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— Report on operations and
consolidated financial statements
at 31 December 2019 —

Gruppo



Banco Desio



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Directors and Officers

Board of Directors

<u>Chairman</u>	Stefano Lado
<u>Deputy Chairman</u>	Tommaso Cartone**
<u>Directors</u>	Graziella Bologna* Marina Brogi Valentina Maria Carla Casella*** Nicolò Dubini Cristina Finocchi Mahne Agostino Gavazzi* Egidio Gavazzi* Paolo Gavazzi* Tito Gavazzi* Gerolamo Pellicanò

* Members of the Executive Committee

** Director responsible for the Internal Control and Risk Management System

*** Appointed on 28 March 2019

Board of Statutory Auditors

<u>Chairman</u>	Giulia Pusterla
<u>Acting Auditors</u>	Rodolfo Anghileri Franco Fumagalli Romario
<u>Substitute Auditors</u>	Elena Negonda Erminio Beretta Massimo Celli

General Management

<u>General Manager</u>	Angelo Antoniazzi
<u>Senior Deputy General Manager</u>	Mauro Walter Colombo
<u>Deputy General Manager "Corporate Affairs"</u>	Maurizio Ballabio

Financial Reporting Manager as per art. 154-bis CFA

<u>Financial Reporting Manager</u>	Mauro Walter Colombo
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Independent Auditors

<u>Independent Auditors</u>	Deloitte & Touche S.p.A.
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Consolidated Report on Operations

The Banco Desio Group

The scope of consolidation of the Banco Desio Group at 31 December 2019 includes the following companies:



Note that the merger of the former subsidiary Banca Popolare di Spoleto with its Parent Company Banco Desio took effect for accounting purposes on 1 January 2019.

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, where due, 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.

1 - First-time adoption of IFRS 16 "Leases"

IFRS 16 - Leases came into force on 1 January 2019; the 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, identifying 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 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 finance leases can now fall into the scope of application of the new standard. As a result for contracts falling under the application of IFRS 16:

- 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,
- 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 (to which these contracts were subject before the new standard came into force) lease instalments were recognised under "Other administrative costs", on the basis of IFRS 16 requirements, charges accrued on the lease payable are recorded under "Interest and similar expense" and depreciation charges for the right of use under "Net adjustments to property, plant and equipment/intangible 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.

On the basis of the analyses carried out by the Banco Desio Group as part of the project for implementation of IFRS 16 (on which information was provided in the financial statements at 31 December 2018), taking into account the methodological choices made, on 1 January 2019, on first-time adoption of the accounting standard, a "Lease Liability" of Euro 61.3 million was recorded against a substantially similar increase in non-current assets (increased due to the balance of the related accruals and prepayments at 31 December 2018), from which no initial impact on equity arose.

2 - Key figures and ratios

Balance sheet

Amounts in thousands of Euro	31.12.2019	31.12.2018	Change	
			amount	%
Total assets	14,192,062	13,608,036	584,026	4.3%
Financial assets	3,365,922	3,081,430	284,492	9.2%
Due from banks ⁽¹⁾	619,794	285,314	334,480	117.2%
Loans to customers ⁽¹⁾	9,567,686	9,616,700	-49,014	-0.5%
of which: Loans to ordinary customers	9,567,686	9,616,700	-49,014	-0.5%
of which: Loans to institutional customers	-	0	0	
Property, plant and equipment ⁽²⁾	226,305	179,418	46,887	26.1%
Intangible assets	18,194	17,701	493	2.8%
Attività non correnti e gruppi di attività in via di dismissione	0	0	0	
Due to banks	1,603,208	1,620,824	-17,616	-1.1%
Due to customers ⁽³⁾	9,445,899	9,254,591	191,308	2.1%
Debt securities in issue	1,749,103	1,426,213	322,890	22.6%
Shareholders' equity (including Net profit/loss for the period) ⁽⁴⁾	965,108	892,054	73,054	8.2%
Own Funds	1,038,147	1,056,921	-18,774	-1.8%
Total indirect deposits	15,562,375	14,092,711	1,469,664	10.4%
of which: Indirect deposits from ordinary customers	9,721,680	8,952,340	769,340	8.6%
of which: Indirect deposits from institutional customers	5,840,695	5,140,371	700,324	13.6%

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

⁽²⁾ the balance of this item at 31 December 2019 includes the right of use ("RoU Assets") equal to Euro 51,7 million for operating lease contracts falling within the scope of application of IFRS 16 Leases, which came into effect on 1 January 2019

⁽³⁾ the balance of this item at 31 December 2019 does not include the liability recognised in Due to customers for operating lease contracts falling within the scope of application of IFRS 16, which came into effect on 1 January 2019

Income statement ⁽⁴⁾

Amounts in thousands of Euro	31.12.2019	31.12.2018	Change	
			amount	%
Operating income	399,450	400,409	-959	-0.2%
of which: Net interest income	210,870	211,584	-714	-0.3%
Operating costs	281,608	275,519	6,089	2.2%
Result of operations	117,842	124,890	-7,048	-5.6%
Profit (loss) from continuing operations after tax	45,765	36,138	9,627	26.6%
Non-recurring profit (loss) after tax	-5,609	420	-6,029	n.s.
Net profit (loss) for the period	40,156	35,260	4,896	13.9%

⁽⁴⁾ from the Reclassified Income Statement.

Key figures and ratios

	31.12.2019	31.12.2018	Change amount
Capital/Total assets	6.8%	6.6%	0.2%
Capital/Loans to customers	10.1%	9.3%	0.8%
Capital/Due to customers	10.2%	9.6%	0.6%
Capital/Debt securities in issue	55.2%	62.5%	-7.3%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) ^{(5) (6)}	13.0%	12.1%	0.9%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) ^{(5) (6)}	13.0%	12.3%	0.7%
Total Own Funds/Risk-weighted assets (Total capital ratio) ^{(5) (6)}	13.7%	13.6%	0.1%
Financial assets/Total assets	23.7%	22.6%	1.1%
Due from banks/Total assets	4.4%	2.1%	2.3%
Loans to customers/Total assets	67.4%	70.7%	-3.3%
Loans to customers/Direct customer deposits	85.5%	90.0%	-4.5%
Due to banks/Total assets	11.3%	11.9%	-0.6%
Due to customers/Total assets	66.6%	68.0%	-1.4%
Debt securities in issue/Total assets	12.3%	10.5%	1.8%
Direct customer deposits/Total assets	78.9%	78.5%	0.4%
	31.12.2019	31.12.2018	Change amount
Cost/Income ratio	70.5%	68.8%	1.7%
Net interest income/Operating income	52.8%	52.8%	0.0%
Result of operations/Operating income	29.5%	31.2%	-1.7%
Profit (loss) from operations after tax/Capital ⁽⁷⁾	4.9%	4.2%	0.7%
Profit (loss) from operations after tax/Capital ⁽⁷⁾ (R.O.E.)	4.3%	4.3%	0.0%
Profit (loss) from operations before tax/Total assets (ROA)	0.5%	0.3%	0.2%
	31.12.2019	31.12.2018	Change amount
Net doubtful loans/Loans to customers	1.3%	1.3%	0.0%
Net non-performing loans/Loans to customers	3.6%	4.2%	-0.6%
% Coverage of doubtful loans	61.5%	59.3%	2.2%
% Coverage of doubtful loans, gross of cancellations	63.1%	64.5%	-1.4%
% Total coverage of non-performing loans	45.5%	42.2%	3.3%
% Coverage of non-performing loans, gross of cancellations	46.7%	45.6%	1.1%
% Coverage of performing loans	0.49%	0.54%	-0.04%

Structure and productivity ratios

	31.12.2019	31.12.2018	Change amount	Change %
Number of employees	2,198	2,209	-11	-0.5%
Number of branches	257	265	-8	-3.0%
<i>Amounts in thousands of Euro</i>				
Loans and advances to customers per employee ⁽⁸⁾	4,342	4,263	79	1.9%
Direct deposits from customers per employee ⁽⁸⁾	5,081	4,734	347	7.3%
	31.12.2019	31.12.2018	Change amount	Change %
Operating income per employee ⁽⁸⁾	181	177	4	2.3%
Result of operations per employee ⁽⁸⁾	53	55	-2	-3.6%

⁽⁵⁾ Consolidated capital ratios for Banco Desio. The ratios for the scope of consolidation for regulatory purposes at Brianza Unione level at 31 December 2019 are: Common Equity Tier1 10.0%; Tier 1 10.7%; Total capital ratio 12.0%.

⁽⁶⁾ Capital ratios at 31.12.2019 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 12.4%; Tier 1 12.4%; Total capital ratio 13.1%.

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

⁽⁸⁾ based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.

3 - Underlying scenario

3.1 – The macroeconomic scenario

International scenario

Towards the end of the year, there were increasing signs that the world economy was stabilising. Growth in the third quarter was equal to that of the second in both the United States and the Eurozone; even though the Chinese economy was slowing, it still continued to expand at rates close to 6%. In this context, even if global growth is expected to reach 2.6% in 2020 (the lowest figure since 2009), more negative scenarios seem averted thanks to economic policy support, the elimination of trade tensions and the resilience of consumer spending and corporate profits. Nonetheless, in the last quarter of 2019 the areas of fragility in the global economy grew, linked to the high asset valuations and debt levels that expose the world economy to the risk of imminent changes.

Economic policies, on the one hand, are being pushed to the limit. The US federal budget deficit is expected to reach 4.2% of GDP at the end of 2019, while the debt is expected to exceed 100% in 2020. In China, after years of stimulus policies, total debt has reached a record 300% of GDP, while interest rates have dropped from 6% in the early 2000s to 4% today. This not only implies that economic policies have increasingly limited margins to support the economy in case of difficulties, but also that they contribute to the fragility.

High asset valuations and high debt levels, on the other hand, are closely related; low interest rates make it possible to sustain high levels of debt and, at the same time, support the value of assets and therefore of collateral. It is clear that if the value of the collateral were to be revised downwards in the presence of shocks or changes in expectations, the feasibility of the debt would be called into question. In this scenario, any correction in asset values in the United States would significantly affect the Eurozone economy, triggering off a chain reaction.

These elements expose the world economy to the risk of changes that appear increasingly imminent. Social issues related to income distribution and social equity are growing day by day. They are not only at the centre of the debate among Democratic presidential candidates in the United States, they are also behind an unexpected increase in popular protests in various countries around the world. Political fragmentation and the presence of "populist" forces increase the risk of a stalemate or of improvisation in the management of economic policies. In particular, attacks on central banks' independence grew in 2019, putting future macroeconomic stability at risk. If that weren't enough, impending climate change (like the phenomena that hit Australia at the end of the year) will lead to a reconsideration of asset values and an awareness of the costs needed to protect the planet from the increase in temperature.

United States

In the third quarter of 2019, American GDP (year-end expectations were +2.3%) was mainly driven by consumer spending, as well as by a small accumulation of stocks that was linked more to the normalisation of inventories after the stock run-down that took place in previous quarters, rather than expectations of a recovery in demand. Fixed investment remained substantially stable, with a positive note in the case of residential investment, which started growing again (+1.2%) after falling for six consecutive quarters; non-residential investment, on the other hand, got worse (-0.7%). Foreign trade continues to remain weak: imports/exports started growing again (+0.3%) but so far there is no evidence of positive effects on net exports, as hoped for by the Trump administration's protectionist trade policy. The industrial production

index contracted in the summer months due to the widespread difficulties in the production of consumer goods and industrial products. Despite the difficulties of industry, overall employment continues to grow at around 1% and although decelerating compared with 2018 (it previously stood at +1.9%) it is a respectable increase for an economy in its eleventh year of expansion. The annual slowdown on the employment front regards manufacturing and the construction sector, while the service sector is substantially unchanged. Inflationary dynamics are stable (2% in November). In 2020, the United States' GDP is expected to decelerate (+1.5%) due to the persistent difficulties of industry, partially offset by support from monetary and budgetary policy, which will, however, condition future growth.

Japan

In the third quarter of 2019, Japan's GDP was substantially unchanged compared with the previous quarter (the projection at the end of the year was +0.9%), a result that could be interpreted as a half-hearted response to the increase in consumption tax in October, which was meant to convince consumers and businesses to increase their spending ahead of the tax hike: but the effect on consumption was in fact very weak (+0.4%), especially compared with the last time this happened (+2% in 2014). In October, the trend in retail sales indicators was strongly negative and a strong contraction is forecast for those of production, not helped by the weakness in foreign demand. Exports, already down by -0.9% in the third quarter of 2019, also fell sharply towards the main partner markets in October. The coming into force of trade agreements with the United States does not compensate for the continuing uncertainty during the course of the trade war: the loss of growth in the Chinese economy and the catalyst effect that it has for the whole of Asia have been a source of weakness for Japanese exporters for at least a year and their continuation can only limit prospective investments. The problems of exports are also accentuated by the Korean boycott of Japanese goods and tourism, linked to political tensions. In this context, Japan's GDP should slow down in 2020 (+0.6%), despite the widespread support expected from monetary policy, but its arsenal is running out of effective weapons.

Emerging Economies

The economic situation is slowing down in the main Emerging Markets. The budgetary fundamentals of the major oil-producing countries improved with the recovery in prices caused by tensions between the United States and Iran.

In China, the economy also continued in the third quarter in its slowdown, which led to the lowest rate of GDP growth since 1992 (+6%). The main economic indicators suggest that, after hitting a low in October, there was some sign of recovery in production and consumption in November, whereas capital investment stayed weak. Retail sales were substantially stable (+3.5%) due to the jump in inflation (+4.5%); the growth in gross fixed investments confirmed its weak trend mainly due to the tertiary sector, while some positive signs could be seen in the industrial sector and in real estate (+10%), albeit driven by the public sector component (+7%). The amount of new loans from the banking system, which has been at low levels for two years, adds further indications of the limited propensity to invest, given that profits, an alternative source of financing, are falling. The level of debt now reached by the Chinese economy (300% of GDP) and its rapid growth are the main source of risk for 2020, together with the trade war with the United States: in this scenario, GDP is expected to slow down even more (+5.1%).

In India the phase of weakness in the economy persists, reflected in a further slowdown in GDP (+4.5%, +5.0% in the previous quarter), reaching a figure not seen since 2012. A slight recovery in consumption was accompanied by a slump in capital investment, while public spending exploded (+16%), contributing to half of the growth in GDP on its own. Foreign trade contracted in both imports and exports, testifying to the weakness of international demand (-0.4%) and, above all, of domestic demand (-6.9%). The problems in the financial sector are heavily influencing investment and consumer credit; in spite of the Central Bank's repeated interventions to lower reference rates, the credit difficulties of households have not, in fact, eased. Almost all of the main industries have experienced declining production with considerable problems, especially for the automotive, extractive, energy and investment goods sectors. On the price

front, inflation in October increased (+4.6%, +4.0% in September), exceeding the target figure of the Central Bank, which will continue in its policy of easing policy rates to provide support for growth throughout 2020.

Russia's economic prospects are gradually improving thanks to the trend in oil prices, which have been affected by the recent tensions between the United States and Iran. Brazil's prospects remain fragile, albeit in a context of recovery and weak growth. The most critical issues among developing countries are in Turkey, Argentina, South Africa and Venezuela.

Europe

The phase of uncertainty that is characterising the economic cycle in Europe continues, though there are vague signs of the slowdown that began in 2018 coming to an end. Despite the difficulties still facing the industrial sector, growth rates have started expanding again both in Italy and in Germany, even if the gap compared with France and Spain remains wide. In the third quarter of 2019, GDP posted growth of +0.9%: all components of demand were positive, with the exception of the foreign element (-0.1%) and the change in inventories (-0.2%). The manufacturing sector was in contraction for the fifth consecutive quarter, while the services sector continued to grow, albeit at a less rapid pace. Retail sales fell slightly (-0.6%) despite the weak recovery in the consumer confidence index, helped by an improvement in the unemployment rate (7.2%, formerly 7.3%). For companies too, the indices of confidence remain negative due to the contraction in industrial output and the period of considerable weakness that the construction sector is going through. Inflation fell slightly in October (0.7%, down from 0.8%), while the core component (adjusted for the more volatile components) was stable at 1.2%. On the political front, the initial enthusiasm for the launch of the new European Commission is rapidly fading, suggesting an increase in uncertainty in 2020, partly to do with Brexit, and an absence of incisive economic policy decisions that will weigh on performance in the coming months. Overall, GDP is expected to grow by +1.2% at the end of 2019.

Italy

In the third quarter of 2019, GDP rose by +0.2% per year thanks to the positive contribution of the internal component (before stocks), which offset the negative contribution of the net foreign component. In October, the seasonally adjusted index of industrial production dropped to -2.3%. The indices adjusted for calendar effects show a drop in energy (-4.6%) and capital goods (-3.2%), while they are substantially unchanged for consumer goods (+0.4%). New manufacturing orders recovered slightly (+0.2%), although the weakness of retail sales continues (+0.1%). The indices of consumer and business confidence are still below par, getting even worse: consumer and business confidence was negative in November. With reference to the labour market, unemployment fell in October (9.7%, formerly 9.9%), similarly to youth unemployment (27.8%, formerly 28.6%), although the employment rate is substantially unchanged (59.2%). The harmonised index of consumer prices in October was particularly low (+0.2%, no change); on the contrary, "core" inflation (net of unprocessed food and energy goods) rose to 0.7% (formerly 0.5%). In this context, economic policy is uncertain. Economic indicators suggest an ephemeral improvement: stabilisation of the international context, a drop in the spread, together with a modest effect on consumption of people spending their "Citizenship Income" at the end of 2019, unfortunately, do not represent solid and lasting fundamentals, suggesting an increase in uncertainty in 2020 that cannot but weigh on how the economy will perform in the coming months.

3.2 - Capital markets and the banking system in Italy

Financial and monetary markets

The ECB kept its monetary policy rates unchanged in October (reference rate of zero, -0.50% on deposits). The Governing Council expects reference interest rates to remain at current levels until it sees the inflation outlook converging steadily to levels below but close to 2% in the medium term.

The Fed, as expected by operators, cut interest rates for the third consecutive time (now in a range between 1.50% and 1.75%), replicating the choice made in July and September. The current approach of American economic policy will last as long as it is 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 was still negative (-0.40%); the 10-year IRS rate, on the other hand, was +0.10%. On the bond market, 10-year benchmark rates improved in the USA (+1.80%, having been +3.12% at the end of 2018) and in the Eurozone; in Germany, the benchmark rate came to -0.33% (from +0.46% at the end of 2018), while in Italy it was +1.18% (from +3.50%).

International share prices grew on a monthly basis. In detail, the Dow Jones Euro Stoxx index rose by 3.8% m/m (+13.2% y/y), the Standard & Poor's 500 index by 4.4% (+14.2% y/y) and the Nikkei 225 index by 4.8% (+5.9% y/y). Similarly, the major European stock market indices showed positive monthly performances; the FTSE Mib rose by +5.8% (+22.7% y/y), in France the CAC40 rose by +4.8% (+17.0% y/y), while in Germany the DAX30 rose by +5.5% (+17.2% y/y). The main banking indices tended to be rising on a monthly basis: the Italian FTSE Banks index rose by +8.1% m/m (-15.6% y/y), the Dow Jones Euro Stoxx Banks by +5.5% m/m (-4% y/y) and the S&P 500 Banks rose by +8.2% m/m (+12.2% y/y).

Banking markets

With regard to the banking market, the annual trend in deposits from resident customers in November 2019 increased (+7.0%). Internally, short-term deposits continued to grow (+7.9%, formerly +2.6% at the end of 2018), while bonds reversed their negative trend (+1.5%, formerly -12.3% at the end 2018). The rise in volumes was accompanied by substantial stability in overall remuneration (0.58%, compared with 0.61% at the end of 2018). In terms of lending, the latest available data confirms the slowdown in loans to the private sector (+0.2%, compared with +1.9% at the end of 2018); the sector was led by loans to households (+2.4%, formerly +2.8% at the end of 2018), which offset the drop in loans to businesses (-1.4%, formerly +1.5% in December 2018). 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 (2.50%). Within them, the interest rate on home purchase loans to households was 1.44% (1.89% in December 2018), while for loans to businesses it came to 1.20% (1.47% at the end of 2018), reaching a new all-time low.

4 – Regional market presence and corporate issues

4.1 - The distribution network

The distribution network of the Banco Desio Group at 31 December 2019 consists of 257 branches, compared with 265 at the end of the previous year.

During 2019, the Assisi Torchiagina, Rome Via XX Settembre, Chiusi, Perugia Elce, Rieti Garibaldi, Fara in Sabina, Pontedera, Milan Porta Venezia, San Giustino and Cannaiola di Trevi branches were closed, at the same time the branches in Fano and Pisa were opened.

It should also be noted that another 2 branches will be closed in February 2020: Rome Gregorio VII and Gualdo Cattaneo San Terenzano.

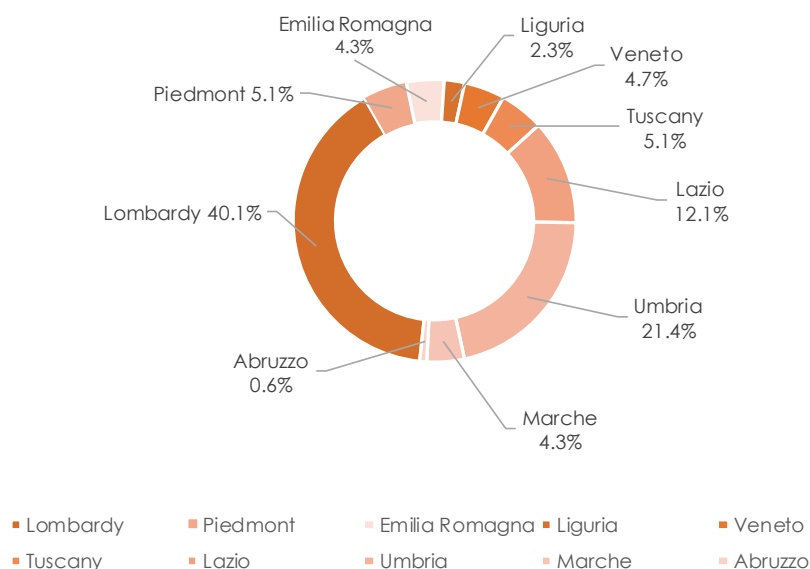
The Banco Desio Group is present in Italy in 10 regions (Lombardy, Piedmont, Veneto, Emilia Romagna, Liguria, Umbria - as Banca Popolare di Spoleto - Lazio, Tuscany, Marche and Abruzzo).

The organisational model envisages:

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

The following chart shows the breakdown of the Company's distribution network by region at the end of 2019.

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



4.2 - Significant events

Merger of Banca Popolare di Spoleto S.p.A. with Banco di Desio e della Brianza S.p.A.

On 1 July 2019 the merger (the "Merger" or the "Transaction") of Banca Popolare di Spoleto S.p.A. ("BPS" or the "Merged company") with Banco di Desio e della Brianza S.p.A. ("BDB" or the "Parent Company") took legal effect, in execution of the Merger Plan and the respective Shareholders' Meeting resolutions approved on 7 and 11 May 2019.

The Merger completed 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. The synergies resulting from the Merger make it possible, among other things, to allocate additional resources to the commercial development of the Banco Desio Group and to further widening 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 Merger is 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, shareholders of the merged company are 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.

In approving the Transaction, 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. The Merger was approved by the Extraordinary Shareholders' Meetings of the merged bank and of the Parent Company on 7 and 9 May 2019, subject to obtaining authorization from the Bank of Italy pursuant to arts. 56, 57 and 61 of CBA.

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

As a result of the exchange, the share capital of Banco di Desio and Brianza S.p.A. was increased by a nominal amount of Euro 2,987,550.28 through the issue of no. 5,745,289 ordinary shares. The articles of association of the Parent Company have been updated accordingly. The ordinary shares deriving from the Capital Increase are admitted to trading on the MTA, like those already in issue.

As indicated in the Merger Deed of 29 May 2019, the merger runs for legal purposes from 1 July 2019, whereas for accounting and tax purposes, the merged company's transactions are recorded in the Parent Company's financial statements from 1 January 2019.

Please read the information provided in "Part A Accounting Policies – Section 3" of the Explanatory Notes for the accounting treatment adopted to represent the transaction that had no effect on the consolidated financial statements.

Directors and Officers of the Parent Company Banco Desio

Following the death of the Director Gigliola Zecchi Balsamo on 20 March 2019, in order to ensure maximum continuity to the board, on 28 March 2019 the Board of Directors of Banco di Desio e della Brianza co-opted a new independent member in the person of Valentina Casella, taking into account the preliminary investigation carried out by the Nominations Committee and with the favourable opinion of the Board of Statutory Auditors.

Following this co-option, the Board of Directors reviewed the composition of the following Board committees:

NOMINATIONS COMMITTEE	Cristina FINOCCHI MAHNE (Chairman) Marina BROGI Gerolamo PELLICANÒ
REMUNERATION COMMITTEE	Nicolò DUBINI (Chairman) Stefano LADO Valentina CASELLA
COMMITTEE FOR TRANSACTIONS WITH RELATED PARTIES AND ASSOCIATED PERSONS	Marina BROGI (Chairman) Nicolò DUBINI Valentina CASELLA

The composition of the Executive Committee and the Control and Risk Committee stays the same.

Following the confirmation of the Independent Director Valentina Casella, as approved by the Shareholders' Meeting convened in ordinary session on 9 May 2019, on the same date the Board of Directors confirmed the revised composition of the following Board committees, approved at the time she was co-opted as director.

Directors and officers of the subsidiary Fides S.p.A.

On 19 March 2019 the Ordinary Shareholders' Meeting of Fides S.p.A. approved the renewal of the Board of Statutory Auditors for the three-year period 2019-2021, confirming the current members (Eugenio Mascheroni, Rodolfo Anghileri and Fabrizio Iacuitto).

Inspection of the Banco Desio Group by the Bank of Italy

On 8 March 2019, the Bank of Italy began an inspection on the Banco Desio Group pursuant to articles 54 and 68 CBA; the inspection was completed on 12 June 2019. The inspection report containing "partially favourable" findings was delivered to the Board of Directors of the Parent Company on 10 September 2019. This outcome, which is considered positive, did not result in any disciplinary proceedings.

Bank of Italy inspection of the subsidiary Fides S.p.A.

A general inspection by the Bank of Italy began on 29 April 2019 and ended on 31 May 2019. On 17 December 2019, the Report of the Supervisory Body, with a "mainly compliant judgement", was presented to the Board of Directors of the subsidiary; this outcome is considered positive.

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

Consistent with IFRIC 21, the Bank made the following entries when the "obligating event" occurred:

- standard contribution to the SRM of about Euro 4.4 million. 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 Euro 1.6 million. The contribution was paid in June;
- contribution to the DGS of about Euro 4.7 million. The contribution was paid in December.

Sales of non-performing loan (NPL) portfolios

Continuing the Group's pro-active strategy for managing non-performing loans and in line with the guidelines issued by the European Central Bank, four sales were finalised to specialist intermediaries of loan portfolios consisting of mortgage and unsecured loans classified as doubtful, as follows:

- a) a nominal value of Euro 45.8 million on 28 June 2019 sold for Euro 2.1 million;
- b) a nominal value of Euro 1.3 million on 27 September 2019 sold for Euro 0.8 million
- c) a nominal value of Euro 13.2 million on 16 December 2019 sold for Euro 1.0 million
- d) a nominal value of Euro 22.3 million on 27 December 2019 sold for Euro 8.9 million

In addition, on 25 September 2019, another sale of receivables classified as unlikely to pay and doubtful with a nominal value of Euro 12.8 million to a closed-end private debt investment fund against the investment in units of the same fund for a value of Euro 7.8 million was completed.

As a result of these sales, taking account of all doubtful items identified since last year, pre-tax losses of Euro 0.9 million have been realized overall.

Decision on capital at the end of the periodic Supervisory Review and Evaluation Process (SREP)

Following the periodic Supervisory Review and Evaluation Process (SREP), on 27 June 2019, the Bank of Italy notified Banco di Desio e della Brianza and the financial parent company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. its decision regarding capital, ordering that, as specifically indicated in paragraph "Shareholders' equity and capital adequacy" below, comparing the new requirements and those previously assigned to the Group with those announced by various competitors, the Group's financial solidity is confirmed.

Covered bond programme

As part of the programme for issuing covered bonds (OBG in Italian) pursuant to art. 7-bis of Law no. 130/99 (the "Programme") launched in 2017, in May 2019 the bank, together with the former subsidiary Banca Popolare di Spoleto, signed the contracts relating to a further sale of residential mortgage loans originated by them in favour of the vehicle company "Desio OBG S.r.l.".

Given the particularly favourable market conditions, in July 2019 Banco di Desio e della Brianza made a second issue of OBG at a fixed-rate for Euro 500 million maturing in 7 years, thus increasing the total issue of the Programme to Euro 1.075 million.

The transaction received strong interest from investors, with a final order book of around Euro 1.9 billion, almost four times the value offered, and the participation of around 130 institutional investors.

Voluntary redundancy plan

In October, the Company and the Trade Union Representatives signed an Agreement to facilitate and encourage voluntary acceptance by Group employees who qualify for pension rights (so-called CGI rights, i.e. Compulsory General Insurance), to leave their job on the basis of the legislative possibilities, also to permit more youth employment by means of a generation change; 40 persons accepted and will leave by 31 December 2021. The one-time charge to the payroll costs for the Banco Desio Group is Euro 1.7 million.

5 - Legislative Decree 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 Bank 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.

6 - Human resources

6.1 – Management and breakdown of resources

The merger of Banca Popolare di Spoleto with Banco di Desio e della Brianza is undoubtedly the key event of 2019 in the area of resource management, given its impact on the strategic and operational decisions of the year, also following the Agreement signed on 14 June 2019 with the trade unions that represent the majority of employees. The main activities relating to Human Resource Management that characterised 2019 are summarised below:

- closure in the afternoon of cashier operations at 131 branches, with consequent professional conversion of the network resources concerned towards commercial and consultancy roles, in consideration of their various career paths, personal characteristics and growth potential;
- 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, envisaged support activity starting from January 2019. This involved the autonomous network resources for European Securities and Markets Authority (ESMA) purposes in relation to colleagues who are qualified but not yet autonomous in providing advice to customers on financial investments;
- in order to follow up the Bank's plans to provide increasingly punctual service in specialised sectors, we proceeded to launch in-house, but also by identifying external professionals, the activities in the Leasing and Factoring Sectors, which in the past were "delegated" to external companies or not particularly developed (e.g. "without-recourse loans" in the Factoring sector).

