease payments continue to be recorded in the income statement on a linear basis for the duration of the contract.

In terms of disclosure, the lessee must also provide:

- a breakdown of the figures for right of use, lease liability, depreciation charges and interest expense between the different "classes" of leased assets;
- an analysis by maturity of liabilities relating to lease contracts;

- any other information that may help understand the business's lease contracts (e.g. early repayment and renewal options).

With reference to 2019, the effects on the financial statements of adopting IFRS 16 can therefore be identified as an increase in the assets recorded in the financial statements ("RoU Asset"), an increase in liabilities ("Lease Liability"), a reduction in operating costs (for lease payments) and a simultaneous increase in financial costs (for the remuneration of the recorded debt) and depreciation of the assets. It follows that the impact on the income statement in the first few years will be higher under IFRS 16 than under IAS 17: the depreciation charges are in fact constant over time, whereas interest charges are higher in the first few years, after which they tend to decrease over time.

There are no particular changes for lessors, on the other hand, apart from some more disclosure requirements, as the current distinction between operating and financial leases is maintained for them.

Section 3 – Scope of consolidation and methodology

1. Investments in subsidiaries

Name	Head office	Type of relationship	Nature of holding	
			Parent company	% held
Banca Popolare di Spoleto S.p.A.	Spoleto	1	Banco Desio	81.673
Fides S.p.A.	Rome	1	Banco Desio	100.000
Desio OBG S.r.l.	Conegliano	1	Banco Desio	60.000

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 2017.

2. 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.

3. Investments in subsidiaries with significant minority interests

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

Name	Minority interests %	Dividends paid to third parties
Banca Popolare di Spoleto S.p.A.	18.327	523
Desio OBG S.r.l.	40.000	-

3.2 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)
Banca Popolare di Spoleto S.p.A.	4,200,022	37,689	452,981	49,952	6,605	233,002	81,887	128,954	(95,745)	10,476	11,549	-	11,549	406	11,955
Desio OBG S.r.l.	38	-	-	1	-	10	-	72	(71)	1	-	-	-	-	1

4. 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.

5. 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 quarterly consolidated financial statements as the Parent Company does not have any investments in associates).

Section 4 – Subsequent events

Please read "Significant events" in the Report on Operations.

Section 5 - Other aspects

Implementation of IFRS 16 "Leases"

During 2018 the Banco Desio Group undertook a specific project for the implementation of IFRS 16 - Leases through a first phase of detailed analysis, in relation to the main innovations introduced by the accounting standard, of the contracts that can configure a lease pursuant to the provisions of IFRS 16 and possible accounting impacts. A second planning phase followed to identify and implement and/or adapt the application and organisational interventions necessary for a consistent, organic and effective adoption of the standard.

In particular, also for the purpose of determining the possible estimated impacts expected from the first-time adoption of the standard, the scope of analysis was defined and the contracts belonging to the "Real Estate", "Automotive" and "Other Assets" clusters were analysed, also including in the latter category any IT equipment rental contracts and IT assets generally.

Based on the analyses carried out on the scope being considered, the contracts relating to Real Estate and Automotive are subject to the requirements of IFRS 16. The examination of IT contracts has shown that they are services by nature and therefore excluded from the scope of IFRS 16.

IT and organisational impacts

As mentioned above, the planning activities for implementation of the innovations introduced by IFRS 16 have highlighted the need to carry out interventions on the technological infrastructure in use, with particular regard to the administrative processes and the accounting/reporting system. The interventions on the systems are being completed, both the integration of a new application for the management of lease contracts according to the new definition of IFRS 16 and implementation of the necessary functionalities on pre-existing procedures.

In addition to IT-related interventions, organisational interventions are also being completed with the revision and adaptation of existing operating processes, with the redefinition of competencies within the various structures involved, both operational and administrative and control, overseeing the areas that the standard considers critical.

The methodologies adopted

It is worth explaining some of the methodological decisions made by the Banco Desio Group with reference to: (a) the accounting rules that will be applied to contracts falling under the definition of lease according to IFRS 16, as well as (b) the methods of representation and estimate of the effects of the first-time adoption of the standard.

Banco Desio Group companies, as lessors, intend to apply IFRS 16 from 1 January 2019, adopting option "B" of the so-called retrospective modified approach, which allows recognition of the cumulative effect of the first-time adoption (FTA) of the standard on the starting date without having to restate the comparative figures. More specifically, option "B" of the modified retrospective approach involves recognition of the following elements:

- the lease liabilities calculated as the current value of the residual payments due for the lease, discounted at the marginal lending rate at the date of FTA (IFRS 16.C8. a);
- the asset consisting of the right of use equal to the liability of the lease adjusted for any prepaid expenses or accrued liabilities relating to the lease recognised in the statement of financial position immediately before the FTA date (IFRS 16.C8.b.ii).

As a result, the 2019 figures will not be comparable with those of the previous year for the valuation of the rights to use and the corresponding lease liability.

Upon FTA, the Banco Desio Group adopted some of the practical expedients and recognition exemptions provided for by the standard:

- contracts with an underlying asset value of less than or equal to Euro 5,000 at the FTA date ("low-value assets") were excluded;
- contracts with an overall lease term of less than or equal to 12 months ("short-term assets") were excluded;
- instead of carrying out an impairment review on the RoU Asset, the onerous nature of the lease already carried out through application of the IAS 37 requirements was measured. It should be noted that there are no provisions for burdensome leases measured in accordance with IAS 37 and recognised in the financial reports at 31 December 2018;
- the initial direct costs of measuring the RoU Asset on the FTA date were excluded.

Estimated dismantling costs for determining the RoU Asset have not been taken into consideration, as this type of cost should only be considered on the effective date of the lease contract.

With reference to the lease term, the Banco Desio Group has decided to consider only the first renewal period as reasonably certain for new contracts, unless there are contractual clauses that prohibit it or facts or circumstances that might lead to consider additional renewals or determine the end of the lease agreement. For contracts in existence at the FTA date, a renewal period is added if the contract is in the first contractual period (i.e. the first renewal period has not yet taken place), or if the contract is in a renewal period following the first one, but the deadline for communication of the cancellation has already expired.

With reference to the rate for discounting future lease payments, the Banco Desio Group decided to use as an incremental borrowing rate a single interest rate curve relating to the Parent Company Banco di Desio e della Brianza (the absorption of Banca Popolare di Spoleto by the Parent Company is planned for 2019), also considering a floor of 0% for due dates that have negative interest rates. This curve is based on a risk-free rate (i.e. market interest rate) on the financing spread (i.e. the lessee's credit risk) and is amortising. Typically, the lease contract does not provide for a single payment on the due date, but rather a periodic payment of instalments over the entire duration of the contract, which involves a declining trend for the residual debt.

An estimate of the accounting and supervisory impacts

On the basis of a preliminary estimate made in January 2019, excluding the tax impacts and applying option "B" of the modified retrospective approach, the Bank considers that the effects of adopting IFRS 16 can be estimated as an increase in financial liabilities for 62.1 million euros against a substantially similar increase in fixed assets (increased due to the balance of accruals/prepayments at 31 December 2018), from which no initial impact on shareholders' equity emerges.

However, there is still an impact on risk-weighted assets equal to the increase in fixed assets (the weighting assigned to the RoU is in fact 100%), with a consequent decrease in the CET 1 ratio (fully loaded) put at around 9 basis points for the Banco Desio Group and 7 basis points for the Brianza Unione Group.

Lastly, it should be noted that property leases constitute the most significant area of impact, as they represent 98.9% of rights of use.

Use of estimates and assumptions in preparing the financial statements

The preparation of the consolidated 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.

The use of 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 on balance sheet captions provides more detailed information on the assumptions and subjective assessments used in preparing the financial statements.

Comparability of financial statements

In compliance with the applicable legislation, the financial statements have to include not only the financial schedules at the reference date, but also comparative figures for the previous period.

As regards the effects of first-time adoption of IFRS 9, the Group has decided to take the option provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 First-time Adoption of International Financial Reporting Standards, according to which mandatory restatement of the comparative figures in the first financial statements after FTA is not envisaged, without prejudice to retrospective application of the new measurement and presentation rules required by the new standard.

Without changing the figures, we have prepared reconciliations to show how the comparative figures reconcile back to how they were shown in the financial statements at 31 December 2017 as part of the new formats envisaged by the 5th update of Circular no. 262 of the Bank of Italy, in force since 1 January 2018. In particular:

- the previous items for Loans to customers, Due from banks and Financial assets held to maturity have all been transferred to Financial assets measured at amortised cost;
- the securities previous shown under Financial assets available for sale have all been reclassified to Financial assets measured at fair value through other comprehensive income, while the securities previously shown under Financial assets held to maturity have been allocated to Financial assets valued at amortised cost (regardless of the choice made for their subsequent allocation, with effect from 1 January 2018, to the business models defined by the Banco Desio Group in application of IFRS 9);
- the previous items for Due to banks, Due to customers and Debt securities in issue have all been allocated to Financial liabilities valued at amortised cost;
- the previous item Impairment adjustments to other financial transactions has been allocated entirely to Net provisions for risks and charges - commitments and guarantees given.

Taking into account the provisions of international accounting standards and those contained in the aforementioned Circular 262 applicable at the reference date, for the tables of the explanatory notes in which the values relating to the previous year have been omitted, in order to favour a true and fair view of the financial statements, reference should be made not only to the notes, but also to the tables contained in the financial statements at 31 December 2017.

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 Srl, 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 consolidated financial statements have been audited by Deloitte & Touche S.p.A., pursuant to Legislative Decree 39 of 27 January 2010 and to the resolution of the Shareholders' Meeting of 26 April 2012.

A.2 MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

The accounting policies explained below, which were used in preparing this document, comply with the IAS/IFRS endorsed by the European Commission and 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.

1 – 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 immediately.

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

Classification

Financial assets that meet both 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.*

3 – 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 affecting 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.

4 – 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.

5 – 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.

6 – Property, plant and equipment

Classification

Property, plant and equipment include land, buildings, 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.

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 IAS 17, financial leases are recognised in the financial statements in accordance with the financial method. Assets leased to others are therefore shown under receivables. Conversely, assets held under finance lease contracts are included in this caption, even though the lessor retains legal title.

Measurement

Property, plant and equipment are shown at purchase cost, including ancillary expenses, less accumulated depreciation and any impairment losses.

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.

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.

7 – Intangible assets

Classification

Intangible assets include goodwill, compensation for abandonment of leasehold premises and software purchase costs. 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.

9 – 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).

10 – 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.

11 – 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.

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.

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.

12 – 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.

14 – 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.

16 – 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[2] 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.

[2] 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.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, book value and interest income

Type of financial instrument (1)	Source portfolio (2)	Destination portfolio (3)	Date of reclassification (4)	Reclassified book value (5)	Interest income recorded during the year (before tax) (6)
Debt securities	HTCS	HTC	01.10.2018	1,045,956	n.a.

The "Reclassified book value" column shows the amount transferred from the HTCS to the HTC portfolio, including the cumulative OCI valuation reserve at 30 September 2018, negative for 51,458 thousand euros (pre-tax), which was eliminated from shareholders' equity on the reclassification date in exchange for the fair value of the reclassified financial assets which are consequently recognised as if they had always been valued at amortised cost.

A.3.2 Reclassified financial assets: change in the business model, fair value and effects on comprehensive income

Type of financial instrument (1)	Source portfolio (2)	Destination portfolio (3)	Fair value at 31.12.2018 (4)	Gains/losses without transfer to the income statement (before tax)		Gains/losses without transfer to equity (before tax)	
				2018 (5)	2017 (6)	2018 (7)	2017 (8)
Debt securities	HTCS	HTC	1,061,918	n.a.	n.a.	(34,887)	n.a.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

For details of the change in the business model and its effect on the financial statements, see the description in the specific section of the Report on Operations.

The information relating to the effective interest rate determined at the date of reclassification (IFRS 7, paragraph 12C, letter a) is not considered relevant, as it is not required for the type of reclassification that was made.

A.4 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 (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 can not 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 determining the fair value of OTC derivatives, counterparty risk needs to be considered.

The fair value hierarchy provides for three 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.

A.4.1 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:
    - interest rates and yield curves observable at commonly quoted intervals;
    - implied volatilities;
    - 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*).

A.4.2 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.

A.4.3 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

A.4.4 Other information

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

Quantitative information

A.4.5 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	31.12.2018			31.12.2017		
	L1	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets designated at fair value through profit or loss	39,693	3,809	16,686	8,665	7,771	4,545
a) Financial assets held for trading	2,251	2,957	2,978	8,665	7,771	4,545
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	37,442	852	13,708	-	-	-
2. Financial assets designated at fair value through other comprehensive income	244,034	47,267	5,120	1,254,556	241,401	15,510
3. Hedging derivatives	-	1	-	-	5	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**283,727**	**51,077**	**21,806**	**1,263,221**	**249,177**	**20,055**
1. Financial liabilities held for trading	-	3,221	2,825	-	3,450	4,526
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	5,175	-	-	4,724	-
Total	**-**	**8,396**	**2,825**	**-**	**8,174**	**4,526**

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

The comparative figure for item "2. Financial assets valued at fair value through other comprehensive income" includes the reclassification of "Assets available for sale", the caption previously adopted in application of IAS 39. In particular, from 1 January 2018 mutual funds have been recorded in item "2.c. Financial assets mandatorily at fair value" because by their very nature they would not pass the SPPI test (solely payments of principal and interest) required by IFRS 9 "Financial instruments".

Investments measured on the basis of unobservable inputs (Level 3) represent a small percentage of total financial assets measured at fair value (6.11% at 31 December 2018 compared with 1.85% at 31 December 2017, following the reallocation of debt securities previously measured at fair value in the category of financial assets measured at amortised cost due to the reclassification of the business models on 1 October 2018).

These investments are made up principally of mutual funds that are mandatorily measured at fair value (caption 1.c of the table) and non-controlling interests (caption 2. of the table).

At 31 December 2018, the impact of applying the Credit Value Adjustment to derivatives with positive mark-to-market amounts is Euro 1 thousand (relating to trading derivatives); with regard to those with a negative MTM, application of the Debit Value Adjustment has no impact.

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				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	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				
1. Opening balance	**4,545**	**4,545**	**-**	**-**	**15,510**	**-**	**-**	**-**
2. Increases	**18,469**	**2,978**	**-**	**15,491**	**335**	**-**	**-**	**-**
2.1. Purchases	4,462	-	-	4,462	335	-	-	-
2.2. Profits posted to:	2,980	2,978	-	2	-	-	-	-
2.2.1. Income statement	2,980	2,978	-	2	-	-	-	-
- of which: capital gains	2,980	2,978	-	-	-	-	-	-
2.2.2. Shareholders' equity					-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	11,027	-	-	11,027	-	-	-	-
3. Decreases	**6,328**	**4,545**	**-**	**1,783**	**10,725**	**-**	**-**	**-**
3.1. Sales	-	-	-	-	142	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3. Losses posted to:	6,327	4,545	-	1,782	90	-	-	-
3.3.1. Income statement	6,327	4,545	-	1,782	90	-	-	-
- of which: capital losses	6,327	4,545	-	1,782	90	-	-	-
3.3.2. Shareholders' equity					-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	1	-	-	1	10,493	-	-	-
4. Closing balance	**16,686**	**2,978**	**-**	**13,708**	**5,120**	**-**	**-**	**-**

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	**4,526**	**-**	**-**
2. Increases	**2,825**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses posted to:	2,825	-	-
2.2.1. Income statement	2,825	-	-
- of which: capital losses	2,825	-	-
2.2.2. Shareholders' equity		-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**4,526**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits posted to:	4,526	-	-
3.3.1. Income statement	4,526	-	-
- of which: capital gains	4,526	-	-
3.3.2. Shareholders' equity		-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**2,825**	**-**	**-**

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	31.12.2018				31.12.2017			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	12,626,834	1,924,789	6,205,963	4,278,119	11,828,618	570,327	5,709,733	5,765,988
2. Investment property	1,814	-	-	1,946	1,136	-	-	1,035
3. Non-current assets and disposal groups held for sale	-		-	-	-	-	-	-
Total	**12,628,648**	**1,924,789**	**6,205,963**	**4,280,065**	**11,829,754**	**570,327**	**5,709,733**	**5,767,023**
1. Financial liabilities measured at amortised cost	12,301,628	321	1,407,229	10,890,843	12,686,585	-	1,705,960	11,001,712
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**12,301,628**	**321**	**1,407,229**	**10,890,843**	**12,686,585**	**-**	**1,705,960**	**11,001,712**

Key

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

A.5 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, indicating the accounting policy adopted for the income statement recognition, subsequent to initial recognition of the instrument, of the difference.

In relation to the Banco Desio Group's operations and on the basis of the internal valuation methodologies currently in use, no such differences have been recognised, since the fair value of financial instruments upon initial recognition coincides with the transaction price.

PART B - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

SECTION 1- CASH AND CASH EQUIVALENTS –CAPTION 10

1.1 Cash and cash equivalents: breakdown

	31.12.2018	31.12.2017
a) Cash	69,219	59,413
b) Demand deposits with central banks	-	-
Total	**69,219**	**59,413**

SECTION 2 – FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS – CAPTION 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	3	1,519	-	3	2,158	-
1.1 Structured securities	1	-	-	1	-	-
1.2 Other debt securities	2	1,519	-	2	2,158	-
2. Equity instruments	2,207	-	-	4,642	-	-
3. Mutual funds	-	-	-	3,839	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**2,210**	**1,519**	**-**	**8,484**	**2,158**	**-**
B. Derivatives	-	-	-	-	-	-
1. Financial derivatives	41	1,438	2,978	181	5,613	4,545
1.1 for trading	41	1,438	2,978	181	5,613	4,545
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**41**	**1,438**	**2,978**	**181**	**5,613**	**4,545**
Total (A+B)	**2,251**	**2,957**	**2,978**	**8,665**	**7,771**	**4,545**

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	31.12.2018	31.12.2017
A. Cash assets		
1. Debt securities	**1,522**	**2,161**
a) Central Banks	-	1,533
b) Public administrations	1,520	-
c) Banks	2	628
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**2,207**	**4,642**
a) Banks	-	1,131
b) Other financial companies	1,322	735
of which: insurance companies	-	-
c) Non-financial companies	885	2,776
d) Other issuers	-	-
3. Mutual funds	**-**	**3,839**
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)	**3,729**	**10,642**
B. Derivatives		
a) Central counterparties	-	9,753
b) Other	4,457	586
Total (B)	**4,457**	**10,339**
Total (A+B)	**8,186**	**20,981**

2.5 Other financial assets mandatorily at fair value: breakdown

Captions/Amounts	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**852**	**1,460**	**-**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	852	1,460	-	-	-
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Mutual funds	**37,442**	**-**	**12,248**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**37,442**	**852**	**13,708**	**-**	**-**	**-**

Key

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

The item "Financial assets mandatorily at fair value" includes the mutual fund units that are not held for trading purposes; these instruments, previously classified under item 40 "Assets available for sale" in application of the IAS 39, by their very nature do not pass the SPPI test ("solely payments of principal and interests") foreseen in IFRS 9 "Financial Instruments". The comparative figure of 38,171 thousand euros has been conventionally restated under item 30. "Financial assets measured at fair value through other comprehensive income".

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

	31.12.2018	31.12.2017
1. Equity instruments	**-**	**-**
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	**2,312**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	1,460	-
d) Other financial companies	852	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Mutual funds	**49,690**	**-**
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	**52,002**	**-**

SECTION 3 - 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	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	244,034	-	-	1,226,860	194,134	-
1.1 Structured securities	-	-	-	-	2,033	-
1.2 Other debt securities	244,034	-	-	1,226,860	192,101	-
2. Equity instruments	-	47,267	5,120	-	47,267	5,035
3. Loans	-	-	-	-	-	-
4. Mutual funds	-	-	-	27,696		10,475
Total	**244,034**	**47,267**	**5,120**	**1,254,556**	**241,401**	**15,510**

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.

The comparative figure includes the reclassification of item "40. Assets available for sale", the caption previously adopted in application of IAS 39. In particular, from 1 January 2018 mutual funds have been recorded in item "20.c. Financial assets mandatorily at fair value" because by their characteristics they would not pass the SPPI test (solely payments of principal and interest) required by IFRS 9 "Financial Instruments".

The change in the balance of item "1. Debt securities" compared with the comparative period is mainly attributable to reclassification of the business models that began on 1 October 2018 with the consequent reallocation of securities for a nominal value of 1,093.2 million euros from the "held to collect & sell" portfolio to the "held to collect" portfolio, recognised for accounting purposes under item "40. Financial assets measured at amortised cost".

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

Captions/Amounts	31.12.2018	31.12.2017
1. Debt securities	**244,034**	**1,420,994**
a) Central banks	-	1,226,861
b) Public administrations	241,492	-
c) Banks	2,542	101,151
d) Other financial companies	-	92,982
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**52,387**	**52,302**
a) Banks	10,000	10,141
b) Other issuers:	42,387	42,161
- other financial companies	3,796	3,808
of which: insurance companies	-	-
- non-financial companies	38,579	38,341
- other	12	12
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
4. Mutual funds	**-**	**38,171**
Total	**296,421**	**1,511,467**

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 securities		244,034	244,034	-	-	(462)	-	-	-
Loans		-	-	-	-	-	-	-	-
Total	**31/12/2018**	**244,034**	**244,034**	**-**	**-**	**(462)**	**-**	**-**	**X**
Total	**31/12/2017**	**1,420,994**	**-**	**-**	**-**	**-**	**-**	**-**	**X**
of which: impaired financial assets acquired or originated		X	X	-	-	X	-	-	-

The caption "Total write-downs" includes the expected credit loss (ECL) calculated on debt securities following the introduction of IFRS 9. This component does not affect the book value of the securities recorded at fair value, but represents the expected loss due to credit risk, whose changes are anticipated in the income statement under item 130.b) "Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income" with contra-entry to the shareholders' equity caption 120 "Valuation reserves".

SECTION 4 – 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	31.12.2018						31.12.2017					
	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	**66,205**	**-**	**-**	**-**	**-**	**66,205**	**1,097,955**	**-**	**-**	**-**	**-**	**1,097,955**
1. Time deposits	-	-	-				-	-	-			
2. Reserve requirement	66,205	-	-				1,097,955	-	-			
3. Repurchase agreements	-	-	-				-	-	-			
4. Other	-	-	-				-	-	-			
B. Due from banks	**489,761**	**-**	**-**	**-**	**265,138**	**219,111**	**120,105**	**-**	**-**	**-**	**125,934**	**120,105**
1. Loans	219,111	-	-	-	-	219,111	120,105	-	-	-	-	120,105
1.1 Current accounts and demand deposits	21,662	-	-				30,305	-	-			
1.2. Time deposits	44,028	-	-				35,435	-	-			
1.3. Other loans:	153,421	-	-				54,365	-	-			
- Repurchase agreements	-	-	-				-	-	-			
- Finance leases	-	-	-				-	-	-			
- Other	153,421	-	-				54,365	-	-			
2. Debt securities	270,650	-	-	-	265,138	-	124,492	-	-	-	125,934	-
2.1 Structured securities	3,885	-	-	-	3,687	-	-	-	-	-	-	-
2.2 Other debt securities	266,765	-	-	-	261,451	-	124,492	-	-	-	125,934	-
Total	**555,966**	**-**	**-**	**-**	**265,138**	**285,316**	**1,342,552**	**-**	**-**	**-**	**125,934**	**1,218,060**

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 new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments" starting from 1 January 2018.

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 Group's commitment to maintain the reserve requirement amounts to Euro 92.6 million at 31 December 2018 (versus Euro 90.2 million at December 2017) of which Euro 60.1 million by Banco Desio and Euro 32.5 million by Banca Popolare di Spoleto S.p.A. In particular, the change in the balance compared with the end of the previous year is due to the increase in the size of the proprietary securities portfolio with a consequent decrease in the stock of securities held at the Bank of Italy.

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. The change in the balance of caption "2.2 Debt securities" with respect to the comparative period is mainly attributable to reclassification of the business models that took place on 1 October 2018.

The comparative period includes the balances conventionally restated from the captions previously adopted in application of IAS 39:

- "60. Due from banks";
- "50. Financial assets held to maturity", limited to securities issued by banking counterparties.

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

Type of transaction/ Amounts	31.12.2018						31.12.2017					
	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	**9,215,328**	**401,372**	**12,203**	**-**	**5,486,809**	**3,992,803**	**9,037,938**	**823,924**	**-**	**-**	**5,522,929**	**4,547,928**
1.1. Current accounts	1,484,991	104,506	437	-	-	-	1,491,290	196,488	-	-	-	-
1.2. Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
1.3. Mortgage loans	5,715,921	269,803	11,663	-	-	-	5,479,861	595,277	-	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary	715,760	3,559	40	-	-	-	652,144	4,796	-	-	-	-
1.5. Finance leases	177,054	13,506	-	-	-	-	223,325	16,230	-	-	-	-
1.6. Factoring	23,410	27	-	-	-	-	24,781	934	-	-	-	-
1.7. Other loans	1,098,192	9,971	63	-	-	-	1,166,537	10,199	-	-	-	-
2. Debt securities	**2,454,169**	**-**	**-**	**1,924,789**	**454,016**	**-**	**624,204**	**-**	**-**	**570,327**	**60,870**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	2,454,169	-	-	1,924,789	454,016	-	624,204	-	-	570,327	60,870	-
Total	**11,669,497**	**401,372**	**12,203**	**1,924,789**	**5,940,825**	**3,992,803**	**9,662,142**	**823,924**	**-**	**570,327**	**5,583,799**	**4,547,928**

Gross loans totalled 9,960,032 thousand euros (10,694,965 thousand euros last year), including the loans acquired in 2014 by means of a business combination with Banca Popolare di Spoleto S.p.A., recorded in the financial statements in accordance with IFRS 3. Total write-downs relating to these loans amount to 343,333 thousand euros (833,103 thousand euros in December 2017).

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 in the report on operations.

The table also includes the amounts of receivables sold which have not been derecognised, constituting eligible assets for the Covered Bond programme; At 31 December 2018 these loans amount to 1,097,558 thousand euros (versus 785,238 thousand euros) due to a further sale to Desio OBG in November for 413,634 thousand euros.

Sub-caption "Mortgage loans" also includes collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to 1,787,145 thousand euros (1,817,251 thousand euros at the end of last year).

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

With reference to the stock of non-performing loans (in the "Third stage" column), there is a significant reduction in the amount at the reference date compared with the end of the previous year due to the transactions carried out during the year to reduce the stock of NPLs.

This caption includes the interest accrued at 31 December 2018 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 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.

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" starting from 1 January 2018. This category includes financial assets to which a fair value of Level 1 or Level 2 is assigned. This portfolio includes 290,342 thousand euros of senior notes issued by the "2Worlds s.r.l." SPV following the sale of doubtful loans through use of the "GACS" scheme.

The change in the balance of caption "2.2 Debt securities" with respect to the comparative period is mainly attributable to reclassification of the business models that took place on 1 October 2018.

The comparative period includes the balances conventionally restated from the captions previously adopted in application of IAS 39:

- "70. Loans to customers";
- "50. Financial assets held to maturity", limited to securities issued by non-banking counterparties.

4.3. Finance leases

The reconciliation among gross investment in leases and present value of minimum lease payments and unsecured residual value payable to lessor is reported below.

	31.12.2018				31.12.2017			
Type of transaction	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)
Finance lease	221,579	36,305	185,274	44,467	282,406	(47,420)	234,986	49,669
- of which leaseback agreements	16,761	3,111	13,650	3,743	22,825	(4,419)	18,406	4,378
Total	**221,579**	**36,305**	**185,274**	**44,467**	**282,406**	**(47,420)**	**234,986**	**49,669**

	31.12.2018			31.12.2017		
Falling due	Gross investment	Deferred profit	Net investment	Gross investment	Deferred profit	Net investment
- Within one year	7,018	110	6,908	7,968	(183)	7,785
- Between one and five years	54,183	4,719	49,464	80,969	(6,982)	73,987
- Beyond five years	160,378	31,476	128,902	193,469	(40,255)	153,214
Total	**221,579**	**36,305**	**185,274**	**282,406**	**(47,420)**	**234,986**

The net investment corresponds to the outstanding capital element of lease obligations at the year end.

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

Type of transaction/Amounts	31.12.2018			31.12.2017		
	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	**2,454,169**	**-**	**-**	**624,204**	**-**	**-**
a) Public administrations	1,993,197	-	-	563,667	-	-
b) Other financial companies	430,167	-	-	60,537	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	30,805	-	-	-	-	-
2. Loans to:	**9,215,328**	**401,372**	**12,195**	**9,037,938**	**823,924**	**-**
a) Public administrations	29,469	403	-	24,420	9	-
b) Other financial companies	122,162	2,974	-	101,326	7,616	-
of which: insurance companies	4,740	-	-	3,687	-	-
c) Non-financial companies	5,411,489	276,371	4,607	5,765,780	604,580	-
d) Households	3,652,208	121,624	7,588	3,146,412	211,719	-
Total	**11,669,497**	**401,372**	**12,195**	**9,662,142**	**823,924**	**-**

4.5 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	2,720,173	2,720,173	10,066	-	5,355	67	-	-
Loans	8,498,462	-	1,052,378	694,974	23,857	26,338	293,602	24,070
Total 31.12.2018	**11,218,635**	**2,720,173**	**1,062,444**	**694,974**	**29,212**	**26,405**	**293,602**	**X**
Total 31.12.2017	**11,045,357**	**-**	**-**	**1,616,365**	**40,662**	**-**	**792,441**	**X**
of which: impaired financial assets acquired or originated	X	X	4,279	11,761	X	26	3,819	-

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", applied from 1 January 2018. 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 reasonable conditions and "supportable" future forecasts (current model based on losses incurred but not recorded). 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.

All performing exposures to banks and customers valued at amortised cost in the comparative period (and the related value adjustments determined in application of the IAS 39 in force at the time) are conventionally allocated in the first stage; non-performing exposures and write-downs, on the other hand, are included in the third stage.

SECTION 5 – HEDGING DERIVATED – CAPTION 50

5.1 Hedging derivatives: breakdown by type and level

	31.12.2018				31.12.2017			
	FV			NV	FV			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	1	-	5,599	-	5	-	6,455
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**1**	**-**	**5,599**	**-**	**5**	**-**	**6,455**

Key

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The table shows the positive book value of hedging derivative contracts. The Group only takes out fair value hedges for interest rate risk.

5.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Operation/Type of hedge	Fair value							Cash flows		
	Specific									
	Debt securities and interest rates	Equities and equity indices	Currency and gold	Credit	Commodities	Other	Generic	Specific	Generic	Foreign investments
1. Financial assets designated at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	1	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

Specific hedges on loans, reported in the table, refer to fair value hedges for interest rate risk on specific loan items classified in the asset caption "Loans to customers".

If prospective and retrospective assessments performed during the year in compliance with the requirements of IAS 39 did not confirm the effectiveness of the hedging relationship, they were interrupted and the related derivatives classified as trading instruments.

SECTION 6 – ADJUSTMENT FINANCIAL ASSETS WITH GENERIC (OR "MARCO") HEDGES – CAPTION 60

6.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets / Components of the Group	31.12.2018	31.12.2017
1. Positive adjustments	**1,523**	**875**
1.1 of specific portfolios:	1,523	875
a) financial assets measured at amortised cost	1,523	875
b) financial assets designated at fair value through other comprehensive income	-	-
1.2 total	-	-
2. Negative adjustments	**839**	**-**
2.1 of specific portfolios:	839	-
a) financial assets measured at amortised cost	839	-
b) financial assets designated at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**684**	**875**

The adjustment to financial assets with generic hedges ("macro-hedging") 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.

SECTION 7 – EQUITY INVESTMENTS

7.1 Equity investments: details of holdings

At the reporting date, the Banco Desio Group does not hold equity investments in associates or companies under joint control.

SECTION 9 – PROPERTY , PLAN AND EQUIPMENT

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

Assets/Amounts	31.12.2018	31.12.2017
1. Own assets	**177,604**	**179,430**
a) land	52,778	53,108
b) property	104,197	107,179
c) furniture	5,311	5,097
d) electronic systems	4,469	4,031
e) other	10,849	10,015
2. Land and property under finance lease	**-**	**-**
a) land	-	-
b) property	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**177,604**	**179,430**
of which: obtained through enforcement of the guarantees		-

There are no assets held under finance leases at the reporting date.

Land and buildings are measured at the amount revalued as of 1 January 2004 on first-time application of IAS/IFRS. 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.

9.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	31.12.2018				31.12.2017			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,814**	**-**	**-**	**1,946**	**1,136**	**-**	**-**	**1,035**
a) land	828	-	-	860	498	-	-	426
b) property	986	-	-	1,086	638	-	-	609
2. Assets purchased under finance leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) property	-	-	-	-	-	-	-	-
Total	**1,814**	**-**	**-**	**1,946**	**1,136**	**-**	**-**	**1,035**
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

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

9.3 Property, plant and equipment for business purposes: breakdown of revalued assets

As at the balance sheet date, the Banco Desio Group does not have any revalued property, plant and equipment for business purposes.

9.4 Investment property: breakdown of assets carried at fair value

At the reference date, the Banco Desio Group has no investment property measured at fair value.

9.6 Property, plant and equipment for business purposes: changes during the year

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**53,108**	**139,320**	**39,149**	**27,022**	**52,010**	**310,609**
A.1 Total net write-downs	-	(32,141)	(34,052)	(22,991)	(41,995)	(131,179)
A.2 Net opening balance	**53,108**	**107,179**	**5,097**	**4,031**	**10,015**	**179,430**
B. Increases:	**-**	**349**	**1,583**	**2,278**	**2,821**	**7,031**
B.1 Purchases	-	198	1,190	2,205	2,586	6,179
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increase in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	-	-	-	-
B.7 Other changes	-	151	393	73	235	852
C. Decreases:	**330**	**3,331**	**1,369**	**1,840**	**1,987**	**8,857**
C.1 Sales	-	-	409	72	293	774
C.2 Depreciation	-	2,808	960	1,768	1,694	7,230
C.3 Impairment write-downs booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property, plant and equipment	-	-	-	-	-	-
b) non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	330	523	-	-	-	853
D. Net closing balance	**52,778**	**104,197**	**5,311**	**4,469**	**10,849**	**177,604**
D.1 Net total write-downs	-	(34,561)	(34,495)	(24,571)	(43,445)	(137,072)
D.2 Gross closing balance	**52,778**	**138,758**	**39,806**	**29,040**	**54,294**	**314,676**
E. Measurement at cost	-	-	-	-	-	-

The captions A.1 and D.1 – "Net total write-downs" relate to accumulated depreciation.

Captions "B.7 Other changes", "C.1 Sales" and "C.7 Other changes" include the effects of disposals and sales of property, plant and equipment during the year; in particular, caption "B.7 Other changes" includes the release of the accumulated depreciation on the assets sold and caption "C.7 Other changes" includes the release of the historical cost of the same assets.

As a result of the sale of property, plant and equipment, as per caption "C.1 Sales", gains of 41 thousand euros have been recognised in the income statement under caption 240 "Gains (losses) on disposal of investments"; on the other hand, as a result of the disposal of property, plant and equipment , under "C.7 Other changes", losses of 212 thousand euros have been recognised in the income statement under caption 190 "Other operating charges/income".

9.7 Investment property: changes during the year

	Total	
	Land	**Buildings**
A. Opening balance	**498**	**638**
B. Increases	**330**	**523**
B.1 Purchases		
B.2 Capitalised improvement costs		
B.3 Positive changes in fair value		
B.4 Write-backs		
B.5 Foreign exchange gains		
B.6 Transfers from assets used in business		
B.7 Other changes	330	523
C. Decreases		**175**
C.1 Sales		
C.2 Depreciation		24
C.3 Negative changes in fair value		
C.4 Impairment write-downs		
C.5 Foreign exchange losses		
C.6 Transfers to other asset categories		
a) assets used in business		
b) non-current assets and disposal groups held for sale		
C.7 Other changes		151
D. Closing balance	**828**	**986**
E. Measurement at fair value	860	1,086

9.9 Commitments to purchase property, plant and equipment

At year-end, there are no commitments to purchase property, plant and equipment.

SECTION 10 – INTANGIBLE ASSETS

10.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2018		31.12.2017	
	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	**2,379**	**-**	**2,624**	**-**
A.2.1 Carried at cost	2,379	-	2,624	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	2,379	-	2,624	-
A.2.2 Carried at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**2,379**	**15,322**	**2,624**	**15,322**

Intangible assets with an indefinite useful life are subjected to impairment testing at least one a year, particularly at 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 the provisions of IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, we report below information on the impairment test on cash generating units (CGU) carried out at the reporting date.

Impairment testing 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.

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 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 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 therefore carried out for the legal entities: Banco di Desio e della Brianza Spa, Banca Popolare di Spoleto Spa and Fides Spa, on the basis of the criteria and assumptions set out below.

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

Pending the overall update of the strategic planning documents following the merger plan and the approval process currently in progress, the time horizon used is the same as the 2018-2020 Business Plan approved by the Directors on 11 January 2018, with the update of the performance forecasts developed by the Parent Company's management to take into account the main drivers of the events for the period, the results achieved at 30 September 2018, the forecasts at 31 December 2018 and the most recent market forecasts available.

These updated performance forecasts, with further projections of future results (again prepared by the Parent Company's management) extended to 31 December 2022, were used by the advisors of Banco di Desio e della Brianza and Banca Popolare di Spoleto in charge of the assessment activities (with reference to the Dividend Discount Model) as part of the project for the absorption of Banca Popolare di Spoleto S.p.A. by Banco di Desio e della Brianza S.p.A. approved by the respective Board meetings held on 11 December 2018, as well as to perform the impairment test on equity investments and goodwill, with the related sensitivity analysis, approved by the Directors on 20 December 2018 for financial reporting purposes at 31 December 2018.

Including an explicit forecast period to 31 December 2022 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 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 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.

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	Capital ratio
Banco di Desio e della Brianza Spa	DDM	2018-2020 Business Plan extended to 2022	-0.29%	9.24%	2.00%	Net results	CET 1 8.50% (*)
Banca Popolare di Spoleto Spa	DDM	2018-2020 Business Plan extended to 2022	-0.29%	9.24%	2.00%	Net results	CET 1 8.50% (*)
Fides Spa	DDM	2018-2020 Business Plan extended to 2022	-4.32%	9.24%	2.00%	Net results	CET 1 8.50% (*)

(*) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)

As a result of the impairment testing performed, no write-down of this CGU's goodwill was needed.

It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets 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.

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 match the carrying amount of goodwill, after having deducted the shareholders' equity allocated to it.

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 Spa	25.60%	304
Banca Popolare di Spoleto Spa	20.11%	212
Fides Spa	58.98%	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.

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

Pending the overall update of the strategic planning documents following the merger plan and the approval process currently in progress, the time horizon used is the same as the 2018-2020 Business Plan approved by the Directors on 11 January 2018, with the update of the performance forecasts developed by the Parent Company's management to take into account the main drivers of the events for the period, the results achieved at 30 September 2018, the forecasts at 31 December 2018 and the most recent market forecasts available.

These updated performance forecasts, with further projections of future results (again prepared by the Parent Company's management) extended to 31 December 2022, were used by the advisors of Banco di Desio e della Brianza and Banca Popolare di Spoleto in charge of the assessment activities (with reference to the Dividend Discount Model) as part of the project for the absorption of Banca Popolare di Spoleto S.p.A. by Banco di Desio e della Brianza S.p.A. approved by the respective Board meetings held on 11 December 2018, as well as to perform the impairment test on equity investments and goodwill, with the related sensitivity analysis, approved by the Directors on 20 December 2018 for financial reporting purposes at 31 December 2018.

Including an explicit forecast period to 31 December 2022 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.

Parameters used for impairment testing

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

	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco Desio Group	DDM	2018-2020 Business Plan extended to 2022	-0.70%	9.24%	2.00%	Net results	CET 1 8.50% (**)

(*) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)

An amount arose from impairment testing that was higher than the average capitalisation in 2016 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 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.

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.

CGU	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banco Desio Group	16.60%	169

10.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets		Total
		LIM	UNLIM	LIM	UNLIM	
A. Opening balance	**35,963**	**-**	**-**	**12,860**	**-**	**48,823**
A.1 Total net write-downs	20,641	-	-	10,236	-	30,877
A.2 Net opening balance	**15,322**	**-**	**-**	**2,624**	**-**	**17,946**
B. Increases	**-**	**-**	**-**	**1,467**	**-**	**1,467**
B.1 Purchases	-	-	-	1,467	-	1,467
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
3. Write-backs	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- recognised in equity	X	-	-	-	-	-
- recognised in income statement	X	-	-	-	-	-
B.5 Foreign exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**1,712**	**-**	**1,712**
C.1 Sales	-	-	-	-	-	-
C.2 Write-downs	-	-	-	1,712	-	1,712
- Amortisation	X	-	-	1,712	-	1,712
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value:	-	-	-	-	-	-
- recognised in equity	X	-	-	-	-	-
- recognised in income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Foreign exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**15,322**	**-**	**-**	**2,379**	**-**	**17,701**
D.1 Total net write-downs	20,641	-	-	11,951	-	32,592
E. Gross closing balance	**35,963**	**-**	**-**	**14,330**	**-**	**50,293**
F. Measurement at cost	-	-	-	-	-	-

Key
LIM: limited duration
UNLIM: unlimited duration

10.3 Other information

At year-end, there are no commitments to purchase intangible assets.

SECTION 11 –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	31.12.2018	31.12.2017
A) With contra-entry to the income statement:				
Tax losses	1,284		1,284	1,342
Tax deductible goodwill	4,011	813	4,824	5,168
Write-down of loans to customers deductible on a straight-line basis	154,459	21,485	175,944	148,460
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994				1
Provision for implicit risks on loans				
Write-downs of shares classified under securities FVPL				
Statutory depreciation of buildings				
Statutory depreciation of property, plant and equipment	253		253	206
Provision for guarantees and commitments and country risk	655		655	589
Provisions for personnel costs	5,358	912	6,270	9,281
Provision for lawsuits	2,961	47	3,008	3,923
Provision for claw-backs	193	39	232	296
Provision for sundry charges	594	14	608	425
Tax provision for termination indemnities	296		296	346
Entertainment expenses, one third of which is deductible over four subsequent years				
Other general expenses deductible in the following year	-		-	262
Other	955	490	1,445	1,132
Total A	**171,324**	**23,800**	**195,124**	**171,886**

B) With contra-entry to shareholders' equity:				
Tax provision for termination indemnities	808		808	947
Write-down of securities classified as FVOCI	2	5	7	3,417
Other	1,142	229	1,371	1,180
Total B	**1,952**	**234**	**2,186**	**5,544**
Total (A+B)	**173,276**	**24,034**	**197,310**	**177,430**

The comparative balance of the "Write-down of securities classified as AFS" has been conventionally restated under "Write-down of securities valued at FVOCI".

Probability test on deferred tax assets

In relation to the deferred tax assets described above, it should be noted that these refer for 151,027 thousand euros to taxes pursuant to Law 214/2011 (write-downs of receivables from customers not yet deducted and value of goodwill deductible in more than one fiscal year), which are certain to be recovered, in fact making the probability test contemplated by IAS 12 automatically satisfied.

The Parent Company Banco di Desio e della Brianza S.p.A. is not obliged to pay the annual guarantee fee for the transformation of deferred tax assets into tax credits as per Law 214/2011 as introduced by art. 11 of D.L. 59/2016, as the tax base, calculated according to regulations, is negative.

The additional deferred tax assets described above, which are outside the scope of Law 214/2011, have been recognised in view of the probability of their recovery, expecting there to be sufficient taxable income in the future to recover these assets. In particular, deferred tax assets have been analysed by type and by the timing of the reversal of the related temporary differences, considering the future profitability of the Group and the related taxable income forecast in the business plan to 2022. The analysis showed that there would be sufficient taxable income in the future to recover these assets.

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2018	31.12.2017
A) With contra-entry to the income statement:				
Gains on disposal of property, plant and equipment				
Tax depreciation of buildings	6,692	871	7,563	7,563
Tax depreciation of property, plant and equipment		15	15	15
Tax amortisation of goodwill	474	96	570	571
Tax amortisation of deferred charges (software)				6
Tax provision as per art. 106, paragraph 3				20
Tax provision for termination indemnities				
Other	4,811	733	5,544	8,801
Total A	**11,977**	**1,715**	**13,692**	**16,976**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	504	102	606	606
Revaluation of AFS securities	5,981	1,680	7,661	7,866
Revaluation of equity investments	268	1,085	1,353	1,353
Tax provision for termination indemnities				

Total B	**6,753**	**2,867**	**9,620**	**9,825**
Total (A+B)	**18,730**	**4,582**	**23,312**	**26,801**

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

The comparative balance of the "AFS securities revaluation" has been conventionally restated under "Revaluation of securities valued at FVOCI".