With particular reference to the update of the organisational structure, we would highlight the following:

- completion of the "Bancassurance and Business Development" Department, as a staff function for the General Manager, with the insertion of management sales representatives with the task of supporting the branch network, in order to help the development of the bancassurance business with SMEs and retail customers, widening the current offer and through the adoption of an operating model that is consistent with the evolution of the Group's distribution strategy;
- the establishment of the "Chief Innovation & Data Officer" Function, again as a staff function for the General Manager, made up of young professionals not all with a banking background. The aim is to contribute to the evolution of the Bank's distribution model, with an integrated "omni-channel" approach, also through initiatives designed to create digital applications and solutions for business support; the idea is also to boost customer services based on emerging technologies.

Lastly, the Agreement of 24 October 2019 signed with the trade unions that represent the majority of employees, was signed and implemented, concerning:

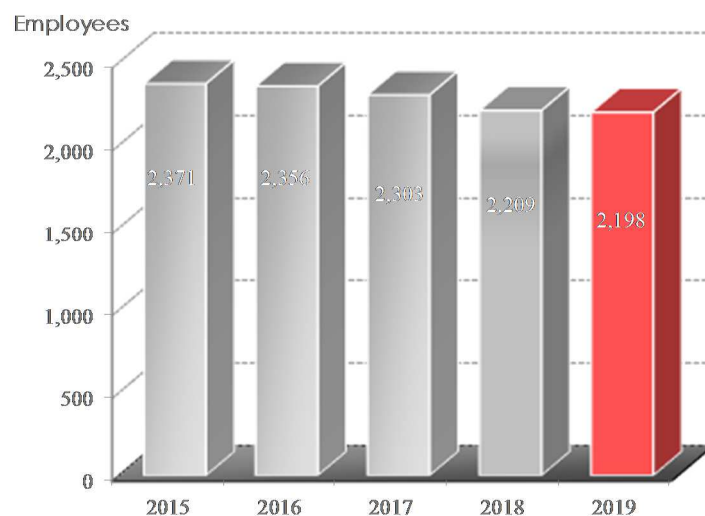
- staff with pension rights accrued by 31/12/2020;
- staff with retirement rights accrued under the so-called "quota 100";
- staff with pension rights accrued under the so-called "female option".

Participation in this agreement took place on a voluntary basis and involved a total of 40 employees.

At 31 December 2019, the Group had 2,198 employees, a decrease of 11 (-0.5%) since the end of the prior 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



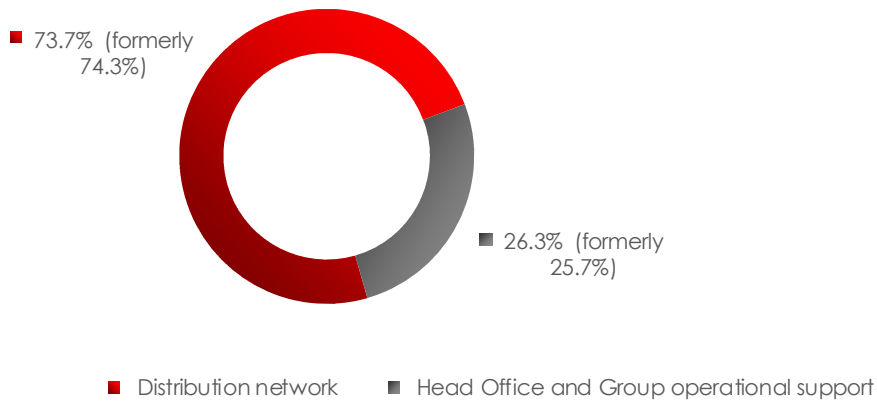
The following table provides a breakdown of employees by level at the end of 2019, compared with the previous year.

Table no. 1 - BREAKDOWN OF GROUP EMPLOYEES BY LEVEL

No. Employees	31.12.2019		31.12.2018		Change	
	Amount	%	Amount	%	Amount	%
Managers	34	1.5%	32	1.4%	2	6.3%
3rd and 4th level middle managers	467	21.2%	454	20.6%	13	2.9%
1st and 2nd level middle managers	579	26.3%	583	26.4%	-4	-0.7%
Other personnel	1,118	51.0%	1,140	51.6%	-22	-1.9%
Group employees	2,198	100.0%	2,209	100.0%	-11	-0.5%

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**



6.2 - Training

In 2019, training activities were very important in the personnel professional development processes, accompanying the evolution of new expertise and facilitating the integration of different skills in a broader perspective, thus promoting changes not only in the professional context, but also in the social one. This perspective also materialises through the progressive introduction of flexible "training" approach: in this context, the launch of the Smart Learning initiative was undertaken with the aim of increasingly orienting towards training tools that facilitate the reconciliation of work and family needs.

Training programmes in 2019 were implemented according to the following main guidelines:

1. to enhance the qualitative elements, among which the intense planning of training contents which took on a distinctive connotation in the context of various activities, also carried out through innovative methodological tools, gradually introduced in order to make training more efficient and personalised;
2. to increase transversal skills, i.e. those not directly related to the person's specific role, with the launch of specific projects and more job rotation;
3. to intensify collaboration with the "academic world", seeing positive implications also in terms of talent attraction and, more generally, branding attraction;
4. to articulate pathways related to professional qualifications, in particular with regard to the provision of investment services (ESMA) and placement of insurance products (IVASS), optimizing personnel training investments and reducing their impact with programmes that can be integrated in accordance with the respective regulatory provisions in force.

Training activities were provided using various methods, with the aim of identifying - for each specific initiative - the solution deemed most effective, taking into consideration, if applicable, the criteria defined by the various reference regulatory contexts. This approach made it possible to create blended training

courses, integrating classroom activities, modules distributed through e-learning and virtual classroom tools, such as webinars.

Furthermore, among the new methodological tools introduced in 2019, the method for detecting training needs has taken on significant importance; the use of specific supports for the purpose of dedicated assessment and/or feedback will allow more and more to direct the contents on the real training needs of personnel, foreseeing the use of technological innovation solutions.

As regards the balance of the activities provided in 2019, the intense activity carried out during the second half of the year not only allowed to recover the decrease recorded in the first part of the year, especially attributable to the training on IVASS, but also to achieve a total of 121,193 man-hours provided (formerly 102,452), with a significant increase of 18.3% on the previous year. This corresponds to an average of 7.4 days per employee (formerly 6.2).

With reference to training methods, it should be noted that approximately 60% of total training hours were carried out in e-learning mode, with the didactic structure using the "training pill" scheme, mainly to facilitate the learning of content that is considered particularly important.

As regards classroom and webinar initiatives - always very important for the qualitative aspects of communication - professional skills were further enhanced through internal teaching activities (by a total of 56 resources belonging not only to Head Office Functions, but also to the Distribution Network). This helped foster cross-functional teaching to ensure a more structured and complete range of training courses in consideration of the Group's objectives.

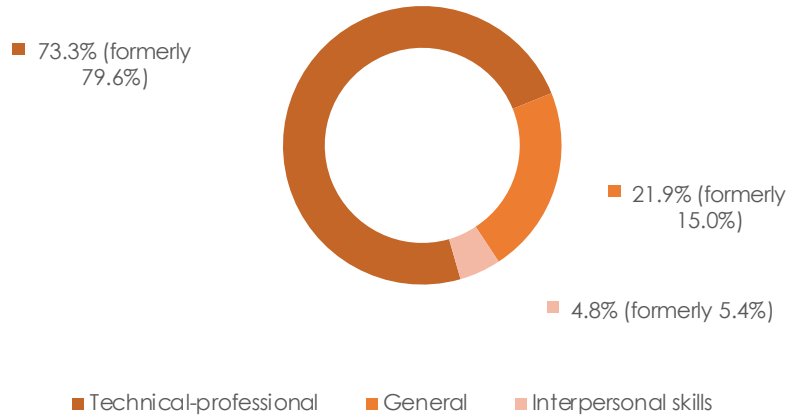
The training offer was also divided into programmes aimed at guaranteeing the development of technical knowledge and behavioural skills required by the various professional roles, in line with the objectives set out in the Group's Business Plan, as well as in relation to the specific objectives indicated by the Company Functions, which also took into account the guidelines at system level.

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 breakdown in percentage terms of training days that were held in the year in the three areas mentioned above.

Chart no. 4 - TRAINING ACTIVITIES BY TYPE



The main "General" training initiatives, defined according to various regulatory contexts, include, in particular, programmes on the Privacy and GDPR , through an online session available to all corporate employees, on Banking POG, with the aim of ensuring adequate knowledge of the "Product Oversight and Governance" regulatory provisions for the entire distribution network, a course on Usury designed and structured in training pills following a targeted assessment activity. In addition, a training course was developed on Anti-money laundering, provided through alternative methods, with a view to continuous strengthening of the risk of money laundering and terrorist financing; a training plan was subsequently designed and launched with particular focus on "Suspicious Transaction Reporting" which involved around 1,600 resources, foreseeing extension to the entire distribution network in 2020, while operational awareness sessions were addressed only to Customer Assistants.

In collaboration with Control Functions, with the aim of increasing awareness of a culture of control of *Operational Risks*, a first session was provided involving 44 resources, providing for the extension to all Territorial Area Managers and Network Branch Managers for 2020. Furthermore, this training activity - in e-learning mode - will be proposed to all professional figures in consideration of the importance of the issues in question.

Within the programmes related to *Health and safety in the workplace*, sessions were provided to the various figures defined by the reference regulatory context (RSPP, ASPP, RLS, "firefighters", "first aid workers", "workers" and "supervisors"); with reference to the five-year update process, a module on "Work-related stress" was implemented and released, preparatory to the assessment of specific risk.

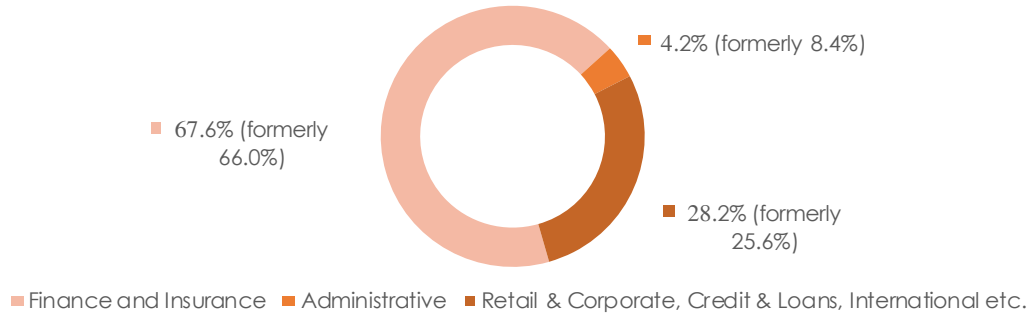
As part of the initiatives relating to the *Group Sustainability Plan*, in addition to webinar sessions focused on various topics (environmental, economic and social sustainability, etc.), the video lesson "Corporate Social Responsibility" was created for the entire corporate population.

Worth noting was also the training proposal in English language programmes for the entire company population, characterised by variety of contents and flexibility of use accessible through different tools/devices.

The "Technical-Professional" training accounted for 73.3% of total activities, an increase compared with the total hours of the previous year (79.6%).

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:

- Credit & Loans and Sales & Marketing

The training activities attributable to these Areas were provided through internal teachers, ensuring an affirmed teaching quality and a high contextualization of the contents to the needs of the population involved.

With reference to the "Credit & Loans" Area, worth noting was the planning relating to the *AIRB Rating System* carried out through a training path divided into two phases and delivered in various ways. The first phase - developed in e-learning mode - involved a total of 1,230 resources; the programme relating to the discussion of the "AIRB Corporate model" was designed with the aim of integrating and strengthening the activities previously provided in the classroom; furthermore, training sessions were carried out by internal teachers through the "Question Time" formula. The online programme relating to the "AIRB Individual model" was addressed not only to the personnel belonging to the credit chain, but also to the professional figures of Individual Customer Managers and Affluent Customer Managers.

The second phase of the course, concerning the "AIRB Retail Business model", was delivered through 6 operational alignment webinars addressed to 586 resources.

With reference to the training programme on *Leases*, classroom sessions and webinars were provided to support the implementation of the new company application, involving 250 resources; as regards the specific sector of *Farming Loans*, some editions were issued on the evaluation criteria, as well as on commercial aspects of the negotiation with the customer, involving a total of around 600 staff.

Worth noting was also the planning and delivery of a training course on *Real estate loans to consumers*, in e-learning mode, initially intended for personnel directly involved and, subsequently, extended to all the professional roles of the Network according to the relevance of the contents treated (purchase procedures for real estate, mortgage disbursement, discipline of real estate mortgages to consumers, the role of policies in the mitigation of credit risks). This training course,

together with that relating to the *AIRB rating system*, was also proposed to the personnel to be employed in credit operations within the "Professional reconversion" plan, structured by providing various levels of contents discussion (basic and advanced) in terms of *Creditworthiness assessment* and *Financial statements analysis*, depending on the level of technical-professional knowledge held by the resources involved.

With reference to the "Sales & Marketing" area, training was held to support the launch of new products and to help market existing ones, in order to increase the efficiency and effectiveness of commercial development measures; these initiatives recorded a significant use of webinars.

Classroom sessions dedicated to the discussion of the characteristics of the commercial products and services offered were addressed to all 118 persons belonging to the "Professional reconversion" project, among the Credit & Loans and Finance segments, for the year 2019 (formerly 43 in 2018), to be understood as transversal programmes, in a perspective of business development with higher added value, also through consultancy activities. These programmes - many taught by members of staff - were designed by combining different modules articulated by product/service (mortgages, factoring, leases, credit cards, international, Fides, insurance products, personal loans, ancillary services, etc.).

- Finance and Insurance

In the "Finance" area, the annual course needed to "maintain" the professional qualification for ESMA purposes has taken on particular importance. The course is designed to consolidate and update skills for around 700 persons, also providing classroom sessions to ensure adequate knowledge of the operational processes implemented for the entry into force of the reporting requirements of costs and charges introduced by MiFID2.

In the "Insurance" area, updating the professional qualifications of more than 1,200 members of staff for Institute for the Supervision of Insurance (IVASS) purposes was particularly important in terms of training investments. This programme was structured into 14 modules, divided into various contents relating to the thematic areas provided for in attachment no. 6 of IVASS Regulation no. 40 (contractual and products, legal, insurance and reinsurance, administrative and management and IT issues).

Some training modules were also used as part of the "maintenance" course for ESMA purposes, as the training process for ESMA/IVASS subjects pursued the objective of standardising the methodological approach of the two paths, optimising the delivery of the programmes, while at the same time ensuring compliance with the specific requirements of the two regulatory areas.

Given the partial overlap of the maintenance courses for these two qualifications, the overall total of training hours given is lower than the sum of the hours provided for each of them.

The professional "qualification" programme for IVASS was started at the end of the year; it will end in 2020 and will be extended to other resources of the distribution network.

Both the IVASS "qualification" and "maintenance" courses were structured according to a principle of overall didactic consistency to be ensured in the distribution of the subjects.

Lastly, it is worth mentioning the initiative addressed to some network resources with the aim of conveying new ways for the Bank to offer insurance solutions.

- "Other"

With specific reference to the initiatives belonging to this aggregation, worth noting are the classroom interventions provided by internal teachers, based on the training needs that emerged from the

network operations, relating to the "International" Area. In addition, worth mentioning is the training programme for approximately 180 resources who work as Customer Assistants. The programme will be offered continuously throughout 2020 so as to involve everyone concerned.

As part of "Behavioural" training, 8 sessions were addressed to all resources involved in the "Professional Conversion" project, with the aim of developing negotiating skills with customers, increasing the commercial effectiveness of the relationship with current and potential customers. Also worth mentioning is the managerial programme focused on the development of decision-making and coordination skills of the resources and organisational structures of reference, addressed to 13 Area Managers, as well as an initiative dedicated to over 300 network resources, with the specific objective of improving their commercial approach.

As regards initiatives aimed at equal opportunities, two training sessions were held in 2019 on the topic of Work/Life Balance intended for new mothers just back from maternity leave, as well as a course on Female Leadership for high fliers.

6.3 - Industrial relations

May 2019 saw the start of the Trade Union procedure pursuant to art. 17 and 21 of the National Collective Labour Contract for the merger of Banca Popolare di Spoleto S.p.A. with the Parent Company Banco di Desio e della Brianza S.p.A.; this Procedure was concluded before the deadline set by the current National Collective Labour Contract thanks to the Agreement signed on 14 June 2019 with the trade unions that represent the majority of employees who have joined a union.

Again in May, the Company and the Trade Union Representatives of the first meeting signed an Agreement aimed at promoting the use of remote corporate training, in a "flexible" mode (so-called "Smart Learning"); this solution aims to facilitate the balance between the management of life and the company's organisational needs, with the awareness of the importance of the continuous improvement of the quality and effectiveness of the training offer, which can also be used through innovative methods.

In October, the Company and the Trade Union Representatives signed an Agreement to facilitate and encourage voluntary acceptance by Group employees who qualify for pension rights (so-called CGI rights, i.e. Compulsory General Insurance), to leave their job on the basis of the legislative possibilities, also to permit more youth employment by means of a generation change; 40 persons accepted and will leave by 31 December 2021.

In December, a Trade Union Agreement was signed for revision of the "Facilitated conditions reserved for employees" which made it possible to realign the conditions reserved for the staff with the current market context.

6.4 - Future activities

The Human Resources Department will continue the project of professional conversion of network resources from administrative roles to commercial/consultancy roles to guarantee an increasingly targeted and personalised customer service.

In addition, new initiatives and efficiency enhancements of the service models will be put in place, both at Head Office and the Network, in line with the development lines of the sustainability issues defined by the Banco Desio Group and on the basis of the Company policies on the enhancement of gender diversity and work-life balance.

Lastly, the Human Resources Department will assess and analyse, prior to their implementation, the changes in work organisation introduced by the new national contract for the banking sector.

7 - Control activities

7.1 - 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.

7.2 - The internal 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.

7.3 - 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.

With reference to the initiatives carried out during the year to take Environmental, Social and Governance ("ESG") aspects into consideration in company policies, and therefore for the integration of the assessment

of these risks into the overall Enterprise Risk Management system, reference should be made to the "Banco Desio Group Sustainability Report" (see paragraph "9.8 – Statement of a non-financial nature"). The same document should also be referred to for the specific issue of climate change.

8 - Results 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 "9 – Performance of consolidated companies".

8.1 - Savings deposits: customer funds under management

Total customer funds under management reached Euro 26.8 billion, representing an increase with respect to the 2018 year-end balance (+8.0%), attributable to both direct deposits (+4.8%) and indirect deposits (+10.4%).

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

Amounts in thousands of Euro	31.12.2019		31.12.2018		Change	
	Amount	%	Amount	%	Amount	%
Due to customers	9,445,899	35.3%	9,254,591	37.3%	191,308	2.1%
Debt securities in issue	1,749,103	6.5%	1,426,213	5.8%	322,890	22.6%
Direct deposits	11,195,002	41.8%	10,680,804	43.1%	514,198	4.8%
Ordinary customer deposits	9,721,680	36.4%	8,952,340	36.2%	769,340	8.6%
Institutional customer deposits	5,840,695	21.8%	5,140,371	20.7%	700,324	13.6%
Indirect deposits	15,562,375	58.2%	14,092,711	56.9%	1,469,664	10.4%
Total customer deposits	26,757,377	100.0%	24,773,515	100.0%	1,983,862	8.0%

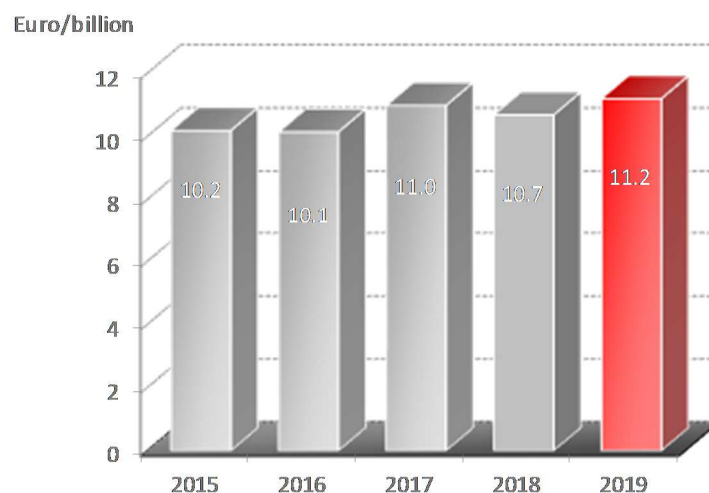
Direct deposits

Direct deposits amounted to Euro 11.2 billion, up 4.8% compared with 31 December 2018, due to the trend in both amounts, due to customers (+2.1%) and debt securities in issue (+22.6%), in particular following the placement in July of covered bonds for a nominal amount of Euro 500 million, maturing in 7 years.

Due to customers of Euro 9.4 billion represents the most significant component as it makes up 84.4% of the total balance, of which some Euro 8.4 billion relates to demand deposits, that is, current accounts and savings deposits, while some Euro 1.0 billion relates to restricted deposits and the remainder relates to other payables.

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

Indirect deposits totalled Euro 15.6 billion (+10.4%). Deposits from ordinary customers amounted to Euro 9.7 billion, up 8.6% compared with the end of the previous year, attributable to the trend in assets under management (+14.6%).

Deposits from institutional customers, equal to 37.5%, reached a total of around Euro 5.8 billion, an increase of around Euro 0.7 billion.

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

Table no. 3 - INDIRECT DEPOSITS

Amounts in thousands of Euro	31.12.2019		31.12.2018		Change	
	Amount	%	Amount	%	Amount	%
Assets under administration	3,078,702	19.8%	3,154,614	22.4%	-75,912	-2.4%
Assets under management	6,642,978	42.7%	5,797,726	41.1%	845,252	14.6%
<i>of which: Mutual funds and Sicavs</i>	3,144,939	20.2%	2,525,826	17.9%	619,113	24.5%
<i>Managed portfolios</i>	966,037	6.2%	892,092	6.3%	73,945	8.3%
<i>Bancassurance</i>	2,532,002	16.3%	2,379,808	16.9%	152,194	6.4%
Ordinary customer deposits	9,721,680	62.5%	8,952,340	63.5%	769,340	8.6%
Institutional customer deposits ⁽¹⁾	5,840,695	37.5%	5,140,371	36.5%	700,324	13.6%
Indirect deposits ⁽¹⁾	15,562,375	100.0%	14,092,711	100.0%	1,469,664	10.4%

(1) institutional customer deposits include securities of the Bancassurance segment of ordinary customers for Euro 2.4 billion (Euro 2.1 billion at 31.12.2018).

The following chart analyses the indirect deposits from ordinary customers by sector at 31 December 2019, 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 31.12.2019

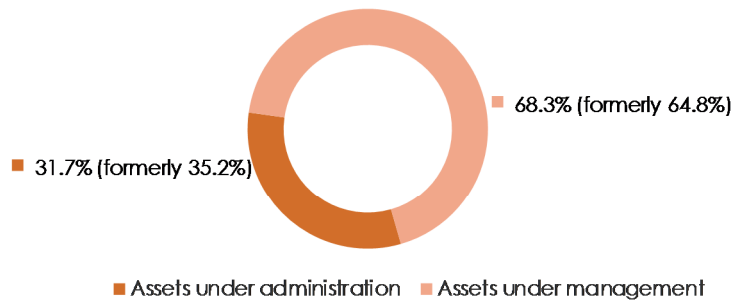
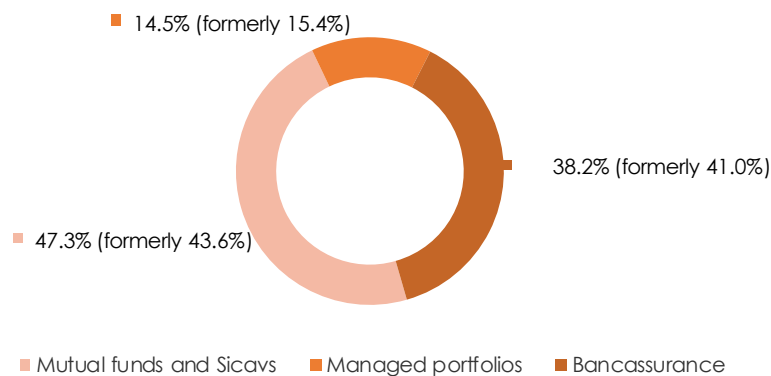


Chart no. 8 - BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2019



In 2019, stock market returns exceeded all initial expectations. Two key factors made it possible to achieve these results. First of all, hefty sales at the end of 2018 made all risk asset classes particularly attractive. Subsequently, the new expansionary attitude of the Central Banks, which reduced the reference rates or increased the extraordinary policies, led to an increase in the risk appetite of the investors.

2019 was a particularly profitable year for those who invested in bonds. The new highly accommodative monetary policies led to both a fall in yields on the safest government securities and a general narrowing of the spreads of the Emerging Countries, but also of issues with low creditworthiness, as well as the government bonds of the peripheral countries of the Euro Area.

As regards Managed Portfolios, in the bond component, a balancing strategy was adopted going overweight on longer German sovereign debt, on the one hand, and, on the other, the riskier part of bond investment, namely Emerging Countries and subordinated banking securities. In the equity component, a constructive view on the stock exchanges was confirmed, in the belief that they expressed better value than bonds. As part of a good diversification policy, preference in terms of allocation went to the United States rather than Europe. The overweight position on emerging markets was also maintained. At sector level, the highest weightings went to technology and consumer goods, to the detriment of telephones and public utilities.

8.2 – Credit management: loans to customers

The total amount of loans to customers at the end of the year amounted to Euro 9.6 billion, 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

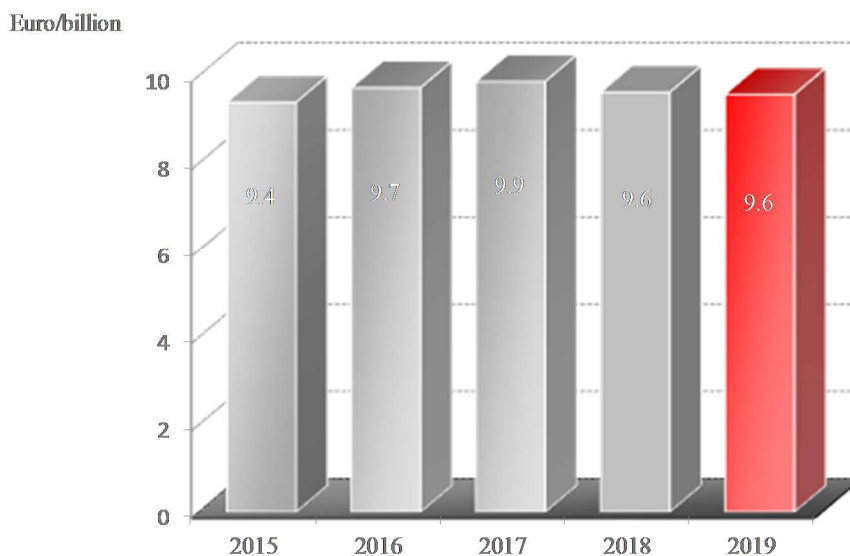


Table no. 4 - LOANS TO CUSTOMERS

Amounts in thousands of Euro	31.12.2019		31.12.2018		Change	
	Amount	%	Amount	%	Amount	%
Current accounts	1,418,691	14.9%	1,589,497	16.5%	-170,806	-10.7%
Mortgages and other long-term loans	7,091,759	74.1%	6,895,602	71.7%	196,157	2.8%
Other	1,057,236	11.0%	1,131,601	11.8%	-74,365	-6.6%
Loans to customers	9,567,686	100.0%	9,616,700	100.0%	-49,014	-0.5%
- of which non-performing loans	340,179	3.6%	401,372	4.2%	-61,193	-15.2%
- of which performing loans	9,227,507	96.4%	9,215,328	95.8%	12,179	0.1%

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest 50 customers at the end of 2019 continues to reflect a high degree of risk diversification, although amounts are decreasing, as can be seen from the following table.

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

Number of customers	31.12.2019	31.12.2018
First 10	1.07%	1.25%
First 20	1.82%	2.05%
First 30	2.46%	2.71%
First 50	3.57%	3.85%

None of the customers are "Large Exposures" for supervisory purposes; the five positions classified as "Large Exposures" are attributable to balances with the Bank of Italy, the Treasury Ministry, BNP Paribas, Two Worlds S.r.l. and the Guarantee Fund under Law no. 662 of 23.12.1996, for a total nominal amount of approximately Euro 4.1 billion, corresponding to around 0.4 billion in terms of total weighted amount.

As a result of the sales of non-performing loans carried out during the year, 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 Euro 340.2 million, net of adjustments for Euro 284.3 million, with a decrease of Euro 61.2 million compared with Euro 401.4 million at the end of 2018. In particular, net doubtful loans totalled Euro 120.0 million (formerly 122.5 million), unlikely to pay loans Euro 217.1 million (formerly 274.8 million) and non-performing past due and/or overdrawn exposures Euro 3.1 million (formerly Euro 4.1 million).

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 reduction in the ratio of "gross non-performing loans/gross loans" to 6.3% and "net non-performing loans/net loans" to 3.6%.