11.3 Changes in deferred tax assets (with contra-entry to income statement)

	31.12.2018	31.12.2017
1. Opening balance	**171,886**	**189,397**
2. Increases	**31,367**	**4,705**
2.1 Deferred tax assets recognised during the year	8,088	4,407
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	8,088	4,407
2.2 New taxes or increases in tax rates		
2.3 Other increases	23,279	298
3. Decreases	**8,129**	**22,216**
3.1 Deferred tax assets cancelled in the year	8,129	22,216
a) reversals	8,129	22,216
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
a) Conversion to tax credits as per L. 214/2011		
b) Other		
4. Closing balance	**195,124**	**171,886**

The deferred tax assets recognised during the year mainly comprised:

- 2,821 thousand euros relating to non-deductible provisions to risks and charges and employee related provisions;
- 4,602 thousand euros relating to prepaid IRAP set aside on the income components deriving from adoption of the expected loss recognition model on loans to customers, recorded on FTA of IFRS 9, 90% deductible pursuant to the 2019 Budget Law on a straight-line basis from 2019 to 2027;
- 248 thousand euros for non-deductible provisions for legal disputes and bankruptcy clawback actions.

Sub-caption "2.3 Other increases" mainly refers:

- for 22,728 thousand euros relating to prepaid IRES set aside on the income components deriving from adoption of the expected loss recognition model on loans to customers, recorded on FTA of IFRS 9, 90% deductible pursuant to the 2019 Budget Law on a straight-line basis from 2019 to 2027;
- for 423 thousand euros to the recognition of deferred tax assets as a result of the recalculation carried out for the purpose of the tax return for 2017.

- Deferred tax assets cancelled in the year essentially refer to the use of tax provisions.

11.4 Change in deferred tax assets as per L. 214/2011 (as a contra-entry to the income statement)

	31.12.2018	31.12.2017
1. Opening balance	**151,027**	**164,834**
2. Increases		
3. Decreases		**13,807**
3.1 Reversals		13,807
3.2 Conversion to tax credits		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other decreases		
4. Closing balance	**151,027**	**151,027**

It should be noted that the 2019 budget law (Law 145 of 30 December 2018) provides for:

- the deferral to the tax period in progress in 2026 of the 2018 portion relating to the recovery of write-downs on loans of previous years pursuant to art. 16 paragraph 4 of Decree Law 83 of 27 June 2015;
- suspension for the 2018 tax period of the amortisation charges relating to the value of goodwill which gave rise to the recognition of deferred tax assets to which the rules on transformation into current tax credits (so-called "qualified DTA") apply; the deductibility of amortisation not yet deducted is established over a period of 11 years and based on the percentages provided for by law.

11.5 Change in deferred tax liabilities (as a contra-entry to the income statement)

	31.12.2018	31.12.2017
1. Opening balance	**16,976**	**19,567**
2. Increases	**460**	**999**
2.1 Deferred tax liabilities recognised during the year	18	506
a) relating to prior years		
b) due to changes in accounting policies		
c) other	18	506
2.2 New taxes or increases in tax rates		
2.3 Other increases	442	493
3. Decreases	**3,744**	**3,590**
3.1 Deferred tax liabilities cancelled during the year	2,056	3,590
a) reversals	2,056	3,590
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases	1,688	
4. Closing balance	**13,692**	**16,976**

The sub-caption "2.3 Other increases" relates to the recognition of deferred tax liabilities as a result of the recomputation, made for the purpose of the tax return for the year 2017.

Deferred tax liabilities cancelled during the year are mainly attributable to:

- fair value differences recorded in the consolidated financial statements pursuant to IFRS 3, following the business combination (acquisition of Banca Popolare di Spoleto S.p.A. which took place in 2014) for 1,247 thousand euros;
- the share of capital gains realised on financial assets in 2014, 2015, 2016 and 2017, deductible on a straight-line basis over the following four years in accordance of art. 86.4 of TUIR (Consolidated Income Tax Act) for 746 thousand euros;

- dividends pertaining to the previous year and collected during the current year for 61 thousand euros.

11.6 Changes in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2018	31.12.2017
1. Opening balance	**5,544**	**7,605**
2. Increases	**233**	**1,004**
2.1 Deferred tax assets recognised during the year	233	1,004
a) relating to prior years		
b) due to changes in accounting policies		
c) other	233	1,004
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**3,591**	**3,065**
3.1 Deferred tax assets cancelled in the year	799	3,065
a) reversals	799	3,065
b) written down as no longer recoverable		
c) due to changes in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases	2,792	
4. Closing balance	**2,186**	**5,544**

Deferred tax assets recognised during the year are mainly attributable to the change in the reserve for cash-flow hedges.

Deferred tax assets cancelled mainly comprise:

- 640 thousand euros for the valuation of securities classified as financial assets at fair value through other comprehensive income (FVOCI);
- 139 thousand euros for the actuarial measurement of the Provision for termination indemnities.

Caption "3.3 Other decreases" refers to the realignment of deferred tax assets as a consequence of applying IFRS 9 to the original IAS 39 portfolio ("Financial assets available for sale").

11.7 Changes in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2018	31.12.2017
1. Opening balance	**9,825**	**7,082**
2. Increases	**1,811**	**3,334**
2.1 Deferred tax liabilities recognised during the year	334	3,334
a) relating to prior years		
b) due to changes in accounting policies		
c) other	334	3,334
2.2 New taxes or increases in tax rates		
2.3 Other increases	1,477	
3. Decreases	**2,016**	**591**
3.1 Deferred tax liabilities cancelled during the year	1,773	591
a) reversals	1,773	591
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases	243	
4. Closing balance	**9,620**	**9,825**

Deferred tax liabilities recognised during the year are due to the valuation of securities classified as Financial assets valued at fair value through other comprehensive income (FVOCI).

Deferred tax liabilities cancelled during the year are due to the valuation of securities classified as Financial assets valued at fair value through other comprehensive income (FVOCI).

Captions "2.3 Other increases" and "3.3. Other decreases" refer to the realignment of deferred taxes as a consequence of applying IFRS 9 to the original IAS 39 portfolios ("Financial assets available for sale" and "Financial assets held to maturity").

SECTION 13 – OTHER ASSETS – CAPTION 130

13.1 Other assets: breakdown

	31.12.2018	31.12.2017
Tax credits		
- capital	8,848	8,641
Amounts recoverable from the tax authorities for advances paid	30,879	33,321
Cheques negotiated to be cleared	24,663	26,384
Invoices issued to be collected	1,184	1,307
Debtors for securities and coupons to be collected by third parties	19	
Items being processed and in transit with branches	23,037	24,094
Currency spreads on portfolio transactions	368	2,903
Investments of the supplementary fund for termination indemnities	180	315
Leasehold improvement expenditure	11,720	13,462
Accrued income and prepaid expenses	2,455	1,450
Other items	27,680	51,547
Total	**131,033**	**163,424**

The "Tax credits - capital" caption mainly relates to the reimbursement requested in 2012 regarding the deductibility from Ires and 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, and established that this deduction could be claimed by requesting a reimbursement of higher taxes paid, also in previous tax years.

"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 withholding tax on interest on deposits and current accounts of 458 thousand euros;
- a receivable for virtual stamp duty of 24,369 thousand euros;
- a receivable for an advance payment of substitute tax due on capital gains of 5,477 thousand euros, as per art. 2, para. 5, of Decree Law no. 133 of 30 November 2013.

The "Items being processed and in transit with branches" principally include security transactions, Euro 3,707 thousand; the F24 tax payment forms accepted through internet and home banking instructions that will be debited to accounts on the due date, 2,708 thousand euros, and the recovery of commissions on lines of credit made available to customers, 8,625 thousand euros. 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 amortised 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; this caption mainly relates to prepaid administrative costs.

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

- commissions and taxes awaiting collection for 11,932 thousand euros;
- receivables for invoices to be issued for 6,591 thousand euros;
- 814 thousand euros due following currency transactions.

LIABILITIES

SECTION 1 – 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	31.12.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**1,586,367**	X	X	X	**1,592,800**	X	X	X
2. Due to banks	**34,457**	X	X	X	**113,128**	X	X	X
2.1 Current accounts and demand deposits	15,749	X	X	X	27,077	X	X	X
2.2 Time deposits	-	X	X	X	2,593	X	X	X
2.3 Loans	18,708	X	X	X	83,205	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	18,708	X	X	X	83,205	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	253	X	X	X
Total	**1,620,824**	**-**	**-**	**1,620,824**	**1,705,928**	**-**	**-**	**1,705,928**

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 Group by the Eurosystem as part of the "TLTRO II" operation. As a guarantee for this loan, Group banks have lodged collateralised mortgage loans with the ECB (via the A.Ba.Co. procedure).

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

Type of transaction/Components of the group	31.12.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	8,062,703	X	X	X	7,738,397	X	X	X
2. Time deposits	1,125,249	X	X	X	1,471,738	X	X	X
3. Loans	27,293	X	X	X	24,045	X	X	X
3.1 Repurchase agreements	-	X	X	X	-	X	X	X
3.2 Other	27,293	X	X	X	24,045	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Other payables	39,346	X	X	X	38,157	X	X	X
Total	**9,254,591**	**-**	**-**	**9,254,591**	**9,272,337**	**-**	**-**	**9,272,337**

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 35,097 thousand euros and cheques for 540 thousand euros (cashier's cheques for 34,970 thousand euros and cheques for 535 thousand euros respectively at the end of the previous year).

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

Type of security/Amounts	31.12.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	1,410,785	321	1,407,229	-	1,684,873	-	1,705,960	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,410,785	321	1,407,229	-	1,684,873	-	1,705,960	-
2. Other securities	15,428	-	-	15,428	23,447	-	-	23,447
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	15,428	-	-	15,428	23,447	-	-	23,447
Total	**1,426,213**	**321**	**1,407,229**	**15,428**	**1,708,320**	**-**	**1,705,960**	**23,447**

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 575 million euros.

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which 14,639 thousand euros were issued with a short term maturity and 766 thousand euros were issued with a longer than short term maturity. The remainder consists of certificates of 23 thousand euros that have reached maturity and which are due to be redeemed.

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

1.4 Details of subordinated payables/securities

Bonds	Issue date	Maturity date	Currency	Interest rate	31.12.2018	31.12.2017
Issued by the Parent Company						
ISIN code IT0004921166	03.06.2013	03.06.2018	EUR	FR	-	12,485
ISIN code IT0005038085	28.08.2014	28.08.2019	EUR	FR	50,262	47,873
ISIN code IT0005070179	22.12.2014	22.12.2019	EUR	FR	49,935	48,097
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,939	79,382
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	50,069	49,481
Issued by the subsidiary						
ISIN code IT0004331598	15.04.2008	15.04.2018	EUR	FR	-	7,286
ISIN code IT0004344278	18.04.2008	18.04.2018	EUR	FR	-	9,480
Total					**230,205**	**254,084**

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

1.5 Details of structured loans

At the reference date, the Group did not have amounts due to banks with specific hedge.

1.6 Finance lease payables

At the reference date, the Group did not have finance lease contracts with banks.

SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	31.12.2018					31.12.2017				
	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	-	3,221	2,825	X	X	-	3,450	4,526	X
1.1 For trading	X	-	3,221	2,825	X	X	-	3,450	4,526	X
1.2 Connected with the fair	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	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**3,221**	**2,825**	**X**	**X**	**-**	**3,450**	**4,526**	**X**
Total (A+B)	**X**	**-**	**3,221**	**2,825**	**X**	**X**	**-**	**3,450**	**4,526**	**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.

2.2 Details of "Financial liabilities held for trading": subordinated liabilities

At the reference date, the Group did not have subordinated financial liabilities held for trading.

2.3 Details of "Financial liabilities held for trading": subordinated loans

At the reference date, the Group did not have subordinated loans included in financial liabilities held for trading.

SECTION 4 – HEDGING DERIVATIVES – CAPTION 40

4.1 Hedging derivatives: breakdown by type and level

	31.12.2018				31.12.2017			
	NV	Fair value			NV	Fair value		
		L1	L2	L3		L1	L2	L3
A) Financial derivatives	**137,899**	**-**	**5,175**	**-**	**138,260**	**-**	**4,724**	**-**
1) Fair value	7,899	-	3,120	-	8,260	-	3,310	-
2) Cash flows	130,000	-	2,055	-	130,000	-	1,414	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**137,899**	**-**	**5,175**	**-**	**138,260**	**-**	**4,724**	**-**

Key

NV = Nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Operation/Type of hedge	Fair value						Cash flows			Foreign investments
	Specific									
	Debt securities and interest rates	Equities and equity indices	Currency and gold	Credit	Commodities	Other	Generic	Specific	Generic	
1. Financial assets designated at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	3,120	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**3,120**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	2,055	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,055**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

Specific hedges on loans, reported in the table, refer to fair value hedges for interest rate risk on specific loan items classified in the asset caption "Loans to customers".
The cash flow hedges of financial liabilities are also to hedge bonds issued by Banco Desio.

SECTION 6 – TAX LIABILITIES – CAPTION 60

The breakdown and changes during the year of tax liabilities are disclosed in Section 11, Assets, together with information on deferred tax assets.

SECTION 8 – OTHER LIABILITIES – CAPTION 80

8.1 Other liabilities: breakdown

	31.12.2018	31.12.2017
Due to tax authorities	345	497
Amounts payable to tax authorities on behalf of third parties	27,265	25,457
Social security contributions to be paid	4,883	6,145
Dividends due to shareholders	11	27
Suppliers	17,211	10,750
Amounts available to customers	17,481	20,865
Interest and dues to be credited	256	20
Payments against bill instructions	150	1,215
Early payments on loans not yet due	147	630
Items being processed and in transit with branches	82,752	100,345
Currency differences on portfolio transactions	100,431	12,683
Due to personnel	11,395	14,297
Sundry creditors	7,883	13,105
Provisions for guarantees given and commitments		2,144
Accrued expenses and deferred income	3,424	2,781
Total	**273,634**	**210,961**

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 Group 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 71,940 thousand euros;
- to MAV/RAV receipts, payment slips and Sepa direct debit (SDD) instructions for 6,331 thousand euros;
- items related to transactions in securities and currencies settled afterwards for 482 thousand euros;
- transitory items for the settlement of purchase orders of customers of asset management products (funds and bancassurance) for 939 thousand euros.

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 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 9,080 thousand euros (11,537 thousand euros at the end of last year) and the amount due for holiday pay of 1,689 thousand euros (2,029 thousand euros at the prior year end).

The main items included under caption "Sundry creditors" refer to: sundry creditors for currency transactions, 736 thousand euros (2,171 thousand euros last year), creditors for notes collected, 355 thousand euros (1,632 thousand euros last year) and credit transfers to be settled, 875 thousand euros.

The provision for guarantees given and commitments determined in application of IAS 39 is shown in the comparative period; in this regard, it should be noted that in application of IFRS 9 - Financial Instruments, starting from 1 January 2018 the provision for risks related to financial commitments and guarantees given, determined by applying the models for calculating the expected loss defined at the time of first-time adoption, is recorded under item "100. Provisions for risks and charges".

SECTION 9 – PROVISION FOR TERMINATION INDEMNITIES – CAPTION 90

9.1 Provision for termination indemnities: changes during the year

	31.12.2018	31.12.2017
A. Opening balance	**28,962**	**30,204**
B. Increases	**249**	**1,364**
B.1 Provision for the year	249	555
B.2 Other changes		809
C. Decreases	**4,036**	**2,606**
C.1 Payments made	3,530	2,605
C.2 Other changes	506	1
D. Closing balance	**25,175**	**28,962**

In accordance with international accounting standards, the provision for termination indemnities is classified as a defined benefit scheme and is therefore subject to actuarial measurement, for which the related assumptions applied are set out in the following paragraph.

The provision made in the year does not include amounts paid directly by the Group, depending on the choice made by employees, to supplementary pension schemes or to the state pension scheme managed by INPS. The cost of the foregoing payments, which for the year just ended amounts to 11,324 thousand euros (11,414 thousand euros last year), is recognised in Personnel expenses in the sub-caption "g) payments to external supplementary pension funds: defined contribution".

The captions "B.2 Other changes" and "C.2 Other changes" reflects the impact of discounting the provision for termination indemnities for statutory purposes (positive and negative).

9.2. Other information

The actuarial assumptions used by the independent actuary for the measurement of the liability at the reporting date are the following:

Demographic assumptions

- for the probability of death, those determined by gender by the State General Accounting Department, denominated RG 48;
- for the probability of disability, those, by gender, adopted by the 2010 INPS forecasting model. These probabilities were arrived at by starting with the distribution by age and gender of pensions at 1 January 1987 with effect from 1984, 1985 and 1986 relating to personnel in the credit sector;

- for the retirement age for the general working population, it was assumed that the first of the pension requirements valid for compulsory social security insurance had been met;
- for the probability of leaving employment for reasons other than death, based on internal statistics, an annual frequency of 2.50% was used; account has also been taken of the Bank's redundancy plan;
- for the probability of advances, an annual amount of 4% was assumed;

Economic-financial assumptions

Technical measurement was performed on the basis of the following assumptions:

- technical discounting rate 1.13%
- annual inflation rate 1.50%
- total annual income growth rate 2.50%
- termination indemnity annual growth rate 2.63%.

As regards the discount rate, the iBoxx Eurozone Corporates *AA* 7-10 index at the valuation date has been taken as reference for the valuation of this parameter.

The following table gives a sensitivity analysis of the liability recognised on changes in the economic and financial assumptions:

	Increase in parameter (+)	**Decrease in parameter (-)**
Annual discounting rate (+/- 0.25%)	24,716	25,648
Annual inflation rate (+/- 0.25%)	25,445	24,909
Annual turn over rate (+/- 2.00%)	24,983	25,403

SECTION 10 – PROVISIONS FOR RISKS AND CHARGES – CAPTION 100

10.1 Provisions for risks and charges: breakdown

Captions/Amounts	31.12.2018	31.12.2017
1. Credit risk provisions relating to commitments and financial guarantees given	2,377	-
2. Provisions for other commitments and other guarantees given	-	-
3. Pensions and similar commitments	-	-
4. Other provisions for risks and charges	34,368	46,547
4.1 Legal and tax disputes	11,727	15,386
4.2 Personnel expenses	19,683	28,863
4.3 Other	2,958	2,298
Total	**36,745**	**46,547**

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). In the comparison period, the provision for guarantees issued and commitments determined in application of the accounting standard IAS 39 is classified under item "80. Other liabilities" for 2,144 thousand euros.

The "Legal disputes" caption includes provisions made for losses expected to arise from disputes, of which 10,977 thousand euros relates to legal disputes (14,491 thousand euros at the end of last year) and 704 thousand euros relates to bankruptcy clawback actions (895 thousand euros at the end of 2017).

"Personnel expenses" mainly include estimated liabilities regarding the Solidarity fund, 8,922 thousand euros (15,003 thousand euros last year); the bonus system, 7,014 thousand euros (7,167 thousand euros last year), and the long service and additional holiday awards, 3,382 thousand euros (3,387 thousand euros last year).

The caption "Other" includes provisions for charges pertaining to other operating risks, including provisions for contractual indemnities due to financial advisors of 434 thousand euros (374 thousand euros at the prior year end).

For further details of disputes, reference should be made to "Information on risks and hedging policies".

10.2 Provisions for risks and charges: changes in the year

	Provisions for other commitments and other guarantees given	Pensions and similar commitments	Other provisions for risks and charges	Total
A. Opening balance	**-**	**-**	**46,547**	**46,547**
B. Increases	**2,381**	**-**	**9,413**	**11,794**
B.1 Provision for the year	417	-	9,031	9,448
B.2 Changes due to the passage of time	-	-	22	22
B.3 Changes due to changes in the discount rate	-	-	-	-
B.4 Other changes	1,964	-	360	2,324
C. Decreases	**4**	**-**	**21,592**	**21,596**
C.1 Utilisations during the year	-	-	15,789	15,789
C.2 Changes due to changes in the discount rate	-	-	-	-
C.3 Other changes	4	-	5,803	5,807
D. Closing balance	**2,377**	**-**	**34,368**	**36,745**

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). In the comparison period, the provision for guarantees issued and commitments determined in application of the accounting standard IAS 39 is classified under item "80. Other liabilities" for 2,144 thousand euros.

10.3 Credit risk provisions relating to commitments and financial guarantees given

	Credit risk provisions relating to commitments and financial guarantees given			
	First stage	Second stage	Third stage	Total
1. Commitments to disburse funds	132	38	-	170
2. Financial guarantees given	227	943	1,037	2,207
Total	**359**	**981**	**1,037**	**2,377**

In the comparison period, the provision for guarantees issued and commitments determined in application of the accounting standard IAS 39 is classified under item "80. Other liabilities".

10.5 Pensions and similar commitments - defined benefits

There are nil balances at year-end.

10.6 Provisions for risks and charges: other provisions

Details of "Other provisions for risks and charges" are provided in Section 10.1.

SECTION 13- GROUP SHAREHOLDERS' EQUITY – CAPTIONS 140 ,160 ,170 ,180, 190 ,200 AND 220

13.1 "Share capital" and "Treasury shares": breakdown

	31.12.2018	31.12.2017
A. Share capital	**67,705**	**67,705**
A.1 Ordinary shares	60,840	60,840
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	**67,705**	**67,705**

The share capital of Banco di Desio e della Brianza, fully subscribed and paid, consists of:

- 117,000,000 ordinary shares with nominal value of 0.52 euros each;
- 13,202,000 savings shares with nominal value of 0.52 euros each.

No Group company holds or held any shares issued by Banco di Desio e della Brianza during the period.

13.2 Share capital - number of shares of the Parent Company: changes during the year

	Ordinary	Other
A. Shares at the beginning of the year	**117,000,000**	**13,202,000**
- fully paid	117,000,000	13,202,000
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares in circulation: opening balance	**117,000,000**	**13,202,000**
B. Increases		
B.1 New issues		
- for payment		
- business combination		
- conversion of bonds		
- exercise of warrant		
- other		
- bonus issues		
- in favour of employees		
- in favour of directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Business sale transactions		
C.4 Other changes		
D. Shares in circulation: closing balance	**117,000,000**	**13,202,000**
D.1 Treasury shares (+)		
D.2 Shares at the end of the year	117,000,000	13,202,000
- fully paid	117,000,000	13,202,000
- not fully paid		

13.3 Share capital: other information

There is no other information to be disclosed at the reference date.

13.4 Revenue reserves: other information

Captions	31.12.2018	31.12.2017
Legal reserve	95,216	91,417
Statutory reserves	549,722	528,905
Retained earnings (losses)	17,003	17,003
Other FTA reserves	80,813	99,785
Other reserves	(13,730)	24,091
Total	**729,024**	**761,201**

13.5 Equity instruments: breakdown and changes in the year

Ordinary and savings shares did not undergo any changes during the year.

SECTION 14 – MINORITY INTERESTS – CAPTION 210

14.1 Details of caption 210 "Minority interests"

	31.12.2018	31.12.2017
Equity investments in consolidated companies with significant minority interests	**44,266**	**52,785**
Banca Popolare di Spoleto S.p.A.	44,262	52,781
Desio OBG S.r.l.	4	4
Other equity investments		
Total	**44,266**	**52,785**

The change compared with the previous year is mainly due to the balance sheet effect on FTA of IFRS 9 "Financial instruments".

14.2 Equity instruments: breakdown and changes during the year

None.

OTHER INFORMATION

1. Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given			31/12/2018
	First stage	Second stage	Third stage	
Commitments to disburse funds	**2,780,873**	**43,228**	**49,752**	**2,873,853**
a) Central banks	-	-	-	-
b) Public administrations	21,313	-	-	21,313
c) Banks	-	-	-	-
d) Other financial companies	61,771	99	30	61,900
e) Non-financial companies	2,496,024	32,922	48,709	2,577,655
f) Households	201,765	10,207	1,013	212,985
Financial guarantees given	**274,490**	**19,145**	**3,439**	**297,074**
a) Central banks	-	-	-	-
b) Public administrations	35	-	-	35
c) Banks	20,587	-	-	20,587
d) Other financial companies	1,179	1,219	-	2,398
e) Non-financial companies	233,353	14,557	3,330	251,240
f) Households	19,336	3,369	109	22,814

3. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31.12.2018	31.12.2017
1. Financial assets designated at fair value through profit or loss	-	-
2. Financial assets designated at fair value through other comprehensive income	-	874,469
3. Financial assets measured at amortised cost	3,805,197	785,238
4. Property, plant and equipment	-	-
of which: tangible fixed assets that constitute inventories	-	-

Caption "3. Financial assets measured at amortised cost" includes, in addition to debt securities, loans transferred to the SPV Desio OBG Srl consisting of assets suitable for the issue of Covered Bonds (GBB) and the collateralised loans with the ECB through the A.Ba.Co. procedure. In the comparative period, caption "2. Financial assets designated at fair value through other comprehensive income" conventionally includes debt securities classified in the available for sale (AFS) portfolio based on IAS 39.

6. Administration and trading on behalf of third parties

Type of services	31.12.2018
1. Execution of orders on behalf of customers	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Asset management	**1,620,835**
a) individual	1,620,835
b) collective	-
3. Custody and administration of securities	**20,617,824**
a) third-party securities on deposit as custodian bank (excluding portfolio management schemes)	-
1. securities issued by companies included in the consolidation	-
2. other securities	-
b) third-party securities held on deposit (excluding portfolio management schemes): other	8,817,512
1. securities issued by companies included in the consolidation	833,071
2. other securities	7,984,441
c) third-party securities deposited with third parties	8,778,277
d) portfolio securities deposited with third parties	3,022,035
4. Other transactions	**-**

7. Financial assets subject to offsetting in the financial statements, or subject to framework offsetting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2018 (f=c-d-e)	Net amount 31.12.2017
				Financial instruments (d)	Deposits of cash received as collateral		
1. Derivatives	1,440		1,440	723	580	137	147
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total 31.12.2018	**1,440**		**1,440**	**723**	**580**	**137**	
Total 31.12.2017	**5,605**		**5,605**	**818**	**4,640**		**147**

8. Financial liabilities subject to offsetting in the financial statements, or subject to framework agreements for offsetting or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2018 (f=c-d-e)	Net amount 31.12.2017
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1. Derivatives	8,396		8,396	6,601	2,610	(815)	(730)
2. Repurchase agreements							
3. Securities lending							
4. Other transactions							
Total 31.12.2018	**8,396**		**8,396**	**6,601**	**2,610**	**(815)**	
Total 31.12.2017	**8,174**		**8,174**	**7,174**	**1,730**		**(730)**

Tables 6 and 7 show the positive fair values (Table 6 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") and the negative fair values (Table 7 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") of derivatives for which there are ISDA agreements (Credit Support Annex). While these agreements do not comply with all of the requirements of IAS 32 paragraph 42 for offsetting in the financial statements, they do provide for mechanisms to mitigate the risk of counterparty default through the exchange of collateral on restricted deposits and allow the netting of receivables and payables relating to financial and credit derivatives on the occurrence of certain events such as the default of the counterparty. In line with the provisions of IFRS 7 and the latest provisions on rules for the preparation of banks' financial statements, in the compilation of tables, account has been taken of:

- the effects of the potential compensation of financial assets and liabilities, indicated in column (d) "Financial instruments", together with the fair value of financial collateral represented by securities;
- the effects of potential compensation of exposures with cash collateral, as indicated in column (e) "Cash deposits received as collateral".
- These effects are calculated for counterparties with whom there is a framework netting agreement within the limits of the amount indicated in column (c) "Net amount of financial assets reported in the financial statements".

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

SECTION 1 – INTEREST – CAPTION 10 AND 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2018	31.12.2017
1. Financial assets designated at fair value through profit or loss	112	-	-	112	247
1.1 Financial assets held for trading	84	-	-	84	247
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	28	-	-	28	-
2. Financial assets designated at fair value through other comprehensive income	6,007	-	X	6,007	12,440
3. Financial assets measured at amortised cost	7,998	250,384	X	258,382	263,331
3.1 Due from banks	1,745	789	X	2,534	1,084
3.2 Loans to customers	6,253	249,595	X	255,848	262,247
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	3	3	272
6. Financial liabilities	X	X	X	6,433	7,200
Total	**14,117**	**250,384**	**3**	**270,937**	**283,490**
of which: interest income on impaired financial assets	-	341	-	341	-

Interest on "Loans to customers" is recognised net of default interest accrued in the year on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question amounts to Euro 3,590 thousand.

Conversely, the caption includes default interest collected in the year of 1,588 thousand euros (formerly 1,148 thousand euros).

Caption "3. Financial assets valued at amortised cost" of the comparative period includes interest accrued on securities classified as "held to maturity" on the basis of IAS 39 in force up to 31 December 2017, for 486 thousand euros under "loans to banks" and for 1,769 thousand euros under "loans to customers".

The balance of item "3.2 Loans to customers" at 31 December 2018 includes:

- the positive part of the release of the time value component of non-performing financial assets of 9,288 thousand euros;
- the negative part of write-downs on interest relating to impaired loans of approximately 3,122 thousand euros;

shown under caption "130.a Net adjustments for credit risk relating to financial assets measured at amortised cost" in the comparative period.

The interest on item "6. Financial liabilities" includes 6.4 million euros as the benefit deriving from application of the negative interest rate of 0.40% on part of the total loan granted by the Eurosystem to the Banco Desio Group within the ambit of "TLTRO II".

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Captions	31.12.2018	31.12.2017
Interest income on financial assets in foreign currency	1,795	1,512

1.2.2 Interest income from finance leases

Captions	31.12.2018	31.12.2017
Interest income from finance leases	3,910	5,547

Total interest recognised as income in the year is included in the caption "Loans to customers – loans" and amounts to 3,910 thousand euros (5,547 thousand euros last year); of this, 3,406 thousand euros relate to index-linked contracts, of which 217 thousand euros relate to leaseback agreements (in 2017 4,857 thousand euros related to index-linked contracts, of which 283 thousand euros related to leaseback agreements).

Financial income pertaining to subsequent years amounts to 36,305 thousand euros, of which 3,111 thousand euros relates to leaseback agreements (last year 47,420 thousand euros and 4,419 thousand euros, respectively).

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2018	31.12.2017
1. Financial liabilities measured at amortised cost	(25,266)	(22,839)	X	(48,105)	(50,995)
1.1 Due to central banks	-	X	X	-	(1,481)
1.2 Due to banks	(729)	X	X	(729)	(328)
1.3 Due to customers	(24,537)	X	X	(24,537)	(24,362)
1.4 Debt securities in issue	X	(22,839)	X	(22,839)	(24,824)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	(48)
4. Other liabilities and provisions	X	X	(228)	(228)	(69)
5. Hedging derivatives	X	X	(1,306)	(1,306)	(1,136)
6. Financial assets	X	X	X	(2,230)	-
Total	**(27,496)**	**(22,839)**	**(1,534)**	**(51,869)**	**(52,248)**

The amount of caption "5. Hedging derivatives" represents the difference between negative and positive differentials on this type of financial instrument.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

Captions	31.12.2018	31.12.2017
Interest expense on foreign currency financial liabilities	(240)	(383)

1.5 Differentials on hedging transactions

Captions	31.12.2018	31.12.2017
A. Positive differentials on hedging transactions:	65	1,920
B. Negative differentials on hedging transactions:	(1,371)	(2,020)
C. Balance (A-B)	**(1,306)**	**(100)**

SECTION 2 – COMMISION- CAPTIONS 40 AND 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2018	31.12.2017
a) guarantees given	2,772	3,066
b) credit derivatives	-	
c) management, brokerage and consulting services	62,612	59,908
1. trading in financial instruments	-	
2. trading in foreign exchange	1,523	1,595
3. portfolio management	7,400	8,121
3.1 individual	6,910	7,524
3.2 collective	490	597
4. custody and administration of securities	1,531	1,692
5. custodian bank	-	
6. placement of securities	22,095	21,397
7. order taking	5,236	5,656
8. advisory services	-	
8.1 regarding investments	-	
8.2 regarding financial structuring	-	
9. distribution of third-party services	24,827	21,447
9.1 asset management	410	468
9.1.1 individual	410	468
9.1.2 collective	-	
9.2 insurance products	17,417	16,628
9.3 other products	7,000	4,351
d) collection and payment services	29,516	28,657
e) servicing related to securitisation	72	112
f) services for factoring transactions	110	114
g) tax collection services	-	
h) management of multilateral trading systems	-	
i) maintenance and management of current accounts	73,754	73,939
j) other services	10,390	9,688
Total	**179,226**	**175,484**

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 2,666 thousand euros (formerly 2,589 thousand euros), recoveries of expenses on customer collection and payments for 946 thousand euros (formerly 1,282 thousand euros), fees for the Internet banking service of 1,693 thousand euros (formerly 1,514 thousand euros) and recoveries of expenses on mortgage instalments for 1,367 thousand euros (formerly 1,231 thousand euros).

2.2 Commission expense: breakdown

Services/Amounts	31.12.2018	31.12.2017
a) Guarantees received	(606)	(351)
b) credit derivatives	-	
c) management and brokerage services:	(6,966)	(5,851)
1. trading in financial instruments	(71)	(101)
2. trading in foreign exchange	-	
3. portfolio management	-	
3.1 own portfolio	-	
3.2 third-party portfolio	-	
4. custody and administration of securities	(1,141)	(1,308)
5. placement of financial instruments	-	(104)
6. offer of securities, financial products and services through financial promoters	(5,754)	(4,338)
d) collection and payment services	(3,418)	(3,550)
e) other services	(2,580)	(1,685)
Total	**(13,570)**	**(11,437)**

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 for 5,754 thousand euros (4,338 thousand euros last year).

SECTION 3 – DIVIDENDS AND SIMILAR INCOME – CAPTION 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2018		31.12.2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	102	0	45	
B. Other financial assets that have to be measured at fair value	0	0		
C. Financial assets valued at fair value through other comprehensive income	3,094	0	6,355	
D. Equity investments	0	0		
Total	**3,196**	**0**	**6,400**	

The dividends in caption "C. Financial assets designated at fair value through other comprehensive income" for the comparative period include 5,762 thousand euros recorded after the resolution to distribute reserves on 6 December 2017 by Cedacri S.p.A.

SECTION 4 –NET TRADING ICOME – 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	**-**	**1,289**	**(846)**	**(844)**	**(401)**
1.1 Debt securities	-	223	(121)	(420)	(318)
1.2 Equity instruments (other than banking investments)	-	417	(725)	(424)	(732)
1.3 Mutual funds	-	526	-	-	526
1.4 Loans	-	-	-	-	-
1.5 Other	-	123	-	-	123
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**	**3,092**
4. Derivatives	**231**	**6,685**	**(175)**	**(8,993)**	**(2,154)**
4.1 Financial derivatives:	231	6,685	(175)	(8,993)	(2,154)
- On debt securities and interest rates	228	3,985	(31)	(5,250)	(1,068)
- On equities and equity indices	3	1,419	(144)	(2,105)	(827)
- On currency and gold	X	X	X	X	98
- Other	-	1,281	-	(1,638)	(357)
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**231**	**7,974**	**(1,021)**	**(9,837)**	**537**

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.

SECTION 5 – NET HEDGING GAINS(LOSSES) – CAPTION 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31.12.2018	31.12.2017
A. Income relating to:		
A.1 Fair value hedges	188	544
A.2 Hedged financial assets (fair value)	3	29
A.3 Hedged financial liabilities (fair value)	-	218
A.4 Cash flow hedges	-	
A.5 Foreign currency assets and liabilities	-	
Total income from hedging activity (A)	**191**	**791**
B. Charges relating to:		
B.1 Fair value hedges	(3)	(198)
B.2 Hedged financial assets (fair value)	(130)	(688)
B.3 Hedged financial liabilities (fair value)	-	(24)
B.4 Cash flow hedges	-	
B.5 Foreign currency assets and liabilities	-	
Total charges from hedging activity (B)	**(133)**	**(910)**
C. Net hedging gains (losses) (A-B)	**58**	**(119)**

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.

SECTION 6 – GAINS (LOSSES) ON DISPOSAL OR REPURCHASE

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	31.12.2018			31.12.2017		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	6,425	(30,423)	(23,998)	9,827	(8,164)	1,663
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	6,425	(30,423)	(23,998)	9,827	(8,164)	1,663
2. Financial assets designated at fair value through other comprehensive income	12,325	(2,381)	9,944	26,853	(14,066)	12,787
2.1 Debt securities	12,325	(2,381)	9,944	21,416	(6,685)	14,731
2.2 Loans	-	-	-	-	-	-
2.3 Equity instruments	-	-	-	-	(5,904)	(5,904)
2.4 Mutual funds	-	-	-	5,437	(1,477)	3,960
Total assets	**18,750**	**(32,804)**	**(14,054)**	**36,680**	**(22,230)**	**14,450**
Financial liabilities measured at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	83	(766)	(683)	65	(910)	(845)
Total liabilities	**83**	**(766)**	**(683)**	**65**	**(910)**	**(845)**

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 loans and securities, among which the figure relating to the completion of the securitisation of doubtful loans through use of the State guarantee.

The caption "2. Financial assets designated at fair value through other comprehensive income" includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect. With reference to the comparative period, the profit/loss component generated by financial instruments classified as "available for sale" has been conventionally shown in this item in accordance with IAS 39, including:

- mutual funds which, starting from 1 January 2018 with first-time adoption of "IFRS 9 Financial Instruments" have been classified as financial assets that are mandatorily valued at fair value, the economic effects of which are all shown under item 110.b) Net result of financial assets mandatorily at fair value;
- equities which, starting from the same date, have been designated at fair value through other comprehensive income (FVOCI option) and without reversal to the income statement in the event of sale of the realisable component.

In particular, the sub-item "2.3 losses on equity instruments" of the comparative period essentially includes:

- the loss resulting from payments to the FITD Voluntary Scheme for the recapitalisation of the banks sold to Cariparma Crédit Agricole (4,357 thousand euros);
- the difference between the transaction price and the amount determined using valuation techniques (day one loss) on a minority shareholding acquired during the reference period (1,528 thousand euros).

As regards financial liabilities, the caption "3. Debt securities in issue" includes the net gain (loss) from the repurchase of own bonds.

SECTION 7 – RESULT OF FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS – CAPTION 110

7.1 Net change in value of financial assets and liabilities designated at fair value: breakdown

The net gains (losses) on financial assets and liabilities designated at fair value in the comparative period result from the difference between the fair value measurement of Group bonds, subject to "natural hedging" having applied the fair value option, and the corresponding financial derivatives.

They also include the net gains (losses) from trading in these bonds.

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	**119**	**427**	**(3,617)**	**(1)**	**(3,072)**
1.1 Debt securities	-	-	(360)	-	(360)
1.2 Equity instruments	-	-	-	-	-
1.3 Mutual funds	119	427	(3,257)	(1)	(2,712)
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**119**	**427**	**(3,617)**	**(1)**	**(3,072)**

This item consists of the result of financial instruments which, with the introduction of "IFRS 9 - Financial Instruments" from 1 January 2018, 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 test foreseen in the new standard. At 31 December 2018 this item is made up mainly of mutual funds, which by their very nature do not have characteristics compatible with passing the test. These instruments were previously classified as "available for sale" as required by IAS 39; so, with reference to the comparative period:

- the valuation component (gain/loss) of this type of instrument, negative for 506 thousand euros, is reflected in other comprehensive income;
- the realisable component (profit/loss), which is positive for 3,960 thousand euros, is conventionally re-stated under item "100.b Profit/loss from sale or repurchase of financial assets measured at fair value through other comprehensive income".

SECTION 8 – 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)		31.12.2018	31.12.2017
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Due from banks	**(1,158)**	**-**	**-**	**13**	**-**	**(1,145)**	**-**
- loans	(465)	-	-	-	-	(465)	-
- debt securities	(693)	-	-	13	-	(680)	-
of which: non-performing loans acquired or originated	-	-	-	-	-	-	-
B. Loans to customers	**(6,405)**	**(3,553)**	**(99,592)**	**5,827**	**41,764**	**(61,959)**	**(79,041)**
- loans	(2,254)	(3,553)	(99,592)	5,827	41,764	(57,808)	(79,041)
- debt securities	(4,151)	-	-	-	-	(4,151)	-
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
Total	**(7,563)**	**(3,553)**	**(99,592)**	**5,840**	**41,764**	**(63,104)**	**(79,041)**

This caption includes the adjustments and write-backs made for the impairment of 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, particularly on non-performing loans, relate to:

- Doubtful loans 46,391 thousand euros (formerly 90,629 thousand euros);
- Unlikely to pay loans for 52,628 thousand euros (formerly 57,145 thousand euros);
- Past due loans for 573 thousand euros (formerly 1,004 thousand euros).

"Write-backs of first and second stage" are calculated on the performing loan portfolio.

"Write-backs - Third Stage" relate to:

- doubtful loans amortised in previous years 1,830 thousand euros (formerly 1,722 thousand euros)
- collections of loans previously written down 19,872 thousand euros (formerly 27,671 thousand euros)
- write-backs 20,062 thousand euros (formerly 18,429 thousand euros)

The adjustments to loans at 31 December 2018 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" starting from 1 January 2018, and are therefore not fully comparable with the prior period.

The adjustments to debt securities classified in the first/second stage were determined for the first time on application of the new accounting standard and do not therefore have a comparative figure.

It should be noted that the comparative figure includes the release of the time value component of impaired financial assets and value adjustments on interest relating to non-performing loans, which at the reporting date are included in item "10. Interest and similar income".

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)		31.12.2018	31.12.2017
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Debt securities	(462)	-	-	1,072	-	610	-
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks		-	-	-	-	-	-
Of which: impaired loans acquired or originated	-	-	-	-	-	-	-
C. Equity instruments	-	-	-	-	-	-	(3,281)
D. Mutual funds	-	-	-	-	-	-	(6,400)
Total	**(462)**	**-**	**-**	**1,072**	**-**	**610**	**(9,681)**

This item includes the adjustments and write-backs 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" starting from 1 January 2018; it is not therefore comparable with the prior period. Write-backs recorded during the year mainly refer to the lack of the expected first-time adoption loss on securities that were subsequently reallocated in the "held to collect" portfolio as part of the reclassification of business models from 1 October 2018, for which the expected loss was recognised as a contra-entry in caption "130a. Net adjustments for credit risk relating to financial assets measured at amortised cost".

The comparative figure conventionally includes the adjustments to all instruments classified as available-for-sale financial assets on the basis of IAS 39, in particular mutual funds and equity securities, and is therefore not comparable on a like-for-like basis with the balance at the reporting date.

In particular, caption "D. Equity instruments" was made up of:

- an adjustment of a minority bank shareholding acquired during the period under a commitment made previously as part of broader business agreements in connection with the sale of a stake held in the insurance business (2,231 thousand euros);
- the adjustment recorded on the equity instrument recorded for the contributions paid to the FITD Voluntary Scheme for the subscription of securities of the non-performing loan securitisation, on which a fair value adjustment was subsequently recognised (1,050 thousand euros).

Caption "D. Mutual funds" included adjustments for 4,165 thousand euros on the Atlante fund, of which:

- 557 thousand euros, offset by the use of the same amount of the provision for the adjustment to the payment commitment made the previous year;
- 3,608 thousand euros following the write-off of the value of the banking interests held by the fund.

SECTION 9 – PROFITS/LOSSES FROM CONTRACTUAL CHANGES WITHOUT CANCELLATIONS – CAPTION 140

This caption includes the adjustment made to the book values of loans to customers that undergo changes to the contractual cash flows without giving rise to accounting cancellations pursuant to para. 5.4.3 and Appendix A of IFRS 9.

SECTION 12 – ADMINISTRATIVE COSTS – CAPTION 190

12.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2018	31.12.2017
1) Employees	(164,537)	(173,198)
a) wages and salaries	(115,081)	(117,302)
b) social security charges	(30,186)	(30,869)
c) termination indemnities	-	
d) pension expenses	-	
e) provision for termination indemnities	(395)	(561)
f) provision for post-retirement benefits and similar commitments:	-	
- defined contribution	-	
- defined benefit	-	
g) payments to external supplementary pension funds:	(11,324)	(11,414)
- defined contribution	(11,324)	(11,414)
- defined benefit	-	
h) equity-based payments	-	
i) other personnel benefits	(7,551)	(13,052)
2) Other active employees	(438)	(581)
3) Directors and auditors	(4,282)	(4,427)
4) Retired personnel	-	
Total	**(169,257)**	**(178,206)**

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.

12.2 Average number of employees by level

	31.12.2018	31.12.2017
1) Employees	**2,278**	**2,340**
a) managers	32	32
b) middle managers	1,078	1,099
c) other employees	1,168	1,209
2) Other personnel	**6**	**4**

12.3 Defined post-employment benefit obligations: costs and revenues

Balances were zero at the reporting dates.