Table no. 6 - INDICATORS OF CREDIT RISK VERSUS CUSTOMERS

<i>% of gross loans ⁽¹⁾</i>	31.12.2019	31.12.2018
Gross non-performing loans to customers	6.31%	6.98%
<i>of which:</i>		
- gross doubtful loans	3.15%	3.02%
- unlikely to pay, gross	3.13%	3.91%
- non-performing past due and/or overdrawn exposures, gross	0.04%	0.05%
<i>% of net loans</i>	31.12.2019	31.12.2018
Net non-performing loans to customers	3.56%	4.17%
<i>of which:</i>		
- net doubtful loans	1.25%	1.27%
- unlikely to pay, net	2.27%	2.86%
- non-performing past due and/or overdrawn exposures, net	0.03%	0.04%

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

<i>% Coverage of non-performing and performing loans ⁽¹⁾</i>	31.12.2019	31.12.2018
% Coverage of doubtful loans	61.46%	59.34%
% Coverage of doubtful loans, gross of cancellations	63.11%	64.47%
% Total coverage of non-performing loans	45.53%	42.25%
% Coverage of non-performing loans, gross of cancellations	46.72%	45.65%
% Coverage of performing loans	0.49%	0.54%

8.3 - The securities portfolio and interbank position

Securities portfolio

2019 was the year that Central Banks took an accommodating turn with the trade war acting as a catalyst. The protraction of the "trade war" did in fact translate into a contraction of global trade and the collapse of manufacturing indicators, especially in areas and countries with the greatest vocation for exporting (like the Eurozone, Germany in particular). The consequent slowdown in economic growth and the simultaneous sharp drop in inflationary pressures led Central Banks to reverse the direction of monetary policy, moving rapidly from rate normalisation to a renewed expansionary approach; in the last 6 months, this has led to cuts in rates and renewal of more or less explicit quantitative easing (QE) programmes. Of particular note was the announcement by the ECB of the launch of the TLTRO3 programme and the introduction of so-called "tiering" of deposits which, from 30 October, exempted Banks from paying a negative rate on the liquidity parked at the ECB for an equal amount six times the reserve requirement. This instrument therefore represents the possibility that banks will not pay -0.50% on excess liquidity reserves but 0%, neither receiving nor paying any interest, thereby reducing the negative impact on their interest margin.

In this way, markets have entered the logic of "the worse it gets, the better it is" (i.e. the worse things get, the more accommodating the Central Banks will be) leading to stellar increases in stock markets (one of the most important in the last 30 years for the S&P500 index) with a simultaneous fall in government bond yields. The rally then found further fuel in the latter part of 2019 with the resolution of some fundamental issues: 1) reaching a truce on the trade front with the signing of the so-called "phase 1" expected for the beginning of January; 2) a bit more certainty about Brexit after the overwhelming victory of the Conservatives in the mid-December elections. The combination of accommodating Central Banks, the decline in headwinds and the cyclical rebound of the economy anticipated by some indicators (for example PMI), could lead to a 2020 that is still tonic. On the other hand, we are in the year of the US election and Trump will certainly have every interest in presenting himself on 3 November 2020 with stock markets (considered proxies of the approval rate of his work) on the rise and with a still strong economy. 2019 was a rather anomalous year for the currency market. On the one hand, the climate of tension on the trade front for most of the year has led the yen to be one of the best currencies in the world among developed countries, together with the pound sterling which benefited from falling fears of a Hard Brexit. On the other hand, emerging currencies still held up well (offering total return performances that were positive on average) thanks to the expansionary policies not only of the respective Central Banks, but above all of the Fed and ECB. A separate case was the yuan, which was the defence weapon that China used to offset the duties imposed by the USA.

Performances on financial markets during 2019 were therefore highly respectable, with government bond yields falling significantly; the yield on 10-year Bunds went from +0.242% to -0.185%, on 10-year Treasuries it went from 2.686% to 1.921% and on 10-year BTPs it fell from 2.742% to 1.412%.

The excellent trend on stock markets produced important hikes in indices: the FTSEMIB rose by 28.28%, the Eurostoxx50 by 24.78% and the S&P500 by 28.88%.

The Bank's Securities Portfolio at the end of the year amounted to approximately Euro 3.4 billion. The investment policy of the Held to Collect securities portfolios ("HTC" - "primary" investment portfolio for the support of net interest income and the collection of cash flows, with the possibility of selling only in case of need and according to the limits of the related Business Model) and Held to Collect and Sell ("HTCS" - "residual" portfolio where the securities are held for treasury needs) is still characterised by a significant exposure to Italian government securities despite the presence of significant equity investments in the

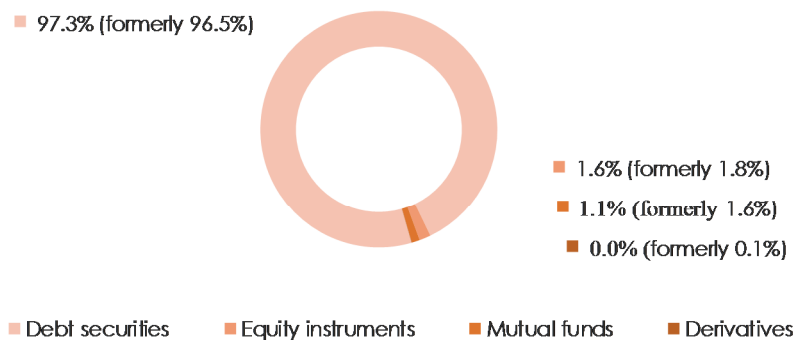
primary market on a selected number of corporate issuers. The duration of the HTC Portfolio at the end of 2019 was limited and equal to 1.63, while the duration of the HTCS Portfolio was equal to 0.74, with the residual life of available-for-sale securities significantly shortened.

During the year, steps were taken to increase the short-term trading activity on the trading portfolio. Of particular importance was also the activity carried out by the foreign exchange desk with customers, with significant trading volumes and satisfactory economic results.

During the second half of the year, the Bank approached the market with a new 7-year covered bond issue for Euro 500 million and a 0.375% coupon. For Banco Desio, this is the second public secured issue, after the last Covered Bond launched in September 2017. The securities were distributed to various categories of institutional investors with demand mainly from Germany/Austria (36%), Italy (29%), Scandinavia (14%), Switzerland (8%), Spain/Portugal (7%).

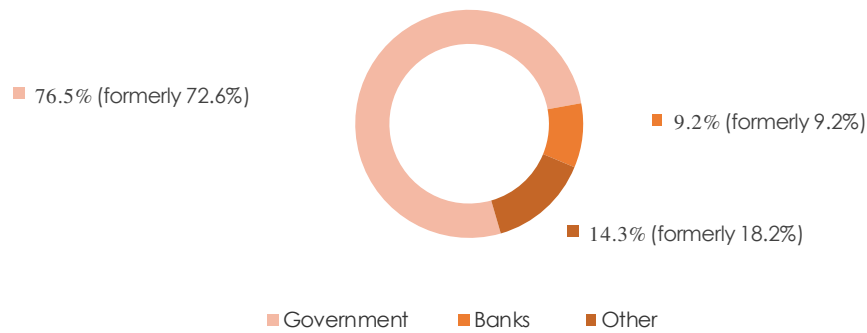
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (97.3%) of the investments still consist of debt securities.

Chart no. 10 - % BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2019 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 31.12.2019 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 2019 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		31.12.2019		31.12.2018			
		Italy	Total	Italy	Spain	Portugal	Total
Financial assets available for trading	Nominal value	-	-	2,371	-	-	2,371
	Book value	-	-	1,521	-	-	1,521
Financial assets designated at fair value through other comprehensive income	Nominal value	505,000	505,000	240,000	-	-	240,000
	Book value	506,813	506,813	241,492	-	-	241,492
Financial assets measured at amortised cost	Nominal value	2,055,711	2,055,711	1,940,921	15,000	25,000	1,980,921
	Book value	2,069,131	2,069,131	1,950,485	15,260	27,451	1,993,196
Sovereign debt	Nominal value	2,560,711	2,560,711	2,183,292	15,000	25,000	2,223,292
	Book value	2,575,944	2,575,944	2,193,498	15,260	27,451	2,236,209

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

Amounts in thousands of Euro		Italy	Portugal	31.12.2019	
				Nominal value	Book value
Financial assets designated at fair value through other comprehensive income	up to 1 year	370,000	-	370,000	371,440
	1 to 3 years	135,000	-	135,000	135,373
	3 to 5 years	-	-	-	-
	over 5 years	-	-	-	-
	Total	505,000	-	505,000	506,813
Financial assets measured at amortised cost	up to 1 year	265,000	-	265,000	265,312
	1 to 3 years	735,000	-	735,000	736,285
	3 to 5 years	745,921	-	745,921	752,093
	over 5 years	309,790	-	309,790	315,441
	Total	2,055,711	-	2,055,711	2,069,131
Sovereign debt	up to 1 year	635,000	-	635,000	636,752
	1 to 3 years	870,000	-	870,000	871,658
	3 to 5 years	745,921	-	745,921	752,093
	over 5 years	309,790	-	309,790	315,441
	Total	2,560,711	-	2,560,711	2,575,944

Net interbank position

The net interbank position at year-end is negative for Euro 1.0 billion, compared with the position at the end of the previous year, which was also negative for Euro 1.3 billion.

8.4 - Shareholders' equity and capital adequacy

The consolidated shareholders' equity of the banking group

Shareholders' equity pertaining to the Parent Company at 31 December 2019, including net profit for the period, amounts to Euro 965.1 million, compared with Euro 892.1 million at the end of the previous year. The positive change of Euro 64.8 million is essentially attributable to the inclusion of minority interests at 31 December 2018, amounting to Euro 44.3 million, following the merger of the former subsidiary Banca Popolare di Spoleto (BPS) with the Parent Company's balances, as well as to the comprehensive income for the period, equal to Euro 40.4 million, which more than offset the distribution of dividends for Euro 11.9 million.

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 2019, 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 31.12.2019

<i>Amounts in thousands of Euro</i>	Shareholders' equity	of which: net profit (loss) for the period
Balances of the Parent Company Banco Desio	956,871	44,886
Effect of consolidation of subsidiaries	8,237	1,010
Dividends declared during the period	-	-5,740
Consolidated balance of the Banco Desio Group	965,108	40,156

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 without delay by an entity to cover risks or losses as and when the risks or losses arise.

- ii. Additional Tier 1 capital - AT1 – The components of Additional Tier 1 capital are the following: a) equity instruments, where they comply with the conditions set out in art. 52, paragraph 1 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point. The instruments included under a) do not qualify as components of common equity tier 1 or tier 2.
- iii. Tier 2 capital - T2 – The components of Tier 2 are the following: a) equity instruments and subordinated debt, where they comply with the conditions set out in article 63 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point; c) for entities that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 2 of EU Regulation no. 575/2013, general loan provisions, gross of the related tax effect, up to 1.25 % of the risk-weighted exposure amounts computed in compliance with part three, title II, chapter 2 of the Regulation; d) for entities that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of EU Regulation no. 575/2013, the positive amounts, gross of the related tax effect, resulting from the computation in accordance with articles 158 and 159 up to 0.6 % of the risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of the Regulation.

Following the periodic Supervisory Review and Evaluation Process (SREP), on 27 June 2019, the Bank of Italy notified Banco di Desio e della Brianza and the financial parent company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. its decision regarding capital, ordering that, from the notification about own funds at 30 June 2019, the "CRR" Brianza Unione Group was to adopt the capital ratios that presuppose compliance with the minimum limits indicated below, taking into account the capital conservation buffer of 2.5% applicable to Italian banking groups in 2019:

- **7.25% for the Common Equity Tier 1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 4.75% (of which 4.5% for the minimum regulatory requirements and 0.25% for additional requirements) and for the remainder from the capital conservation buffer;
- **8.85% for the Tier1 ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 6.35% (of which 6.0% for the minimum regulatory requirements and 0.35% for additional requirements) and for the remainder from the capital conservation buffer;
- **11.00% for the Total Capital ratio**, binding - pursuant to art. 67-ter of the CBA - to the extent of 8.5% (of which 8.0% for the minimum regulatory requirements and 0.50% for additional requirements) and for the remainder from the capital conservation buffer.

Comparing the new requirements and those previously assigned to the Group¹ with those announced by various competitors, the Group's financial solidity is confirmed.

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

On 23 January and 25 January 2018, the Boards of Directors of the former subsidiary 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 IFRS 9, 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

¹ Based on the previous provision of the Bank of Italy on this matter, which was communicated to the Parent Company Banco Desio on 4 April 2017, concerning the minimum capital requirements at consolidated level to be respected on completing the SREP: CET1 ratio of 7.25%, binding for 4.75% (minimum regulatory requirement of 4.5% and additional requirements of 0.25%) with the difference represented by the capital conservation buffer, Tier1 ratio of 8.85%, binding for 6.35% (minimum regulatory requirement of 6.0% and additional requirements of 0.35%) with the difference represented by the capital conservation buffer, and Total Capital Ratio of 11.0%, binding for 8.5% (minimum regulatory requirement of 8% and additional requirements of 0.5%) with the difference represented by the capital conservation buffer.

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, capital ratios have been calculated at the level of Brianza Unione di Luigi Gavazzi and Stefano Lado S.A.p.A., which is the company that controls 49.88% of Banco di Desio e della Brianza S.p.A., of which it holds 50.44% of the ordinary shares and 44.69% of the savings shares outstanding.

From 30 June 2019, the calculation of Own Funds and of the consolidated prudential requirements, which are transmitted to the Bank of Italy in relation to the prudential supervisory reports (COREP) and statistical reports (FINREP), is made with reference to Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. as it is the financial parent company of the banking group according to European legislation. This paragraph 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 Euro 908.6 million at 31 December 2019 (CET1 + AT1 of Euro 814.3 million, T2 of Euro 94.3 million).

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

	31.12.2019	
	Application of the transitional regime	Without application of the transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	758,312	
Common Equity Tier 1 - CET1 without application of the transitional provisions		726,873
Tier 1 capital	814,341	
Tier 1 capital without application of the transitional provisions		782,234
Total own funds	908,564	
Total own funds without application of the transitional provisions		876,513
RISK ASSETS		
Risk-weighted assets	7,590,001	
Risk-weighted assets without application of the transitional provisions		7,506,550
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	9.991%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional provisions		9.683%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	10.729%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional provisions		10.421%
Total Own Funds/Risk-weighted assets (Total capital ratio)	11.971%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional provisions		11.677%

At 31 December 2019 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

The Consolidated Own Funds of the Banco Desio Group, Own Funds at 31 December 2019, after a pay-out that takes account of the proposed allocation of the net profits of Group companies, subject to authorisation by their respective shareholders' meetings, amounted to Euro 1,038.1 million (CET1 + AT1 of Euro 985.5 million + T2 of Euro 52.6 million), a decrease of Euro 18.8 million compared with the final balance at the end of the previous year of Euro 1,056.9 million, mainly due to the decrease in Tier 2 capital compared with 31 December 2018, 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.

	31.12.2019	
	Application of the transitional regime	Without application of the transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	984,391	
Common Equity Tier 1 - CET1 without application of the transitional provisions		927,445
Tier 1 capital	985,530	
Tier 1 capital without application of the transitional provisions		928,584
Total own funds	1,038,147	
Total own funds without application of the transitional provisions		981,201
RISK ASSETS		
Risk-weighted assets	7,591,935	
Risk-weighted assets without application of the transitional provisions		7,508,483
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	12.966%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional provisions		12.352%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	12.981%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional provisions		12.367%
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.674%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional provisions		13.068%

At 31 December 2019 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)	7.25%	12.966%	12.352%
Tier 1 ratio	8.85%	12.981%	12.367%
Total capital ratio	11.00%	13.674%	13.068%

8.5 - 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 net trading fees relating to consumer credit were transferred from "Net commission income" to "Net interest income";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of financial assets valued at amortised cost" of "Operating income" is reclassified, net of the component of gains (losses) on debt securities at amortised cost, to "Cost of credit" (which also includes caption 130a) "Net impairment adjustments to loans and advances") after "Operating profit";
- the expected loss on securities at amortised cost included in caption 130a) "Net impairment adjustments to financial assets at amortised cost", has been reclassified to caption 130b) "Net adjustments to securities owned" (which also includes the balance of net adjustments for credit risk on securities at fair value with impact on overall profitability);
- costs for operating leases falling within the scope of IFRS 16 "Leases", which came into force on 1 January 2019, booked to item "20. Interest and similar expense" and to item "210. Net adjustments to property, plant and equipment", have been reclassified to item "190 b) Other administrative costs", where the charges incurred on these contracts were recorded in the prior period;
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 200 "Net provisions for risks and charges - other" to caption "Cost of credit", both captions coming after the "Result of operations";
- provisions and expenses of an extraordinary nature or which are "one-off" are reclassified to "Extraordinary provisions for risks and charges, other provisions and expenses";
- the tax effect on "Non-recurring profit (loss)" is reclassified from caption 300 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

The profit for the year is around Euro 40.2 million, up by 13.9% on the prior period figure of Euro 35.3 million, which was affected by the negative impact on the cost of credit linked to the sale of doubtful loans by means of a GACS.

Table no. 11 - RECLASSIFIED INCOME STATEMENT

Captions		31.12.2019	31.12.2018	Change	
				Amount	%
<i>Amounts in thousands of Euro</i>					
10+20	Net interest income	210,870	211,584	-714	-0.3%
70	Dividends and similar income	1,096	3,196	-2,100	-65.7%
40+50	Net commission income	169,310	166,974	2,336	1.4%
80+90+100+	Net result of financial assets and liabilities	8,056	7,551	505	6.7%
110					
230	Other operating income/expense	10,118	11,104	-986	-8.9%
	Operating income	399,450	400,409	-959	-0.2%
190 a	Payroll costs	-171,347	-171,717	370	-0.2%
190 b	Other administrative costs	-99,664	-92,938	-6,726	7.2%
210+220	Net adjustments to property, plant and equipment and intangible assets	-10,597	-10,864	267	-2.5%
	Operating costs	-281,608	-275,519	-6,089	2.2%
	Result of operations	117,842	124,890	-7,048	-5.6%
130a+100a	Cost of credit	-54,659	-76,932	22,273	-29.0%
130 b	Net adjustments to securities owned	3,420	-3,997	7,417	n.s.
140	Profit/losses from contractual changes without write-offs	-412	-69	-343	497.1%
200 a	Net provisions for risks and charges - commitments and guarantees given	-368	-417	49	-11.8%
200 b	Net provisions for risks and charges - other	337	-822	1,159	n.s.
	Profit (loss) from continuing operations before tax	66,160	42,653	23,507	55.1%
300	Income taxes on continuing operations	-20,395	-6,515	-13,880	213.0%
	Profit (loss) from continuing operations after tax	45,765	36,138	9,627	26.6%
260	Net result of the measurement at fair value of property, plant and equipment and intangible assets	-627	-	-627	n.s.
	Provisions for risks and charges, other provisions, one-off expenses and revenue	-7,857	636	-8,493	n.s.
	Non-recurring result before tax	-8,484	636	-9,120	n.s.
	Income taxes from non-recurring items	2,875	-216	3,091	n.s.
	Non-recurring profit (loss) after tax	-5,609	420	-6,029	n.s.
330	Net profit (loss) for the period	40,156	36,558	3,598	9.8%
340	Net profit (loss) pertaining to minority interests	0	-1,298	1,298	n.s.
350	Parent Company net profit (loss)	40,156	35,260	4,896	13.9%

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.

Table no. 12 - RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 31.12.2019

Captions	As per financial statements 31.12.2019	Reclassifications									Reclassified income statement 31.12.2019
		Measurement effects on non-performing loans	Fides brokerage commission	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, one-off expenses and revenue	Reclassifications IFRS 16 - Leases	Income taxes	
10+20	Net interest income	218,171	-6,359	-2,187					1,245		210,870
70	Dividends and similar income	1,096									1,096
40+50	Net commission income	167,123		2,187							169,310
80+90+100+	Net result of financial assets and liabilities	3,395						4,661			8,056
110	Other operating income/expense	41,591					-32,099	2,076		-1,450	10,118
	Operating income	431,376	-6,359	0	-32,099	0	2,076	4,661	-1,450	1,245	399,450
190 a	Payroll costs	-172,039							692		-171,347
190 b	Other administrative costs	-121,862					32,099		2,004	-11,905	-99,664
210+220	Net adjustments to property, plant and equipment and intangible assets	-19,181						-2,076		10,660	-10,597
	Operating costs	-313,082	0	0	32,099	0	-2,076	0	2,696	-1,245	-281,608
	Result of operations	118,294	-6,359	0	0	0	0	4,661	1,246	0	117,842
130a+100a	Cost of credit	-52,876	6,359								-54,659
130 b	Net adjustments to securities owned	99				-3,321					3,420
140	Profit/losses from contractual changes without write-offs	-412				3,321					-412
200 a	Net provisions for risks and charges - commitments and guarantees given	-368									-368
200 b	Net provisions for risks and charges - other	-6,434							6,771		337
	Profit (loss) from continuing operations before tax	58,303	0	0	0	0	0	0	7,857	0	66,160
300	Income taxes on continuing operations	-17,520								-2,875	-20,395
	Profit (loss) from continuing operations after tax	40,783	0	0	0	0	0	0	7,857	0	45,765
260	Net result of the measurement at fair value of property, plant and equipment and intangible assets	-627				0					-627
	Provisions for risks and charges, other provisions, one-off expenses and revenue		0			0			-7,857		-7,857
	Non-recurring result before tax	-627	0	0	0	0	0	0	-7,857	0	-8,484
	Income taxes from non-recurring items									2,875	2,875
	Non-recurring profit (loss) after tax	-627	0	0	0	0	0	0	-7,857	2,875	-5,609
330	Net profit (loss) for the period	40,156	0	0	0	0	0	0	0	0	40,156
340	Net profit (loss) pertaining to minority interests	0									0
350	Parent Company net profit (loss)	40,156	0	0	0	0	0	0	0	0	40,156

Table no. 13 - RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME STATEMENT AT 31.12.2018

Captions	As per financial statements	Reclassifications							Reclassified income statement	
		Measurement effects on non-performing loans	Fides brokerage commission	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, one-off expenses and revenue		Income taxes
Amounts in thousands of Euro	31.12.2018								31.12.2018	
10+20	Net interest income	219,068	-6,166	-1,318						211,584
70	Dividends and similar income	3,196								3,196
	Profit (loss) from equity investments in associates									0
40+50	Net commission income	165,656		1,318						166,974
80+90+100	Net result of financial assets and liabilities	-17,214	0				24,405	360		7,551
+110										
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	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	-275,519
	Result of operations	107,287	-6,166		0	0	0	24,405	-636	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 continuing operations before tax	43,289	0		0	0	0	0	-636	42,653
300	Income taxes on current operations	-6,731							216	-6,515
	Profit (loss) from continuing operations after tax	36,558	0		0	0	0	0	-636	36,138
250+280	Profit (loss) from investments and disposal of investments	-								0
	Provisions for risks and charges, other provisions, one-off expenses and revenue							636		636
	Non-recurring profit (loss) before tax	0	0		0	0	0	636	0	636
	Income taxes from non-recurring items								-216	-216
	Non-recurring profit (loss) after tax	0	0		0	0	0	636	-216	420
330	Net profit (loss) for the period	36,558	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	35,260

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

Operating income

Core revenues decreased by about Euro 1.0 million compared with the previous period (-0.2%), coming in at Euro 399.5 million. This is mainly due to the decrease in dividends for Euro 2.1 million, *other operating income/expense* for Euro 1.0 million (-8.9%) and *net interest income* which shows a negative change of Euro 0.7 million (-0.3%), partly offset by the positive contribution of *net commission income* for Euro 2.3 million (+1.4%) and by the *net result of financial assets and liabilities* for Euro 0.5 million.

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

Table no. 14 - BREAKDOWN OF NET COMMISSION INCOME BY TYPE OF SERVICE

Importi in migliaia di euro	31.12.2019		31.12.2018		Variazioni	
	Incidenza %		Incidenza %		Valore	%
Collection and payment services	26,182	15.5%	26,097	15.6%	85	0.3%
Placement of securities	24,102	14.2%	22,095	13.2%	2,007	9.1%
Managed portfolios and order taking	12,750	7.5%	12,146	7.3%	604	5.0%
Distribution of insurance products	19,744	11.7%	17,907	10.7%	1,837	10.3%
Maintenance and management of current accounts	73,381	43.3%	73,754	44.2%	-373	-0.5%
Other commission	13,151	7.8%	14,975	9.0%	-1,824	-12.2%
Net commission income	169,310	100.0%	166,974	100.0%	2,336	1.4%

The change in "Other commission income" reflects a lower contribution from currency trading commissions and commissions received from third parties on consumer credit and leasing products, in addition to a higher proportion of commission expense due to the network of financial consultants.

Operating costs

Operating costs, which include *payroll costs*, *other administrative expenses* and *net adjustments to property, plant and equipment and intangible assets* amounted to around Euro 281.6 million and have increased, with respect to the comparative period, by Euro 6.1 million (+2.2%).

In particular, other administrative expenses have increased by Euro 6.7 million (+7.2%). The balance includes Euro 8.6 million of the ex-ante gross ordinary contributions to the resolution fund ("Contribution SRM - Single Resolution Mechanism") and the fund for the protection of guaranteed deposits ("DGS contributions - Deposit Guarantee Scheme"), compared with Euro 8.2 million in the prior period. This balance also includes Euro 11.9 million of costs for operating leases falling within the scope of IFRS 16 - Leases, which came into force on 1 January 2019; these costs have been booked to item "20. Interest and similar expense" for Euro 1.2 million and to item "210. Net adjustments to property, plant and equipment" for Euro 10.7 million; in the prior period, the charges incurred on these contracts were recorded in item "190 b) Other administrative costs". Application of the new accounting standard involved recognising higher charges for Euro 0.6 million (before tax) during the year.

Payroll costs have slightly decreased by 0.2% on the prior period, whereas the balance of net adjustments to property, plant and equipment and intangible assets came to Euro 10.6 million (-2.5%).

Results of operations

The result of operations at 31 December 2019 therefore amounted to Euro 117.8 million, Euro 7.1 million down on the prior period (-5.6%).

Net profit (loss) from operations after tax

The result of operations of Euro 117.8 million leads to a *net profit (loss) from operations after tax* of Euro 45.8 million, 26.6% up on the Euro 36.1 million in the comparative period, mainly because of:

- lower cost of credit (*net impairment adjustments to loans and advances from customers and gains (losses) on disposal or repurchase of loans*) of Euro 54.7 million, compared with Euro 76.9 million in the prior period, which was affected by the cost of credit linked to the sale of non-performing loans by means of a GACS;
- positive net adjustments to proprietary securities of Euro 3.4 million (negative for Euro 4.0 million in the comparative period);
- *net provisions for risks and charges*, Euro 31 thousand (negative balance of Euro 1.2 million in the comparative period);
- income taxes on continuing operations of Euro 20.4 million (vs Euro 6.5 million).

Result of non-recurring items after tax

At 31 December 2019 the *result of non-recurring items after tax* was a loss of Euro 5.6 million. This item basically consists of:

- the revenue component of Euro 1.4 million relating to an insurance refund received;
- the Euro 2.0 million charge for the extraordinary contributions to the Single Resolution Mechanism (SRM) and the Deposit Guarantee Scheme (DGS),
- the provision for operating risks of Euro 6.6 million linked to the situation of particular legal uncertainty which emerged at the end of the year on operations with customers in the consumer credit sector,
- the Euro 0.7 million charge for incentives to staff with accrued pension requirements,
- the net result of the measurement of the works of art at fair value (negative for Euro 0.6 million),

net of tax (positive for Euro 2.9 million).

For the comparison period, a non-recurring profit after tax of Euro 0.4 million. This item basically consists of:

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

net of tax (negative for Euro 0.2 million).

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 2019 of Euro 40.2 million.

8 - Performance of consolidated companies

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

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

Balance sheet

Amounts in thousands of Euro	31.12.2019	31.12.2018		Change		31.12.2018
	actual	pro-forma	amount		%	actual
Total assets	14,170,989	13,581,234	589,755		4.3%	10,112,843
Financial assets	3,365,908	3,081,416	284,492		9.2%	2,629,146
Due from banks ⁽¹⁾	619,580	284,714	334,866		117.6%	675,378
Loans to customers ⁽¹⁾	9,515,696	9,562,530	-46,834		-0.5%	6,163,674
Property, plant and equipment ⁽²⁾	225,088	179,292	45,796		25.5%	134,591
Intangible assets	11,451	11,118	333		3.0%	2,790
Due to banks	1,603,208	1,620,824	-17,616		-1.1%	1,669,097
Due to customers ⁽³⁾	9,447,655	9,253,258	194,397		2.1%	5,964,901
Debt securities in issue	1,749,103	1,426,213	322,890		22.6%	1,338,854
Shareholders' equity (including Net profit/loss for the period)	956,871	923,335	33,536		3.6%	914,514
Own Funds	1,036,652	n.d.	n.s.		n.s.	1,005,869
Total indirect deposits	15,562,375	14,092,711	1,469,664		10.4%	12,070,358
of which: Indirect deposits from ordinary customers	9,721,680	8,952,340	769,340		8.6%	6,967,942
of which: Indirect deposits from institutional customers	5,840,695	5,140,371	700,324		13.6%	5,102,416

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

⁽²⁾ the balance of this item at 31 December 2019 includes the right of use ("RoU Assets") equal to Euro 50.7 million for operating lease contracts falling within the scope of application of IFRS 16 Leases, which came into effect on 1 January 2019

⁽³⁾ the balance of this item at 31 December 2019 does not include the liability recognised in Due to customers for operating lease contracts falling within the scope of application of IFRS 16, which came into effect on 1 January 2019

Income statement ⁽⁴⁾

Amounts in thousands of Euro	31.12.2019	31.12.2018		Change		31.12.2018
	actual	pro-forma	amount		%	actual
Operating income	384,202	384,662	-460		-0.1%	251,363
of which: Net interest income	197,726	198,334	-608		-0.3%	121,215
Operating costs	274,720	269,064	5,656		2.1%	172,499
Result of operations	109,482	115,598	-6,116		-5.3%	78,864
Profit (loss) from continuing operations after tax	46,070	35,717	10,353		29.0%	30,328
Non-recurring profit (loss) after tax	-1,184	420	-1,604		n.s.	627
Net profit (loss) for the period	44,886	36,137	8,749		24.2%	30,955

⁽⁴⁾ from the reclassified income statement

Key figures and ratios

	31.12.2019 actual	31.12.2018 pro-forma	Change amount	31.12.2018 actual
Capital/Total assets	6.8%	6.8%	0.0%	9.0%
Capital/Loans to customers	10.1%	9.7%	0.4%	14.8%
Capital/Due to customers	10.1%	10.0%	0.1%	15.3%
Capital/Debt securities in issue	54.7%	64.7%	-10.0%	68.3%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) ⁽⁵⁾	14.4%	n.d.	n.s.	18.0%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) ⁽⁵⁾	14.4%	n.d.	n.s.	18.0%
Total Own Funds/Risk-weighted assets (Total capital ratio) ⁽⁵⁾	15.2%	n.d.	n.s.	19.8%
Financial assets/Total assets	23.8%	22.7%	1.1%	26.0%
Due from banks/Total assets	4.4%	2.1%	2.3%	6.7%
Loans to customers/Total assets	67.1%	70.4%	-3.3%	60.9%
Loans to customers/Direct customer deposits	85.0%	89.5%	-4.5%	84.4%
Due to banks/Total assets	11.3%	11.9%	-0.6%	16.5%
Due to customers/Total assets	66.7%	68.1%	-1.4%	59.0%
Debt securities in issue / Total assets	12.3%	10.5%	1.8%	13.2%
Direct customer deposits/Total assets	79.0%	78.6%	0.4%	72.2%

	31.12.2019 actual	31.12.2018 pro-forma	Change amount	31.12.2018 actual
Cost/Income ratio	71.5%	69.9%	1.6%	68.6%
Net interest income/Operating income	51.5%	51.6%	-0.1%	48.2%
Result of operations/Operating income	28.5%	30.1%	-1.6%	31.4%
Profit (loss) from operations after tax/Capital ⁽⁶⁾	5.1%	4.0%	1.1%	3.4%
Profit (loss) from operations after tax/Capital ⁽⁵⁾ (R.O.E.)	4.9%	4.1%	0.8%	3.5%
Profit (loss) from operations before tax/Total assets (ROA)	0.4%	0.3%	0.2%	0.4%

	31.12.2019 actual	31.12.2018 pro-forma	Change amount	31.12.2018 actual
Net doubtful loans/Loans to customers	1.3%	1.3%	0.1%	1.0%
Net impaired loans/Loans to customers	3.5%	4.2%	-0.6%	3.5%
% Coverage of doubtful loans	61.4%	59.3%	2.1%	62.1%
% Coverage of doubtful loans, gross of cancellations	63.1%	64.5%	-1.4%	69.8%
% Total coverage of non-performing loans	45.6%	42.3%	3.4%	44.3%
% Coverage of non-performing loans, gross of cancellations	46.8%	45.7%	1.1%	50.0%
% Coverage of performing loans	0.49%	0.54%	-0.04%	0.45%

Structure and productivity ratios

	31.12.2019 actual	31.12.2018 pro-forma	Change amount	Change %	31.12.2018 actual
Number of employees	2,148	2,165	-17	-0.8%	1,316
Number of branches	257	265	-8	-3.0%	146
<i>Amounts in thousands of Euro</i>					
Loans and advances to customers per employee ⁽⁷⁾	4,413	4,322	91	2.1%	4,588
Direct deposits from customers per employee ⁽⁷⁾	5,192	4,827	365	7.6%	5,436

	31.12.2019 actual	31.12.2018 pro-forma	Change amount	Change %	31.12.2018 actual
Operating income per employee ⁽⁷⁾	178	174	4	2.3%	187
Result of operations per employee ⁽⁷⁾	51	52	-1	-1.9%	59

⁽⁵⁾ capital ratios at 31.12.2019 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 Tier 1 13.8%; Tier 1 13.8%; Total capital ratio 14.6%.