12.4 Other personnel benefits

	31.12.2018	31.12.2017
Provision for sundry charges	(4,323)	(6,704)
Contributions to healthcare fund	(2,081)	(2,038)
Training and instruction costs	(450)	(976)
Rent expense of property used by employees	(313)	(250)
Redundancy incentives	2,625	231
Other	(3,009)	(3,315)
Total	**(7,551)**	**(13,052)**

The revenue component under "redundancy incentives" refers to the adjustment of the liabilities recorded to cover the redundancy plan at the end of 2016.

The main components of the "Other" caption include the cost of meal vouchers given to employees of 2,008 thousand euros (1,985 thousand euros) and costs relating to insurance premiums of 491 thousand euros (532 thousand euros).

12.5 Other administrative costs: breakdown

	31.12.2018	3.1.12.2017
Indirect taxes and duties:		
- Stamp duty	(26,531)	(26,257)
- Other	(6,125)	(6,010)
Other costs:		
- IT expenses	(17,779)	(16,878)
- Lease of property and other assets	(13,166)	(13,612)
- Maintenance of buildings, furniture and equipment	(6,735)	(6,289)
- Post office and telegraph	(2,471)	(2,262)
- Telephone and data transmission	(5,866)	(5,882)
- Electricity, heating, water	(3,643)	(3,949)
- Cleaning services	(1,391)	(1,440)
- Printed matter, stationery and consumables	(836)	(1,216)
- Transport costs	(1,108)	(1,174)
- Surveillance and security	(2,474)	(2,697)
- Advertising	(2,246)	(2,113)
- Information and surveys	(2,294)	(2,294)
- Insurance premiums	(994)	(1,103)
- Legal fees	(6,495)	(6,410)
- Professional consulting fees	(9,480)	(8,057)
- Various contributions and donations	(295)	(292)
- Sundry expenses	(18,750)	(17,285)
Total	**(128,679)**	**(125,220)**

The caption "Sundry expenses" comprises the contributions of the year to Single Resolution Mechanism and to Deposit Guarantee Scheme for 9,699 thousand euros (7,437 thousand euros in the previous year) of which:

- 3,906 thousand euros for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for the year (3,501 thousand euros in the previous period);
- 1,464 thousand euros referring to the extraordinary contribution to the same resolution fund (not present in the comparative period);
- 4,328 thousand euros for the ex-ante ordinary contribution to the Deposit Guarantee Scheme (DGS) for the year (3,936 thousand euros in the previous year).

The same caption also includes reimbursements to employees for travel expenses and mileage reimbursements for 1,569 thousand euros (1,728 thousand euros), expenses for registration of mortgage, injunctions and assignment of receivables for 1,463 thousand euros (1,915 thousand euros), membership fees for 1,662 thousand euros (1,340 thousand euros) and subscriptions to newspapers and magazines for 306 thousand euros (320 thousand euros).

It also includes the fees paid to the auditing firm Deloitte & Touche S.p.A. and/or to other entities of the same network, for services provided to the Banco Desio Group for a total of 1,155 thousand euros, summarised below by type of service provided.

Type of services	**Party which provided the service**	**Recipient**	**Fees (Euro/000)**
Audit	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	275
		Banca Popolare di Spoleto	191
		Fides	56
		Desio OBG	16
Attestation services	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	106
		Banca Popolare di Spoleto	22
		Fides	1
Other services:			
CSR methodological support	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	14
		Banca Popolare di Spoleto	14
IFRS 9 Methodological Support	Deloitte Consulting S.r.l.	Banco di Desio e della Brianza	276
		Banca Popolare di Spoleto	184
Total			**1,155**

The fees are shown net of expenses, the CONSOB contribution (where due) and VAT.

SECTION 13 – NET PROVISIONS FOR RISK AND CHARGES – CAPTION 200

13.1 Net provisions for risks and charges: breakdown

	Provision	Utilisations	31.12.2018	31.12.2017
commitments for guarantees given	(417)		(417)	3,803
charges for legal disputes	(3,609)	3,482	(127)	(1,401)
other	(891)		(891)	230
Total	**(4,917)**	**3,482**	**1,435**	**2,632**

The item "Commitments for guarantees given" represents the provision/use of the provision for risks determined by applying the models for calculating the expected loss defined in application of "IFRS 9 Financial Instruments" (1 January 2018). The comparative figure conventionally includes the net accrual to the provision for guarantees given and commitments determined in application of IAS 39. In particular, the balance in the comparative period includes the use:

- for 557 thousand euros, of the adjustment to the payment commitment versus the Atlante Fund recorded the previous year;
- for 1,683 thousand euros, of the provision for the purchase of the minority holding in a bank recorded the previous year.

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.

SECTION 14 – 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 Owned	(7,254)	-	-	(7,254)
- For business purposes	(7,230)	-	-	(7,230)
- For investment purposes	(24)	-	-	(24)
- Inventories	X	-	-	-
A.2 Held under finance leases	-	-	(1)	(1)
- For business purposes	-	-	-	-
- For investment purposes	-	-	(1)	(1)
Total	**(7,254)**	**-**	**(1)**	**(7,255)**

The adjustments consist entirely of depreciation computed over the useful lives of the assets.

SECTION 15 – 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	(1,712)	-	-	(1,712)
- Generated internally	-	-	-	-
- Other	(1,712)	-	-	(1,712)
A.2 Held under finance leases	-	-	-	-
Total	**(1,712)**	**-**	**-**	**(1,712)**

The adjustments consist entirely of amortisation computed over the useful lives of the assets.

SECTION 16 – OTHER OPERATING CHARGES/INCOME – CAPTION 230

16.1 Other operating charges: breakdown

	31.12.2018	31.12.2017
Amortisation of leasehold improvements	(1,906)	(2,257)
Losses on disposal of property, plant and equipment	(212)	(212)
Charges on non-banking services	(2,018)	(3,056)
Total	**(4,136)**	**(5,525)**

"Charges on non-banking services" include: charges for insurance deductibles and fraudulent withdrawals for 84 thousand euros and contingent liabilities not attributable to a specific item for 302 thousand euros.

16.2 Other operating income: breakdown

	31.12.2018	31.12.2017
Recovery of taxes from third parties	29,320	29,059
Recharge of costs of current accounts and deposits	7,322	9,136
Rental and leasing income	74	52
Other expense recoveries	10,244	12,150
Gains on disposal of property, plant and equipment	4	3
Other	656	988
Total	**47,620**	**51,388**

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of 4,645 thousand euros (6,270 thousand euros) and other recoveries for various communications to customers of 2,494 thousand euros (2,684 thousand euros).

"Other expense recoveries" include, in particular, recoveries of legal costs relating to various non-performing loans of 3,461 thousand euros (4,398 thousand euros), the recovery of investigation costs of various loans for 2,202 thousand euros (1,511 thousand euros), recovery of appraisals in connection with mortgage loans of 328 thousand euros (440 thousand euros), the recovery of sundry expenses relating to lease applications of 210 thousand euros (381 thousand euros).

SECTION 19 – GOODWILL IMPAIRMENT – CAPTION 270

The results of the testing of the recoverability of goodwill recognised in the consolidated financial statements did not indicate the need for any write-downs.

SECTION 20 – GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – CAPTION 280

20.1 Gains (losses) on disposal of investments: breakdown

Income item/Amounts	31.12.2018	31.12.2017
A. Property	-	41
- Gains on disposal	-	41
- Losses on disposal	-	
B. Other assets	-	
- Gains on disposal	-	
- Losses on disposal	-	
Net result	**-**	**41**

Caption "A. Property" refers to gains/losses on the disposal of properties used in operations by Group companies.

SECTION 21- INCOME TAXES ON CURRENT OPERATIONS – CAPTION 300

21.1 Income taxes on current operations: breakdown

Income items/Segments	31.12.2018	31.12.2017
1. Current taxes (-)	(8,751)	(6,072)
2. Change in prior period income taxes (+/-)	23	1,161
3. Reduction in current taxes (+)	-	
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	
4. Change in deferred tax assets (+/-)	(41)	(17,809)
5. Change in deferred tax liabilities (+/-)	2,038	3,084
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(6,731)**	**(19,636)**

The change in deferred tax assets (item 4) includes 4,602 thousand euros of prepaid IRAP on the revenue components deriving from adoption of the expected loss recognition model on loans to customers, recorded on FTA of IFRS 9, 90% deductible pursuant to the 2019 Budget Law on a straight-line basis from 2019 to 2027.

On FTA of IFRS 9, considering the non-recoverability as a deduction of these revenue components because of the 2018 value of production assessed as negative, it was not possible to record the related tax effect for IRAP purposes.

21.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	43,289		43,289	
Costs not deductible for IRAP purposes			28,532	
Revenue not taxable for IRAP purposes			(20,685)	
Sub total	43,289		51,136	
Theoretical tax charge (27.5% IRES + 5.57% IRAP)		**(11,904)**		**(2,847)**
Temporary differences taxable in subsequent years	(66)		(3)	
Temporary differences deductible in subsequent years	11,131		90,648	
Reversal of prior year temporary differences	(18,370)		(18,353)	
Differences that will not reverse in subsequent years	(4,535)		(196,893)	
Taxable income	31,449		(73,465)	
Current taxes for the year (27.5% IRES + 5.57% IRAP)		**(8,648)**		**(95)**

SECTION 23 – MINORITY INNTERESTS – CAPTION 340

23.1 Details of caption 330 "Minority interests"

Company name	31.12.2018	31.12.2017
Consolidated equity investments with significant minority interests		
Banca Popolare Spoleto	1,298	1,261
Desio OBG		
Profit/(loss) of minority interests	1,298	1,261

SECTION 25 – EARNINGS PER SHARE

25.1 Average number of ordinary shares (fully diluted)

	31.12.2018		31.12.2017	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Net profit of the Group attributable to the various classes of shares (thousands of euro)	31,055	4,205	38,486	5,212
Average number of shares outstanding	117,000,000	13,202,000	117,000,000	13,202,000
Average number of potentially dilutive shares	-	-	-	-
Average number of diluted shares	117,000,000	13,202,000	117,000,000	13,202,000
Earnings per share (Euro)	0.27	0.32	0.33	0.39
Diluted earnings per share (Euro)	0.27	0.32	0.33	0.39

There were no operations on share capital during the year and nor were there any issues of financial instruments that could lead to the issue of shares; accordingly, the average number of shares used to calculate diluted earnings per share is equal to 117,000,000 ordinary shares and 13,202,000 savings shares.

25.2 Other information

There is no other information to be disclosed.

PART D - CONSOLIDATED COMPREHENSIVE INCOME

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Captions		31.12.2018	31.12.2017
10.	**Net profit (loss) for the period**	**36,558**	**44,959**
	Other elements of income, without reversal to income statement		
20.	**Equity instruments designated at fair value through other comprehensive income:**	**-87**	**0**
	a) change in fair value	-87	0
	b) transfers to other components of shareholders' equity	0	0
70.	**Defined-benefit pension plans**	**506**	**(582)**
100.	**Income taxes on other revenue components without reversal to profit or loss**	**(134)**	**-**
	Other elements of income, with reversal to income statement		
130.	**Cash-flow hedges:**	**(644)**	**916**
	a) changes in fair value	(644)	916
	b) reversal to income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
150.	**Financial assets (other than equities) designated at fair value through other comprehensive income:**	**(2,704)**	**27,658**
	a) changes in fair value	1,010	22,587
	b) reversal to income statement	(2,162)	4,805
	- adjustments for credit risk	(386)	1,351
	- gains/losses on disposal	(1,776)	3,454
	c) other changes	(1,552)	266
180.	**Income taxes on other revenue components with reversal to profit or loss**	**1,004**	**-**
190.	**Total other elements of income**	**(2,059)**	**27,992**
200.	**Total comprehensive income (Captions 10+190)**	**34,499**	**72,951**
210.	Total comprehensive income pertaining to minority interests	(1,718)	(2,701)
220.	**Total consolidated comprehensive income pertaining to Parent Company**	**32,781**	**70,250**

PART E - 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 that have been put in place to protect business processes, at various levels, are included in specific regulations organised by function and internal procedures.
The organisational model adopted by the Group envisages that the Parent Company's Risk Management function reports directly to the Board of directors 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 of the Parent Company 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 control process over capital adequacy (ICAAP) also forms part of the risk management system and of the liquidity risk governance and management system (ILAAP).

SECTION 1 – RISKS OF THE ACCOUNTING CONSOLIDATION

Quantitative information

A.CREDIT QAULITY

A.1 Non-performing and performing loans: amounts, adjustments, trends and economic and territorial distribution

The portfolio of "Assets measured at amortised cost" includes, among other things, non-performing loans acquired as a result of the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) booked to the consolidated financial statements in accordance with IFRS 3. In the table, the gross value of these loans is expressed at purchase cost. The difference between the nominal amount of the loans and their purchase price at 31 December 2018 amounted to 29,597 thousand euros. This difference essentially represents the write-downs made by the subsidiary BPS on non-performing loans prior to the acquisition of control.

For a more accurate calculation of the credit risk indicators (coverage ratio), it should be noted that the total amount of gross non-performing loans at 31 December 2018 - considering non-performing loans of the subsidiary BPS with their write-downs - amounted to 695 million euros and total write-downs to 294 million euros.

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		122,451	274,780	4,141	207,007	12,018,455	12,626,834
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	244,034	244,034
3. Financial assets designated at fair value		-	-	-	-	-	-
4. Other financial assets that have to be measured at fair value		-	-	-	-	2,312	2,312
5. Financial assets being sold		-	-	-	-	-	-
Total	**31.12.2018**	**122,451**	**274,780**	**4,141**	**207,007**	**12,264,801**	**12,873,180**
Total	**31.12.2017**	**494,173**	**321,341**	**8,410**	**215,547**	**12,210,141**	**13,249,612**

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		665,376	264,004	401,372	24,070	12,281,079	55,617	12,225,462	12,626,834
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	244,034	-	244,034	244,034
3. Financial assets designated at fair value		-	-	-	-	X	X	-	-
4. Other financial assets that have to be measured at fair value		-	-	-	-	X	X	2,312	2,312
5. Financial assets being sold		-	-	-	-	-	-	-	-
Total	**31.12.2018**	**665,376**	**264,004**	**401,372**	**24,070**	**12,525,113**	**55,617**	**12,471,808**	**12,873,180**
Total	**31.12.2017**	**1,463,061**	**639,137**	**823,924**	**-**	**12,466,350**	**40,662**	**12,425,688**	**13,249,612**

Portfolio/Quality		Assets with an obviously poor credit quality		Other assets
		Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading		-	3	5,976
2. Hedging derivatives		-	-	1
Total	**31.12.2018**	**-**	**3**	**5,977**
Total	**31.12.2017**	**1**	**13**	**12,492**

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; 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 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 Board of Directors has exclusive power to lay down guidelines that have an impact on the running of the Group's affairs and, in this context, to make decisions on strategic lines and operations, business and financial plans as well as those relating - again at the level of strategic supervision - to the Internal Control and Risk Management System in compliance with the Capital Requirements in force at the time. 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 Parent Company's 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 (CRS - Credit 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, while there are three non-performing classes (past due and/or overdrawn exposures, unlikely-to-pay and doubtful loans).

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 credit assessment institutions (ECAIs).

2.3 Methods of measuring expected losses

The general approach defined by IFRS 9 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.

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). To a lesser extent, but for significant amounts, there are also pledges on securities and/or cash.

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 Group has introduced a policy that lays down the criteria for making adjustments by codifying the rules that establish the minimum percentages to be applied in determining expected losses, depending on the type of impaired 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 of the Parent Company 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.
Consistent with the Group's objectives for the reduction of the Group's non-performing loans indicated in the business plan and with a view to maximising recoveries, the competent corporate functions identify the best management strategy for non-performing exposures, which, based on the subjective characteristics of the individual counterparty/exposure and internal policies, can be identified in a revision of the contractual terms (forbearance), assignment to an internal recovery unit rather than 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 homogeneous characteristics).
In execution of its capital management strategy, the Group has implemented a programme of sales of NPLs for a gross value of 1.1 billion euros. As part of this, a securitisation transaction was also carried out, for around Euro 1.0 billion, with recourse to the procedure for the issuance of a guarantee by the Italian State on the securitisation of non-performing loans on senior securities pursuant to Legislative Decree 18/2016 ("GACS"). The purpose of this was to deconsolidate Banco Desio Group loans, while the remainder, approximately 100 million euros, was disposed of in December through a traditional sale. These disposals of non-performing loans bring the Group's NPL ratio (ratio of gross non-performing loans/gross loans) below 7%. Following the significant reduction carried out during the current year, in line with the policy of lowering the NPL ratio, a series of actions that will enable a further improvement in the NPL ratio already achieved have been established.
In particular, considering the limited volumes of past due/overdue positions, the Group's attention is focused 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 about 80% of the flows, 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 the containment of non-performing loans, a distinction between the "going" and "gone concern" approach

was considered for unlikely to pay loans, thereby allowing for the assessment of single-name assignments for those loans managed with a view to liquidation or total repayment ("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 case the debtor faces financial difficulties, 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 deemed appropriate, the 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

A.CREDIT QUALITY

A.1 Non-performing and performing loans: amounts, adjustments, trends and economic distribution

A.1.1 Regulatory consolidation - Distribution of financial assets by past due bands (book values)

		First stage			Second stage			Third stage		
		From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days
1. Financial assets measured at amortised cost		51,004	3,194	32,733	60,928	45,697	13,451	17,095	34,035	249,493
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-
Total	**31.12.2018**	**51,004**	**3,194**	**32,733**	**60,928**	**45,697**	**13,451**	**17,095**	**34,035**	**249,493**
Total	**31.12.2017**	-	-	-	-	-	-	-	-	-

A.1.2 Regulatory consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and provisions (Part 1)

Description/stages of risk	Total write-downs							
	Assets included in the first stage				Assets included in the second stage			
	Financial assets measured at amortised cost	Financial assets designated at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets designated at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs
Opening balance	**(25,138)**	**(1,019)**	**-**	**(26,157)**	**(30,849)**	**(53)**	**-**	**(30,902)**
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-
Cancellations other than write-offs	-	-	-	-	-	-	-	-
Net adjustments/write-backs for credit risk (+/-)	(3,514)	(113)	-	(3,627)	4,490	-	-	4,490
Contractual changes without write-offs	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
Other changes	(560)	670	-	110	(50)	53	-	3
Closing balance	**(29,212)**	**(462)**	**-**	**(29,674)**	**(26,409)**	**-**	**-**	**(26,409)**
Recoveries of financial assets subject to write-off	-	-	-	-	-	-	-	-
Write-offs booked directly to the income statement	-	-	-	-	-	-	-	-

A.1.2 Regulatory consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and provisions (Part 2)

Description/stages of risk	Total write-downs					Total provisions on commitments to disburse funds and financial guarantees given			Total
	Assets included in the third stage				of which: impaired financial assets acquired or originated				
	Financial assets measured at amortised cost	Financial assets designated at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs		First stage	Second stage	Third stage	
Opening balance	**(869,539)**	**-**	**(869,539)**	**-**	**(4)**	**(390)**	**(248)**	**(1,326)**	**(928,562)**
Increases in financial assets acquired or originated	(1,225)	-	(1,225)	-	-	-	-	-	(1,225)
Cancellations other than write-offs	-	-	-	-	-	-	-	-	-
Net adjustments/write-backs for credit risk (+/-)	(74,618)	-	(74,618)	-	(3,815)	31	(733)	289	(74,168)
Contractual changes without write-offs	-	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-	-
Write-offs	650,601	-	650,601	-	-	-	-	-	650,601
Other changes	1,179	-	1,179	-	-	-	-	-	1,292
Closing balance	**(293,602)**	**-**	**(293,602)**	**-**	**(3,819)**	**(359)**	**(981)**	**(1,037)**	**(352,062)**
Recoveries of financial assets subject to write-off	1,830	-	-	-	-	-	-	-	1,830
Write-offs booked directly to the income statement	-	-	-	-	-	-	-	-	-

The "opening balance" reflects all of the adjustments at 1 January 2018 after FTA of IFRS 9 "Financial instruments".

A.1.3 Regulatory Consolidation - Financial assets, commitments to disburse funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portfolios/Stages of risk	Gross exposure/nominal value					
	Transfers between first and second stage		Transfers between second and third stage		Transfers between first and third stage	
	From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
1. Financial assets measured at amortised cost	319,058	426,534	84,811	21,153	80,495	4,409
2. Financial assets designated at fair value through other comprehensive income	-	49	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	10,187	7,761	876	1,353	2,608	440
Total 31.12.2018	**329,245**	**434,344**	**85,687**	**-**	**83,103**	**4,849**
Total 31.12.2017	**-**	**-**	**-**	**-**	**-**	**-**

The transfers between stages shown in the table have as their starting point the distribution of financial assets in the three stages of risk as of 1 January 2019, after FTA of IFRS 9 "Financial instruments". Note that comparing the situation at the beginning and end of the year does not take account of any transfers between stages that took place during the period.

A.1.4 Regulatory consolidation – 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	561,268	1,294	559,974	-
- of which: exposures subject to forbearance	X	-	-	-	-
TOTAL A	**-**	**561,268**	**1,294**	**559,974**	**-**
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing	-	X	-	-	-
b) Performing	X	23,399	21	23,378	-
TOTAL B	**-**	**23,399**	**21**	**23,378**	**-**
TOTAL A+B	**-**	**584,667**	**1,315**	**583,352**	**-**

"Cash exposure" includes all on-balance sheet financial assets due from banks, regardless of the portfolio they are allocated to for accounting purposes (valued at fair value through profit or loss, valued at fair value through other comprehensive income, valued at amortised cost).

"Off-balance sheet exposures" include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transaction (trading, hedging, etc.).

A.1.5 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	277,384	X	154,933	122,451	24,070
- of which: exposures subject to forbearance	31,994	X	16,034	15,960	-
b) Unlikely to pay	383,228	X	108,448	274,780	-
- of which: exposures subject to forbearance	191,021	X	46,542	144,479	-
c) Past due non-performing loans	4,763	X	622	4,141	-
- of which: exposures subject to forbearance	1,277	X	168	1,109	-
d) Past due performing loans	X	211,350	4,343	207,007	-
- of which: exposures subject to forbearance	X	25,595	1,478	24,117	-
e) Other performing exposures	X	11,751,336	49,965	11,701,371	-
- of which: exposures subject to forbearance	X	106,727	3,760	102,967	-
TOTAL A	**665,375**	**11,962,686**	**318,311**	**12,309,750**	**24,070**
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing	53,402	X	1,037	52,365	-
b) Performing	X	3,117,359	1,322	3,116,037	-
TOTAL B	**53,402**	**3,117,359**	**2,359**	**3,168,402**	**-**
TOTAL A+B	**718,777**	**15,080,045**	**320,670**	**15,478,152**	**24,070**

"Cash exposures" include all on-balance sheet financial assets due from customers, regardless of the portfolio they are allocated to for accounting purposes (valued at fair value through profit or loss, valued at fair value through other comprehensive income or valued at amortised cost). "Off-balance sheet exposures" include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transaction (trading, hedging, etc.).
The gross exposure and the related specific adjustments of non-performing loans acquired through the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) are shown net of differences between the nominal value and the purchase price of such loans at 31 December 2018; details are provided below:

a) Doubtful loans: 23,741 thousand euros;
b) Unlikely to pay: 5,856 thousand euros.

A.1.6 Regulatory consolidation – On-balance sheet credit exposures to banks: changes in gross non-performing loans

There are no such credit exposures at the reporting date.

A.1.6 bis Regulatory consolidation – On-balance sheet credit exposures to customers: changes in exposures subject to forbearance broken down by credit quality

There are no such credit exposures at the reporting date.

A.1.7 Regulatory consolidation – On-balance sheet credit exposures to customers: changes in gross non-performing loans

Description/Categories	Doubtful loans	Unlikely to pay loans	Past due non-performing loans
A. Opening gross exposure	**1,010,826**	**442,593**	**9,641**
- of which: exposure sold but not derecognised	-	1,561	162
B. Increases	**148,179**	**200,501**	**41,982**
B.1 transfers from performing loans	1,173	131,912	39,452
B.2 transfers from impaired financial assets acquired or originated	80	650	14
B.3 transfers from other categories of doubtful exposures	131,607	19,475	76
B.4 contractual changes without write-offs	-	-	-
B.5 other increases	15,319	48,464	2,440
C. Decreases	**881,621**	**259,866**	**46,860**
C.1 transfers to performing loans	176	30,584	22,276
C.2 write-off	13,855	21	-
C.3 collections	50,739	95,169	4,950
C.4 proceeds from disposal	294,377	144	-
C.5 losses on disposal	519,520	1,019	-
C.6 transfers to other categories of doubtful exposures	36	131,489	19,633
C.7 contractual changes without write-offs	-	-	-
C.8 other decreases	2,918	1,440	1
D. Closing gross exposure	**277,384**	**383,228**	**4,763**
- of which: exposure sold but not derecognised	-	4,846	-

A.1.7bis Regulatory consolidation - On-balance sheet credit exposures to customers: changes in exposures subject to forbearance broken down by credit quality

Description/Categories	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. Opening gross exposure	**301,982**	**184,084**
- of which: exposure sold but not derecognised	501	2,826
B. Increases	**95,369**	**85,630**
B.1 transfers from performing positions not subject to forbearance	8,024	42,121
B.2 transfers from performing positions subject to forbearance	32,236	X
B.3 transfer from exposures subject to forbearance	X	19,491
B.4 other increases	55,109	24,018
C. Decreases	**173,059**	**137,392**
C.1 transfers to performing positions not subject to forbearance	X	64,117
C.2 transfers to performing positions subject to forbearance	19,491	X
C.3 transfers to exposures subject to forbearance on non-performing positions	X	32,236
C.4 write-off	50	-
C.5 collections	69,212	30,050
C.6 proceeds from disposal	52,526	6,269
C.7 losses on disposal	31,780	-
C.8 other decreases	-	4,720
D. Closing gross exposure	**224,292**	**132,322**
- of which: exposure sold but not derecognised	1,636	11,962

A.1.9 Regulatory consolidation – On-balance sheet credit exposures to customers: changes in total adjustments

Description/Categories	Doubtful loans		Unlikely to pay loans		Past due non-performing loans	
	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance
A. Total opening adjustments	**516,653**	**48,368**	**121,254**	**46,598**	**1,230**	**626**
- of which: exposure sold but not derecognised	-	-	66	14	12	5
B. Increases	**236,668**	**26,033**	**56,127**	**18,919**	**641**	**158**
B.1 write-downs of impaired assets acquired or originated	-	X	-	X	-	X
B.2 other write-downs	79,824	3,942	55,736	16,610	591	142
B.3 losses on disposal	29,950	1,978	-	-	-	-
B.4 transfers from other categories of non-performing exposures	47,755	4,024	391	215	50	3
B.5 contractual changes without write-offs	-	X	-	X	-	X
B.6 other increases	79,139	16,089	-	2,094	-	13
C. Decreases	**598,388**	**58,367**	**68,933**	**18,975**	**1,249**	**616**
C.1 measurement write-backs	11,668	954	13,596	8,539	556	301
C.2 write-backs on collection	17,362	232	7,575	665	251	21
C.3 gains on disposal	6,018	13	-	-	-	-
C.4 write-off	13,855	664	22	-	-	-
C.5 transfers to other categories of non-performing exposures	14	-	47,740	9,175	442	215
C.6 contractual changes without write-offs	-	X	-	X	-	X
C.7 other decreases	549,471	56,504	-	596	-	79
D. Total closing adjustments	**154,933**	**16,034**	**108,448**	**46,542**	**622**	**168**
- of which: exposure sold but not derecognised	-	-	720	219	-	-

Caption "A. Total opening adjustments" includes the adjustments as of 31 December 2017, prior to FTA of IFRS 9 "Financial instruments"; the effects of FTA are therefore included in the movements during the period.

A.2 Classification of exposures on the basis of external rating

A.2.1 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	**4,121**	**627,919**	**3,354,811**	**598,477**	**81,079**	**29,002**	**8,275,648**	**12,971,057**
- First stage	4,121	613,518	3,297,884	517,953	57,975	11,759	6,710,431	11,213,641
- Second stage	-	14,401	54,798	71,020	19,377	16,230	886,618	1,062,444
- Third stage	-	-	2,129	9,504	3,727	1,013	678,599	694,972
B. Financial assets designated at fair value through other comprehensive income	**2,542**	**-**	**171,643**	**-**	**-**	**-**	**69,849**	**244,034**
- First stage	2,542	-	171,643	-	-	-	69,849	244,034
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total financial assets	**6,663**	**627,919**	**3,526,454**	**598,477**	**81,079**	**29,002**	**8,345,497**	**13,215,091**
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	16,040	16,040
C. Commitments to disburse funds and financial guarantees issued								
- First stage	1,738	384,194	434,914	139,316	9,153	1,349	2,242,696	3,213,360
- Second stage	-	159	13,129	2,448	395	1,135	45,153	62,419
- Third stage	-	-	1,600	1,602	60	1,500	48,432	53,194
Total commitments to disburse funds and financial guarantees issued	**1,738**	**384,353**	**449,643**	**143,366**	**9,608**	**3,984**	**2,336,281**	**3,328,973**
Total (A+ B + C)	**8,401**	**1,012,272**	**3,976,097**	**741,843**	**90,687**	**32,986**	**10,681,778**	**16,544,064**

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 or less

A.2.2 Banking Group – Distribution of cash and "off-balance sheet" exposures by internal rating class

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 retail customers (individual consumers) and corporate customers (Small Businesses, Small and Medium-sized Enterprises, Large Corporate, Real Estate, Financial and Institutional).

The following table shows performing loans belonging to the above categories with the proportion of each rating class to the overall exposure.

Exposures at 31.12.2018	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
Cash exposures	65.19%	27.82%	5.55%	1.44%	100%
Off-balance sheet exposures	83.56%	14.55%	0.93%	0.95%	100%

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Banking Group – Guaranteed credit exposures to banks

There are no such contractual arrangements at the reporting date.

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

			Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Property - Mortgages	Property under finance leases	Securities	Other secured guarantees	CLN	Central counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	
1. Guaranteed on-balance sheet exposures:	6,667,718	6,440,727	4,037,603	170,294	235,096	129,199	-	-	-	-	-	470,598	138	101,895	1,240,921	6,385,744
1.1. totally guaranteed	6,268,132	6,052,963	4,033,504	170,294	203,595	117,542	-	-	-	-	-	251,892	96	78,341	1,196,884	6,052,148
- of which: non-performing	515,662	335,768	262,590	10,335	653	8,038	-	-	-	-	-	2,591	28	2,689	48,861	335,785
1.2. partially guaranteed	399,586	387,764	4,099	-	31,501	11,657	-	-	-	-	-	218,706	42	23,554	44,037	333,596
- of which: non-performing	20,297	10,696	294	-	1,047	216	-	-	-	-	-	1,999	-	2,457	2,274	8,287
2. Guaranteed off-balance sheet exposures:	182,440	181,897	9,054	-	23,263	31,000	-	-	-	-	-	-	665	934	105,267	170,183
2.1. totally guaranteed	153,770	153,274	9,054	-	16,533	26,040	-	-	-	-	-	-	-	568	100,679	152,874
- of which: non-performing	6,383	6,190	748	-	24	237	-	-	-	-	-	-	-	-	5,202	6,211
2.2. partially guaranteed	28,670	28,623	-	-	6,730	4,960	-	-	-	-	-	-	665	366	4,588	17,309
- of which: non-performing	78	63	-	-	-	5	-	-	-	-	-	-	-	-	41	46

B. DISTRIBUTION AND CONCENTRATION OF THE CREDIT EXPOSURES

B.1 Regulatory consolidation – Distribution by sector of on- and off-balance sheet credit exposures to customers

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	-	-	1,858	8,874	-	-	88,229	135,265	32,364	34,535
- of which: exposures subject to forbearance	-	-	-	2	-	-	11,684	12,498	4,276	3,534
A.2 Unlikely to pay	403	301	1,106	929	-	-	186,239	88,358	87,032	24,716
- of which: exposures subject to forbearance	-	-	474	420	-	-	98,569	34,636	45,436	11,486
A.3 Past due non-performing loans	-	-	10	2	-	-	1,901	285	2,230	335
- of which: exposures subject to forbearance	-	-	-	-	-	-	493	74	616	94
A.4 Performing loans	2,265,678	3,998	546,254	2,130	1,685	-	5,439,602	39,234	3,655,159	8,946
- of which: exposures subject to forbearance	-	-	3,152	225	-	-	79,732	4,592	44,200	421
Total A	**2,266,081**	**4,299**	**549,228**	**11,935**	**1,685**	**-**	**5,715,971**	**263,142**	**3,776,785**	**68,532**
B. Off-balance sheet exposures										
B.1 Non-performing loans	-	-	239	-	-	-	51,019	1,021	1,107	16
B.2 Performing loans	21,348	-	98,165	3	-	-	2,776,064	1,247	220,460	72
Total B	**21,348**	**-**	**98,404**	**3**	**-**	**-**	**2,827,083**	**2,268**	**221,567**	**88**
Total (A+B) 31.12.2018	**2,287,429**	**4,299**	**647,632**	**11,938**	**1,685**	**-**	**8,543,054**	**265,410**	**3,998,352**	**68,620**
Total (A+B) 31.12.2017	**1,833,666**	**345**	**222,705**	**6,399**	**3,896**	**4**	**6,775,143**	**691,149**	**3,398,054**	**137,350**

B.2 Regulatory consolidation – Territorial distribution of on- and off-balance sheet credit exposures to customers

Exposures/Geographical areas		Italy		Other European countries		America		Asia		Rest of the world	
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures											
A.1 Doubtful loans		122,411	178,614	40	60	-	-	-	-	-	-
A.2 Unlikely to pay		274,164	114,268	616	36	-	-	-	-	-	-
A.3 Past due non-performing loans		4,140	621	-	-	-	-	1	-	-	1
A.4 Performing loans		11,728,988	54,078	133,001	186	45,857	42	394	1	138	1
Total A		**12,129,703**	**347,581**	**133,657**	**282**	**45,857**	**42**	**395**	**1**	**138**	**2**
B. Off-balance sheet exposures											
B.1 Non-performing loans		52,365	1,037	-	-	-	-	-	-	-	-
B.2 Performing loans		3,111,980	1,322	3,652	-	404	-	-	-	1	-
TOTAL B		**3,164,345**	**2,359**	**3,652**	**-**	**404**	**-**	**-**	**-**	**1**	**-**
TOTAL (A+B)	**31.12.2018**	**15,294,048**	**349,940**	**137,309**	**282**	**46,261**	**42**	**395**	**1**	**139**	**2**
TOTAL (A+B)	**31.12.2017**	**11,847,861**	**834,950**	**331,032**	**249**	**54,140**	**6**	**431**	**1**	**-**	**41**

B.3 Regulatory consolidation – Territorial distribution of on- and off-balance sheet credit exposures to banks

Exposures/Geographical areas		Italy		Other European countries		America		Asia		Rest of the world	
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures											
A.1 Doubtful loans		-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-	-	-	-	-	-
A.4 Performing loans		453,002	1,178	102,206	111	813	2	683	1	3,270	2
Total A		**453,002**	**1,178**	**102,206**	**111**	**813**	**2**	**683**	**1**	**3,270**	**2**
B. Off-balance sheet exposures											
B.1 Non-performing loans		-	-	-	-	-	-	-	-	-	-
B.2 Performing loans		13,445	2	6,733	19	-	-	2,700	-	500	-
TOTAL B		**13,445**	**2**	**6,733**	**19**	**-**	**-**	**2,700**	**-**	**500**	**-**
TOTAL (A+B)	**31.12.2018**	**466,447**	**1,180**	**108,939**	**130**	**813**	**2**	**3,383**	**1**	**3,770**	**2**
TOTAL (A+B)	**31.12.2017**	**1,365,293**	**-**	**85,709**	**-**	**2,829**	**-**	**2,096**	**-**	**5,555**	**-**

B.4 Large exposures

With reference to current supervisory regulations, the situation at 31 December 2018 is reported below:

Description	*Nominal amount*	*Weighted amount*	*Number of positions*
Large exposures	3,074,860	344,594	4

The four positions indicated relate to exposures to the Bank of Italy, the Treasury Ministry, the Guarantee Fund as per Law 662 of 23.12.1996 and the SPV Two Worlds S.r.l.

C.SECURISATION TRANSACTIONS

Qualitative information

In execution of its capital management strategy, a securitisation has been carried out that makes use of the Italian State guarantee on the senior securities issued following a securitisation of doubtful loans pursuant to Decree Law 18/2016 ("GACS") aimed at deconsolidating Banco Desio Group loans for a gross value of 1.0 billion euros (the "Transaction").

The Transaction was structured in order to carry out the significant transfer of the credit risk associated with the securitised loans ("SRT") pursuant to art. 243 et seq. of Regulation (EU) no. 575/2013; the NPL portfolio sold on 12 June to "2Worlds s.r.l." (the special purpose vehicle or "SPV" set up specifically for this purpose) consists of mortgage or unsecured loan contracts granted by Banco di Desio e della Brianza and by Banca Popolare di Spoleto in favour of secured customers, i.e. with relationships guaranteed by mortgages, and unsecured customers, i.e. with relationships that do not have any collateral.

On 25 June, the SPV issued the following types of asset-backed securities (ABS):

- senior securities for 288.5 million euros, corresponding to 28.8% of the Gross Book Value (GBV) at the date of identification of the loans at 31 December 2017, to which DBRS Ratings Ltd and Scope Ratings GmbH have given "BBB low" and "BBB" ratings respectively;
- mezzanine securities for 30.2 million euros to which DBRS Ratings Ltd and Scope Ratings GmbH have given "B low" and "B" ratings respectively;
- junior securities for 9.0 million euros, with no rating.

At the date of issue all of these securities (senior, mezzanine and junior) were subscribed by the Banco Desio Group, which on 4 July 2018 then submitted a request to obtain the guarantee on the securitisation of non-performing loans pursuant to Decree Law 18/2016 ("GACS").

At the end of a competitive process that saw the participation of several international institutional investors, on 11 July, the Banco Desio Group accepted the final binding agreement for the sale of 95% of the mezzanine and junior securities, which was finalised on 23 July 2018 by settling the transaction, which in turn permitted deconsolidation (or "derecognition") of the NPLs concerned.

On 3 October 2018, the Banco Desio Group received a formal communication that the Minister of Economy and Finance, with the provision of 5 September, had granted the State guarantee on senior securities issued by the SPV with effect from the date of adoption of this provision, as the conditions laid down in Decree Law 18/2016 had already been fulfilled.

Quantitative information

C.1 Regulatory consolidation - Exposures arising from principal "own" securitisations, broken down by type of securitised asset and by type of exposure

TYPE OF SECURITISED ASSETS/EXPOSURES	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
A. Fully derecognised	290,343	557	851		1	
- *financial assets measured at amortised cost*	*290,343*	*557*				
B. Partially derecognised						
C. Not derecognised						

The exposure shown in the financial statements represents:

- the value of the senior security at amortised cost (including upfront costs incurred and accrued interest accrued and net of the expected credit loss - ECL);
- the fair value of mezzanine and junior securities held, recorded under financial assets that are mandatorily at fair value.

D. ASSET DISPOSALS

D.4. Regulatory consolidation - Covered bonds

This section includes covered bond transactions in which the transferring bank and the financing bank coincide.

2017 saw the launch of the "Covered Bond - Desio OBG" programme, designed to achieve benefits in terms of funding (diversification of deposits, lower funding cost and funding sources with longer maturities). The Programme, which is multi-seller in nature, involves:

- Banco di Desio e della Brianza (Parent Company) in the role of (1) originator bank, (2) lending bank, and (3) bank issuing the covered bonds;
- Banca Popolare di Spoleto, in the role of (1) originator bank and (2) lending bank;
- Desio OBG S.r.l. (Vehicle or SPV), as a special purpose vehicle for the sale of eligible assets by BDB and BPS, 60% owned by the Parent Company;
- BNP Paribas, as the counterparty in the swap taken out to hedge the potential risk generated by the mismatch between the fixed rate on the covered bond and the mix of rates on the portfolio.

More specifically, the "Covered Bond - Desio OBG" programme initially envisaged:

1. the non-revolving sale without recourse of a residential mortgage loan portfolio made up 70.1% by mortgages of the Parent Company and 29.9% by loans of BPS;
2. simultaneous disbursement of a subordinated loan to the SPV by BDB and BPS, pro-quota for their share of the loan portfolio transferred;
3. issuance by BDB of covered bonds for 500 million euros with a maturity of 7 years (first issue on 5 September 2017), subsequently integrated on 31 October 2017, bringing the total issue of covered bonds to 575 million euros.
4. disbursement by the Parent Company to BPS of a loan of 171.9 million euros, in proportion to its participation in the Programme, at the same terms as those obtained by issuing the covered bonds.
5. a liability swap on the covered bonds issued taken out by the SPV for a notional amount of 300 million euros with a counterparty external to the Group (BNP Paribas);

6. a back-swap taken out by BDB for the same notional amount of 300 million euros with the same counterparty, as a mirror-image of the previous one;
7. another back-swap taken out by BDB for a notional amount of 89.7 million euros (or 29.9% of the notional value of the previous derivatives) with BPS as counterparty, as a mirror-image of the previous one.

On 7 November 2018, a further 1,441 mortgages were securitised for Banco Desio at a price of 165.1 million euros, while for Banca Popolare di Spoleto another 2,659 were securitised at a price of 248.6 million euros.

The main characteristics of the transaction are summarised below:

a) *SPV name:* Desio OBG S.r.l.
b) *Type of underlying loans:* Residential mortgage loans;
c) *Value of the loans sold:* total of 1,245 million euros, of which 747.6 million euros sold by Banco Desio and 497.4 million euros by the subsidiary Banca Popolare di Spoleto;
d) *Amount of subordinated loan:* 1,245 million euros, of which 747.6 million euros disbursed by the Parent Company and 497.4 million euros by Banca Popolare di Spoleto;
e) *Nominal value of the covered bonds issued:* 575 million euros;
f) *Interest rate on covered bonds issued:* fixed rate of 0.875%.

At 31 December 2018, the loan portfolio sold by the Bank has a book value of about 1,097.6 million euros.

E. Regulatory consolidation - Credit risk measurement models

Group companies do not use internal portfolio models to measure exposure to credit risk at the reporting date.

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 Italian Group companies, as the assets held by the other companies are not significant.

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 of the Parent Company issued specific rules on controls to all companies in the Banking Group.

Trading by the Parent Company's Finance Department is undertaken only for the Italian Group banks and 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 Parent Company's 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 the Monte Carlo simulation technique, which 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, after appropriate assumptions and correlations. 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

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Euro

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
A. Cash assets	**-**	**2**	**-**	**1**	**1**	**-**	**1,519**	**-**
1.1 Debt securities	-	2	-	1	1	-	1,519	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	2	-	1	1	-	1,519	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	41	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	41	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	3	-	-	-
+ Short positions	-	-	-	-	3	-	-	-
- Other								
+ Long positions	-	484,600	6,721	1,662	1,416	1,279	-	-
+ Short positions	692	476,693	7,413	1,855	2,818	2,349	4,070	-

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
A. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	481,910	6,748	1,695	1,310	-	-	-
+ Short positions	-	481,585	6,749	1,695	1,310	-	-	-

2. Regulatory trading book: distribution of exposures concerning equities and equity indices by the main countries where they are listed

Type of operation/equity index	Listed			Unlisted
	Italy	United States	Other	
A. Equity instruments	**1,793**		**414**	
long positions	1,793		414	
short positions				
B. Unsettled transactions in equity securities				
long positions				
short positions				
C. Other equity security derivatives	**40**		**1**	
long positions	40		1	
short positions				
D. Equity index derivatives				
long positions				
short positions				

3. 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. Related VaR at 31.12.2018 amounted to 35 thousand euros, with a percentage of 1.60% 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 Parent Company's risk management function. This activity is carried out for the Group's banks, which cover almost the entire 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 ERMAS3.