⁽⁶⁾ equity excluding net profit (loss) for 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 for the year is around Euro 44.9 million, up by 24.2% on the prior period figure of Euro 36.1 million, which was affected by the negative impact on the cost of credit linked to the sale of doubtful loans by means of a GACS.

Loans to customers increased from Euro 6,562.5 million at the end of 2018 to Euro 6,515.7 million at the reference date, which is 3.5% of the NPL portfolio (formerly 4.2%).

Shareholders' equity at 31 December 2019, including the result for the period, amounts to Euro 956.9 million, compared with Euro 914.5 million at the end of 2018. The positive change of Euro 42.4 million is due to the comprehensive income of the period amounting to Euro 45.5 million and to the effect of the merger of Euro 8.0 million, partly offset by the payment of 2018 dividend of Euro 11.1 million.

After a pay-out of 31.99% (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 2019 amounts to Euro 1,036.7 million (CET 1 + AT1 Euro 984.0 million + T2 Euro 52.6 million). This is Euro 30.8 million higher than the amount reported at the end of the prior year, Euro 1,005.9 million.

The Total Capital Ratio, consisting of total Own Funds as a ratio of risk-weighted assets, came to 15.2%.

8.3 - Fides S.p.A.

Balance sheet

Amounts in thousands of Euro	31.12.2019	31.12.2018	Change	
			amount	%
Total assets	803,893	711,437	92,456	13.0%
Financial assets	15	15	0	0.0%
Due from banks	4,569	2,922	1,647	56.4%
Loans to customers	793,523	706,240	87,283	12.4%
Property, plant and equipment	1,218	127	1,091	859.1%
Intangible assets	1,216	1,057	159	15.0%
Due to banks	741,748	652,070	89,678	13.8%
of which: Due to Group Banks	741,748	652,070	89,678	13.8%
Due to customers	3,729	3,678	51	1.4%
Shareholders' equity (including Net profit/loss for the period)	47,814	51,533	-3,719	-7.2%
Own funds	44,982	44,736	246	0.5%

Income statement ⁽¹⁾

Amounts in thousands of Euro	31.12.2019	31.12.2018	Change	
			amount	%
Operating income	16,417	16,812	-395	-2.3%
of which: Net interest income	15,305	14,539	766	5.3%
Operating costs	-6,935	-6,536	-399	6.1%
Result of operations	9,482	10,276	-794	-7.7%
Profit (loss) from continuing operations after tax	6,456	7,175	-719	-10.0%
Non-recurring profit (loss) after tax	-4,425	0	-4,425	n.s.
Net profit for the year	2,031	7,175	-5,144	-71.7%

⁽¹⁾ from the reclassified income statement

Key figures and ratios

	31.12.2019	31.12.2018	Change amount
Capital/Total assets	5.9%	7.2%	-1.3%
Capital/Loans to customers	6.0%	7.3%	-1.3%
Capital/Due to Banks	6.4%	7.9%	-1.5%
Total Own Funds/Risk-weighted assets (<i>Total capital ratio</i>)	6.9%	7.6%	-0.7%
Loans to customers/Total assets	98.7%	99.3%	-0.6%
Due to banks/Total assets	92.3%	91.7%	0.6%
	31.12.2019	31.12.2018	Change amount
Cost/Income ratio	42.2%	38.9%	3.3%
Net interest income/Operating income	93.2%	86.5%	6.7%
Result of operations/Operating income	57.8%	61.1%	-3.3%
Profit (loss) from operations after tax/Capital ⁽²⁾	14.1%	16.2%	-2.1%
Profit (loss) from operations after tax/Capital ⁽²⁾ (R.O.E.)	4.4%	16.2%	-11.8%
Profit (loss) from operations before tax/Total assets (ROA)	0.6%	1.4%	-0.9%
	31.12.2019	31.12.2018	Change amount
Net doubtful loans/Loans to customers	0.1%	0.1%	0.0%
Net impaired loans/Loans to customers	0.4%	0.4%	0.0%
% Coverage of doubtful loans	63.7%	64.2%	-0.5%
% Total coverage of non-performing loans	37.6%	39.6%	-2.0%
% Coverage of performing loans	0.06%	0.06%	0.00%

Structure and productivity ratios

	31.12.2019	31.12.2018	Change amount	%
Number of employees	50	44	6	13.6%
	31.12.2019	31.12.2018	Change amount	%
<i>Amounts in thousands of Euro</i>				
Loans and advances to customers per employee ⁽³⁾	16,883	16,235	648	4.0%
	31.12.2019	31.12.2018	Change amount	%
<i>Amounts in thousands of Euro</i>				
Operating income per employee ⁽³⁾	349	386	-32	-8.6%
Results of operations per employee ⁽³⁾	202	236	-32	-13.7%

⁽³⁾ based on the number of employees calculated as a straight average between the end of the period and the end of the

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 2019 was around Euro 2.0 million, a decrease from the comparative period (Euro 7.2 million); net interest and other banking income decreased to Euro 11.9 million (formerly Euro 12.3 million). The results of operations amounted to Euro 9.5 million (formerly Euro 10.3 million). The result of the year is affected by provisions for operating risks of Euro 6.6 million linked to the

situation of particular legal uncertainty which emerged at the end of the year on operations with customers in the consumer credit sector.

Loans to customers increased from Euro 706.2 million at the end of 2018 to Euro 793.5 million at the reference date, an incidence of 0.4% of the NPL portfolio (formerly 0.4%).

Shareholders' equity has decreased from Euro 51.5 million at 31 December 2018 to Euro 47.8 million at the reporting date (due to the distribution of dividends partly offset by the result for the year), while *Own Funds* have gone from Euro 44.7 million at the end of 2018 to Euro 45.0 million. The *Total capital ratio*, consisting of *Total Own Funds* as a percentage of *Risk-weighted assets*, amounts to 6.9% (7.6% at 31 December 2018).

9 - Other information

9.1 - Treasury shares

At 31 December 2019, 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.

For the sake of completeness, please refer to the information relating to the merger of Banca Popolare di Spoleto S.p.A. with Banco di Desio e della Brianza S.p.A. which led to the issue of 5,745,289 ordinary shares of the merging company in exchange.

9.2 - Ratings

On 31 May 2019, following its annual review, the international agency Fitch Ratings Ltd confirmed all of the ratings assigned to Banco di Desio e della Brianza S.p.A.

The updated ratings are the following:

- 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 2019 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 Banco Desio Group undertakes development with a view to continuous improvement in the customer relationship. Work on the development of "multi-channel" distribution continues in order to make banking

services more easily accessible, in a simple and flexible way, also through strategic partnerships with leading operators that specialise in products and services dedicated to market/target segments (areas like consumer credit, bancassurance, payment services, with a view to pursuing widespread connectivity, mobility and advanced payment services).

As a result of the evolution in digital services, the offer of products and services continued to be enhanced with reference to the offer made in off-site mode and to internet banking platforms, in particular, in the context of solutions for corporate banking, with platform upgrades that are also scheduled for 2020.

As part of the development of digital transformation initiatives, at the beginning of the year a new internal structure, called Chief Innovation & Data Officer, was set up, dedicated to technological innovation in order to seize the best opportunities in the field of open banking and data driven bank. The structure acts as a genuine R&D centre, which creates digital solutions starting from concrete needs and opportunities.

9.7 – Opt-out from obligation to publish information documents for extraordinary operations pursuant to Consob regulations

The Parent Company has adhered to the opt-out provided by arts. 70, paragraph 8 and by art. 71, paragraph 1-bis of Consob Issuers' Regulation (adopted by Resolution 11971 of 14 May 1999 and subsequent amendments and additions), exercising its right to opt out of the obligation to publish the documents required by Attachment 3B of the above 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 rest 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 foreseeable future. The capital and financial structure and operating performance of the business provide absolute confirmation of the foregoing.

In the paragraph on the macroeconomic scenario of the Consolidated Report on Operations, a description has been given of trends in the world economy and financial markets with the principal risks that they entail, while the controls over the Bank's operations and the various types of risk are explained in detail in Part E of the 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 Parent Company's website pursuant to art. 123-bis of the CFA, along with this report on operations.

The path envisaged in the 2018-2020 Group Business Plan, while continuing to follow the guidelines for the evolution of the distribution model towards a multi-channel model (consisting of branches, financial advisors and the web) with increasingly operational contact and customer support methods oriented towards their behavioural profiles, was characterised in 2019 by the particular commitment dedicated to implementing the merger of Banca Popolare di Spoleto with Banco di Desio e della Brianza, which took place successfully on 1 July 2019.

The merger allowed the Group to further consolidate those structural efficiency targets that form the basis for undertaking the refocusing choices of the business model which were outlined more clearly in 2019 and which will define the key elements of the new Business Plan 2020-22 to be submitted shortly for approval by the Board of Directors.

These key elements have been identified in wealth management, consumer banking, and selective credit for Retail (mortgage loans) and Companies (especially SMEs and Small Economic Operators), all supported by the evolution of the organisational model in correlation with the progressive process of digitisation.

Through this refocusing of the model, the Bank wants to pursue a path of organic and diversified growth of the sources of revenue, also through the use of technology to increase the efficiency of the operating structure, with joint benefits on overall profitability and the cost/income ratio.

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

ASSETS

Assets	31.12.2019	31.12.2018	Change	
			amount	%
10. Cash and cash equivalents	60,816	69,219	(8,403)	-12.1%
20. Financial assets designated at fair value through profit or loss	44,063	60,188	(16,125)	-26.8%
a) Financial assets held for trading	5,807	8,186	(2,379)	-29.1%
c) Other financial assets that are necessarily measured at fair value	38,256	52,002	(13,746)	-26.4%
30. Financial assets designated at fair value through other comprehensive income	559,634	296,421	263,213	88.8%
40. Financial assets measured at amortised cost	12,949,705	12,626,834	322,871	2.6%
a) Due from banks	915,019	555,965	359,054	64.6%
b) Loans to customers	12,034,686	12,070,869	(36,183)	-0.3%
50. Hedging derivatives	-	1	(1)	-100.0%
60. Adjustment to financial assets with generic hedge (+/-)	624	684	(60)	-8.8%
90. Property, plant and equipment	226,305	179,418	46,887	26.1%
100. Intangible assets	18,194	17,701	493	2.8%
of which:				
- goodwill	15,322	15,322		
110. Tax assets	202,765	226,537	(23,772)	-10.5%
a) current	7,812	29,227	(21,415)	-73.3%
b) deferred	194,953	197,310	(2,357)	-1.2%
130. Other assets	129,956	131,033	(1,077)	-0.8%
Total assets	14,192,062	13,608,036	584,026	4.3%

Note: The caption "100. Property, plant and equipment" at 31 December 2019 includes the recognition of the right of use asset ("RoU Asset") for Euro 51,743 thousand against operating lease contracts falling within the scope of IFRS 16, which came into force on 1 January 2019.

LIABILITIES

Liabilities and shareholders' equity	31.12.2019	31.12.2018	Change	
			amount	%
10. Financial liabilities measured at amortised cost	12,850,498	12,301,628	548,870	4.5%
a) Due to banks	1,603,208	1,620,824	(17,616)	-1.1%
b) Due to customers	9,498,187	9,254,591	243,596	2.6%
c) Debt securities in issue	1,749,103	1,426,213	322,890	22.6%
20. Financial liabilities held for trading	8,138	6,046	2,092	34.6%
40. Hedging derivatives	2,157	5,175	(3,018)	-58.3%
60. Tax liabilities	15,816	23,313	(7,497)	-32.2%
a) current	-	1	(1)	-100.0%
b) deferred	15,816	23,312	(7,496)	-32.2%
80. Other liabilities	289,279	273,634	15,645	5.7%
90. Provision for termination indemnities	25,480	25,175	305	1.2%
100. Provisions for risks and charges	35,582	36,745	(1,163)	-3.2%
a) commitments and guarantees given	2,734	2,377	357	15.0%
c) other provisions for risks and charges	32,848	34,368	(1,520)	-4.4%
120. Valuation reserves	45,373	43,920	1,453	3.3%
150. Reserves	792,741	729,024	63,717	8.7%
160. Share premium reserve	16,145	16,145		
170. Share capital	70,693	67,705	2,988	4.4%
190. Minority interests (+/-)	4	44,266	(44,262)	-100.0%
200. Net profit (loss) for the period (+/-)	40,156	35,260	4,896	13.9%
Total liabilities and shareholders' equity	14,192,062	13,608,036	584,026	4.3%

The caption "10.b) Due to customers" at 31 December 2019 includes Euro 52,288 thousand of liabilities for leasing recognised on lease contracts falling within the scope of application of IFRS 16, which came into effect on 1 January 2019.

CONSOLIDATED INCOME STATEMENT

Captions	31.12.2019	31.12.2018	Change	
			amount	%
10. Interest and similar income	263,509	270,937	(7,428)	-2.7%
of which: interest income calculated using the effective interest method	193,437	194,406	(969)	-0.5%
20. Interest and similar expense	(45,338)	(51,869)	6,531	-12.6%
30. Net interest income	218,171	219,068	(897)	-0.4%
40. Commission income	183,206	179,226	3,980	2.2%
50. Commission expense	(16,083)	(13,570)	(2,513)	18.5%
60. Net commission income	167,123	165,656	1,467	0.9%
70. Dividends and similar income	1,096	3,196	(2,100)	-65.7%
80. Net trading income	2,814	537	2,277	424.0%
90. Net hedging gains (losses)	(551)	58	(609)	n.s.
100. Gains (losses) on disposal or repurchase of:	903	(14,737)	15,640	n.s.
a) financial assets measured at amortised cost	(706)	(23,998)	23,292	-97.1%
b) financial assets designated at fair value through other comprehensive income	1,765	9,944	(8,179)	-82.3%
c) financial liabilities	(156)	(683)	527	-77.2%
110. Net result of other financial assets and liabilities designated at fair value through profit or loss	229	(3,072)	3,301	n.s.
b) other financial assets mandatorily measured at fair value	229	(3,072)	3,301	n.s.
120. Net interest and other banking income	389,785	370,706	19,079	5.1%
130. Net value adjustments/write-backs for credit risk relating to:	(52,777)	(62,494)	9,717	-15.5%
a) financial assets measured at amortised cost	(52,876)	(63,104)	10,228	-16.2%
b) financial assets designated at fair value through other comprehensive income	99	610	(511)	-83.8%
140. Profit/losses from contractual changes without write-offs	(412)	(69)	(343)	497.1%
150. Net profit from financial activities	336,596	308,143	28,453	9.2%
180. Net profit from financial and insurance activities	336,596	308,143	28,453	9.2%
190. Administrative costs:	(293,901)	(297,936)	4,035	-1.4%
a) payroll costs	(172,039)	(169,257)	(2,782)	1.6%
b) other administrative costs	(121,862)	(128,679)	6,817	-5.3%
200. Net provisions for risks and charges	(6,802)	(1,435)	(5,367)	374.0%
a) commitments for guarantees given	(368)	(417)	49	-11.8%
b) other net provisions	(6,434)	(1,018)	(5,416)	532.0%
210. Net adjustments to property, plant and equipment	(17,927)	(7,255)	(10,672)	147.1%
220. Net adjustments to intangible assets	(1,254)	(1,712)	458	-26.8%
230. Other operating charges/income	41,591	43,484	(1,893)	-4.4%
240. Operating costs	(278,293)	(264,854)	(13,439)	5.1%
260. Net result of the measurement at fair value of property, plant and equipment and intangible assets	(627)	-	(627)	n.s.
290. Profit (loss) from current operations before tax	57,676	43,289	14,387	33.2%
300. Income taxes on current operations	(17,520)	(6,731)	(10,789)	160.3%
310. Profit (loss) from current operations after tax	40,156	36,558	3,598	9.8%
330. Net profit (loss) for the period	40,156	36,558	3,598	9.8%
340. Net profit (loss) pertaining to minority interests		(1,298)	1,298	-100.0%
350. Parent Company net profit (loss)	40,156	35,260	4,896	13.9%

	31.12.2019	31.12.2018
Basic earnings per share (Euro)	0.29	0.27
Diluted earnings per share (Euro)	0.29	0.27

Note that the balances at 31 December 2019 include Euro 1,245 thousand in the caption "20. Interest expense and similar charges" and Euro 10,660 thousand in caption "210 Net adjustments to property, plant and equipment" of operating lease charges falling within the scope of IFRS 16 "Leases" from 1 January 2019; in the comparative period the charges related to these contracts were shown in caption "160 b) Other administrative costs".

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Captions	31.12.2019	31.12.2018
10. Net profit (loss) for the period	40,156	36,558
Other elements of income, net of income taxes without reversal to income statement		
20. Equity instruments designated at fair value through other comprehensive income	(273)	(82)
50. Property, plant and equipment	161	-
70. Defined-benefit pension plans	(494)	367
Other elements of income, net of income taxes with reversal to income statement		
120. Cash-flow hedges	(57)	(431)
140. Financial assets (other than equities) designated at fair value through other comprehensive income	940	(1,913)
170. Total other elements of income (net of income taxes)	277	(2,059)
180. Total comprehensive income (Captions 10+170)	40,433	34,499
190. Total comprehensive income pertaining to minority interests	-	(1,718)
200. Total consolidated comprehensive income pertaining to Parent Company	40,433	32,781

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31.12.2019

	Balance at 31.12.2018	Changes in opening balances	Balance at 01.01.2019	Allocation of prior year results		Changes during the year										Group shareholders' equity at 31.12.2019	Minority interests at 31.12.2019
						Reserves	Dividends and other allocations	Changes in reserves	Transactions on shareholders' equity								
				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				
Share capital:																	
a) ordinary shares	60,840		60,840				2,988								63,828		
b) other shares	6,865		6,865												6,865		
Share premium reserve	16,145		16,145												16,145		
Reserves:																	
a) from profits	748,003		748,003	19,810		267									768,080		
b) other	22,982		22,982	4,840			(2,988)					(169)			24,661	4	
Valuation reserves:	44,927		44,927									169	277		45,373		
Equity instruments																	
Treasury shares																	
Net profit (loss) for the period	36,558		36,558	(24,650)	(11,908)								40,156		40,156		
Group shareholders' equity	892,054		892,054		(11,908)	267						44,262	40,433		965,108		
Minority interests	44,266		44,266									(44,262)				4	

Note: the column "balance at 31.12.2018" has been restated with respect to the table in the financial statements published to reflect a different allocation between "reserves – revenue reserves" and "reserves – other" of the Group's net equity and an allocation to "reserves – other" of minority interests not directly attributable to other items.

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
							Changes in reserves	Transactions on shareholders' equity						Comprehensive income at 30.09.2018		
								Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options			
Share capital:																
a) ordinary shares	60,840		60,840											60,840		
b) other shares	6,865		6,865											6,865		
Share premium reserve	16,145		16,145											16,145		
Reserves:																
a) from profits	742,328	(18,972)	723,356	24,699	(52)									748,003		
b) other	69,864	(53,321)	16,543	6,439										(18,979)	41,961	
Valuation reserves:	38,840	8,146	46,986									(2,059)	43,920	1,007		
Equity instruments																
Treasury shares																
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 in order to recognise the effects on the balance sheet at 1 January 2018 of FTA of IFRS 9 "Financial Instruments".

Note: the column "balance at 31.12.2017" has been restated with respect to the table in the financial statements published to reflect a different allocation between "reserves – revenue reserves" and "reserves – other" of the Group's net equity and an allocation to "reserves – other" of minority interests not directly attributable to other items.

CONSOLIDATED CASH FLOW STATEMENT

	31.12.2019	31.12.2018
A. OPERATING ACTIVITIES		
1. Cash generated from operations	142,057	132,051
- interest received (+)	254,181	262,895
- interest paid (-)	(44,051)	(54,022)
- dividends and similar income (+)	1,096	3,196
- net commission income (+/-)	167,123	165,656
- payroll costs (-)	(172,039)	(169,255)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(90,906)	(119,311)
- other revenues (+)	44,173	49,623
- taxation (-)	(17,520)	(6,731)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	(606,291)	376,204
- financial assets held for trading	1,823	12,188
- financial assets designated at fair value through profit and loss		
- other financial assets that are necessarily measured at fair value	12,134	(17,287)
- financial assets designated at fair value through other comprehensive income	(261,217)	1,180,594
- financial assets measured at amortised cost	(386,145)	(796,716)
- other assets	27,114	(2,575)
3. Cash generated (absorbed) by financial liabilities	470,485	(480,077)
- financial liabilities measured at amortised cost	475,270	(382,799)
- financial liabilities held for trading	2,092	(1,930)
- financial liabilities designated at fair value through profit and loss		
- other liabilities	(6,877)	(95,348)
Net cash generated/absorbed by operating activities (A)	6,251	28,178
B. INVESTING ACTIVITIES		
1. Cash generated by	23	
- sale of equity investments		
- dividends collected on equity investments		
- sale of property, plant and equipment	23	
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	(5,959)	(7,645)
- purchase of equity investments		
- purchase of property, plant and equipment	(4,212)	(6,178)
- purchase of intangible assets	(1,747)	(1,467)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	(5,936)	(7,645)
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(11,908)	(13,821)
- sale/purchase of third party control		
Net cash generated/absorbed by financing activities (C)	(11,908)	(13,821)
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	(11,593)	6,712

Key

(+) generated

(-) absorbed

RECONCILIATION

	31.12.2019	31.12.2018
Cash and cash equivalents at beginning of period	69,219	59,413
Net increase (decrease) in cash and cash equivalents	(11,593)	6,712
Cash and cash equivalents: effect of changes in exchange rates	3,190	3,094
Cash and cash equivalents at end of period	60,816	69,219

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 2019 and endorsed by the European Commission.

Section 2 - Basis of preparation

The consolidated financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, 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 30 November 2018. 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 2019 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 2018. These changes derive essentially from the mandatory application, from 1 January 2019, of IFRS 16 "Leases", approved by the European Commission through EU Regulation no. 2017/1986 of 31 October 2017, which replaced 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".

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 Euro – unless otherwise indicated.

Section 3 – Scope of consolidation and methodology

1. Investments in subsidiaries

Name	Head office	Type of relationship	Nature of holding	
			Parent company	% held
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

With reference to the scope of consolidation, worth noting is the merger of Banca Popolare di Spoleto S.p.A. with the Parent Company Banco di Desio e della Brianza S.p.A., with effect for legal purposes from 1 July 2019 and for tax and accounting purposes from 1 January 2019. The accounting treatment of this merger is in accordance with the provisions of the document "ASSIREVI preliminary guidelines on IFRS - OPI No. 2 (Revised) - Accounting treatment of mergers in the financial statements" and it did not have any effect on the consolidated financial statements (as detailed in paragraph "Significant events" of the Report on Operations and in "Part G – Business combinations" of the explanatory notes to which reference should be made).

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
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)
Desio OBG S.r.l.	56	-	-	1	-	10	-	73	(73)	-	-	-	-	-	-

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

Change in the method of accounting for the Group's artistic assets

It should be noted that, compared with the previous financial statements, starting from the condensed interim financial statements at 30 June 2019, the Banco Desio Group has changed its method of accounting for the recognition and measurement of artworks (governed by IAS 16 "Property, plant and equipment").

The change in question involved moving from the cost model to re-determination of the value at the next valuation date following initial recognition of works of art which, in consideration of their particular historical and artistic value, represent a category on their own called "artistic assets".

The Banco Desio Group has decided to proceed with the accounting revaluation of its artistic assets in order to bring their carrying amount into line with their current market values, thereby providing readers of the financial statements with more relevant information.

In accordance with IAS 8, which governs changes in accounting standards, it is in fact considered possible to provide more reliable and relevant information on the Group's overall financial position and results.

Showing artistic assets at current values under the revaluation model envisaged in IAS 16 will allow the Group to bring the carrying amounts of its artistic assets in line with their market values periodically.

As a general rule, IAS 8 requires that voluntary changes in accounting policy must be represented retrospectively, starting from the earliest date on which this is feasible.

This means that, on the basis of the general principle, at the time when the change takes place, the opening balances of the earliest comparative year and of any other comparative periods have to be restated.

However, the general rule allows for exceptions. In particular, paragraph 17 of IAS 8 establishes that, for the purposes of assessing property, plant and machinery, which are regulated by IAS 16 (and intangible assets, regulated by IAS 38), the transition from the "cost method" to the "revaluation model" has to be shown as though the revaluation model had always been applied. This means that the initial application of the revaluation model has to take place prospectively and not retrospectively as foreseen in the general principle expressed in IAS 8.

The change in accounting policy in the context of IAS 16 (and IAS 38) does not therefore entail any adjustment of the opening balances and the comparative figures, nor of the financial statements of interim periods preceding the date of the change.

In light of the above, as a result of the change in the accounting method, the revaluation at current values produced both balance sheet effects, referable to the positive portion of the revaluation to be recorded in equity, and income statement effects, attributable to the negative component of the revaluation.

It should also be noted that, similar to what was done before the change, the Group's artistic assets will continue not to be depreciated, as the useful life of a work of art cannot be estimated and its value is normally destined to increase over time.

The fair value of the artistic assets was established by means of specific appraisals carried out by a qualified, independent company. At separate level, as analysed in greater detail in "Section 9 – Property, plant and equipment" of "Part B – Information on the balance sheet" of the explanatory notes, this change involved the recognition of a pre-tax gain of Euro 240 thousand. This figure was allocated, net of deferred tax, to a specific valuation reserve in equity. In addition to this capital gain, net capital losses were recognized in the income statement for an amount of Euro 627 thousand before tax.

Application of IFRS 16 "Leases"

As already mentioned in "Part A - Accounting Policies" of the notes to the consolidated financial statements at 31 December 2018, the accounting standard IFRS 16 - Leases came into force on 1 January 2019, making it necessary to approve the overall framework of the application rules adopted in determining the "Right of Use Asset" and "Lease Liability".

The main criteria for preparation are presented below as a result of applying the new accounting standard.

Accounting treatment of lease contracts according to IFRS 16

The 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, identifying 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 use of the asset and the right to manage use of the asset underlying the contract.

With reference to the accounting recognition requirements, a single model for the recognition and assessment of lease contracts for the lessee was introduced. 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 are 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.

The methodologies adopted by the Banco Desio Group

Banco Desio Group companies, as lessors, decided 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 are not 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;
- the initial direct costs of measuring the RoU Asset on the FTA date were excluded.

Estimated dismantling costs for the purpose of 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.

As regards 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, 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.

The accounting impacts of first-time adoption of the accounting standard

On the basis of the analyses carried out by the Banco Desio Group as part of the project for implementation of IFRS 16, taking into account the methodological choices made, on 1 January 2019, on first-time adoption of the accounting standard, a "Lease Liability" of Euro 61.3 million was recorded in the financial statements against a substantially similar increase in non-current assets (increased due to the balance of the related accruals and prepayments at 31 December 2018), from which no initial impact on equity arose.

Information on the early application of Regulation no. 34 of 15 January 2020 "Reform of the reference indices for the determination of interest rates"

With Regulation no. 34 of 15 January 2020, the "Reform of the reference indices for the determination of interest rates" was approved. The Regulation aims to modify certain requirements relating to hedge accounting to allow entities to provide useful information in the period of uncertainty resulting from gradual elimination of the reference interest rates by 2021 ("Interbank Offered Rates" - IBOR Transition). In this document, the IASB focused on the accounting effects of uncertainty in the pre-reform period. The amendments will be mandatory from 1 January 2020, but Banco Desio opted for early application of the change from 1 January 2019.

In this regard, it should be noted that the nominal value of the 3 derivative contracts designated as hedges at 31 December 2019 whose parameters are subject to the reform ("IBOR") is equal to 130 million (with maturity between October 2021 and May 2022). They are Interest Rate Swaps designated to hedge the cash flows of floating-rate bonds; the index used as a point of reference for all existing contracts is the 3-mth Euribor. With reference to the Euribor, please note that only a partial modification of the calculation method is envisaged, so there are no particular elements of uncertainty in the prospective measurement of hedging relationships.

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

For each account in the financial statements, the previous year's balance is also given: if the accounts are not comparable, the prior year figures have to be adjusted.

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.

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

Classification

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

- financial assets held for trading, essentially represented by debt and equity securities and the positive value of derivative contracts held for trading purposes;
- financial assets mandatorily at fair value, represented by financial assets that do not meet the requirements for valuation at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not provide exclusively for repayments of principal and payments of interest on the principal to be repaid (i.e. failed to pass the SPPI test) or that are not held as part of a business model whose objective is to hold the assets with a view to collecting the contractual cash flows (Hold To Collect or "HTC") or whose objective is achieved both through the collection of contractual cash flows and through the sale of financial assets (Hold To Collect and Sell or "HTCS");
- the financial assets designated at fair value, i.e. the financial assets defined as such at the time of initial recognition when the right conditions exist. In these circumstances, an entity can irrevocably designate a financial asset as being measured at fair value through profit or loss, but only if doing so eliminates or significantly reduces an inconsistency in measurement.

In particular, the following are recognised in this item:

- debt securities and loans that are not attributable to the "HTC" or "HTCS" business models (which are therefore included in the "Other/Trading" business model) or which do not pass the SPPI test;
- capital instruments that do not qualify as control, association and joint control instruments held for trading purposes or which were not designated at fair value through other comprehensive income (under the FVOCI option) at the time of initial recognition;
- mutual funds.

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

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

Recognition

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

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

Measurement

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

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

Derecognition

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

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

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

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

Classification

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

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

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

In particular, the following are recognised in this item:

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

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

Recognition

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

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

Measurement

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

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

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

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

Derecognition

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

Financial assets measured at amortised cost

Classification

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

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

In particular, the following are recognised in this item:

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

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

Gains or losses resulting from the difference between the amortised cost of the financial asset and the related fair value are recognised in the income statement in the case of reclassification between *Financial assets valued at fair value through profit or loss* and to equity, in the relevant valuation reserve, in the case of reclassification between *Financial assets valued at fair value through other comprehensive income*.

Recognition

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

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

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

Measurement

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

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

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

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

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

- upon initial registration, for an amount equal to the expected loss at twelve months;
- at the time of subsequent measurement of the asset, where the credit risk has not increased significantly compared with the initial recognition, in relation to changes in the amount of adjustments for expected losses in the following twelve months;

- at the time of subsequent measurement of the asset, where the credit risk has increased significantly compared with the initial recognition, in relation to the recognition of adjustments for expected losses referable to the asset's contractual lifetime;
- at the time of the subsequent measurement of the asset, where the "significance" of this increase has ceased, in relation to the adjustment of the cumulative adjustments to take account of the switch from an expected loss over the lifetime of the instrument to one at twelve months.

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

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

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

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

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

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

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

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

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

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

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

- the purposes for which the changes were made: for example, renegotiations for commercial reasons and concessions for the financial difficulties of the counterparty:
 - the former, aimed at holding on to the customer, involves a debtor who is not in a situation of financial difficulty. Cases include all renegotiations that aim to bring the cost of the debt into line with market conditions. Such transactions involve a change in the original conditions of the contract, usually on the debtor's request, to do with the cost of the loan, leading to an economic benefit for the debtor. Generally speaking, it is thought that whenever the bank renegotiates loan to avoid losing a customer, the renegotiation has to be considered substantial, because if it was not carried out, the customer could find alternative funding through another intermediary and the bank would suffer a decrease in its expected future revenues;
 - the latter, which are carried out for "reasons of credit risk" (i.e. forbearance measures), are due to the bank's attempt to maximise recovery of the original loan's cash flows. As a rule, after the changes, the underlying risks and benefits are not substantially transferred, so the accounting treatment is performed through "modification accounting" - which involves immediate recognition in the income statement caption 140. "Profit/losses from contractual changes without write-offs" of the difference between the carrying amount of the loan and the present value of the new cash flows discounted at the original interest rate - and not through derecognition;
- the presence of specific objective elements (known as "triggers") that affect the characteristics and/or contractual flows of the financial instrument (such as a change in currency or a change in the type of risk to which it is exposed, where it is correlated to parameters of equity and commodity), which are considered to involve derecognition because of their impact (expected to be significant) on the original contractual flows.

Derecognition

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

Recognition of items affecting the income statement

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

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

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

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

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

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

Hedging transactions

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

Classification

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

The type of hedge used may be:

- fair value hedges (micro-hedging 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 to be treated as follows:

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

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

Derecognition

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

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

Equity investments

Classification

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

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

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

Recognition

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

Measurement

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

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

Property, plant and equipment

Classification

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

Recognition

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

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

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

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

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

Measurement

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

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

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

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

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

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

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

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

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

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

Intangible assets

Classification

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

Recognition

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

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

Measurement

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

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

Current and deferred taxation

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

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

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

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

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

Provision for termination indemnities

Measurement

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

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

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

Recognition of items affecting the income statement

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

Provisions for risks and charges

Provisions for risks and charges for commitments and guarantees given

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

Other provisions for risks and charges

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

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

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

Recognition of items affecting the income statement

Provisions are charged to the income statement.

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

Financial liabilities measured at amortised cost

Classification

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

Recognition

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

Measurement

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

Derecognition

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

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

Financial liabilities held for trading

Recognition and classification

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

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

Measurement and recognition of items affecting the income statement

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

Derecognition

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

Currency transactions

Recognition

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

Measurement

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

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

Recognition of items affecting the income statement

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

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

Other information

Valuation reserves

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

Recognition of costs and revenues

Revenues are recognised:

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

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

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

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

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

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

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

Finance leases

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

Securitisations

Exposures to the securitisation (in the form of junior securities or deferred purchase price) are allocated to Financial assets measured at fair value through profit or loss. However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control² 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.

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	1,037,945	n.a.

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.

With reference to the reclassified financial assets still recorded under assets at the reporting date, the "Reclassified book value" column shows the amount transferred from the HTCS to the HTC portfolio (originally Euro 1,045,956 thousand), including the cumulative OCI valuation reserve at 30 September 2018, negative for Euro 51,505 thousand (originally Euro 51,458 thousand, 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 then recognised as if they had always been valued at amortised cost.

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

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 ambit 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 envisaged 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 taken 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 reference 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.

Analysis of the results at 30 June 2018 then 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 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 analysis 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 Bank 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 involved 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.

Again from an operational point of view, the management objectives and drivers associated with the new business models have 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 (e.g. the methodological framework of IFRS 9, Group risk management policies, operating policy limits, etc.) and, as a consequence, amendments were made to the Finance Department's internal regulations for managing the Group's proprietary securities and treasury portfolio.

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 taken by senior management following external or internal changes, materiality³ 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 Euro 1,093 million. The relative accumulated loss on the reclassification date of Euro 51.5 million (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.

In December 2019, the Finance Department, in collaboration with the Chief Risk Officer, concluded the annual analysis to verify the operating limits and thresholds of the proprietary securities portfolio, which took into account the changes made in the meantime to the Eurozone's monetary policy. This analysis was submitted to Banco Desio's Board of Directors on 12 December 2019. After discussing the matter, the Board approved the proposal to update (in accordance with paragraph B4.1.2C of IFRS 9) the operating thresholds of the proprietary securities portfolio, with effect from 1 January 2020, in order to bring the composition of the individual portfolios into line as much as possible with their set objectives, making it easier to pursue them on an ongoing basis. Specifically:

- with reference to the FVTPL portfolio: increase in the daily stop-loss, while keeping the other periodic VAR and Stop Loss limits unchanged;
- with reference to the HTC&S portfolio: (a) increase in the maximum duration of the portfolio, (b) increase in the maximum residual life of the securities that can be held and (c) establishment of a maximum limit that can be invested in securities with a rating lower than investment grade, but still equal to or greater than BB- or Ba3;

³ 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.

- with reference to the HTC portfolio: (a) differentiation in the weighting of sales as the modified duration of the securities in portfolio decreases, without prejudice to the sales materiality threshold of 5% and (b) it is better to set the frequency threshold (i.e. the number of annual executions) at 12, regardless of the number of positions that make up the portfolio.

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 cannot be found, the fair value is estimated by applying a valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

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

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

Fair value measurement with use of level 1 inputs

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

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

The fundamental elements are the following:

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

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

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:
 - o interest rates and yield curves observable at commonly quoted intervals;
 - o implied volatilities;
 - o credit spreads;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means ("market-corroborated inputs").

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

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

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

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

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

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

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

- for loans and receivables, the fair value is calculated for performing positions beyond the short term using the valuation technique that envisages the discounting of expected cash flows, considering, at the free risk rate, the credit risk of the relationship (in terms of PD and LGD measured by the internal rating models in use), while for non-performing and short-term performing positions, the carrying amount is considered a reasonable approximation of the fair value. In general, they are classified in Level 3, except in the case where the significance of the observable inputs compared with the entire assessment is higher than a predetermined threshold (Level 2), or in the event of assets held for sale or transactions being completed at the reference date (Level 1) Taking into account the current context of the credit market, with particular reference to non-performing loans, this fair value (Level 2 and 3), determined taking into account multi-scenario assumptions that provide for the combination between internal management and so-called "disposal scenarios", may not represent the potential exit price because of a certain margin of uncertainty, which is in any case inherent in the various components making up the price considered by a potential third-party purchaser;
- debt and certificates of deposit issued by Group banks are measured at book value, which represents a reasonable approximation of their fair value (Level 3);
- for bonds issued by Group banks, the fair value is measured according to the discounting of future cash flows and applying a credit spread (Level 2);
- investment property: fair value is estimated through the use of property market information sources, appropriately adjusted based on parameters such as location, size, age, intended use and maintenance and based on value estimates performed by external independent experts (Level 3).

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	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets designated at fair value through profit or loss	22,255	860	20,948	39,693	3,809	16,686
a) Financial assets held for trading	4,457	-	1,350	2,251	2,957	2,978
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	17,798	860	19,598	37,442	852	13,708
2. Financial assets designated at fair value through other comprehensive income	509,364	47,267	3,003	244,034	47,267	5,120
3. Hedging derivatives	-	-	-	-	1	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	531,619	48,127	23,951	283,727	51,077	21,806
1. Financial liabilities held for trading	-	6,874	1,264	-	3,221	2,825
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	2,157	-	-	5,175	-
Total	-	9,031	1,264	-	8,396	2,825

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

Investments measured on the basis of unobservable inputs (Level 3) represent a very small percentage of total financial assets measured at fair value (3.97% at 31 December 2019 compared with 6.11% at 31 December 2018).

At 31 December 2019, the impact of applying the Credit Value Adjustment and Debit Value Adjustment to the balance sheet values has not been calculated as all outstanding derivative contracts are backed by collateral agreements with counterparties to mitigate credit risk (CSA agreements).

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

	Financial assets designated at fair value through profit or loss				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	16,686	2,978	-	13,708	5,120	-	-	-
2. Increases	9,174	1,350	-	7,824	453	-	-	-
2.1. Purchases	7,767	-	-	7,767	16	-	-	-
2.2. Profits posted	1,407	1,350	-	57	437	-	-	-
2.2.1. Income	1,407	1,350	-	57	-	-	-	-
- of which:	1,407	1,350	-	57	-	-	-	-
2.2.2. Shareholders' equity	-	-	-	-	437	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	4,912	2,978	-	1,934	2,570	-	-	-
3.1. Sales	-	-	-	-	2,120	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3. Losses posted	4,815	2,978	-	1,837	450	-	-	-
3.3.1. Income	4,815	2,978	-	1,837	-	-	-	-
- of which: capital losses	4,815	2,978	-	1,837	-	-	-	-
3.3.2. Shareholders' equity	-	-	-	-	450	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	97	-	-	97	-	-	-	-
4. Closing balance	20,948	1,350	-	19,598	3,003	-	-	-

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	2,825	-	-
2. Increases	1,264	-	-
2.1 Issues	-	-	-
2.2. Losses posted to:	1,264	-	-
2.2.1. Income statement	1,264	-	-
- of which: capital losses	1,264	-	-
2.2.2. Shareholders' equity	-	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	2,825	-	-
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits posted to:	2,825	-	-
3.3.1. Income statement	2,825	-	-
- of which: capital gains	2,825	-	-
3.3.2. Shareholders' equity	-	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	1,264	-	-

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	31.12.2019				31.12.2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	12,949,705	2,082,037	6,438,674	4,727,585	12,626,834	1,924,789	6,205,963	4,278,119
2. Investment property	1,787	-	-	1,936	1,814	-	-	1,946
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	12,951,492	2,082,037	6,438,674	4,729,521	12,628,648	1,924,789	6,205,963	4,280,065
1. Financial liabilities measured at amortised cost	12,850,498	-	1,736,955	11,205,271	12,301,628	321	1,407,229	10,890,843
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	12,850,498	-	1,736,955	11,205,271	12,301,628	321	1,407,229	10,890,843

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

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

PART B - INFORMATION ON THE BALANCE SHEET**ASSETS****Section 1 - Cash and cash equivalents - caption 10****1.1 Cash and cash equivalents: breakdown**

	31.12.2019	31.12.2018
a) Cash	60,816	69,219
b) Demand deposits with central banks	-	-
Total	60,816	69,219

Section 2 - Financial assets valued at fair value through profit or loss - caption 20**2.1 Financial assets held for trading: breakdown**

Captions/Amounts	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	863	-	-	3	1,519	-
1.1 Structured securities	863	-	-	1	-	-
1.2 Other debt securities	-	-	-	2	1,519	-
2. Equity instruments	2,192	-	-	2,207	-	-
3. Mutual funds	1,282	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	4,337	-	-	2,210	1,519	-
B. Derivatives						
1. Financial derivatives	120	-	1,350	41	1,438	2,978
1.1 for trading	120	-	1,350	41	1,438	2,978
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)	120	-	1,350	41	1,438	2,978
Total (A+B)	4,457	-	1,350	2,251	2,957	2,978

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

Caption 20 "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 "A.4 Information on fair value" in Part A "Accounting policies" of the explanatory notes.

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	31.12.2019	31.12.2018
A. Cash assets		
1. Debt securities	863	1,522
a) Central Banks	-	-
b) Public administrations	-	1,520
c) Banks	-	2
d) Other financial companies	863	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	2,192	2,207
a) Banks	-	-
b) Other financial companies	490	1,322
of which: insurance companies	-	-
c) Non-financial companies	1,702	885
d) Other issuers	-	-
3. Mutual funds	1,282	-
4. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	4,337	3,729
B. Derivatives		
a) Central counterparties	-	-
b) Other	1,470	4,457
Total (B)	1,470	4,457
Total (A+B)	5,807	8,186

2.5 Other financial assets mandatorily at fair value: breakdown

Captions/Amounts	Total 31.12.2019			Total 31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	860	1,440	-	852	1,460
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	860	1,440	-	852	1,460
2. Equity instruments	-	-	-	-	-	-
3. Mutual funds	17,798	-	18,158	37,442	-	12,248
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	17,798	860	19,598	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 by their very nature do not pass the SPPI test ("solely payments of principal and interests") foreseen in IFRS 9 "Financial Instruments". This caption includes quotas of the private debt fund managed by Clessidra SGR subscribed following completion of a sale of non-performing loans to the fund; the fair value of the fund units (level 3) is determined by applying the policies provided by the bank for this type of financial instruments.

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

	31.12.2019	31.12.2018
1. Equity instruments	-	-
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	2,300	2,312
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	1,440	1,460
d) Other financial companies	860	852
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Mutual funds	35,956	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	38,256	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	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	509,364	-	-	244,034	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	509,364	-	-	244,034	-	-
2. Equity instruments	-	47,267	3,003	-	47,267	5,120
3. Loans	-	-	-	-	-	-
Total	509,364	47,267	3,003	244,034	47,267	5,120

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

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

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

Captions/Amounts	31.12.2019	31.12.2018
1. Debt securities	509,364	244,034
a) Central banks	-	-
b) Public administrations	506,813	241,492
c) Banks	2,551	2,542
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	50,270	52,387
a) Banks	10,000	10,000
b) Other issuers:	40,270	42,387
- other financial companies	2,363	3,796
of which: insurance companies	-	-
- non-financial companies	37,907	38,579
- other	-	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	-	-
Total	559,634	296,421

3.3 Financial assets designated at fair value through other comprehensive income: 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	509,364	509,364	-	-	(363)	-	-	-	
Loans	-	-	-	-	-	-	-	-	
Total	31/12/2019	509,364	509,364	-	-	(363)	-	-	
Total	31/12/2018	244,034	244,034	-	-	(462)	-	-	
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-	

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	31.12.2019						31.12.2018					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired	L1	L2	L3
A. Due from central banks	335,833	-	-	-	-	335,833	66,205	-	-	-	-	66,205
1. Time deposits	-	-	-	-	-	-	-	-	-	-	-	-
2. Reserve requirement	335,833	-	-	-	-	-	66,205	-	-	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
B. Due from banks	579,186	-	-	-	297,880	283,961	489,761	-	-	-	265,138	219,111
1. Loans	283,961	-	-	-	-	283,961	219,111	-	-	-	-	219,111
1.1 Current accounts and demand deposits	43,779	-	-	-	-	-	21,662	-	-	-	-	-
1.2. Time deposits	30,155	-	-	-	-	-	44,028	-	-	-	-	-
1.3. Other loans:	210,027	-	-	-	-	-	153,421	-	-	-	-	-
- Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
- Loans for leases	-	-	-	-	-	-	-	-	-	-	-	-
- Other	210,027	-	-	-	-	-	153,421	-	-	-	-	-
2. Debt securities	295,225	-	-	-	297,880	-	270,650	-	-	-	265,138	-
2.1 Structured securities	3,920	-	-	-	3,920	-	3,885	-	-	-	3,687	-
2.2 Other debt securities	291,305	-	-	-	293,960	-	266,765	-	-	-	261,451	-
Total	915,019	-	-	-	297,880	619,794	555,966	-	-	-	265,138	285,316

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

- stage 1 for exposures performing in line with expectations;
- 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);
- stage 3 for non-performing exposures.

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

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

The Bank's commitment to maintain the reserve requirement amounts to Euro 94.6 million at 31 December (Euro 92.6 million in December 2018).

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

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

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

Type of transaction/Amounts	31.12.2019						31.12.2018					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired	L1	L2	L3
1. Loans	9,227,507	340,179	10,510	-	5,754,613	4,107,791	9,215,328	401,372	12,203	-	5,486,809	3,992,803
1.1. Current accounts	1,327,752	90,939	386	-	-	-	1,484,991	104,506	437	-	-	-
1.2. Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
1.3. Mortgage loans	5,898,077	227,515	9,994	-	-	-	5,715,921	269,803	11,663	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary	800,223	3,684	34	-	-	-	715,760	3,559	40	-	-	-
1.5 Loans for leases	151,430	10,830	-	-	-	-	177,054	13,506	-	-	-	-
1.6. Factoring	30,033	16	-	-	-	-	23,410	27	-	-	-	-
1.7. Other loans	1,019,992	7,195	96	-	-	-	1,098,192	9,971	63	-	-	-
2. Debt securities	2,467,000	-	-	2,082,037	386,181	-	2,454,169	-	-	1,924,789	454,016	-
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	2,467,000	-	-	2,082,037	386,181	-	2,454,169	-	-	1,924,789	454,016	-
Total	11,694,507	340,179	10,510	2,082,037	6,140,794	4,107,791	11,669,497	401,372	12,203	1,924,789	5,940,825	3,992,803

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

Gross loans amount to a total of Euro 9,897,612 thousand (Euro 9,960,032 thousand at the end of last year), of which Euro 9,273,113 thousand relate to performing loans and Euro 624,499 thousand to non-performing loans.

Total write-downs on the same loans amount to Euro 329,926 thousand (Euro 343,333 thousand last year), of which Euro 284,320 thousand relate to non-performing loans and Euro 45,606 thousand to performing loans.

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 consolidated interim 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 2019 these loans amounted to Euro 1,291,557 thousand (Euro 1,097,558 thousand at 31 December 2018).

"Mortgage loans" also include collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 1,784,028 thousand (formerly 1,787,145 thousand).

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).

This caption includes the interest accrued at 31 December 2019 that is recoverable from 1 March of the following year, due to application of the rules for the calculation of interest on banking transactions established in MEF Decree no. 343/2016, which implements art. 120, para. 2, of the Consolidated Banking Law (T.U.B.).

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

The fair value of non-current performing loans is measured using techniques that discount the cash flows expected after considering the related credit risk, while the carrying amount of non-performing and current performing loans is considered to be a reasonable approximation of fair value. 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.

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows. The value of debt securities is shown net of adjustments deriving from the application of the new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments". This portfolio includes Euro 240,033 thousand of senior notes issued by the "2Worlds s.r.l." SPV following the sale of doubtful loans through use of the "GACS" scheme in 2018.

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

Type of transaction/Amounts	31.12.2019			31.12.2018		
	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	2,467,000	-	-	2,454,169	-	-
a) Public administrations	2,069,131	-	-	1,993,197	-	-
b) Other financial companies	364,635	-	-	430,167	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	33,234	-	-	30,805	-	-
2. Loans to:	9,227,507	340,179	10,510	9,215,328	401,372	12,203
a) Public administrations	36,503	377	-	29,469	403	-
b) Other financial companies	120,593	4,480	-	122,162	2,974	-
of which: insurance companies	3,676	-	-	4,740	-	-
c) Non-financial companies	5,136,836	222,429	4,060	5,411,489	276,371	4,607
d) Households	3,933,575	112,893	6,450	3,652,208	121,624	7,596
Total	11,694,507	340,179	10,510	11,669,497	401,372	12,203

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

	Gross value				Total write-downs			Total partial write-offs	
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage		
Debt securities	2,754,758	2,754,758	9,567	-	2,091	10	-	-	
Loans	8,854,931	-	1,038,195	624,500	22,276	23,548	284,321	12,155	
Total	31.12.2019	11,609,689	2,754,758	1,047,762	624,500	24,367	23,558	284,321	12,155
Total	31.12.2018	11,218,635	2,720,173	1,062,444	694,974	29,212	26,405	293,602	24,070
of which: impaired financial assets acquired or originated	X	X	4,401	9,540	X	48	3,383	-	

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

- stage 1 for exposures performing in line with expectations;
- 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);
- 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.

Section 5 - Hedging derivatives - caption 50

5.1 Hedging derivatives: breakdown by type and level

	31.12.2019				31.12.2018			
	FV			NV	FV			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	-	-	-	-	1	-	5,599
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	1	-	5,599

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.

Section 6 - Adjustment to financial assets with generic (or "macro") hedges - caption 60**6.1 Adjustment of hedged assets: breakdown by hedged portfolio**

Adjustment of hedged assets / Components of the Group	31.12.2019	31.12.2018
1. Positive adjustments	624	1,523
1.1 of specific portfolios:	-	1,523
a) financial assets measured at amortised cost	-	1,523
b) financial assets designated at fair value through other comprehensive income	-	-
1.2 total	624	-
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	624	684

The adjustment to financial assets with generic hedges ("macro-hedging") refers to the delta between fair value and amortised cost of mortgage portfolios (previously identified as a hedged item) outstanding on the date of termination of the "macro-hedging" relationships and released over the useful life of the portfolios.

At 31 December 2019, the Bank has no more generic hedges in place to cover the interest-rate risk on the portfolios of fixed-rate loans to customers.

Section 7 - Equity investments - caption 70**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, plant and equipment - caption 90**9.1 Property, plant and equipment - for business purposes:**

Assets/Amounts	31.12.2019	31.12.2018
1. Own assets	172,775	177,604
a) land	52,778	52,778
b) property	101,605	104,197
c) furniture	4,627	5,311
d) electronic systems	3,551	4,469
e) other	10,214	10,849
2. Rights of use acquired under lease	51,743	-
a) land	-	-
b) property	49,580	-
c) furniture	-	-
d) electronic systems	-	-
e) other	2,163	-
Total	224,518	177,604
of which: obtained through enforcement of the guarantees received	-	-

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, all property, plant and equipment, including other tangible fixed assets, are measured at cost, except for tangible assets acquired through business combinations and shown in the consolidated financial statements at fair value, pursuant to the IFRS 3. All categories of property, plant and equipment are depreciated on a straight line basis, except for land and works of art, which are not depreciated.

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

9.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	Total				Total			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	1,787	-	-	1,936	1,814	-	-	1,946
a) land	828	-	-	853	828	-	-	860
b) property	959	-	-	1,083	986	-	-	1,086
2. Rights of use acquired under	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) property	-	-	-	-	-	-	-	-
Total	1,787	-	-	1,936	1,814	-	-	1,946
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

The book value reflects the capitalisation of construction and/or renovation costs, in addition to taxes, particularly on new properties acquired, factors that the market value do not fully reflect.

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	52,778	138,758	39,806	29,040	54,294	314,676
A.1 Total net write-downs	-	(34,561)	(34,495)	(24,571)	(43,445)	(137,072)
A.2 Net opening balance	52,778	104,197	5,311	4,469	10,849	177,604
B. Increases:	-	61,755	794	854	4,046	67,449
B.1 Purchases	-	1,617	486	853	2,001	4,957
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increase in fair value booked to	-	-	240	-	-	240
a) shareholders' equity	-	-	240	-	-	240
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	-
B.7 Other changes	-	60,138	68	1	2,045	62,252
C. Decreases:	-	14,767	1,478	1,772	2,518	20,535
C.1 Sales	-	-	69	-	105	174
C.2 Depreciation	-	12,931	782	1,772	2,166	17,651
C.3 Impairment write-downs booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value booked to	-	-	627	-	-	627
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	627	-	-	627
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property, plant and equipment	-	-	X	X	X	-
b) non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	1,836	-	-	247	2,083
D. Net closing balance	52,778	151,185	4,627	3,551	12,377	224,518
D.1 Net total write-downs	-	(42,729)	(35,289)	(26,457)	(45,763)	(150,238)
D.2 Gross closing balance	52,778	193,914	39,916	30,008	58,140	374,756
E. Measurement at cost	-	-	-	-	-	-

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

The captions "B.4 and C.4 - Positive and negative changes in fair value" contain the amounts relating to the revaluation of artworks.

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 aforementioned disposals, losses of Euro 20 thousand were recorded to the income statement under caption 230 "Other operating charges/income";
- the incremental effects of "Buildings" and "Other" derive from first-time adoption of IFRS 16 (recognition of the "RoU Asset" on 1 January 2019).

9.7 Investment property: changes during the year

	Total	
	Land	Buildings
A. Opening balance	778	951
B. Increases	50	36
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	50	36
C. Decreases	-	28
C.1 Sales	-	-
C.2 Depreciation	-	28
C.3 Negative changes in fair value	-	-
C.4 Impairment write-downs	-	-
C.5 Foreign exchange losses	-	-
C.6 Transfers to:	-	-
a) assets used in business	-	-
b) non-current assets and disposal groups held for sale	-	-
C.7 Other changes	-	-
D. Closing balance	828	959
E. Measurement at fair value	866	1,100

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 - caption 100

10.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2019		31.12.2018	
	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	2,872	-	2,379	-
A.2.1 Carried at cost	2,872	-	2,379	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	2,872	-	2,379	-
A.2.2 Carried at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	2,872	15,322	2,379	15,322

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

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

Impairment testing of goodwill

According to 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 31 December 2016.

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 period in which the cash flows will be generated.

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

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

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

a) Criterion to estimate the recoverable amount (impairment)

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

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

The time horizon for impairment testing is the five-year period 2020-2024 for which forecasts have been prepared by Management and approved by the Board of Directors, taking account of the budget forecasts for 2020 (approved on 6 February 2019 by the Board itself), the strategic planning activities currently underway for the 2020-22 Business Plan, which will shortly be submitted for approval by the Board of Directors, as well as the further development of this plan with projections of future results extended to include an explicit forecast period of five years.

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

Cash flows

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

Discount rate

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

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

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

Terminal Value

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

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

b) Parameters used for impairment testing

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

CGU	Model	Input used	CAGR RWA	K_e	g	Plan flows	Capital ratio
Banco di Desio e della Brianza S.p.A.	DDM	2020 Budget extended to 2024 (*)	0.71%	8.33%	1.50%	Net results	Tier 1 8.85% (**)
Fides S.p.A.	DDM	2020 Budget extended to 2024 (*)	-0.64%	8.33%	1.50%	Net results	Tier 1 8.85% (**)

(*) Considering the change in forecast cash flows, the 2020 budget approved by the Board of Directors on 6 February 2020, and the projection of results until 2024 by management.
(**) Overall Capital Requirement Tier 1 ratio assigned with the last SREP measure (previously 8.50% Common Equity Tier 1 to Risk Weighted Assets (RWA))

As a result of the impairment testing performed, no writedown was needed of the aforementioned goodwill.

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

c) Sensitivity analysis

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

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

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

Second level impairment tests

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

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

a) Criterion to estimate the recoverable amount (impairment)

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

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

The time horizon for impairment testing is the five-year period 2020-2024 for which forecasts have been prepared by Management and approved by the Board of Directors, taking account of the budget forecasts for 2020 (approved on 6 February 2019 by the Board itself), the strategic planning activities currently underway for the 2020-22 Business Plan, which will shortly be submitted for approval by the Board of Directors, as well as the further development of this plan with projections of future results extended to include an explicit forecast period of five years.