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

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Euro

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**1,613,565**	**5,934,468**	**1,008,980**	**512,776**	**2,348,157**	**864,433**	**498,106**	**3,671**
1.1 Debt securities	-	754,409	674,192	227,408	1,185,207	116,565	10,242	-
- with early redemption option	-	312,457	-	-	7,554	2,494	-	-
- other	-	441,952	674,192	227,408	1,177,653	114,071	10,242	-
1.2 Loans to banks	167,226	76,194	-	-	-	-	665	-
1.3 Loans to customers	1,446,340	5,103,866	334,788	285,368	1,162,950	747,868	487,198	3,671
- current accounts	963,123	584,452	2,646	4,635	34,004	616	-	-
- other loans	483,217	4,519,414	332,142	280,732	1,128,945	747,251	487,198	3,671
- with early redemption option	91,864	3,870,451	249,995	229,380	763,418	479,414	486,787	-
- other	391,353	648,962	82,147	51,353	365,528	267,838	411	3,671
2. Cash liabilities	**7,293,415**	**1,631,908**	**335,832**	**311,177**	**2,037,352**	**585,431**	**9,038**	**-**
2.1 Due to customers	7,244,967	1,300,401	243,585	190,796	138,913	9,530	9,038	-
- current accounts	7,103,086	761,865	-	-	0	-	-	-
- other payables	141,882	538,536	243,585	190,796	138,913	9,530	9,038	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	141,882	538,536	243,585	190,796	138,913	9,530	9,038	-
2.2 Due to banks	34,457	-	-	-	1,586,367	-	-	-
- current accounts	15,749	-	-	-	-	-	-	-
- other payables	18,708	-	-	-	1,586,367	-	-	-
2.3 Debt securities	13,991	331,507	92,247	120,380	312,072	575,901	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	13,991	331,507	92,247	120,380	312,072	575,901	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	65	365	14	-	-	-	-
+ Short positions	-	444	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	17,481	17,850	26,871	135,459	70,472	40,730	-
+ Short positions	-	275,390	2,802	0	13,395	17,275	-	-
- Other								
+ Long positions	-	137,899	-	-	-	-	-	-
+ Short positions	-	93	95	194	131,289	1,739	4,488	-
4. Other off-balance sheet transactions								
+ Long positions	67,754	292	296	608	5,669	8,288	-	-
+ Short positions	82,908	-	-	-	-	-	-	-

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Other currencies

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**8,959**	**70,765**	**1,187**	**-**	**2,542**	**1**	**-**	**-**
1.1 Debt securities	-	-	-	-	2,542	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	2,542	-	-	-
1.2 Loans to banks	7,198	34,037	-	-	-	-	-	-
1.3 Loans to customers	1,761	36,728	1,187	-	-	1	-	-
- current accounts	473	-	-	-	-	-	-	-
- other loans	1,288	36,728	1,187	-	-	1	-	-
- with early redemption option	1,288	4,942	406	-	-	1	-	-
- other	-	31,786	781	-	-	-	-	-
2. Cash liabilities	**75,389**	**1,567**	**2,454**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	75,389	1,567	2,454	-	-	-	-	-
- current accounts	75,389	1,567	2,454	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	-	3,417	-	-	-	-	-	-
+ Short positions	-	3,417	-	-	-	-	-	-

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 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 results of the impact on the interest margin - from a static perspective and in the absence of behavioural models for demand items - of the analyses carried out at 31 December 2018, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 31.12.2018

	+100 bps	-100 bps
% of the expected margin	9.15%	-25.21%
% of net interest and other banking income	5.32%	-14.67%
% of the result of the year	36.15%	-99.59%
% of shareholders' equity	1.47%	-4.04%

In terms of economic value, the effect of the change, estimated with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, shows a risk exposure at 31 December 2018 that has been maintained at levels that do not have a significant impact 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 31.12.2018.

	+100 bps	-100 bps
% of the economic value	13.41%	9.68%

1.2.3. Exchange 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. As regards only the Italian banks, forex operations are managed by the Parent Company's 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

1. Distribution by currency of denomination of assets, liabilities and derivatives

Captions	Currencies					
	Us Dollar	Pound Sterling	Swiss Franc	Canadian Dollar	Japanese Yen	OTHER CURRENCIES
A. Financial assets	**89,909**	**7,201**	**4,336**	**221**	**3,480**	**6,089**
A.1 Debt securities	-	-	-	0	0	2,542
A.2 Equity instruments	10	0	0	0	0	178
A.3 Loans to banks	56,529	5,663	3,005	221	113	3,300
A.4 Loans to customers	33,370	1,538	1,331	0	3,367	69
A.5 Other financial assets	0	0	0	0	0	0
B. Other assets	**352**	**334**	**78**	**39**	**107**	**153**
C. Financial liabilities	**92,330**	**6,902**	**4,237**	**221**	**98**	**3,245**
C.1 Due to banks	25,094	1,732	497	0	0	299
C.2 Due to customers	67,236	5,170	3,740	221	98	2,946
C.3 Debt securities	0	0	0	0	0	0
C.4 Other financial liabilities	0	0	0	0	0	0
D. Other liabilities	**1,511**	**301**	**95**	**0**	**0**	**1**
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other						
+ Long positions	436,367	29,764	2,809	13	30,031	2,930
+ Short positions	432,667	29,810	2,837	13	33,053	2,942
Total assets	**526,628**	**37,299**	**7,223**	**273**	**33,618**	**9,172**
Total liabilities	**526,508**	**37,013**	**7,169**	**234**	**33,151**	**6,188**
Net balance (+/-)	**120**	**286**	**54**	**39**	**467**	**2,984**

2. Internal models and other methodologies for 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 using financial derivatives.

1.3 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

1.3.1 Trading derivatives

A. Financial derivatives

A.1 Financial trading derivatives: period-end notional values

Underlying assets/Type of derivatives	Total 31/12/2018				Total 31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With compensation arrangements	Without compensation arrangements			With compensation arrangements	Without compensation arrangements	
1. Debt securities and interest rates	-	-	10,954	-	-	-	19,246	-
a) Options	-	-	1,180	-	-	-	1,469	-
b) Swap	-	-	9,774	-	-	-	17,777	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	41	-	-	-	181	-
a) Options	-	-	41	-	-	-	181	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	973,037	-	-	-	812,970	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	973,037	-	-	-	812,970	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**984,032**	**-**	**-**	**-**	**832,397**	**-**

A.2 Financial trading derivatives: positive and negative gross fair value - breakdown by product

Type of derivatives	31/12/2018				31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counter parties	Without central counterparties			Central counterparties	Without central counterparties		
		With compensation arrangements	Without compensation arrangements			With compensation arrangements	Without compensation arrangements	
1. Positive fair value								
a) Options	-	-	41	-	-	-	181	-
b) Interest rate swaps	-	-	1,438	-	-	-	5,613	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	2,978	-	-	-	4,545	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**4,457**	**-**	**-**	**-**	**10,339**	**-**
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	3,221	-	-	-	3,450	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	2,825	-	-	-	4,526	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**6,046**	**-**	**-**	**-**	**7,976**	**-**

A.3 OTC financial trading derivatives – notional values, positive and negative gross fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of compensation arrangements				
1) Debt securities and interest rates				
- notional value	X	10,810	-	144
- positive fair value	X	1,431	-	7
- negative fair value	X	3,221	-	-
2) Equities and equity indices				
- notional value	X	-	11	30
- positive fair value	X	-	11	30
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	415,803	180,903	376,331
- positive fair value	X	1,346	671	961
- negative fair value	X	1,153	-	1,672
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of compensation arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying/Residual life		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives linked to debt securities and interest rates		385	2,871	7,698	10,954
A.2 Financial derivatives linked to equities and stock indices		-	41	-	41
A.3 Financial derivatives linked to currencies and gold		970,417	2,620	-	973,037
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	**31/12/2018**	**970,802**	**5,532**	**7,698**	**984,032**
Total	**31/12/2017**	**820,969**	**2,206**	**9,222**	**832,397**

1.3.2 Accounting hedges

Qualitative information

A.Fair value hedges

As part of an active and prudent management of the risks associated with operations, the Group uses fair value hedges and solely on behalf of the Italian banks in the Group, in order to protect the income statement from risks arising from adverse changes in fair value; the objective of a hedge is to offset any changes in the fair value of the hedged instrument with changes in the fair value of the hedging instrument.

To date, hedged instruments relate to assets (fixed rate mortgage loans granted). As regards assets, various types of hedges represented by Group micro and macro hedges have been implemented.

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.

D.Hedging instruments

For hedging, we use derivatives represented by unlisted securities - interest rate swaps - but only to hedge interest rate risk.

E.Hedged items

As mentioned previously, hedged instruments relate to both assets (fixed-rate mortgage loans granted) and liabilities (bonds issued) through specific micro-hedges.

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 by the Parent Company for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

Quantitative information

A. Hedging financial derivatives

A.1 Hedging financial derivatives: period-end notional values

Underlying assets/Type of derivatives	Total 31/12/2018				Total 31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With compensation arrangements	Without compensation arrangements			With compensation arrangements	Without compensation arrangements	
1. Debt securities and interest rates	-	-	143,498	-	-	-	144,715	-
a) Options	-	-	5,599	-	-	-	6,455	-
b) Swap	-	-	137,899	-	-	-	138,260	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**143,498**	**-**	**-**	**-**	**144,715**	**-**

A.2 Hedging financial derivatives: positive and negative gross fair value - breakdown by product

Type of derivatives	Positive and negative fair value								Change in the value used to calculate the effectiveness of the hedge	
	Total 31/12/2018				Total 31/12/2017				Total 31/12/18	Total 31/12/17
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central counterparties	Without central counterparties: With compensation arrangements	Without central counterparties: Without compensation arrangements		Central counterparties	Without central counterparties: With compensation arrangements	Without central counterparties: Without compensation arrangements			
Positive fair value										
a) Options	-	-	1	-	-	-	5	-	1	5
b) Interest rate swaps	-	-	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**1**	**-**	**-**	**-**	**5**	**-**	**1**	**5**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	5,175	-	-	-	4,724	-	5,175	4,724
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**5,175**	**-**	**-**	**-**	**4,724**	**-**	**5,175**	**4,724**

A.3 OTC hedging financial derivatives - notional values, positive and negative gross fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of compensation arrangements				
1) Debt securities and interest rates				
- notional value	X	143,498	-	-
- positive fair value	X	1	-	-
- negative fair value	X	5,175	-	-
2) Equities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of compensation arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying/Residual life		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives linked to debt securities and interest rates		382	131,289	11,827	143,498
A.2 Financial derivatives linked to equities and stock indices		-	-	-	-
A.3 Financial derivatives linked to currencies and gold		-	-	-	-
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	**31/12/2018**	**382**	**131,289**	**11,827**	**143,498**
Total	**31/12/2017**	**361**	**131,381**	**12,973**	**144,715**

1.3.3 Other information on trading and hedging instruments

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other parties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	154,308	-	144
- net positive fair value	-	1,433	-	7
- net negative fair value	-	8,396	-	-
2) Equities and equity indices				
- notional value	-	-	11	30
- net positive fair value	-	-	11	30
- net negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	415,803	180,903	376,331
- net positive fair value	-	1,346	671	961
- net negative fair value	-	1,153	-	1,672
4) Commodities				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchase of protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
2) Sale of protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-

- net negative fair value	-	-	-	-

1.4. BANKING GROUP – LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Parent Company's 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 Parent Company's Risk Management function 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 ERMAS3 application: by developing all of the cash flows generated by operations, it allows us to evaluate and manage in the various 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) due to unpaid instalments;
- decrease in value of the owned securities portfolio;
- repurchase of Bonds issued by the Group;
- 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 of the Parent Company 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.

Quantitative information

1. Distribution of financial assets and liabilities by residual contractual duration

Euro

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**1,786,554**	**48,849**	**178,495**	**169,112**	**956,474**	**501,689**	**987,859**	**4,880,976**	**3,449,140**	**66,205**
A.1 Government securities	-	-	378	-	1,613	5,188	224,006	1,488,922	514,370	-
A.2 Other debt securities	19	1	-	490	3,789	585	8,946	355,000	364,762	-
A.3 Mutual funds	49,681	-	-	-	-	-	-	-	-	-
A.4 Loans	1,736,854	48,848	178,117	168,622	951,072	495,916	754,907	3,037,054	2,570,008	66,205
- Banks	167,575	-	-	-	10,021	-	-	-	667	66,205
- Customers	1,569,279	48,848	178,117	168,622	941,051	495,916	754,907	3,037,054	2,569,341	-
Cash liabilities	**8,068,961**	**33,904**	**36,954**	**140,026**	**448,721**	**282,540**	**422,755**	**2,224,438**	**596,128**	**-**
B.1 Deposits and current accounts	8,028,588	33,040	36,470	119,474	347,543	243,612	190,856	131,157	-	-
- Banks	20,521	-	-	-	-	-	-	-	-	-
- Customers	8,008,067	33,040	36,470	119,474	347,543	243,612	190,856	131,157	-	-
B.2 Debt securities	1,026	864	484	20,552	101,178	33,068	226,039	476,315	577,568	-
B.3 Other liabilities	39,347	-	-	-	-	5,860	5,860	1,616,966	18,560	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	2,906	1,075	128,445	344,031	6,941	1,676	1,272	-	-
- Short positions	-	3,568	1,078	128,393	343,956	6,568	1,725	1,312	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,439	-	-	-	-	-	-	-	-	-
- Short positions	3,221	-	-	87	235	319	630	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	12,578	-	500	597	325	3,796	1,443	16,014	47,653	-
- Short positions	82,907	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution of financial assets and liabilities by residual contractual duration

OTHER CURRENCIES

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**8,333**	**36,512**	**4,249**	**15,623**	**14,600**	**1,264**	**32**	**2,715**	**417**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	28	-	2,513	13	-
A.3 Mutual funds	10	-	-	-	-	-	-	-	-	-
A.4 Loans	8,323	36,512	4,249	15,623	14,600	1,236	32	202	404	-
- Banks	7,217	32,556	-	-	1,573	-	-	-	-	-
- Customers	1,106	3,956	4,249	15,623	13,027	1,236	32	202	404	-
Cash liabilities	**75,390**	**-**	**-**	**-**	**1,572**	**2,476**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	75,390	-	-	-	1,572	2,476	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	75,390	-	-	-	1,572	2,476	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	6,593	1,089	129,058	345,170	6,748	1,695	1,310	-	-
- Short positions	-	6,272	1,085	129,057	345,170	6,749	1,695	1,310	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	3,417	-	-	-	-	-	-	-	-
- Short positions	-	3,417	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5. 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 both for the Parent Company and for the subsidiaries Banca Popolare di Spoleto and Fides:

- Loss Data Collection – structured process for gathering data on operational losses arising within the Bank;
- 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 Parent Company's Risk Management function applied company regulations to structure an adequate monitoring and reporting system for operational 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 (DBPOA), 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 (Circular 285/2013, Part I, Title IV, chap. 4, 5), the Group adopted:

- Security Policy;
- Procedure for Accident Management;
- IT Risk Assessment methodology.

During the year, in a broader project to revise the strategic and organisational structure of the ICT system, the Group completely revised the IT Risk Assessment model and:

1. expanded the scope of the assets being measured
2. refined the measurement criteria;
3. identified monitoring indicators that will expand the current ICT Risk reporting set.

As regards the management of risks impacting business continuity, a Business continuity plan has been prepared: 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), a Business Continuity site was prepared and maintained in Bologna, as an alternative to that for normal business operations, to be used in the event of an emergency and for testing purposes.

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 and compound interest charges.

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, applying the current corporate policies. The following table summarises the disputes outstanding at the end of the year, together with related provisions:

	Number	Claim	Provisions
Claw-back suits	19	€ 12.130 million	€ 0.694 million
Other lawsuits	702	€ 82.228 million	€ 10.219 million

The principal disputes (claims in excess of 1 million euros) involving Banco di Desio e della Brianza are described below according to the age of the proceedings:

- Claim of 2.0 million euros. 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 1.103 million euros. 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 1,240,712 euros and the Bank has opposed the injunction, mainly because 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 1,219,537 million euros 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;

- Claim of 3.052 million euros. 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. Having asked the expert witness for clarification, the Judge ordered him to correct the inaccuracy in the calculation highlighted by the respondent and to review all of the figures, adjourning the case to 11 April 2019;
- Claim of 12.569 million euros. 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 12,569,843 euros. 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 principal disputes (claims in excess of 1 million euros) involving Banco Popolare di Spoleto are described below according to the age of the proceedings:

- Claim of 1.933 million euros. 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 60 thousand euros), 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 ruling in 2017, the Court of Terni rejected the request submitted by the Receivership and the appeal was served on 16 January 2018. At the first hearing before the Court of Appeal of Perugia, scheduled for 26 April 2018, the Court reserved the right to decide on whether the means of investigation were admissible;
- Claim of 4.7 million euros. The Receivership summoned Banca Popolare di Spoleto before the Court of Perugia for it to be ordered to refund 4.7 million euros. The Receiver assumes that the Bank permitted an abnormal transaction to be carried out by a person not entitled to do so on behalf of the company. The Bank is disputing the legitimacy of the Receiver, the total groundlessness of the claims, as well as the existence of a causal link between the conduct of the Bank and the bankruptcy of the company. During 2017 the expert appraisal was filed, stating that the Bank was not responsible. At the hearing on 17 May 2018 the case was assumed for a decision;
- Claim of 1.526 million euros. By writ notified in 2015, the counterparty summoned Banco di Desio e della Brianza and Banca Popolare di Spoleto 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 Bank has stated that it is not involved, given the contribution to Banca Popolare di Spoleto of the relationship concerned, as part of the special transaction that transferred the line of business consisting of 32 branches; Banca Popolare di Spoleto has objected to the merits of the application. At the hearing of 19 April 2018, the counterparty was formally interrogated. The Judge ordered an expert appraisal by a graphologist, scheduling the hearing for 7 March 2019 to make the appointment;
- Claim of 2.305 million euros. The receivership summoned Banca Popolare di Spoleto 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) 1.9 million euros as penalty for the corporate and accounting crimes perpetrated by

former officers and (b) 0.4 million euros 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 however did not refer to circumstances related to the Bank's activities. The next hearing is scheduled for 19 September 2019 to discuss the expert assessments;

- Claim of 7.310 million euros. With a writ notified in 2013, the Receivership summoned Banca Popolare di Spoleto 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 21 November 2018 for clarification of the conclusions without carrying out any investigation work. The case is being decided;
- Claim of 1.744 million euros. A customer company and the guarantors sued Banca Popolare di Spoleto before the Court of Spoleto in order to hear, ascertain and declare the application of usurious interest, asking the Court for payment by the Bank of 338 thousand euros for interest allegedly not due, in addition to 169 thousand euros by way of damages for the company and 730 thousand euros for each guarantor in compensation for damages for breach of the principles of fairness and good faith. This case appears to be unfounded, given the favourable jurisprudence regarding similar situations and the general nature of the application for damages. The Judge admitted the testimony of the court-appointed expert witness and the expert's contribution to the case is currently in progress. The next hearing is scheduled for 6 March 2019;
- Claim of 1.136 million euros. 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 Banca Popolare di Spoleto) and asked that they be convicted, jointly and severally among them and the cooperative, to pay the sum of 1.1 million euros as compensation for damages. Banca Popolare di Spoleto appealed by claiming its total lack of involvement in the claims made by the counterparty. The Judge has reserved judgement on the evidence.
- Claim of 1.0 million euros. In a preventive summons, the counterparty contends that the Bank, by exploiting its bargaining power, refused to grant a mortgage loan requested by the company in 2011 of 1 million euros 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. The Judge admitted the witness's evidence requested by the counterparty, as well as the Banca Popolare di Spoleto witness's testimony as counter-evidence, postponing completion of the test to 27 March 2019;

- Claim of 3.0 million euros. 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, given that by acting in this way it allowed the counterparty 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.

* * *

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 in charge of special administration of the subsidiary Banca Popolare di Spoleto had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager at the end of their mandate. 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 30 million euros, 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; at the hearing for discussion on 22 November 2018, he again reserved judgement on the preliminary investigations (including the expert witness).

Quantitative information

The number of detrimental events recorded by the Group at 31 December 2018 comes to 2,141. 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	0.05%	0.12%	0.12%	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	1.59%	7.33%	7.34%	0.00%
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	0.19%	2.64%	2.64%	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)	19.06%	52.70%	52.71%	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	0.61%	0.36%	0.36%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.37%	0.05%	0.05%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	78.14%	36.78%	36.77%	0.06%
TOTAL Banco Desio e della Brianza Group	**100.00%**	**100.00%**	**100.00%**	**0.02%**

Taking into account recoveries for 1 thousand euros, the operating loss comes to 4.539 million euros, for which prudent provisions were made during the year of 2.448 million euros.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY

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 assign a 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

B.1 Consolidated shareholders' equity: breakdown by business type

Captions	Banking Group	Insurance companies	Other businesses	Consolidation adjustments and eliminations	31.12.2018
Share capital	276,039				276,039
Share premium reserve	56,174				56,174
Reserves	501,179				501,179
- revenue reserves:	501,179				501,179
a) legal reserve	58,829				58,829
b) statutory reserve	292,820				292,820
c) reserve for treasury shares	160				160
d) other	149,370				149,370
- other					
Equity instruments					
(Treasury shares)	(160)				(160)
Valuation reserves:	44,926				44,926
- Equity instruments designated at fair value through other comprehensive income	25,366				
- Hedges on equity instruments designated at fair value through other comprehensive income					
- Financial assets (other than equities) designated at fair value through other comprehensive income	983				983
- Property, plant and equipment					
- Intangible assets					
- Foreign investment hedges					
- Cash-flow hedges	(1,298)				(1,298)
- Exchange differences					
- Non-current assets and disposal groups held for sale					
- Actuarial gains (losses) on defined-benefit pension plans	(3,021)				(3,021)
- Portion of valuation reserves relating to investments carried at equity	22,896				22,896
- Special revaluation laws					
Net profit (loss) of the year (+/-) pertaining to the Group and minority interests	35,538				35,538
Shareholders' equity	**913,696**				**913,696**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amounts	Banking Group		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	983								983	
2. Equity instruments	24,109	(85)							24,109	(85)
3. Loans										
Total 31.12.2018	**25,092**	**(85)**							**25,092**	**(85)**
Total 31.12.2017	**26,978**	**(7,663)**							**26,978**	**(7,663)**

B.3 Valuation reserves of financial assets designated at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Mutual funds	Loans
1. Opening balance	**(3,575)**	**24,105**	**(1,215)**	
2. Positive changes	**10,685**	**4**	**1,215**	
2.1 Fair value increases	676			
2.2 Write-downs for credit risk				
2.3 Reversal of negative reserves on disposal to profit or loss	1,758			
2.4 Transfers to other components of shareholders' equity (equity instruments)		4		
2.5 Other changes	8,251		1,215	
3. Negative changes	**(6,127)**	**(85)**		
3.1 Fair value decreases				
3.2 Write-backs for credit risk	(258)			
3.3 Reversal to income statement from positive reserve: from disposals	(3,316)			
2.4 Transfers to other components of shareholders' equity (equity instruments)				
3.4 Other changes	(2,253)	(85)		
4. Closing balance	**983**	**24,024**	**-**	

The changes in "Mutual funds" refer to the transfer to the revenue reserve of the "Valuation reserve" that existed on FTA of IFRS 9 on financial instruments included among the financial instruments mandatorily measured at fair value through profit or loss.