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

Cash flows

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

Discount rate

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

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

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

Terminal Value

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

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

b) Parameters used for impairment testing

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

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco Desio Group	DDM	2020 Budget extended to 2024 (*)	0.63%	8.33%	1.50%	Net results	Tier 1 8.85% (**)
(*) Considering the change in forecast cash flows, the 2020 budget approved by the Board of Directors on 6 February 2020, and the projection of results until 2024 by management. (**) Overall Capital Requirement Tier 1 ratio assigned with the last SREP measure (previously 8.50% Common Equity Tier 1 to Risk Weighted Assets (RWA))							

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

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

c) Sensitivity analysis

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

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

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

10.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		LIM	UNLIM	LIM	UNLIM	
A. Opening balance	35,963	-	-	14,330	-	50,293
A.1 Total net write-downs	20,641	-	-	11,951	-	32,592
A.2 Net opening balance	15,322	-	-	2,379	-	17,701
B. Increases	-	-	-	1,747	-	1,747
B.1 Purchases	-	-	-	1,747	-	1,747
- of which: business combinations	-	-	-	-	-	-
B.2 Increases in internally generated intangible	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	-	-	-	1,254	-	1,254
C.1 Sales	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Write-downs	-	-	-	1,254	-	1,254
- Amortisation	X	-	-	1,254	-	1,254
- 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	-	-	2,872	-	18,194
D.1 Total net write-downs	2,144	-	-	20,498	-	22,642
E. Gross closing balance	17,466	-	-	23,370	-	40,836
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	31.12.2019	31.12.2018
A) With contra-entry to the income statement:				
Tax losses				1,284
Tax deductible goodwill	3,725	754	4,479	4,824
Write-down of loans to customers deductible on a straight-line basis	154,460	21,485	175,945	175,944
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994				
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	351		351	253
Provision for guarantees and commitments and country risk	752		752	655
Provisions for personnel costs	3,237	463	3,700	6,270
Provision for lawsuits	2,657	47	2,704	3,008
Provision for claw-backs	202	41	243	232
Provision for sundry charges	2,371	368	2,739	608
Tax provision for termination indemnities	7		7	296
Entertainment expenses, one third of which is deductible over four subsequent years				
Other general expenses deductible in the following year				
Other	815	505	1,320	1,445
Total A	168,882	23,663	192,545	195,124
B) With contra-entry to shareholders' equity:				
Cash-flow hedges	1,082	219	1,301	
Tax provision for termination indemnities	995		995	808
Write-down of securities classified as FVOCI	2	5	7	7
Other	87	18	105	1,371
Total B	2,166	242	2,408	2,186
Total (A+B)	171,048	23,905	194,953	197,310

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 Euro 151,027 thousand 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 Bank and the taxable income forecast in the business plan from now until 2024, as discussed in greater detail in the section about the impairment tests on goodwill. The analysis showed that there will be sufficient taxable income in the future to recover these assets.

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2019	31.12.2018
A) With contra-entry to the income statement:				
Gains on disposal of property, plant and equipment				
Tax depreciation of buildings	6,686	871	7,557	7,563
Tax depreciation of property, plant and equipment		16	16	15
Tax amortisation of goodwill	475	96	571	570
Tax amortisation of deferred charges (software)				
Tax provision as per art. 106, paragraph 3				
PPA of loans and receivables	1,958	397	2,355	
PPA of depreciation and amortisation	846	168	1,014	
Tax provision for termination indemnities				
Other	721	21	742	5,544
Total A	10,686	1,569	12,255	13,692
B) With contra-entry to shareholders' equity				
Cash-flow hedges	526	106	632	606
Revaluation of securities valued at FVOCI	791	160	951	7,661
Revaluation of equity investments	376	1,523	1,899	1,353
Revaluation of artworks	66	13	79	
Total B	1,759	1,802	3,561	9,620
Total (A+B)	12,445	3,371	15,816	23,312

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)

	Total 31.12.2019	Total 31.12.2018
1. Opening balance	195,124	171,886
2. Increases	6,535	31,367
2.1 Deferred tax assets recognised during the year	6,150	8,088
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	6,150	8,088
2.2 New taxes or increases in tax rates		
2.3 Other increases	385	23,279
3. Decreases	9,114	8,129
3.1 Deferred tax assets cancelled in the year	8,824	8,129
a) reversals	8,824	8,129
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases:	290	
a) conversion to tax credits as per Law 214/2011		
b) other	290	
4. Closing balance	192,545	195,124

The deferred tax assets recognised during the year mainly comprised:

- Euro 5,612 thousand relating to non-deductible provisions to risks and charges and employee related provisions;
- Euro 198 thousand for non-deductible provisions for legal disputes and bankruptcy clawback actions.

The sub-caption "2.3 Other increases" relates to the recognition of deferred tax assets as a result of the recomputation, made for the purpose of the tax return for the year 2018.

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

11.4 Changes in deferred tax assets under Law 214/2011

	Total 31.12.2019	Total 31.12.2018
1. Opening balance	151,027	151,027
2. Increases		
3. Decreases	57,160	
3.1 Reversals		
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	93,867	151,027

It should be noted that the 2020 budget law (Law 160 of 27 December 2019) provides for:

- the postponement to tax years 2022-2025 of the deductions that would otherwise have been attributable to 2019 of the impairment write-downs and losses on loans to customers made and not deducted in previous years (art. 1 paragraph 712);
- the deferral of the 2019 share to the tax years 2025-2029 of the 5% deduction of the amortisation of goodwill that gave rise to the recording of deferred tax assets to which the transformation into current tax credits apply (so-called "qualified DTA"), (art. 1 paragraph 714).

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

	Total 31.12.2019	Total 31.12.2018
1. Opening balance	13,692	16,976
2. Increases	8	460
2.1 Deferred tax liabilities recognised during the year	8	18
a) relating to prior years		
b) due to changes in accounting policies		
c) other	8	18
2.2 New taxes or increases in tax rates		
2.3 Other increases		442
3. Decreases	1,445	3,744
3.1 Deferred tax liabilities cancelled during the year	1,156	2,056
a) reversals	1,156	2,056
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases	289	1,688
4. Closing balance	12,255	13,692

Deferred tax liabilities cancelled during the year are mainly attributable:

- for Euro 847 thousand to the economic effects linked to the P.P.A. (purchase price allocation) which emerged in the separate financial statements of Banco Desio as a result of the merger;
- for Euro 296 thousand to the share of capital gains realised on financial assets in 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).

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

	Total 31.12.2019	Total 31.12.2018
1. Opening balance	2,186	5,544
2. Increases	242	233
2.1 Deferred tax assets recognised during the year	242	233
a) relating to prior years		
b) due to changes in accounting policies		
c) other	242	233
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	20	3,591
3.1 Deferred tax assets cancelled in the year	20	799
a) reversals	20	799
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	2,408	2,186

Deferred tax assets recognised during the year are attributable to:

- Euro 187 thousand for the actuarial measurement of the Provision for termination indemnities;
- for Euro 54 thousand to the change in the reserve for cash-flow hedges.

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

	31.12.2019	31.12.2018
1. Opening balance	9,620	9,825
2. Increases	936	1,811
2.1 Deferred tax liabilities recognised during the year	936	334
a) relating to prior years		
b) due to changes in accounting policies		
c) other	936	334
2.2 New taxes or increases in tax rates		
2.3 Other increases		1,477
3. Decreases	6,995	2,016
3.1 Deferred tax liabilities cancelled during the year	391	1,773
a) reversals	391	1,773
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases	6,604	243
4. Closing balance	3,561	9,620

Deferred tax liabilities recognised during the year are made up of:

- Euro 831 thousand for the valuation of securities classified as financial assets at fair value through other comprehensive income (FVOCI);
- for Euro 79 thousand to the valuation of artworks.

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

Section 13 - Other assets - caption 130

13.1 Other assets: breakdown

	31.12.2019	31.12.2018
Tax credits		
- capital	10,565	8,848
- interest		
Amounts recoverable from the tax authorities for advances paid	26,523	30,879
Withholding tax credits		
Cheques negotiated to be cleared	19,490	24,663
Guarantee deposits		
Invoices issued to be collected	630	1,184
Debtors for securities and coupons to be collected by third parties		19
Printer consumables and stationery		
Items being processed and in transit with branches	20,810	23,037
Currency spreads on portfolio transactions	614	368
Investments of the supplementary fund for termination indemnities	170	180
Leasehold improvement expenditure	9,721	11,720
Accrued income and prepaid expenses	2,317	2,455
Other items	39,116	27,680
Total	129,956	131,033

The "Tax credits - capital" caption mainly relates to:

- the reimbursement of Euro 7,037 thousand requested by the Bank 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;
- for Euro 1,677 thousand, to the VAT credit of the Banco Desio Group;
- for Euro 1,127 thousand, to the credit linked to management of the reconstruction loans disbursed after the 2009 earthquake in Abruzzo.

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

- a receivable for virtual stamp duty of Euro 20,477 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 5,799 thousand, 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 cheques being processed, Euro 1,581 thousand; the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 1,864 thousand di euro, and the recovery of commissions on lines of credit made available to customers, Euro 8,276 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new year.

The amount of "Currency spreads on portfolio transactions" results from the offset of illiquid liability positions against illiquid asset 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 Euro 15,459 thousand;
- invoices to be issued for Euro 5,397 thousand;
- Euro 402 thousand due following currency transactions;
- Euro 155 thousand due from Fides for services provided.

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/Amounts	31.12.2019				31.12.2018			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	1,579,967	X	X	X	1,586,367	X	X	X
2. Due to banks	23,241	X	X	X	34,457	X	X	X
2.1 Current accounts and demand deposits	10,948	X	X	X	15,749	X	X	X
2.2 Time deposits	3,444	X	X	X	-	X	X	X
2.3 Loans	8,849	X	X	X	18,708	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	8,849	X	X	X	18,708	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Finance lease payables	-	X	X	X	-	X	X	X
2.6 Other payables	-	X	X	X	-	X	X	X
Total	1,603,208	-	-	1,603,208	1,620,824	-	-	1,620,824

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

The caption "Other" refers to the so-called "EIB mortgages".

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

Type of transaction/Amounts	31.12.2019				31.12.2018			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	8,369,625	X	X	X	8,062,703	X	X	X
2. Time deposits	1,002,203	X	X	X	1,125,249	X	X	X
3. Loans	40,373	X	X	X	27,293	X	X	X
3.1 Repurchase agreements	-	X	X	X	-	X	X	X
3.2 Other	40,373	X	X	X	27,293	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Finance lease payables	52,288	X	X	X	-	X	X	X
6. Other payables	33,698	X	X	X	39,346	X	X	X
Total	9,498,187	-	-	9,498,187	9,254,591	-	-	9,254,591

Key

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" mainly relate to: cashier's cheques for Euro 30,480 thousand and cheques for Euro 546 thousand (cashier's cheques for Euro 35,097 thousand and cheques for Euro 540 thousand respectively at the end of the previous year).

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

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

Type of security/Amounts	31.12.2019				31.12.2018			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	1,734,567	-	1,736,955	-	1,410,785	321	1,407,229	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,734,567	-	1,736,955	-	1,410,785	321	1,407,229	-
2. other securities	14,536	-	-	14,537	15,428	-	-	15,428
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	14,536	-	-	14,537	15,428	-	-	15,428
Total	1,749,103	-	1,736,955	14,537	1,426,213	321	1,407,229	15,428

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 for Euro 1,075 million.

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 14,041 thousand were issued with a short term maturity and Euro 476 thousand were issued with a longer than short term maturity. The remainder consists of certificates of Euro 20 thousand 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	31.12.2019	31.12.2018
ISIN code IT0005038085	28.08.2014	28.08.2019	EUR	FR	-	50,262
ISIN code IT0005070179	22.12.2014	22.12.2019	EUR	FR	-	49,935
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,938	79,939
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	50,067	50,069
Total					130,005	230,205

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

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	31.12.2019					31.12.2018				
	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	-	6,874	1,264	X	X	-	3,221	2,825	X
1.1 For trading	X	-	6,874	1,264	X	X	-	3,221	2,825	X
1.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	-	6,874	1,264	X	X	-	3,221	2,825	X
Total (A+B)	X	-	6,874	1,264	X	X	-	3,221	2,825	X

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**

	Fair value			NV	Fair value			NV
	31.12.2019				31.12.2018			
	L1	L2	L3	31.12.2019	L1	L2	L3	31.12.2018
A. Financial derivatives	-	2,157	-	130,000	-	5,175	-	137,899
1) Fair value	-	-	-	-	-	3,120	-	7,899
2) Cash flows	-	2,157	-	130,000	-	2,055	-	130,000
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	2,157	-	130,000	-	5,175	-	137,899

Key

NV = Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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**

	31.12.2019	31.12.2018
Due to tax authorities	630	345
Amounts payable to tax authorities on behalf of third parties	26,380	27,265
Social security contributions to be paid	6,634	4,883
Dividends due to shareholders	14	11
Suppliers	23,999	17,211
Amounts available to customers	14,859	17,481
Interest and dues to be credited	19	256
Payments against bill instructions	157	150
Early payments on loans not yet due	32	147
Items being processed and in transit with branches	25,603	37,645
Currency differences on portfolio transactions	104,980	100,431
Due to personnel	13,599	11,395
Sundry creditors	67,713	52,990
Provisions for guarantees given and commitments		
Accrued expenses and deferred income	4,660	3,424
Total	289,279	273,634

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 for payment to the tax authorities.

"Items being processed and in transit with branches" are generally settled in the first few days of the next period. The main components thereof relate to:

- bank transfers being processed of Euro 11,775 thousand,
- to MAV/RAV receipts, payment slips and Sepa direct debit (SDD) instructions for Euro 2,660 thousand,
- items related to transactions in securities settled afterwards for Euro 7,241 thousand,
- transitory items for the settlement of purchase orders of customers of asset management products (funds and bancassurance) for Euro 1,147 thousand.

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.

"Due to personnel" includes the payable relating to early retirement incentives of Euro 11,238 thousand (Euro 9,080 thousand at the end of last year) and the amount due for holiday pay of Euro 1,813 thousand (Euro 1,689 thousand at the end of last year).

The main items included under caption "Sundry creditors" refer to: transfers being processed for a total of Euro 58,019 thousand (Euro 45,115 thousand at the end of the previous year), the amounts collected to be attributed to loans for Euro 2,569 thousand (Euro 493 thousand at the end of last year), sundry creditors for currency transactions for Euro 510 thousand (Euro 736 thousand at the end of last year) and creditors for notes collected for Euro 612 thousand (Euro 355 thousand at the end of last year).

Section 9 - Provision for termination indemnities - caption 90

9.1 Provision for termination indemnities: changes during the year

	31.12.2019	31.12.2018
A. Opening balance	25,175	28,962
B. Increases	8,408	249
B.1 Provision for the year	217	249
B.2 Other changes	8,191	-
C. Decreases	(8,103)	(4,036)
C.1 Payments made	(656)	(3,530)
C.2 Other changes	(7,447)	(506)
D. Closing balance	25,480	25,175
Total	25,480	25,175

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 Euro 10,955 thousand (Euro 11,324 thousand 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 Group'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 0.88%
- 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%)	28,472	29,468
Annual inflation rate (+/- 0.25%)	29,264	28,666
Annual turn over rate (+/- 2.00%)	28,690	29,282

Section 10 - Provisions for risks and charges - caption 100**10.1 Provisions for risks and charges: breakdown**

Captions/Amounts	Total 31.12.2019	Total 31.12.2018
1. Credit risk provisions relating to commitments and financial guarantees given	2,734	2,377
2. Provisions for other commitments and other guarantees given	-	-
3. Pensions and similar commitments	-	-
4. Other provisions for risks and charges	32,848	34,368
4.1 Legal and tax disputes	10,394	11,727
4.2 Personnel expenses	11,921	19,683
4.3 Other	10,533	2,958
Total	35,582	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".

The "Legal disputes" sub-caption includes provisions made for losses expected to arise from disputes, of which Euro 9,385 thousand relates to legal disputes (Euro 10,977 thousand at the end of last year) and Euro 734 thousand relates to bankruptcy clawback actions (Euro 704 thousand at the end of 2017).

"Personnel expenses" mainly include estimated liabilities regarding the bonus system, Euro 8,045 thousand (Euro 7,014 thousand last year) and the long-service and additional holiday awards, Euro 3,636 thousand (Euro 3,382 thousand last year). In the comparison period, this caption included an additional Euro 8,922 thousand for the Solidarity Fund, accounted for as at 31 December 2019 in caption 80. Other liabilities.

The caption "Other" includes provisions for charges pertaining to other operating risks, including provisions for contractual indemnities due to financial advisors of Euro 434 thousand (the same as last year). At 31 December 2019, this caption also includes the allocation of Euro 6,616 thousand made for higher contingent operational risks, which emerged at the end of the year, in relation to the situation of particular legal uncertainty (in the absence of a paramount national ruling) with reference to operations with customers in the consumer credit sector, so that, to date, an increase in cost for these customers, for this type of loan, cannot be considered a remote possibility.

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	Other provisions for risks and charges	Total
A. Opening balance	2,377	34,368	36,745
B. Increases	368	17,358	17,726
B.1 Provision for the year	368	17,252	17,620
B.2 Changes due to the passage of time		106	106
B.3 Changes due to changes in the discount rate			
B.4 Other changes			
C. Decreases	11	18,878	18,889
C.1 Utilisations during the year		9,809	9,809
C.2 Changes due to changes in the discount rate			
C.3 Other changes	11	9,069	9,080
D. Closing balance	2,734	32,848	35,582

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	98	27	-	125
2. Financial guarantees given	277	440	1,892	2,609
Total	375	467	1,892	2,734

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 120, 130, 140, 150, 160, 170 and 180

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

	31.12.2019	31.12.2018
A. Share capital	70,693	67,705
A.1 Ordinary shares	63,828	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	70,693	67,705

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

- 122,745,289 ordinary shares with nominal value of Euro 0.52 each,
- 13,202,000 savings shares with nominal value of Euro 0.52 each.

In execution of the Merger Plan for the incorporation of Banca Popolare di Spoleto, Banco di Desio e della Brianza S.p.A. has authorised an increase in capital for a maximum nominal amount of Euro 2,987,819.64 by issuing up to a maximum of 5,745,807 ordinary shares, with regular rights, with an indication of the nominal value of Euro 0.52, to be assigned to the shareholders of the merged company on the basis of the exchange ratio.

As a result of the exchange, the share capital of Banco di Desio e della Brianza S.p.A. was increased by a nominal amount of Euro 2,987,550.28 through the issue of no. 5,745,289 ordinary shares.

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

Captions/Type	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	5,745,289	
B.1 New issues		
- for payment		
- business combination	5,745,289	
- 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	122,745,289	13,202,000
D.1 Treasury shares (+)		
D.2 Shares at the end of the year		
- fully paid		
- 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

	31.12.2019	31.12.2018
Legal reserve	98,312	95,216
Statutory reserves	566,386	549,722
Retained earnings (losses)	3,468	3,181
Other FTA reserves	99,784	99,784
Other reserves	130	100
Total	768,080	748,003

Section 14 - Minority interests - caption 190**14.1 Details of caption 190 "Minority interests"**

Company name	31,12,2019	31,12,2018
Equity investments in consolidated companies with significant minority interests	4	44,266
Banca Popolare di Spoleto S.p.A.		44,262
Desio OBG S.r.l.	4	4
Other equity investments		
Total	4	44,266

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			31/12/2019	31/12/2018
	First stage	Second stage	Third stage		
Commitments to disburse funds	2,858,750	40,977	22,812	2,922,539	2,873,853
a) Central banks	-	-	-	-	-
b) Public administrations	17,407	-	-	17,407	21,313
c) Banks	9,503	938	-	10,441	-
d) Other financial companies	101,479	3,592	6	105,077	61,900
e) Non-financial companies	2,533,122	30,593	22,062	2,585,777	2,577,655
f) Households	197,239	5,854	744	203,837	212,985
Financial guarantees given	36,834	3,014	569	40,417	297,074
a) Central banks	-	-	-	-	-
b) Public administrations	6	-	-	6	35
c) Banks	2,508	-	-	2,508	20,587
d) Other financial companies	276	-	-	276	2,398
e) Non-financial companies	30,231	2,325	528	33,084	251,240
f) Households	3,813	689	41	4,543	22,814

2. Other commitments and other guarantees given

	Nominal value Total 31/12/2019
1. Other guarantees given	248,149
of which: non-performing loans	3,146
a) Central Banks	-
b) Public administrations	35
c) Banks	7,437
d) Other financial companies	2,573
e) Non-financial companies	218,846
f) Households	19,258
2. Other commitments	15
of which: non-performing loans	-
a) Central Banks	-
b) Public administrations	-
c) Banks	-
d) Other financial companies	15
e) Non-financial companies	-
f) Households	-

3. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31.12.2019	31.12.2018
1. Financial assets designated at fair value through profit or loss	-	-
2. Financial assets designated at fair value through other comprehensive income	-	-
3. Financial assets measured at amortised cost	3,932,808	3,805,197
4. Property, plant and equipment	-	-
of which: tangible fixed assets that constitute inventories	-	-

Caption "3. Financial assets measured at amortised cost" includes 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.

4. Administration and trading on behalf of third parties

Type of services	Amount
1. Execution of orders on behalf of customers	-
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Asset management	1,511,265
a) individual	1,511,265
b) collective	-
3. Custody and administration of securities	21,151,001
a) third-party securities on deposit as custodian bank (excluding portfolio management schemes)	8,895,717
1. securities issued by companies included in the consolidation	701,718
2. other securities	8,193,999
b) third-party securities held on deposit (excluding portfolio management schemes): other	12,255,284
1. securities issued by companies included in the consolidation	8,867,287
2. other securities	3,387,997
c) third-party securities deposited with third parties	
d) portfolio securities deposited with third parties	
4. Other transactions	-

5. 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 liabilities 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 (f=c-d-e) 31.12.2019	Net amount (f=c-d-e) 31.12.2018
				Financial instruments (d)	Deposits of cash received as collateral (e)		
1. Derivatives	-	-	-	-	-	-	137
Total	31.12.2019	-	-	-	-	-	-
Total	31.12.2018	1,440	-	1,440	723	580	137

6. 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 assets 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 (f=c-d-e) 31.12.2019	Net amount (f=c-d-e) 31.12.2018
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1. Derivatives	9,031	-	9,031	6,290	1,470	1,271	(815)
2. Repurchase	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total	31.12.2019	9,031	-	9,031	6,290	1,470	1,271
Total	31.12.2018	8,396	-	8,396	6,601	2,610	(815)

Tables 5 and 6 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 - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2019	31.12.2018
1. Financial assets designated at fair value through profit or loss:	416	-	-	416	112
1.1 Financial assets held for trading	5	-	-	5	84
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	411	-	-	411	28
2. Financial assets designated at fair value through other comprehensive income	2,082	-	X	2,082	6,007
3. Financial assets measured at amortised cost:	13,040	241,563	X	254,603	258,382
3.1 Due from banks	2,701	661	X	3,362	2,534
3.2 Loans to customers	10,339	240,902	X	251,241	255,848
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	8	8	3
6. Financial liabilities	X	X	X	6,400	6,433
Total	15,538	241,563	8	263,509	270,937
of which: interest income on impaired financial assets	-	4,788	-	4,788	6,516
of which: interest income from finance leases	-	2,769	-	2,769	-

Caption "1. Financial assets held for trading – Other transactions" includes the positive net balance of differentials on derivative contracts.

Interest on "Financial assets at amortised cost" is recognised net of default interest accrued and not collected in the reference period on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question accrued at the year-end amounts to Euro 3,840 thousand.

Conversely, the caption includes default interest relating to prior years and collected during the year of Euro 492 thousand.

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Captions	31.12.2019	31.12.2018
Interest income on financial assets in foreign currency	1,817	1,795

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2019	31.12.2018
1. Financial liabilities measured at amortised cost	(26,601)	(17,165)	X	(43,766)	(48,105)
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(1,089)	X	X	(1,089)	(729)
1.3 Due to customers	(25,512)	X	X	(25,512)	(24,537)
1.4 Debt securities in issue	X	(17,165)	X	(17,165)	(22,839)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	(167)	(167)	(228)
5. Hedging derivatives	X	X	(1,121)	(1,121)	(1,306)
6. Financial assets	X	X	X	(284)	(2,230)
Total	(26,601)	(17,165)	(1,288)	(45,338)	(51,869)
of which: interest expense relating to lease payables	(1,245)	-	-	(1,245)	-

1.4 Interest and similar expense: other information**1.4.1 Interest expense on foreign currency liabilities**

Captions	31.12.2019	31.12.2018
Interest expense on foreign currency financial liabilities	(785)	(718)

1.5 Differentials on hedging transactions

Captions	31.12.2019	31.12.2018
A. Positive differentials on hedging transactions	32	65
B. Negative differentials on hedging transactions	(1,153)	(1,371)
C. Balance (A-B)	(1,121)	(1,306)

Section 2 - Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2019	31.12.2018
a) guarantees given	2,618	2,772
b) credit derivatives	-	-
c) management, brokerage and consulting services:	65,949	62,612
1. trading in financial instruments	-	-
2. trading in foreign exchange	1,009	1,523
3. portfolio management	7,358	6,910
3.1. individual	7,358	6,910
3.2. collective	-	-
4. custody and administration of securities	1,519	1,531
5. custodian bank	-	-
6. placement of securities	24,102	22,095
7. order taking	5,392	5,236
8. advisory services	-	-
8.1. regarding investments	-	-
8.2. regarding financial structuring	-	-
9. distribution of third-party services	26,569	25,317
9.1. asset management	399	410
9.1.1. individual	399	410
9.1.2. collective	-	-
9.2. insurance products	19,744	17,907
9.3. other products	6,426	7,000
d) collection and payment services	29,232	29,516
e) servicing related to securitisation	119	72
f) services for factoring transactions	114	110
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	73,381	73,754
j) other services	11,793	10,390
Total	183,206	179,226

Commissions relating to the "distribution of third-party services" (sub-caption 9.3) are mainly commissions for the distribution of personal loans.

Commissions for "other services" include commission income for transactions for the assignment of one fifth of salary and loans with delegation of payment for Euro 4,044 thousand (formerly Euro 2,666 thousand), recoveries of expenses on customer collection and payments for Euro 2,168 thousand (formerly Euro 2,366 thousand), fees for the Internet banking service of Euro 1,637 thousand (formerly Euro 1,693 thousand) and recoveries of expenses on mortgage instalments for Euro 1,482 thousand (formerly Euro 1,367 thousand).

2.2 Commission expense: breakdown

Services/Amounts	31.12.2019	31.12.2018
a) Guarantees received	(458)	(606)
b) credit derivatives	-	-
c) management and brokerage services:	(9,885)	(6,966)
1. trading in financial instruments	(94)	(71)
2. trading in foreign exchange	-	-
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	(1,335)	(1,141)
5. placement of financial instruments	-	-
6. offer of securities, financial products and services through financial promoters	(8,456)	(5,754)
d) collection and payment services	(3,050)	(3,418)
e) other services	(2,690)	(2,580)
Total	(16,083)	(13,570)

Commissions for "offer of securities, financial products and services through financial promoters" include fees relating to remuneration of the network of financial advisors for Euro 8,456 thousand (Euro 5,754 thousand last year).

Commissions for "other services" include fees for the presentation of customers and loans granted to them for Euro 1,824 thousand.

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2019		31.12.2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	82	0	102	0
B. Other financial assets that have to be measured at fair value	0	0	0	0
C. Financial assets valued at fair value through other comprehensive income	1,014	0	3,094	0
D. Equity investments	0	0	0	0
Total	1,096	0	3,196	0

Section 4 - Net trading income - caption 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets	139	908	(219)	(160)	668
1.1 Debt securities	-	25	(22)	(3)	-
1.2 Equity instruments	128	756	(84)	(102)	698
1.3 Mutual funds	11	8	(113)	-	(94)
1.4 Loans	-	-	-	-	-
1.5 Other	-	119	-	(55)	64
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	3,213
4. Derivatives	375	3,221	(971)	(3,662)	(1,067)
4.1 Financial derivatives:	375	3,221	(971)	(3,662)	(1,067)
- On debt securities and interest rates	289	1,447	(956)	(1,589)	(809)
- On equities and equity indices	86	1,771	(15)	(2,073)	(231)
- On currency and gold	X	X	X	X	(30)
- Other	-	3	-	-	3
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	514	4,129	(1,190)	(3,822)	2,814

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	31.12.2019	31.12.2018
A. Income relating to:		
A.1 Fair value hedges	8	188
A.2 Hedged financial assets (fair value)	-	3
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash flow hedges	-	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activity (A)	8	191
B. Charges relating to:		
B.1 Fair value hedges	(554)	(3)
B.2 Hedged financial assets (fair value)	(5)	(130)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedges	-	-
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activity (B)	(559)	(133)
C. Net hedging gains (losses) (A-B)	(551)	58
of which: result of hedging on net positions	-	-

The caption includes net hedging gains (losses). The various sub-captions indicate income components arising from the measurement process for hedged assets and liabilities – financial assets available for sale, loans to customers and bonds issued by the Group, respectively – as well as from the related hedging derivatives.

Section 6 - Gains (losses) on disposal or repurchase - caption 100**6.1 Gains (losses) on disposal or repurchase: breakdown**

Caption/Income items	31.12.2019			31.12.2018		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	8,375	(9,081)	(706)	6,425	(30,423)	(23,998)
1.1 Due from banks	148	-	148	-	-	-
1.2 Loans to customers	8,227	(9,081)	(854)	6,425	(30,423)	(23,998)
2. Financial assets designated at fair value through other comprehensive income	2,037	(272)	1,765	12,325	(2,381)	9,944
2.1 Debt securities	2,037	(272)	1,765	12,325	(2,381)	9,944
2.2 Loans	-	-	-	-	-	-
Total assets	10,412	(9,353)	1,059	18,750	(32,804)	(14,054)
Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	29	(185)	(156)	83	(766)	(683)
Total liabilities	29	(185)	(156)	83	(766)	(683)

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 caption "1.2. Loans to customers" also includes the net gain (loss) on disposal of non-performing loans.

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.

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

7.2. 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	380	1,835	(1,985)	(1)	229
1.1 Debt securities	21	-	-	-	21
1.2 Equity instruments	-	-	-	-	-
1.3 Mutual funds	359	1,835	(1,985)	(1)	208
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	X	X	X	X	-
Total	380	1,835	(1,985)	(1)	229

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. This item is made up mainly of mutual funds, which by their very nature do not have characteristics compatible with passing the test.

The difference between the transaction price and the amount determined through the use of valuation techniques (day one loss) with reference to the units of the "Clessidra Restructuring Fund" purchased as part of the multi-originator disposal transaction (mainly UTP) described in Part E, Section II "Risks of the consolidation for regulatory purposes", Sub-section D "Sales", Point D.3 "Regulatory consolidation – Financial assets sold and derecognised in full", is included in caption "1.3 UCITS units", column "Capital losses (C)".

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)		31.12.2019	31.12.2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Due from banks	-	-	-	788	-	788	(1,145)
- loans	-	-	-	248	-	248	(465)
- debt securities	-	-	-	540	-	540	(680)
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
B. Loans to customers	(132)	(5,396)	(79,634)	6,690	24,808	(53,664)	(61,959)
- loans	(132)	(5,396)	(79,634)	3,909	24,808	(56,445)	(57,808)
- debt securities	-	-	-	2,781	-	2,781	(4,151)
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
Total	(132)	(5,396)	(79,634)	7,478	24,808	(52,876)	(63,104)

This caption includes the adjustments and write-backs made against the credit risk of assets valued at amortised cost (loans to banks and customers, including debt securities).

As regards "Write-downs" the figure in the "Write-off" column relates to losses from the write-off of doubtful loans.

"Write-downs – third stage", which arise from the analytical assessment of the probability of recovery of non-performing loans and by discounting cash flows expected to be generated, relate to:

- doubtful loans Euro 40,143 thousand (versus Euro 46,391 thousand);
- unlikely to pay loans Euro 39,177 thousand (formerly Euro 52,628 thousand);
- past due loans Euro 314 thousand (formerly Euro 573 thousand);

"Write-backs of first and second stage" are calculated on the performing loan portfolio.

"Specific write-backs (Third Stage)" relate to:

- doubtful loans amortised in previous years and with actual recoveries higher than expected for Euro 1,152 thousand (formerly Euro 1,830 thousand);
- collections of loans previously written down for Euro 12,237 thousand (formerly Euro 19,872 thousand);
- measurement write-backs for Euro 11,418 thousand (formerly Euro 20,062 thousand).

Adjustments to loans and debt securities result from the application of models for determining expected loan losses adopted by the bank.

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.

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)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage	31.12.2019	31.12.2018
		Write-off	Other				
A. Debt securities	(363)	-	-	462	-	99	610
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
Of which: impaired loans acquired or originated	-	-	-	-	-	-	-
Total	(363)	-	-	462	-	99	610

This item includes the adjustments and write-backs deriving from application of the models for determining the expected loss on the "held to collect & sell" debt securities portfolio.

Section 9 - Profits/losses from contractual changes without cancellations - caption 140**9.1 Profits/losses from contractual changes: breakdown**

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**

	31.12.2019	31.12.2018
1) Employees	(168,120)	(164,537)
a) wages and salaries	(113,456)	(115,081)
b) social security charges	(30,118)	(30,186)
c) termination indemnities	-	-
d) pension expenses	-	-
e) provision for termination indemnities	(337)	(395)
f) provision for post-retirement benefits and similar commitments:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(10,955)	(11,324)
- defined contribution	(10,955)	(11,324)
- defined benefit	-	-
h) equity-based payments	-	-
i) other personnel benefits	(13,254)	(7,551)
2) Other active employees	(470)	(438)
3) Directors and auditors	(3,449)	(4,282)
4) Retired personnel	-	-
Total	(172,039)	(169,257)

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**12.2 Average number of employees by level**

	31.12.2019	31.12.2018
1) Employees	2,204	2,278
a) managers	34	32
b) middle managers	1,047	1,078
c) other employees	1,123	1,168
2) Other personnel	6	6

12.3 Defined post-employment benefit obligations: costs and revenues

Balances were zero at the reporting dates.

12.4 Other personnel benefits

	31.12.2019	31.12.2018
Provision for sundry charges	(6,610)	(4,323)
Contributions to healthcare fund	(2,080)	(2,081)
Training and instruction costs	(1,269)	(450)
Rent expense of property used by employees	(325)	(313)
Redundancy incentives	(692)	2,625
Other	(2,278)	(3,009)
Total	(13,254)	(7,551)

The main components of the "Other" caption include company canteen costs of Euro 1,927 thousand and costs relating to insurance premiums of Euro 303 thousand.

12.5 Other administrative costs: breakdown

	31.12.2019	31.12.2018
Indirect taxes and duties:		
- Stamp duty	(28,377)	(26,531)
- Other	(4,102)	(6,125)
Other costs:		
- IT expenses	(21,939)	(17,779)
- Lease of property and other assets	(1,520)	(13,166)
- Maintenance of buildings, furniture and equipment	(7,554)	(6,735)
- Post office and telegraph	(2,292)	(2,471)
- Telephone and data transmission	(7,022)	(5,866)
- Electricity, heating, water	(4,021)	(3,643)
- Cleaning services	(1,356)	(1,391)
- Printed matter, stationery and consumables	(1,144)	(836)
- Transport costs	(1,196)	(1,108)
- Surveillance and security	(2,034)	(2,474)
- Advertising	(2,784)	(2,246)
- Information and surveys	(1,660)	(2,294)
- Insurance premiums	(1,022)	(994)
- Legal fees	(3,366)	(6,495)
- Professional consulting fees	(10,636)	(9,480)
- Various contributions and donations	(286)	(295)
- Sundry expenses	(19,551)	(18,750)
Total	(121,862)	(128,679)

The caption "Sundry expenses" comprises the contributions of the year to Single Resolution Mechanism and to Deposit Guarantee Scheme for Euro 10,635 thousand, of which:

- Euro 4,357 thousand for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for the year;
- Euro 1,596 thousand for the extraordinary contribution to the Single Resolution Mechanism (SRM) for the year;
- Euro 4,682 thousand for the contribution to the Deposit Guarantee Scheme (DGS) for the year.

It also includes the fees paid to the auditing firm Deloitte & Touche S.p.A. and to other entities of the same network, for services provided to the Bank, summarised below by type of service provided.

"Lease of property and other assets" in the comparative period included the costs incurred on lease contracts which, from 1 January 2019, fall within the scope of IFRS 16 "Leases", with consequent recognition of the charges incurred during the period in item "20. Interest expense and similar charges" for Euro 1,245 thousand and item 180 "Net adjustments to property, plant and equipment" for Euro 10,660 thousand.

Type of services	Party which provided the service	Recipient	Fees (Euro/000)
Audit	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	408
		Fides	48
		Desio OBG	16
Attestation services	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	117
		Fides	1
Other services:			
Risk Management and IFRS9 Methodological Support	Deloitte Consulting S.r.l.	Banco di Desio e della Brianza	304
Risk Management Methodological Support	Deloitte Risk Advisory S.r.l.	Banco di Desio e della Brianza	205
CSR methodological support	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	88
Benchmarking of IT outsourcing contracts	Deloitte Consulting S.r.l.	Banco di Desio e della Brianza	35
Total			1,222

The fees are shown net of expenses, the CONSOB contribution (where due) and VAT.

Section 13 - Net provisions for risks and charges - caption 200

13.3 Other net provisions for risks and charges: breakdown

	Provision	Utilisations	31.12.2019	31.12.2018
Commitments for guarantees given	(1,814)	1,446	(368)	(417)
Charges for legal disputes	(8,719)	2,769	(5,950)	(127)
Other	(484)		(484)	(891)
Total	(11,017)	4,215	(6,802)	(1,435)

Charges for legal disputes include provisions made in the year for expected losses arising from legal disputes and bankruptcy clawback actions. At 31 December 2019, this caption also includes the allocation of Euro 6,616 thousand made for higher contingent operational risks, which emerged at the end of the year, in relation to the situation of particular legal uncertainty (in the absence of a paramount national ruling) with reference to operations with customers in the consumer credit sector, so that, to date, an increase in cost for these customers, for this type of loan, cannot be considered a remote possibility.

Other charges include provisions for other operating risks, inclusive of tax disputes.

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				
1 For business purposes	(17,899)	-	-	(17,899)
- Owned	(7,238)	-	-	(7,238)
- Rights of use acquired under lease	(10,661)	-	-	(10,661)
2 Investment property	(28)	-	-	(28)
- Owned	(28)	-	-	(28)
- Rights of use acquired under lease	-	-	-	-
3 Inventory	X	-	-	-
Total	17,927	-	-	(17,927)

The adjustments consist entirely of depreciation computed over the useful lives of the assets.

The item "Rights of use acquired under lease" includes the depreciation charged on RoU Assets recorded in application of IFRS16 "Leases" in force from 1 January 2019 and calculated as the sum of the lease payable, initial direct costs, payments made on or before the contract's starting date (net of any incentives received for leasing) and decommissioning and/or recovery costs.

Details, by asset category, of the impact on the income statement of adjustments to property, plant and equipment are shown in caption "C.2 Depreciation" of the table "9.5 and 9.6 Changes in the year" of Section 9, 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	1,254	-	-	(1,254)
- Generated internally	-	-	-	-
- Other	1,254	-	-	(1,254)
A.2 Rights of use acquired under lease	-	-	-	-
Total	1,254	-	-	(1,254)

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**

	31.12.2019	31.12.2018
Amortisation of leasehold improvements	(2,086)	(1,906)
Losses on disposal of property, plant and equipment	(24)	(212)
Charges on non-banking services	(1,105)	(2,018)
Total	(3,215)	(4,136)

"Charges on non-banking services" include: charges for insurance deductibles and fraudulent withdrawals for Euro 49 thousand and contingent liabilities not attributable to a specific item for Euro 591 thousand.

16.2 Other operating income: breakdown

	31.12.2019	31.12.2018
Recovery of taxes from third parties	29,469	29,320
Recharge of costs of current accounts and deposits	4,342	7,322
Rental and leasing income	102	74
Other expense recoveries	8,230	10,244
Gains on disposal of property, plant and equipment	4	4
Other	2,659	656
Total	44,806	47,620

The "Recovery of taxes from third parties" caption principally includes the recovery of stamp duty on current accounts, deposit accounts and other customer investments totalling Euro 26,093 thousand, and the recovery of flat-rate taxes totalling Euro 3,146 thousand.

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 2,298 thousand and other recoveries for various communications to customers of Euro 1,859 thousand.

"Other expense recoveries" include, in particular, legal costs relating to various non-performing loans of Euro 933 thousand, recoveries of investigation costs relating to various loans of Euro 6,518 thousand, the recovery of costs of appraisals in connection with mortgage loans of Euro 177 thousand and the recovery of sundry expenses relating to lease applications of Euro 238 thousand.

The main component of the "Other" caption relates to an insurance reimbursement received for Euro 1,450 thousand.

Section 18 - Net gains (losses) arising from the fair value measurement of property, plant and equipment and intangible assets - caption 260

18.1. Net result of the measurement at fair value (or amount revalued) or at estimated realisable value of property, plant and equipment and intangible assets: breakdown

Assets/Income items	Revaluations	Write-downs	Exchange differences		Net result (a-b+c-d)
	(a)	(b)	Positive (c)	Negative (d)	
A. Property, plant and equipment	-	(627)	-	-	(627)
A.1 For business purposes:	-	(627)	-	-	(627)
- Owned	-	(627)	-	-	(627)
- Rights of use acquired under lease	-	-	-	-	-
A.3 Other	-	-	-	-	-
A.2 Investment property:	-	-	-	-	-
- Owned	-	-	-	-	-
- Rights of use acquired under lease	-	-	-	-	-
B. Intangible assets	-	-	-	-	-
B.1 Owned:	-	-	-	-	-
- Generated internally	-	-	-	-	-
- Other	-	-	-	-	-
B.2 Rights of use acquired under lease	-	-	-	-	-
Total	-	(627)	-	-	(627)

This item includes the negative revaluation of works of art following the change in the accounting method for the recognition and measurement of valuable artistic assets (governed by IAS 16 "Property, plant and equipment"). The change in question involved moving from the cost model to the revaluation model, i.e. recalculating the value at the next valuation date following initial recognition of works of art in order to bring their carrying amount into line with their current market values. As required by the standard, the positive revaluation of this category of assets, equal to Euro 240 thousand before tax, was allocated, net of deferred tax, to a specific valuation reserve in equity.

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 21 - Income taxes on current operations - caption 300**21.1 Income taxes on current operations: breakdown**

Income items/Segments	Total 31.12.2019	Total 31.12.2018
1. Current taxes (-)	(16,166)	(8,751)
2. Change in prior period income taxes (+/-)	172	23
3. Reduction in current taxes (+)	-	-
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(2,674)	(41)
5. Change in deferred tax liabilities (+/-)	1,148	2,038
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	(17,520)	(6,731)

Caption "2. Change in prior period income taxes", which records an increase of Euro 172 thousand, refers to the recalculation of taxes as of 31.12.2018.

Caption "4. Change in deferred tax assets" comprises the balance of captions "2.1 Deferred tax assets recognised during the year" and "3.1 Deferred tax assets cancelled in the year" (booked as a contra-entry to the income statement).

Caption "5. Change in deferred taxes" comprises the balance of the captions "2.1 Deferred tax liabilities recognised during the year" and "3.1 Deferred tax liabilities cancelled during the year" (booked as a contra-entry to the income statement).

21.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	57,676		57,676	
Costs not deductible for IRAP purposes			28,422	
Revenue not taxable for IRAP purposes			(17,148)	
Sub total	57,676		68,950	
Theoretical tax charge 27.5% IRES - 5.57% IRAP		(15,862)		(3,840)
Temporary differences taxable in subsequent years	(28)		-	
Temporary differences deductible in subsequent years	19,191		15,647	
Reversal of prior year temporary differences	(24,752)		(15,449)	
Differences that will not reverse in subsequent years	(4,485)		(13,941)	
Taxable income	47,602		55,207	
Current taxes for the year IRES - 5.57% IRAP	27.5%	(13,091)		(3,075)

Section 23 - Minority interests - caption 340**23.1 Details of caption 340 "Minority interests"**

Company name	31.12.2019	31.12.2018
Consolidated equity investments with significant minority interests		
Banca Popolare Spoleto (now merged with the Parent Company)	X	1,298
Desio OBG		
Profit/(loss) of minority interests	-	1,298

Section 25 - Earnings per share

	31.12.2019		31.12.2018	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Net profit of the Group attributable to the various classes of shares (thousands of euro)	35,565	4,591	31,055	4,205
Average number of shares outstanding	122,745,289	13,202,000	117,000,000	13,202,000
Average number of potentially dilutive shares	-	-	-	-
Average number of diluted shares	122,745,289	13,202,000	117,000,000	13,202,000
Earnings per share (Euro)	0.29	0.35	0.27	0.32
Diluted earnings per share (Euro)	0.29	0.35	0.27	0.32

25.1 Average number of ordinary shares (fully diluted)

Taking into account that the merger of the former subsidiary BPS took place with effect for accounting purposes from 1 January 2019, the 5,745,289 Banco Desio shares issued to service the exchange were considered as already issued at the beginning of the year when calculating earnings per share. The average number of shares used to calculate earnings per share is therefore 122,745,289 ordinary shares and 13,202,000 savings shares; 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.

25.2 Other information

There is no other information to be disclosed.

PART D - CONSOLIDATED COMPREHENSIVE INCOME**STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME**

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Captions	31/12/2019	31/12/2018
10. Net profit (loss) for the period	40,156	36,558
Other elements of income, without reversal to income statement		
20. Equity instruments designated at fair value through other comprehensive income:	-273	-87
a) change in fair value	-270	-87
b) transfers to other components of shareholders' equity	-3	0
50. Property, plant and equipment	240	
70. Defined-benefit pension plans	-681	506
100. Taxes on other elements of income without reversal to profit or loss	108	-134
Other elements of income, with reversal to income statement		
130. Cash-flow hedges:	-85	-644
a) changes in fair value	-85	-644
150. Financial assets (other than equities) designated at fair value through other comprehensive income:	1,405	-2,704
a) changes in fair value	1,504	1,010
b) reversal to income statement	-99	-2,162
- adjustments for credit risk	-99	-386
- gains/losses on disposal		-1,776
c) other changes		-1,552
180. Taxes on other elements of income with reversal to profit or loss	-437	1,004
190. Total other elements of income	277	-2,059
200. Total comprehensive income (Captions 10+190)	40,433	34,499
210. Total comprehensive income pertaining to minority interests	-	-1,718
220. Total consolidated comprehensive income pertaining to Parent Company	40,433	32,781

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 in place, at various levels, over business processes are included in specific "Consolidated Texts" by function and Internal Procedures.

The organisational model adopted by the Group envisages that the Risk Management function (Chief Risk Officer) 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 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 quality

A.1 Non-performing and performing loans: amounts, adjustments, trends and economic and territorial distribution

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		120,018	217,062	3,100	169,506	12,440,019	12,949,705
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	509,364	509,364
3. Financial assets designated at fair value		-	-	-	-	-	-
4. Other financial assets that have to be measured at fair value		-	-	-	-	2,300	2,300
5. Financial assets being sold		-	-	-	-	-	-
Total	31.12.2019	120,018	217,062	3,100	169,506	12,951,683	13,461,369
Total	31.12.2018	122,451	274,780	4,141	207,007	12,264,801	12,873,180

A.1.2 Distribution of credit exposures by portfolio and quality of lending (gross and net values)

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	624,501	(284,321)	340,180	12,155	12,657,450	(47,925)	12,609,525	12,949,705
2. Financial assets designated at fair value through other comprehensive income	-	-	-	-	509,727	(363)	509,364	509,364
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets that have to be measured at fair value	-	-	-	-	X	X	2,300	2,300
5. Financial assets being sold	-	-	-	-	-	-	-	-
Total 31.12.2019	624,501	(284,321)	340,180	12,155	13,167,177	(48,288)	13,121,189	13,461,369
Total 31.12.2018	665,376	(264,004)	401,372	24,070	12,525,113	(55,617)	12,471,808	12,873,180

Portfolio/Quality	Assets with an obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	2,332
2. Hedging derivatives	-	-	-
Total 31.12.2019	-	-	2,332
Total 31.12.2018	-	3	5,977

SECTION 2 – RISKS OF THE CONSOLIDATION FOR REGULATORY PURPOSES

1.1 Credit risk

Qualitative information

1. General aspects

The Bank's lending activity has developed according to the guidelines of the Business Plan, addressed to local economies primarily in the retail, small business and small SME markets. To a lesser extent, our lending activity is directed towards the corporate market.

The activities aimed at individual customers, small businesses (artisans, family businesses and professionals), SMEs and Corporates, and customers in the financial sector, mainly include the following products: loans and deposits; financial, banking and payment services; documentary credit; lease; factoring; financial, insurance and asset management products; debit and credit cards.

Commercial policy is mainly pursued through the Bank'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 Bank has traditionally been present and in new markets with the aim of acquiring new market shares and facilitate growth in business volumes. The Bank 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 Bank'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 Bank has granted to the Chief Risk Officer 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 bank 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 bank 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. This review facilitates the identification of customers with anomalies in the conduct of their relationship as opposed to those with a regular trend.

As part of its corporate risk management policy, the bank has set up a system of operating limits and specific Key Risk Indicators (KRI). In the context of monitoring and control, on pre-established thresholds being exceeded, the Risk Management function activates internal procedures for an intervention in order to maintain a risk appetite level consistent with the guidelines laid down in the RAF and the risk management policies.

For risk management purposes, the bank uses an internal rating system that classifies each counterparty in risk classes that reflect their probability of default. The classification of performing counterparties is on a scale from 1 to 10. Non-performing loans (past due and/or overdrawn exposures, unlikely-to-pay and doubtful loans) are excluded from the rating assignment.

For the purpose of calculating the capital requirement for credit risk, the bank 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 still for significant amounts, there are also pledges on securities and/or cash, as well as certain types of public guarantee, such as the guarantees and counter-guarantees issued by the Guarantee Fund for SMEs pursuant to Law 662/96.

Guarantees received by the Group are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions. The process of collateral management provides for monitoring and specific controls to check their eligibility, in line with the requirements of supervisory regulations.

3. Non-performing loans

3.1 Management strategies and policies

The current regulatory framework provides for the classification of non-performing financial assets according to their risk status. Three categories are foreseen: "doubtful loans", "unlikely to pay" and "non-performing past due and/or overdrawn exposures".

- Doubtful loans: exposure to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations, regardless of the loss forecasts made by the intermediary.
- Unlikely to pay: exposures for which the intermediary considers full compliance by the debtor unlikely without recourse to actions such as collection of guarantees, regardless of the presence of amounts due and/or overdrawn.
- Past due and/or overdrawn non-performing exposures: exposures, other than those classified as doubtful or unlikely to pay, with amounts that are past due and/or overdrawn continuously for more than 90 days.

"Exposures subject to forbearance" are also envisaged as a category, referring to the exposures subject to renegotiation and/or refinancing due to the customer's financial difficulties (manifest or in the process of manifestation). These exposures may constitute a subset of non-performing loans (exposures subject to forbearance on non-performing positions) rather than performing loans (exposures subject to forbearance on performing positions). The management of these exposures, in compliance with regulatory provisions with respect to timing and classification procedures, is assisted through specific work processes and IT tools.

The Bank has introduced a policy that lays down the criteria for making adjustments that establish the minimum percentages to be applied in determining expected losses, depending on the type of 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 periodically monitors compliance with the doubtful percentages foreseen in the policy for managing non-performing loans by reporting any discrepancies to the relevant departments for realignment and monitors the recovery of non-performing loans, both managed directly and through external specialised operators.

The time element linked to the present value of non-performing loans is determined by specific assessments carried out for each type of asset, drawn up on the basis of information relating to the individual legal jurisdiction.

In line with the Bank's objectives for the reduction of the Bank's non-performing loans indicated in the business plan, as well as in the Plan for managing NPLs, and with a view to maximising recoveries, the competent corporate functions identify the best management strategy for non-performing exposures. Based on the subjective characteristics of the individual counterparty/ exposure and internal policies, this may involve a revision of the contractual terms (forbearance), assignment to an internal recovery unit or to a specialised third-party operator, sale to third parties in the credit sector (at single exposure level or within a set of positions with the same characteristics).

In execution of its capital management strategy, the bank completed a programme of sales of NPLs, particularly significant in recent years, with reference to loans classified as "doubtful" and loans classified

as "unlikely-to-pay" (UTP). These sales brought the NPL ratio (ratio of gross non-performing loans/gross loans) to one of the lowest levels on the Italian banking scene. In line with the NPL ratio containment policy, there are plans for initiatives that will allow further improvement in this indicator.

In particular, considering the limited volumes of past due/overdue positions, the bank's attention is concentrated above all on timely identification of positions classified as performing but with certain critical elements, in order to identify procedures to regularise the situation, where possible, also through appropriate measures of forbearance.

Two types of action are taken to limit the stock of "unlikely-to-pay" loans (UTPs):

1. reduction of inflows to UTP;
2. increase in percentages of recoveries and/or return to "performing"

As business counterparties represent about 75% 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 bank, 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 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 envisaged 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 the face of financial difficulties on the part of the debtor, exposures may be subject to changes in the contractual terms in favour of the debtor in order to make their repayment sustainable. Depending on the subjective characteristics of the exposure and the reasons for the debtor's financial difficulties, the changes may act in the short term (temporary suspension from payment of the loan principal or an extension of a due date) or in the long term (lengthening the duration of a loan, revision of the interest rate) and lead to classification of the exposure (both performing and non-performing) as "forborne". "Forborne" exposures are subject to specific forecasts with a view to classification, as indicated in the ITS EBA 2013-35 implemented by the Group's credit policies; if the forbearance measures are applied to performing exposures, these are taken into account in the process of assigning the internal management rating and are part of the exposures in stage 2. All exposures classified as "forborne" are included in specific monitoring processes by the relevant company departments.

To be more specific, with the help of suitable IT procedures, these functions monitor the effectiveness of the forbearance measures granted, detecting whether the customer's financial situation is subsequently getting better or worse. If at the end of the monitoring period the position complies with all the criteria required by regulations, it is no longer considered as a forborne loan; otherwise, it remains under forborne exposures.

If considered opportune, 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)**

Portfolios/Stages of risk	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	39,534	656	41,862	49,337	19,560	18,638	15,230	26,217	229,561	
2. Financial assets designated at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	
3. Financial assets being sold	-	-	-	-	-	-	-	-	-	
Total	31.12.2019	39,534	656	41,862	49,337	19,560	18,638	15,230	26,217	229,561
Total	31.12.2018	51,004	3,194	32,733	60,928	45,697	13,451	17,095	34,035	249,493

A.1.2 Regulatory consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and provisions

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	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	of which: individual write-downs	of which: collective write-downs
Total opening adjustments	29,212	462	-	29,674	26,409	-	-	26,409
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-
Cancellations other than write-offs	(827)	-	-	(827)	(723)	-	-	(723)
Net adjustments/write-backs for credit risk (+/-)	(4,217)	(99)	-	(4,316)	(5,265)	-	-	(5,265)
Contractual changes without write-offs	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-
Write-offs not booked directly to the income statement	-	-	-	-	-	-	-	-
Other changes	187	-	-	187	3,137	-	-	3,137
Total closing adjustments	24,355	363	-	24,718	23,558	-	-	23,558
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					Of which: impaired financial assets acquired or originated	Total provisions on commitments to disburse funds and financial guarantees given			Total
	Assets included in the third stage						First stage	Second stage	Third stage	
	Financial assets measured at amortised cost	Financial assets designated at fair value through other comprehensive	Financial assets being sold	of which: individual write-downs	of which: collective write-downs					
Total opening adjustments	293,602	-	-	293,602	-	3,819	359	981	1,037	352,062
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-
Cancellations other than write- offs	(811)	-	-	(811)	-	-	-	-	-	(2,361)
Net adjustments/write-backs for credit risk (+/-)	59,416	-	-	59,416	-	(435)	16	(514)	855	50,192
Contractual changes without write-offs	-	-	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-	-	-
Write-offs not booked directly to the income statement	(14,981)	-	-	(14,981)	-	-	-	-	-	(14,981)
Other changes	(52,905)	-	-	(52,905)	-	-	-	-	-	(49,581)
Total closing adjustments	284,321	-	-	284,321	-	3,384	375	467	1,892	335,331
Recoveries of financial assets subject to write-off	1,152	-	-	1,152	-	-	-	-	-	1,152
Write-offs booked directly to the income statement	-	-	-	-	-	-	-	-	-	-

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	418,638	352,423	58,942	28,155	47,687	3,277
2. Financial assets designated at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets being sold	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	42,954	31,431	790	1,733	8,699	206
Total 31.12.2019	461,592	383,854	59,732	29,888	56,386	3,483
Total 31.12.2018	329,245	434,344	85,687	22,506	83,103	4,849

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	919,515	504	919,011	-
- of which: exposures subject to forbearance	X	-	-	-	-
Total (A)	-	919,515	504	919,011	-
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	21,561	3	21,558	-
Total (B)	-	21,561	3	21,558	-
Total (A+B)	-	941,076	507	940,569	-

"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					
f) Doubtful loans	311,378	X	191,360	120,018	12,155
- of which: exposures subject to forbearance	50,583	X	26,636	23,947	-
g) Unlikely to pay loans	309,618	X	92,556	217,062	-
- of which: exposures subject to forbearance	150,830	X	36,441	114,389	-
h) Past due non-performing loans	3,504	X	404	3,100	-
- of which: exposures subject to forbearance	324	X	43	281	-
i) Past due performing loans	X	172,546	3,041	169,505	-
- of which: exposures subject to forbearance	X	16,949	724	16,225	-
j) Other performing exposures	X	12,073,272	44,730	12,028,542	-
- of which: exposures subject to forbearance	X	109,787	2,839	106,948	-
Total (A)	624,500	12,245,818	332,091	12,538,227	12,155
B. Off-balance sheet exposures					
c) Non-performing	26,516	X	1,892	24,624	-
d) Performing	X	3,164,467	839	3,163,628	-
Total (B)	26,516	3,164,467	2,731	3,188,252	-
Total (A+B)	651,016	15,410,285	334,822	15,726,479	12,155

"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.).