B.4 Valuation reserves related to defined-benefit pension plans: changes of the year

Valuation reserves related to defined-benefit pension plans generated a positive effect of 367 thousand euros (net of the related tax effect of 139 thousand euros) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.

SECTION 2 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS

2.1 Scope of application and regulations

As required by the 5th update of Circular 262 "Bank financial statements: schedules and rules for preparation", reference should be made to the contents of the public disclosure ("Third Pillar") provided by the Bank at consolidated level.

PART H - TRANSACTIONS WITH RELATED PARTIES

1 – INFORMATION ON THE REMUNERATION OF THE MANAGERS WITH STRATEGIC RESPONSIBILITIES

For information on the remuneration paid to directors and managers with strategic responsibilities, please refer to the "Report on the Group's Remuneration Policies" at 31 December 2018 prepared in accordance with art. 123-ter CFA.

2 – 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 2018. 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[3];

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 were no transactions worthy of note other than the approval, on 11 December 2018, by the respective Boards of Directors of the project for the absorption of Banca Popolare di Spoleto S.p.A. by Banco di Desio e della Brianza S.p.A. as detailed in the section on "Significant events" in the Report on Operations. A request was submitted to the Bank of Italy pursuant to articles 56 and 57 CBA on 13 December 2018 for this transaction and for the consequent change in the share capital of Banco Desio. Subject to obtaining the necessary authorisations and the adequacy report pursuant to art. 2501-sexies of the Italian Civil Code, the merger project will be submitted to the examination and approval of the Extraordinary Shareholders' Meetings of the two banks due to be called in the next few months.

* * *

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 31 December 2018 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

[3] With respect to the level of significance of the transactions with related parties, the Internal Procedure refers to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised at the date of adoption of the Procedure)

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 year.

I - Parent company

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado SapA at Banco Desio amounted to 119.5 million euros, of which 117.1 million euros, relating to the securities portfolio.

At the end of the year, a five-year unsecured "bullet" financing transaction 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. Note that the operation falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the offices held by certain officers referred to in the following paragraph "Transactions with Officers and parties related to them". We can confirm, also in this case in question, that this is a transaction falling within the ordinary lending activity, carried out at market conditions (within the scope of the list of conditions in force for related parties in accordance with a specific framework resolution).

A service agreement has also been stipulated 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 S.p.A. 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 belonging to the same banking group. 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".

II - Transactions with Officers and parties related to them

As for the granting of credit lines approved in 2018 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 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 40 positions existing at 31 December 2018 comes to some 9.4 million euros and the related utilisations amount in total to some 6.2 million euros.

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 31 December 2018 amounted to 125.8 million euros in amounts due to customers (including approximately 93 million euros in securities portfolios).

The above computation excludes transactions and balances with the parent company as per paragraphs 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 31.12.2018 (in €/million)
Lending transactions:	
Amount granted	9.4
Amount drawn down	6.2
Funding transactions:	
C/c and d/r amount (a)	32.8
Amount of securities portfolios (b)	93
Total (A+B)	125.8

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.

PART L – SEGMENT REPORTING

The Banco Desio Group operates by carrying on 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 make operating decisions about the allocation of resources, the Group's segment reporting takes account of the organisational and managerial structure described below.

The "banking" segment comprises the two network banks in the Group, Banco di Desio e della Brianza S.p.A. and Banca Popolare di Spoleto S.p.A. and the vehicle company Desio OBG S.r.l., set up for the guaranteed bank bond issue programme.

The "near-banking" segment comprises Fides S.p.A., a financial intermediary that is registered pursuant to art. 106 TUB.

The "consolidation adjustments" column includes the consolidation entries and the intercompany eliminations, except for the Purchase Price Allocation entries attributed to the "banking" segment to which they relate.

The total of the three columns described above is the amount reported in the consolidated financial statements of the Banco Desio Group.

Income statement	Banking	Parabanking	Consolidation adjustments	Total 31.12.2018
Margin of financial and insurance management[1]	414,372	16,813	17,064	414,121
Structural costs[2]	-308,355	-6,537	7,989	-306,903
Provisions and write-downs[3]	-63,882	47	0	-63,929
Profit (Loss) of equity investments valued at equity	0			
Profit (Loss) of equity on disposal of investments	0			
Profit (Loss) before tax from continuing operations	**42,135**	**10,229**	**(9,075)**	**43,289**

Income statement	Banking	Parabanking	Consolidation adjustments	Total 31.12.2018
Financial Assets	3,082,124	15	(709)	3,081,430
Loans and advances to banks[4]	790,948	2,922	(508,556)	285,314
Loans and advances to customers[4 5]	9,562,530	706,24	(652,07)	9,616,700
Non-current assets and assets classified as held for sale	-			
Deposits from banks	2,127,174	652,071	(1,158,421)	1,620,824
Deposits from customers	9,253,258	3,678	(2,345)	9,254,591
Debt securities in issue	1,426.659		(446)	1,426,213
Indirect, administered and managed deposits	**14,118,658**		**(25,947)**	**14,092,711**

Income statement	Banking	Parabanking	Consolidation adjustments	Total 31.12.2018
Margin of financial and insurance management[1]	461,234	17,057	(14,396)	463,895
Structural costs[2]	(14,013)	(6,147)	6,909	(313,251)
Provisions and write-downs[3]	(85,518)	(572)		(86,09)
Profit (Loss) of equity investments valued at equity				
Profit (Loss) of equity on disposal of investments	41			41
Profit (Loss) before tax from continuing operations	**61,744**	**10,338**	**-7,487**	**64,595**

Income statement	Banking	Parabanking	Consolidation adjustments	Total 31.12.2018
Financial Assets	2,283,277	15	(2,143)	2.281.149
Loans and advances to banks	1,650,034	2.481	(43,4544)	1.218.060
Loans and advances to customers	9,805,343	636.940	(580,421)	9.861.862
Deposits from banks	2,137,940	580.676	(1,012,688)	1.705.928
Deposits from customers	9.271.898	2.622	(2,183)	9.272.337
Debt securities in issue	1,710,172		(1,852)	1.708.320
Indirect, administered and managed deposits	**14,192,416**		**(43,538)**	**14,148,878**

Notes:
(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

Certification pursuant to art. 154-bis of Legislative Decree 58/98

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned, Stefano Lado, Chairman, 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 of the administrative and accounting procedures for the preparation of the consolidated financial statements with respect to the Company and their

   – effective application during 2018.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2018 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 consolidated 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 Report on Operations includes a reliable analysis of the results of operations and of the situation of the issuer and the companies included in the consolidation, together with a description of the principal risks and uncertainties faced by them.

Desio, 7 February 2019

Chairman	Financial Reporting Manager
Stefano Lado	Mauro Walter Colombo

Auditors' report

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Banco di Desio e della Brianza S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Banco di Desio e della Brianza S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31st December 2018, the consolidated income statement, the statement of consolidated comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement for the year then ended, and the consolidated explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Banco di Desio e della Brianza S.p.A. (the "Bank") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Derecognition of an NPL portfolio following a securitisation through GACS	
Description of the key audit matter	As represented in Consolidated explanatory notes *Part E - Information on risks and related hedging policy* as at 31st December 2018, the Board of Directors of the Banco di Desio e della Brianza Group on 27th March 2018 approved a plan for the sale of NPLs, for which a securitisation of doubtful loans that makes use of a guarantee of the Minister of Economy and Finance pursuant to Decree Law 18/2016 ("GACS") was also foreseen. In June 2018 the operation of disposal through securitisation of a portfolio of doubful loans was carried out with the concurrent issue of senior, mezzanine and junior securities by the underwriter Special Purpose Vehicle 2Worlds S.r.l., which the Group subscribed. In July 2018, after having obtained the GACS on the senior securities and sold 95% of the mezzanine and junior securities to investors, the Group deconsolidated the doubtful loans sold, after the conditions required by IFRS 9 were met. In Consolidated explanatory notes *Part C – Information on the Revenues* Section 6 - *Gains (Losses) on disposal/repurchase – caption 100*, reports the information on the economic effects recorded during the year that derive from the NPLs disposal programme. In consideration of the complexity of the operation of securitisation of doubtful loans through GACS, we consider that the derecognition of NPLs portfolio represents a key area for the audit of the consolidated financial statements of Banco di Desio e della Brianza Group.
Audit procedures performed	As part of the audit procedures, we learned about the operation and controls implemented by the Group with the aim of verifying the compliance with the requirement established by IFRS 9 for the derecognition of the disposable NPL. As part of the audit procedures, the following activities have been carried out: - analysis of the approval process of the disposal operation of doubtful loans carried out by the competent bodies of the banks of the Group; - analysis of the underwritten contracts as well as interviews with the Management of the Bank; - obtaining and analysis of the prepared documents for the issuance of the GACS guarantee; - verification of the fulfillment of the conditions required by the accounting principle IFRS 9 for the derecognition of the NPLs sold, with reference to the significant transfer of the risks and benefits associated with the securitised loans. Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.

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Classification and valuation of non-performing loans to customers measured at amortised cost	
Description of the key audit matter	As represented in Consolidated explanatory notes *Part B – Information on the consolidated balance sheet* and *Part E – Information on risks and related hedging policy*, as at 31st December 2018 non-performing loans to customers measured at amortised cost of Banco di Desio e della Brianza Group amount to a gross book value of 695 million euros (1,616 million euros at the end of 2017), allowances for impairment to 294 million euros (792 million euros at the end of 2017); the coverage ratio, also following the securitisation of NPLs carried out during the year, moves from 49.0% to 42.3%. In particular, doubtful loans coverage is equal to 59.3% (57.2% at the end of 2017); unlikely to pay coverage is equal to 29.4% (28.9% at the end of 2017); past due non-performing loans coverage is equal to 13.1% (12.8% at the end of 2017). In order to classify loans in consistent risk categories, the Group refers to applicable law, integrated with internal regulations that define rules in terms of loans' classification and transfer in such categories. As better specified in Consolidated explanatory notes *Part A - Accounting policies*, non-performing loans assessment takes place on an analytical basis and considers the estimated recovery amount, the expected collection period and collaterals, whereas in place, according to methodologies set out in the Group credit policies for each category in which loans are classified. In consideration of the complexity of the estimation process held by the Board of Directors, that involves classification activity into consistent risk categories, as well as the significance of the judgmental process inherent in the estimate nature of the recoverable amount, we consider that the classification and valuation of such loans and the related classification and impairment process represent a key area for the audit of the consolidated financial statements of Banco di Desio e della Brianza Group.
Audit procedures performed	As part of the audit procedures, we learned about the Group lending process which includes the recognition and the understanding of the organisational and procedural controls implemented by the Group itself in order to guarantee the monitoring of loan quality and the classification and evaluation according to applicable accounting standards and sector's policies. For this purpose, we made use of IT experts belonging to the Deloitte network to verify the proper data's recording and managing. As part of this process we also understood the methods and assumptions adopted by the Group related to non-performing loans recoverable amount according to applicable accounting standards and sector's policies. As a result of these activities, audit procedures have been defined to test data used to calculate the recoverable amount and verify the estimation process. As part of the audit procedures, the following activities has been carried out:

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- verification, on a sample basis, of the appropriateness of the recoverable amount determined by the Group through the recomputing of the amount itself and analysis of the rationality of the criteria related to classification and valuation, financial hypothesis and assumptions applied by the Group;
- obtaining and review of the written confirmations from lawyers in order to gather information and evidences to support the Group's evaluation;
- comparative analysis procedures, in historical series and for each class of non-performing loans, through the calculation of hedging indices and the comparison of such indices with the comparable information related to previous periods and with data derived from market;
- analysis of the events occurred after the reference date of the balance sheet in order to make considerations regarding the evaluations that have been made.

Finally, we analysed the completeness and compliance of financial statements disclosure in accordance to accounting standards and applicable law.

Classification and valuation of performing loans to customers measured at amortised cost

Description of the key audit matter	As represented in Consolidated explanatory notes *Part B – Information on the consolidated balance sheet* and *Part E – Information on risks and related hedging policy*, as at 31st December 2018, performing loans to customers of Banco di Desio e della Brianza Group amount to a gross book value of 9,265 million euros (9,079 million euros at the end of 2017), allowances for impairment to 50 million euros (41 million euros at the end of 2017); the coverage ratio remains stable and equal to 0.5%. As better specified in Consolidated explanatory notes *Part A - Accounting policies*, performing loans are divided into consistent risk classes and measured collectively. In consideration of the significance of the amount of performing loans to customers in consolidated financial statements, of the complexity of the estimation process held by the Board of Directors, also based on a structured classification process in consistent risk categories, as well as the significance of the inherent judgmental process, we consider that the classification and valuation of such loans and the related impairment process represent a key area for the audit of the consolidated financial statements of Banco di Desio e della Brianza Group.
Audit procedures performed	As part of the audit procedures, we learned about the Group lending process which includes the recognition and the understanding of the organisational and procedural controls implemented by the Group itself in order to guarantee the monitoring of loan quality and the classification and evaluation according to applicable accounting standards and sector's policies. For this purpose, we made use of IT experts belonging to the Deloitte network to verify the proper data's recording and managing. As a result of these activities, audit procedures have been defined to test data used to classify performing loans in consistent risk classes as well as the estimation process. As part of the audit procedures, the following activities have been carried out:

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- examination of the classification criteria adopted by the Group in order to divide the performing loans to customers' portfolio into consistent risk categories;
- examination of the evaluation models and the assumptions adopted by the Group;
- verification, on a sample of performing loans, of their proper classification;
- comparative analysis procedures, in historical series, through the calculation of hedging indices and the comparison of such indices with the comparable information relating to previous periods and with data derived from the market;
- analysis of the events occurred after the reference date of the balance sheet in order to make considerations regarding the classification and evaluation that have been made.

Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.

Transition process to accounting principle IFRS 9 Financial Instruments

Description of the key audit matter	As represented in Consolidated explanatory notes *Part A – Accounting policies* that reports the disclosure required in accordance with IAS 8, including the main methodological choices and *Part B – Information on the balance sheet* and in the *Report on Operations*, on 1st January 2018, the first-time adoption of IFRS 9 *Financial Instruments* had an impact on the classification and measurement of the Group's financial assets and liabilities according to the new accounting categories established by the accounting principle and the definition of a new approach for the determination of *impairment* of financial assets according to the *expected credit losses* model. The first-time adoption of IFRS 9 determined an overall negative effect on the shareholders' equity of Banco di Desio e della Brianza Group of 64,1 million euros, of which 72,3 million euros (negative) recorded in caption 140. Reserves and 8,2 million euros (positive) recorded in caption 110. Valuation reserves. The transition process to IFRS 9 has been centrally managed by the Parent Company for all the Group companies through the creation of specific "streams", with the aim of determining the same accounting and risk monitoring methods at a Group level. In detail, the following "planning streams" have been created: - stream "classification and measurement", aimed at revising the classification of financial instruments in line with the new criteria of IFRS 9; - stream "impairment", aimed at developing and implementing models and methodologies for the computation of value adjustments. It is also stated that the Group made use of the possibility to continue to apply the *hedge accounting* requirement established by IAS 39 for all the hedging relationships until IASB completes the process of definition of the standards related to the record of the hedging of portfolios of financial instruments (*macro-hedging*).

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	As a result of the carried out activities, the Steering Committee of the 22nd November 2017 validated the decisions and rules defined in the so called "methodological framework IFRS 9" and reflected in the internal policy that was submitted for approval to the Board of the companies of the Group starting from the Parent Company on 30th November 2017. In consideration of the fact that IFRS 9 made a significant impact on the classification, measurement and valuation criteria of financial assets and of the relevance of the effects on the shareholders' equity of the Group, we considered the transition process to IFRS 9 a key area of the audit of the consolidated financial statements of Banco di Desio e della Brianza Group.
Audit procedures performed	As part of the audit procedures, we learned about the decisions and rules that have been defined in the "methodological framework IFRS 9" and reflected in the internal policy of the Group. For this purpose, we made use of the support of specialists belonging to the Deloitte network for the analysis of the methodological approach and the compliance with the accounting principle IFRS 9. As part of the audit procedures, the following activities have been carried out: - obtaining and examination of the minutes of the Group's management and supervisory bodies and further documents available; - analysis of the rationality and compliance to the accounting standards regarding the main decisions made for the first time application of the accounting principle IFRS 9, also through the information and interviews with the Group's employees; - understanding of the impairment models developed by the Group and analysis of the rationality of the assumptions and parameters used in the allocation models between "stages" (so called *staging allocation*) and of the computing of the expected credit losses; - verification, for a sample of financial instruments, of the accuracy of the classification with what established by the "methodological framework IFRS 9" and the *impairment* made with the first-time adoption of IFRS 9; - verification of the fiscal effects deriving from the first-time adoption of the accounting principle following the implementation of the new legislation. Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance to accounting standards.
Change in the Business Model with which financial instruments in the banking book are managed	
Description of the key audit matter	On first-time adoption of IFRS 9 Financial Instruments, the Group carried out an analysis and census of the way in which financial instruments were managed in order to generate cash flows and proceeded to define such business models, coherently with the risk appetite stated in the *Risk Appetite Framework* and associating the financial instruments with different portfolios according to specific parameters. During the second half of 2018, due to the strategic importance of the Business Models, the Group started an analysis, supported by a consultant, at the end of which the Group adopted new policies for the management of the banking book, redefining the business models accordingly.

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The new policies were approved by the Board of Directors on 26th September 2018 and involved the reclassification of a nominal value of 1,093 million euros of debt instruments from the caption "Financial assets measured at fair value through other comprehensive income" to the caption "Financial assets measured at amortised cost".

The accounting effects of such operation had an effect only on the balance sheet on 1st October 2018, that is the date in which the conditions established by the accounting principle IFRS 9 in case of a change in the business model have been met.

As reported in Consolidated explanatory notes *Part A – Accounting policies*, financial instruments, aim of the business model change and of the subsequent reclassification, are sovereign debt instruments and corporate bond, accounting for a total book value of 1,045 million euros, including the loss accrued at the date of reclassification of 52 million euros (gross pre-tax value), recorded in the the consolidated statement of comprehensive income (valuation reserve). Such negative component, according to what established by IFRS 9, was derecognited from the shareholders' equity in compensation of the value of the same financial instruments that were accounted among the instruments measured at amortised cost, as if they were classified in this category from the beginning.

In consideration of the fact that the change in the business model represents an unusual event and the importance of it both on the consolidated balance sheet and on the business processes, we consider that the change in the business model in which financial instruments in the banking book are managed is a key area of the audit of the consolidated financial statements of Banco di Desio e della Brianza Group.

Audit procedures performed

As part of the audit procedures, the following activities have been carried out:

- review and analysis of the minutes of the Board of Directors of the banks of the Group;
- review and analysis of the document "Assessment on the investment activities of the banks of the Group" prepared by the Group external consultant;
- verification of the fulfillment of the conditions related to the change in the business model established by IFRS 9 par. B4.4.1 to define the facts and circumstances above mentioned as relevant for the reclassification of financial instruments according to what established by the accounting principle; such review involved:
    - the analysis of the operativeness of the Group on the instruments subject to change in the business model;
    - the analysis of the organizational and procedural controls implemented by the Group coherently with the change in the business model, including the internal policy subject to amendments and the daily documentation prepared for the monitoring of the financial assets portfolios;
- the review of the accounting effects deriving from the change in the business model.

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Finally, we analysed the completeness and the compliance of consolidated financial statements disclosure in accordance to accounting standards and applicable law.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the parent company Banco di Desio e della Brianza S.p.A. or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Banco di Desio e della Brianza S.p.A. has appointed us on 26 April 2012 as auditors of the Bank and the Group for the years from 31 December 2012 to 31 December 2020.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Banco di Desio e della Brianza Group as at 31 December 2018, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Banco di Desio e della Brianza Group as at 31 December 2018 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure is consistent with the consolidated financial statements of Banco di Desio e della Brianza Group as at 31 December 2018 and is prepared in accordance with the law.

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With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by

Maurizio Ferrero
Partner

Milan, Italy
5 March 2019

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

Attachment to the consolidated financial statements

DISCLOSURE COUNTRY BY COUNTRY
(pursuant to the Bank of Italy's Circular 285 of 17 December 2013 "Supervisory Provisions for Banks" - 20th update of 21 November 2017)

The information relating to points a), b), c), d), e) and f) of Attachment A to the First Part, Title III, Chapter 2 of the Supervisory Instructions for banks is presented below.

Situation taken from the consolidated financial statements at 31 December 2018

Following the corporate events that have taken place in recent years and which were disclosed to the public each time by press releases or inclusion in the periodic financial reports, at 31 December 2018 the Banco Desio Group is now based solely in Italy.

a) Name of company and nature of the activity

Banco di Desio e della Brianza S.p.A., with head office in Desio, via E. Rovagnati 1, is the Parent Company of the Banco Desio Group, register of Banking Groups no. 3440.

The Banco Desio Group consists of the Parent Company Banco di Desio e della Brianza S.p.A., Banca Popolare di Spoleto S.p.A., with head office in Spoleto, piazza Pianciani 5, Fides S.p.A., with head office in Rome, via Ombrone 2/G and the SPV Desio OBG S.r.l. based in Conegliano.

In addition to traditional banking intermediation, Banco di Desio e della Brianza and Banca Popolare di Spoleto also offer asset management services, life and non-life bancassurance products, payment systems, factoring, leasing and consumer credit products, in part via Fides, a financial intermediary that is registered pursuant to art. 106 TUB, which makes loans to the employees of public and private companies.

Information/Geographical Area		**Italy**
b) Turnover [1]	Euro/thousand	370,706
c) Number of employees on full-time equivalent basis [2]	Number	1,907
d) Profit (loss) before taxes	Euro/thousand	43,289
e) Income taxes	Euro/thousand	-6,731

Notes:

[1] The figure represents caption 120 "Net interest and other banking income" of the consolidated income

[2] the number of employees is determined by taking the total number of hours actually worked by all employees, excluding overtime, divided by the number of hours worked per week in accordance the full-time labour contract, multiplied by 52 weeks less 25 days - as established by convention - for the holiday period.