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	277,384	383,228	4,763
- of which: exposure sold but not derecognised	-	4,846	-
B. Increases	137,437	161,980	23,956
B.1 transfers from performing exposures	364	117,069	23,229
B.2 transfers from impaired financial assets acquired or originated	-	538	24
B.3 transfers from other categories of doubtful exposures	108,824	10,727	688
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	28,249	33,646	15
C. Decreases	103,443	235,590	25,215
C.1 transfers to performing exposures	304	41,471	10,614
C.2 write-offs	14,478	534	-
C.3 collections	29,184	73,525	3,854
C.4 proceeds from disposal	14,711	6,778	-
C.5 losses on disposal	44,717	3,839	-
C.6 transfers to other categories of doubtful exposures	49	109,443	10,747
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposure	311,378	309,618	3,504
- of which: exposure sold but not derecognised	-	7,629	-

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	224,292	132,322
- of which: exposure sold but not derecognised	1,636	11,962
B. Increases	42,750	109,657
B.1 transfers from performing positions not subject to forbearance	3,567	40,339
B.2 transfers from performing positions subject to forbearance	27,126	X
B.3 transfer from exposures subject to forbearance	X	27,327
B.4 transfers from non-performing positions not subject to forbearance	4,637	1,284
B.5 other increases	7,420	40,707
C. Decreases	65,305	115,243
C.1 transfers to performing positions not subject to forbearance	X	36,126
C.2 transfers to performing positions subject to forbearance	27,327	X
C.3 transfers to exposures subject to forbearance on non-performing positions	X	27,126
C.4 write-off	626	X
C.5 collections	35,272	51,753
C.6 proceeds from disposal	485	233
C.7 losses on disposal	1,595	-
C.8 other decreases	-	5
D. Closing gross exposure	201,737	126,736
- of which: exposure sold but not derecognised	3,348	15,445

A.1.9 Regulatory consolidation – Non-performing 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	154,933	16,034	108,448	46,542	622	168
- of which: exposure sold but not derecognised	-	-	720	219	-	-
B. Increases	121,538	19,845	48,867	12,930	845	36
B.1 write-downs of impaired assets acquired or originated	-	X	-	X	-	X
B.2 other write-downs	49,866	4,669	42,185	12,815	323	36
B.3 losses on disposal	8,146	772	588	-	-	-
B.4 transfers from other categories of non-performing exposures	39,327	10,535	238	-	522	-
B.5 contractual changes without write-offs	-	-	-	-	-	-
B.6 other increases	24,199	3,869	5,856	115	-	-
C. Decreases	85,111	9,243	64,759	23,031	1,063	161
C.1 measurement write-backs	5,360	284	13,802	10,095	633	71
C.2 write-backs on collection	7,286	2,511	5,782	2,401	95	6
C.3 gains on disposal	5,094	495	492	-	-	-
C.4 write-off	14,478	5,953	503	-	-	-
C.5 transfers to other categories of non-performing exposures	30	-	39,723	10,535	335	-
C.6 contractual changes without write-offs	-	-	-	-	-	-
C.7 other decreases	52,863	-	4,457	-	-	84
D. Total closing adjustments	191,360	26,636	92,556	36,441	404	43
- of which: exposure sold but not derecognised	-	-	1,165	551	-	-

A.2 Classification of exposures on the basis of external and internal 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	13,514	679,167	3,356,520	613,705	58,306	24,560	8,536,179	13,281,951
- First stage	13,514	660,229	3,306,888	525,656	42,086	18,794	7,042,522	11,609,689
- Second stage	-	18,938	49,004	84,258	16,022	5,591	873,949	1,047,762
- Third stage	-	-	628	3,791	198	175	619,708	624,500
B. Financial assets designated at fair value through other comprehensive income	2,552	-	507,176	-	-	-	-	509,728
- First stage	2,552	-	507,176	-	-	-	-	509,728
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
C. Financial assets being sold	-	-	-	-	-	-	-	-
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B+C)	16,066	679,167	3,863,696	613,705	58,306	24,560	8,536,179	13,791,679
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	13,942	13,942
D. Commitments to disburse funds and financial guarantees issued								
- First stage	2,600	346,215	383,480	146,326	7,307	7,523	2,045,498	2,938,949
- Second stage	-	3,023	4,661	6,593	1,425	-	28,290	43,992
- Third stage	-	-	-	466	-	-	22,916	23,382
Total (D)	2,600	349,238	388,141	153,385	8,732	7,523	2,096,704	3,006,323
Total (A+B+C+D)	18,666	1,028,405	4,251,837	767,090	67,038	32,083	10,632,883	16,798,002

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 ECAs 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 financial assets, commitments to disburse funds and financial guarantees given for internal rating classes

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 31.12.2019	Internal rating class				Total
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	
Cash exposures	66.34%	27.23%	4.78%	1.65%	100%
Off-balance sheet exposures	82.99%	14.43%	1.31%	1.27%	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 Regulatory consolidation: Guaranteed on- and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Secured guarantees				Unsecured guarantees					Unsecured guarantees				Total (1)+(2)
			(1)				(2)					(2)				
			Property - Mortgages	Property – loans for leases	Securities	Other secured guarantees	CLN	Credit derivatives				Credit derivatives		Endorsement credits		
								Central counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	
1. Guaranteed on-balance sheet exposures:	6,608,881	6,388,282	4,135,386	148,706	230,067	105,451	-	-	-	-	-	469,936	50	28,883	1,196,860	6,315,339
1.1. totally guaranteed	6,336,911	6,127,329	4,131,744	148,706	205,126	94,856	-	-	-	-	-	377,797	18	20,692	1,143,535	6,122,474
- of which: non-performing	464,712	285,026	219,761	9,590	567	5,620	-	-	-	-	-	3,319	18	908	44,609	284,392
1.2. partially guaranteed	271,970	260,953	3,642	-	24,941	10,595	-	-	-	-	-	92,139	32	8,191	53,325	192,865
- of which: non-performing	16,447	7,825	237	-	364	165	-	-	-	-	-	868	-	1,076	3,202	5,912
2. Guaranteed off-balance sheet exposures:	846,007	845,243	8,326	-	48,081	59,156	-	-	-	-	-	2,212	755	6,670	676,894	802,094
2.1. totally guaranteed	731,786	731,089	8,326	-	38,442	50,188	-	-	-	-	-	479	50	5,198	627,810	730,493
- of which: non-performing	9,487	9,225	71	-	92	381	-	-	-	-	-	80	-	-	8,600	9,224
2.2. partially guaranteed	114,221	114,154	-	-	9,639	8,968	-	-	-	-	-	1,733	705	1,472	49,084	71,601
- of which: non-performing	3,260	3,248	-	-	5	389	-	-	-	-	-	-	-	24	2,383	2,801

B. Distribution and concentration of 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	-	-	2,084	9,765	-	-	82,823	144,545	35,111	37,050	
- of which: exposures subject to forbearance	-	-	-	46	-	-	16,233	20,286	7,714	6,304	
A.2 Unlikely to pay	377	282	2,396	1,008	-	-	137,988	68,359	76,301	22,907	
- of which: exposures subject to forbearance	-	-	1,713	700	-	-	72,097	24,733	40,579	11,008	
A.3 Past due non-performing loans	-	-	1	-	-	-	1,616	221	1,483	183	
- of which: exposures subject to forbearance	-	-	-	-	-	-	152	23	129	20	
A.4 Performing loans	2,612,447	1,855	481,955	1,375	790	-	5,170,069	35,464	3,933,576	9,077	
- of which: exposures subject to forbearance	-	-	1,942	69	-	-	76,073	3,072	45,158	422	
Total A	2,612,824	2,137	486,436	12,148	790	-	5,392,496	248,589	4,046,471	69,217	
B. Off-balance sheet exposures											
B.1 Non-performing loans	-	-	6	-	-	-	23,767	1,844	851	48	
B.2 Performing loans	17,448	-	64,515	13	-	-	2,855,033	717	226,632	109	
Total B	17,448	-	64,521	13	-	-	2,878,800	2,561	227,483	157	
Total (A+B)	31/12/2019	2,630,272	2,137	550,957	12,161	790	-	8,271,296	251,150	4,273,954	69,374
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

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 adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	119,972	191,305	46	55	-	-	-	-	-	-
A.2 Unlikely to pay	216,506	92,480	556	76	-	-	-	-	-	-
A.3 Past due non-performing loans	3,099	404	1	-	-	-	-	-	-	-
A.4 Performing loans	12,083,385	47,599	93,533	153	20,825	17	201	1	103	1
Total (A)	12,422,962	331,788	94,136	284	20,825	17	201	1	103	1
B. Off-balance sheet exposures										
B.1 Non-performing loans	24,624	1,892	-	-	-	-	-	-	-	-
B.2 Performing loans	3,160,451	839	2,946	-	223	-	4	-	4	-
Total (B)	3,185,075	2,731	2,946	-	223	-	4	-	4	-
Total (A+B) 31/12/2019	15,608,037	334,519	97,082	284	21,048	17	205	1	107	1
Total (A+B) 31/12/2018	15,294,048	349,940	137,309	282	46,261	42	395	1	139	2

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 adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past due non-performing loans	-	-	-	-	-	-	-	-	-	-
A.4 Performing loans	817,790	446	96,028	55	1,099	1	759	1	3,335	1
Total (A)	817,790	446	96,028	55	1,099	1	759	1	3,335	1
B. Off-balance sheet exposures										
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
B.2 Performing loans	11,544	1	5,969	2	-	-	3,500	-	500	-
Total (B)	11,544	1	5,969	2	-	-	3,500	-	500	-
Total (A+B) 31/12/2019	829,334	447	101,997	57	1,099	1	4,259	1	3,835	1
Total (A+B) 31/12/2018	464,447	1,180	108,939	130	813	2	3,383	1	3,770	2

B.4 Large exposures**B.4 Large exposures**

With reference to current supervisory regulations, the situation at 31 December 2019 is reported below:

<i>Description</i>	<i>Amount (book value)</i>	<i>Amount (weighted amount)</i>	<i>Number</i>
Large exposures	4,142,745	440,552	5

The five positions indicated relate to exposures to the Bank of Italy, the Treasury Ministry, BNP Paribas, Two Worlds S.r.l. and the Guarantee Fund as per Law 662 of 23.12.1996.

C. Securitisation transactions

Qualitative information

In accordance with its capital management strategy, the Bank has carried out 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 NPL portfolio sold on 12 June 2018 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 2018, the SPV issued the following types of asset-backed securities (ABS):

- senior securities for Euro 288.5 million, corresponding to 28.8% of the Gross Book Value (GBV) at the date of identification of the loans at 31 December 2018, to which DBRS Ratings Ltd and Scope Ratings GmbH have given "BBB low" and "BBB" ratings respectively;
- mezzanine securities for Euro 30.2 million to which DBRS Ratings Ltd and Scope Ratings GmbH have given "B low" and "B" ratings respectively;
- junior securities for Euro 9.0 million, with no rating.

On 11 July 2018, 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 2018, 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 Exposures arising from principal "own" securitisations, broken down by type of securitised asset and by type of exposure

TYPE OF SECURITISED ASSETS/ EXPOSURES	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
A. Fully derecognised	240,209	177	859		1	
- financial assets measured at amortised cost	240,209	177				
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;
- Desio OBG S.r.l. (Vehicle or SPV), as a special purpose vehicle for the sale of eligible assets by Banco Desio, 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 envisaged:

1. non-revolving sales without recourse of a residential mortgage loan portfolio;
2. disbursement of a subordinated loan to the SPV by Banco Desio;
3. issuance by Banco di Desio e della Brianza of covered bonds for institutional investors for Euro 575 million (issued in 2017) and Euro 500 million (issued in 2019) with a maturity of 7 years.
4. a liability swap on the covered bonds issued taken out by the SPV for a notional amount of Euro 300 million (for the 2017 issue) and for a notional amount of Euro 200 million (for the 2019 issue) with BNP Paribas as counterparty;
5. a back-swap taken out by Banco di Desio e della Brianza for the same notional amount with the same counterparty, as a mirror-image of the previous one.

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 Euro 1,588 million;
- d) *Amount of subordinated loan*: total of Euro 1,488 million;
- e) *Nominal value of the covered bonds issued*: Euro 1,075 million;
- f) *Interest rate on covered bonds issued*: fixed rate of 0.875% (2017 issue) and 0.375% (2019 issue).

At 31 December 2019, the loan portfolio sold by the Bank has a book value of about Euro 1,292 million.

D.5 Financial assets sold and fully derecognised

Qualitative information

In accordance with its capital management strategy, alongside the traditional true sale disposals, the bank also took part in a multi-originator assignment on non-performing exposures (mainly UTP) to a mutual investment fund with the units allotted to the transferring intermediaries.

During the year, in fact, a total disposal was made of approximately gross Euro 12.8 million of non-performing loans versus six companies, of which Euro 10.6 million gross classified as UTP, in favour of a closed-end private debt fund called "Clessidra Restructuring Fund" managed by Clessidra SGR S.p.A. and made up of fourteen investments in total.

As can be seen from the analysis of the quantitative information reported in the following paragraph, the structure of the transaction allowed Banco Desio to meet the requirements of IFRS 10 regarding the absence of the conditions required for the exercise of control over the investment fund (and therefore exclusion of the units received from the scope of consolidation of the Banco Desio Group). Likewise, the conditions laid down by IFRS 9 for the substantial transfer of the rights to receive the cash flows from the individual assets sold and the risks and benefits associated with them are respected. This results in total deconsolidation of the loans transferred from an accounting point of view, also taking into consideration that no further guarantees have been granted, except for the usual ones on the existence of credit in favour of the Fund.

As part of the agreements involved in the Transaction ("side letters"), specific periodic reporting has been provided for to allow subscribers of the units adequate feedback on the assets underlying the net asset value of the closed-end Fund.

Quantitative information

Against this multi-originator transfer, due to the presence of sales of non-performing loans to the same fund by a series of investors (including ten banks and an operator specialising in the management of NPLs), the Fund has issued units (Classes A, B, C and D) for a total of Euro 247,939,991, of which Class A units for Euro 7,767,036 were subscribed by Banco Desio, corresponding to 4% of the Class A units issued and 3% of the total units (Classes A, B, C and D) issued.

Due to the pre-existing write-downs at 31 December 2018 on the loans sold, a loss was recorded from the sale of financial assets at amortised cost of approximately Euro 0.3 million.

Taking into account the limited participation in the fund with respect to the series of investors involved, the conditions required by IFRS 10 for the exercise of control over the Fund are not met, nor are the conditions of IFRS 9 for the derecognition of the loans sold due to the changed characteristics of the asset recorded in the financial statements (fund units with underlying loan positions in 14 target companies for a value of Euro 247.9 million) in place of the loans originated by the Bank (6 customers sold for Euro 7.8 million) and derecognised as a result of the Transaction.

The units of the fund subscribed are recognised under financial assets mandatorily valued at fair value; this fair value (level 3) was determined in application of the bank's policies for the measurement of this type of financial instrument, recognising a difference between the Transaction price and the amount determined by using valuation techniques immediately in the income statement (so-called "day one loss"). The same criterion will be applied to each update of the total net value of the fund's assets (the Net Asset Value or NAV communicated by the fund manager).

E. Credit risk measurement models

The Bank does not use internal portfolio models for measuring credit risk exposure.

1.2 Market risk

1.2.1 Interest rate risk and price risk - trading portfolio reported for supervisory purposes

Qualitative information

A. General aspects

Unexpected changes in market interest rates, in the presence of differences in maturities and in the timing of interest rate reviews for assets and liabilities, result in a change in the net interest flow and therefore in net interest income (or "interest margin"). In addition, these unexpected fluctuations expose the Group to changes in the economic value of assets and liabilities.

The information in this section refers only to the Group, given the fact that Fides does not hold any assets.

The Group adopted a strategy to consolidate a return in line with budget, while maintaining a low risk profile through a low portfolio duration.

B. Management and measurement of interest rate risk and price risk

In carrying out its responsibilities for management and coordination, the Board of Directors issued specific rules on controls.

Trading by the Finance Department is subject to operating limits as set out in the "Risk policy" and in internal regulations; in order to mitigate market risk, specific limits have been set for size, duration and Value at Risk (VaR). A specific reporting system is the tool used to provide adequate information to the organisational units involved.

The content and frequency of reports depend on the objectives assigned to each participant in the process. Together with the above controls, the Group also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the risk management function, which operates in complete autonomy from both the operational areas and the subsidiaries.

For the quantification of generic and specific risks, the Group has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum probable loss of a static portfolio with reference to a specific time horizon and at a specific confidence level under normal market conditions. This method has the advantage of allowing the aggregation of positions involving heterogeneous risk factors; it also provides a summary number which, being a monetary expression, is easily used by the organisational structure involved. The VaR model uses involves the Monte Carlo simulation technique which, after appropriate assumptions and correlations, estimates the value of the portfolio by calculating a number of possible revaluations and, given the vector of expected portfolio returns, determines the ideal percentile for distribution. The model uses a confidence interval of 95% with a period of 1 day. The application used to calculate the VaR is provided by Bloomberg.

The internal model is not used in the calculation of capital requirements for market risk.

Quantitative information**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	863	-	-	-	-	-	-	-
1.1 Debt securities	863	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	863	-	-	-	-	-	-	-
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	-	-	-	-	119	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	119	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	153,160	2,363	2,056	-	-	-	-
+ Short positions	-	138,844	2,538	2,414	2,653	4,263	7,598	-

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	-	137,927	2,398	2,092	-	-	-	-
+ Short positions	-	137,116	2,398	2,092	-	-	-	-

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				
long positions	1,959		233	
short positions				
B. Unsettled transactions in equity securities				
long positions				
short positions				
C. Other equity security derivatives				
long positions	118		1	
short positions	2,597		1,870	
D. Equity index derivatives				
long positions				
short positions				

3. Trading portfolio for supervisory purposes: internal models and other methodologies for the analysis of sensitivity

The monitoring of the "trading portfolio reported for supervisory purposes" performed up to the third quarter shows a structure with limited market risk. The VaR estimated using Monte Carlo simulations at 31.12.2019 amounted to Euro 49.97 thousand, with a percentage of 1.12% of the trading portfolio.

1.2.2 Interest rate risk and price risk - banking book

Qualitative information

A. General aspects, management and measurement of interest rate risk and price risk

The measurement of interest rate risk is performed by the risk management function. This activity is carried out for the Group's banks, which covers almost all of the banking book. The whole of the Group's business associated with the transformation of maturities of assets and liabilities, portfolio securities, treasury operations and the respective hedging derivatives are monitored with Asset and Liability Management (ALM) methods using ERMAS5.

The static analysis currently performed allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income. In this context, the results of the banking book for financial statement purposes are also presented, excluding analysis of financial instruments in the trading portfolio for supervisory purposes.

The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of Gap Analysis. The changes in the economic value of assets and liabilities are analysed by applying Duration Gap and Sensitivity Analysis approaches.

The analyses are carried out also considering non-parallel shifts in the yield curve and the application of behavioural models for demand items. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

Quantitative information**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	1,462,780	5,998,838	1,289,241	619,924	2,296,284	1,103,798	606,910	-
1.1 Debt securities	-	808,814	949,746	308,441	977,661	216,435	10,240	-
- with early redemption option	-	267,020	-	5,591	10,177	23,787	-	-
- other	-	541,794	949,746	302,850	967,484	192,648	10,240	-
1.2 Loans to banks	240,048	335,833	-	-	-	-	135	-
1.3 Loans to customers	1,222,732	4,854,191	339,495	311,483	1,318,623	887,363	596,535	-
- current accounts	868,051	511,201	1,842	2,538	31,981	2,484	-	-
- other loans	354,681	4,342,990	337,653	308,945	1,286,642	884,878	596,535	-
- with early redemption option	93,378	3,544,217	243,244	253,505	870,049	590,413	596,062	-
- other	261,303	798,773	94,410	55,441	416,592	294,465	472	-
2. Cash liabilities	7,751,422	1,274,196	1,065,078	241,240	1,868,195	525,230	16,500	-
2.1 Due to customers	7,730,886	1,046,719	224,080	196,447	153,489	24,872	16,500	-
- current accounts	7,599,930	600,490	-	-	0	-	-	-
- other payables	130,956	446,230	224,080	196,447	153,489	24,872	16,500	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	130,956	446,230	224,080	196,447	153,489	24,872	16,500	-
2.2 Due to banks	19,796	-	789,984	-	789,984	-	-	-
- current accounts	10,947	-	-	-	-	-	-	-
- other payables	8,849	-	789,984	-	789,984	-	-	-
2.3 Debt securities	740	227,477	51,014	44,793	924,722	500,358	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	740	227,477	51,014	44,793	924,722	500,358	-	-
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	-	43	-	-	18	-	-	-
+ Short positions	-	44	-	-	18	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	130,000	-	-	-	-	-	-
+ Short positions	-	-	-	-	130,000	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	64,859	-	-	-	-	-	-	-
+ Short positions	64,859	-	-	-	-	-	-	-

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	14,621	59,886	3,711	26	208	259	104	-
1.1 Debt securities	-	-	2,551	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	2,551	-	-	-	-	-
1.2 Loans to banks	13,624	30,155	-	-	-	-	-	-
1.3 Loans to customers	997	29,731	1,160	26	208	259	104	-
- current accounts	476	-	-	-	-	-	-	-
- other loans	521	29,731	1,160	26	208	259	104	-
- with early redemption option	-	-	26	26	208	259	104	-
- other	521	29,731	1,134	-	-	-	-	-
2. Cash liabilities	59,786	13,131	2,869	-	-	-	-	-
2.1 Due to customers	59,786	9,687	2,869	-	-	-	-	-
- current accounts	59,786	9,687	2,869	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	3,444	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	-	3,444	-	-	-	-	-	-
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 derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

2. Banking book - internal models and other methodologies for the analysis of sensitivity

The Group's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value of own funds.

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date has, however, some peculiarities arising from the current market environment, which sees an increase in demand and short-term deposits; this has led to a physiological decrease in the average duration of liabilities, whereas assets have not undergone any substantial changes in terms of average duration.

The following table shows the 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 2019, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 31.12.2019

	+100 bps	-100 bps
<i>% of the expected margin</i>	-3.45%	-24.83%
<i>% of net interest and other banking income</i>	-1.83%	-13.18%
<i>% of the result of the year</i>	-11.91%	-85.73%
<i>% of shareholders' equity</i>	-0.50%	-3.57%

With regard to economic value, the estimated impact of the change with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, showed a risk exposure at 31 December 2019 at levels that do not result in significant impacts on total capital.

The following table shows the changes in the economic value analysed by applying deterministic approaches with parallel shifts in the yield curve.

Risk ratios: parallel shifts in the yield curve at 31.12.2019.

	+100 bps	-100 bps
<i>% of the economic value</i>	-14.32%	5.23%

1.2.3. EXCHANGE RATE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

The Group is exposed to exchange risk as a result of its trading activities in foreign exchange markets and investment activities and fundraising with instruments denominated in a currency other than the domestic one.

The exposure to exchange risk is marginal. 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	Franc	Yen	Other currencies
A. Financial assets	60,372	5,133	4,716	3,546	5,974
A.1 Debt securities					2,551
A.2 Equity instruments	772				155
A.3 Loans to banks	33,636	3,753	3,189	34	3,166
A.4 Loans to customers	25,964	1,380	1,527	3,512	102
A.5 Other financial assets					
B. Other assets	289	229	150	48	173
C. Financial liabilities	59,297	5,216	4,497	3,550	3,226
C.1 Due to banks				3,444	
C.2 Due to customers	59,297	5,216	4,497	106	3,226
C.3 Debt securities					
C.4 Other financial liabilities					
D. Other liabilities	1,151		219		
E. Financial derivatives					
- Options					
+ Long positions					
+ Short positions					
- Other derivatives					
+ Long positions	136,742	534	1,350	45	3,745
+ Short positions	136,012	471	1,359	45	3,720
Total assets	197,403	5,896	6,216	3,639	9,892
Total liabilities	196,460	5,687	6,075	3,595	6,946
Net balance (+/-)	943	209	141	44	2,946

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 through the use of 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 31/12/2019				Total 31/12/2018			
	Over the counter				Over the counter			
	Central counterparties	Without central counterparties		Organised markets	Central counterparties	Without central counterparties		Organised markets
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	-	-	15,227	-	-	-	10,954	-
a) Options	-	-	-	-	-	-	1,180	-
b) Swaps	-	-	15,227	-	-	-	9,774	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	120	-	-	-	41	-
a) Options	-	-	120	-	-	-	41	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	279,939	-	-	-	973,037	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	279,939	-	-	-	973,037	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	295,286	-	-	-	984,032	-

A.2 Banking book: period-end notional values

A.2 Financial trading derivatives: positive and negative gross fair value - breakdown by product

Type of derivatives	31.12.2019				31.12.2018			
	Over the counter				Over the counter			
	Without central counterparties			Organised markets	Without central counterparties			Organised markets
	Central counter-parties	With netting arrangements	Without netting arrangements		Central counter-parties	With netting arrangements	Without netting arrangements	
1. Positive fair value								
a) Options	-	-	120	-	-	-	41	-
b) Interest rate swaps	-	-	-	-	-	-	1,438	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	1,350	-	-	-	2,978	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	1,470	-	-	-	4,457	-
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	6,874	-	-	-	3,221	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	1,264	-	-	-	2,825	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	8,138	-	-	-	6,046	-

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 netting arrangements				
1) Debt securities and interest rates				
- notional value	X	15,227	-	-
- positive fair value	X	-	-	-
- negative fair value	X	6,874	-	-
2) Equities and equity indices				
- notional value	X	-	2	118
- positive fair value	X	-	2	118
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	140,257	124,709	14,973
- positive fair value	X	1,174	6	170
- negative fair value	X	163	1,059	42
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 netting 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		713	2,653	11,861	15,227
A.2 Financial derivatives linked to equities and stock indices		-	120	-	120
A.3 Financial derivatives linked to		279,939	-	-	279,939
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	31.12.2019	280,652	2,773	11,861	295,286
Total	31.12.2018	970,802	5,532	7,698	984,032

1.3.2 Accounting hedges**Qualitative information****A. Fair value hedges**

The Bank's primary objective is to manage in a prudent and active manner the risks associated with operations, that is, to manage them with a specific risk profile, which permits any opportunities arising from changes in risk to be taken advantage of.

To date, the Bank did not take out any fair value hedges.

B. Cash flow hedges

The Bank 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.

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

To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges.

For hedging, we use derivatives represented by unlisted securities - interest rate swaps - but only to hedge interest rate risk.

Banco Desio has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (IAS). The method used for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

Quantitative information**A. Hedging financial derivatives****A.1 Hedging financial derivatives: period-end notional values**

Underlying assets/Type of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	-	-	130,000	-	-	-	143,498	-
a) Options	-	-	-	-	-	-	5,599	-
b) Swap	-	-	130,000	-	-	-	137,899	-
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	-	-	130,000	-	-	-	143,498	-

A.2 Hedging financial derivatives: positive and negative gross fair value - breakdown by product

Type of derivatives	Positive and negative fair value							Change in amount used to calculate whether the hedge is effective or not		
	31.12.2019				31.12.2018				31.12.2019	31.12.2018
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
With netting arrangements		Without netting arrangements	With netting arrangements	Without netting arrangements						
Positive fair value										
a) Options	-	-	-	-	-	-	1	-	1	
b) Interest rate swaps	-	-	-	-	-	-	-	-	-	
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	-	-	
e) Forward	-	-	-	-	-	-	-	-	-	
f) Futures	-	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	-	
Total	-	-	-	-	-	-	1	-	1	
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	
b) Interest rate swaps	-	-	2,157	-	-	-	5,175	2,157	5,175	
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	-	-	
e) Forward	-	-	-	-	-	-	-	-	-	
f) Futures	-	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	-	
Total	-	-	2,157	-	-	-	5,175	2,157	5,175	

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 netting arrangements				
1) Debt securities and interest rates				
- notional value	X	130,000	-	-
- positive fair value	X	-	-	-
- negative fair value	X	2,157	-	-
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 netting 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		-	130,000	-	130,000
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	31/12/2019	-	130,000	-	130,000
Total	31/12/2018	382	131,289	11,827	143,498

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	-	145,227	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	9,031	-	-
2) Equities and equity indices				
- notional value	-	-	2	118
- net positive fair value	-	-	2	118
- net negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	140,257	124,709	14,973
- net positive fair value	-	1,174	6	170
- net negative fair value	-	163	1,059	42
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 Finance Department with the aim of verifying the Group's ability to meet liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market.

The monitoring of and periodic reporting on liquidity risk is carried out by the Risk Management Office in compliance with the threshold of tolerance for this kind of risk as determined by the Policy for the management of liquidity risk. Treasury activities consist of procuring and allocating available liquidity through the interbank market, open market operations and transactions in repurchase agreements and derivatives.

The management of operational liquidity has the objective of ensuring the Group is capable of meeting expected and unexpected payment commitments in the context of the "normal course of business" (going concern) over a short term time horizon that does not exceed 3 months. The scope of reference of the daily report on operating liquidity refers to items with a high level of volatility and a considerable impact on the monetary base. The monitoring and control of operating limits is carried out through the acquisition of information resulting from collection and payment transactions, management of accounts for services and trading in the financial instruments held in proprietary portfolios.

The counterbalancing capacity model allows us to integrate the report with all of the free assets that can readily be used, both to be eligible for refinancing with the ECB and to be sold. Next to the application of haircuts determined by the ECB for eligible securities, appropriate discount factors are prepared (divided by type of security, rating and currency), also for all securities not eligible, but still considered marketable if appropriately positioned in time buckets.

Further support for the management of liquidity risk is derived from the monitoring of structural liquidity with the primary objective of maintaining an adequate dynamic relationship between assets and liabilities in the medium to long term.

Operations are measured using Asset and Liability Management (ALM) methods through the ERMAS5 application: by developing all of the cash flows generated by operations, it allows us to evaluate and manage in the various time periods any liquidity requirement that the Bank may encounter due to imbalances between inflows and outflows.

The analysis of the overall structural liquidity is developed on a monthly basis using the technique, i.e. showing imbalances by date of liquidation of capital flows over a set time horizon.

In order to evaluate the impact of the negative events on the risk exposure, stress tests are performed at consolidation level. In particular, the events considered are:

- outflow from overdrafts repayable on demand considered non core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) and "on demand" due to the increase in impaired loans;
- decrease in value of the owned securities portfolio (Held to collect and sell "HTCS" and Held to collect "HTC");
- repurchase of issued Bonds;
- use of available facilities for revocable lines of credit (call risk).

On completion of the analysis, three types of scenarios are created:

1. Idiosyncratic, defined as a loss of confidence by the Group's market;
2. Market, defined as a loss arising from exogenous events and from the impact of a general economic downturn;
3. Combined, being a combination of scenarios 1 and 2.

The time horizon for the simulation of all scenarios is 1 month, a period in which the Group would have to cope with the crisis before commencing structural interventions.

Particular attention is paid to funding policy, which is coordinated by the Finance Department by organising bond issues on the retail market and on the Euromarket. The financing strategies adopted by the Group are focused on a subdivision of funding sources, with a preference for retail as opposed to wholesale customers, as well as on a significant number of counterparties and thus ensuring an adequate diversification of the residual maturities of liabilities.

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	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	1,689,714	30,491	175,040	173,751	1,042,079	576,465	1,289,490	4,960,394	3,315,640	335,833
A.1 Government securities	219	-	946	-	71,143	54,132	519,183	1,615,921	309,790	-
A.2 Other debt securities	62	-	-	204	63,242	15,951	15,703	299,550	301,470	-
A.3 Mutual funds	36,466	-	-	-	-	-	-	-	-	-
A.4 Loans	1,652,967	30,491	174,094	173,547	907,694	506,382	754,604	3,044,923	2,704,380	335,833
- Banks	240,188	-	-	-	-	-	-	-	135	335,833
- Customers	1,412,779	30,491	174,094	173,547	907,694	506,382	754,604	3,044,923	2,704,245	-
Cash liabilities	8,381,207	28,726	46,031	91,278	368,218	1,058,542	276,136	2,021,986	543,355	-
B.1 Deposits and current accounts	8,336,353	27,237	45,454	90,867	283,048	221,350	191,309	114,791	(0)	-
- Banks	10,947	-	-	-	-	-	-	-	-	-
- Customers	8,325,406	27,237	45,454	90,867	283,048	221,350	191,309	114,791	(0)	-
B.2 Debt securities	731	1,489	577	394	84,798	28,395	73,562	1,068,955	502,595	-
B.3 Other liabilities	44,123	-	-	17	372	808,797	11,265	838,240	40,760	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	3,034	1,330	130,358	3,229	2,363	2,056	43	-	-
- Short positions	-	3,895	1,299	130,295	3,223	2,361	2,054	137	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	6,874	-	-	99	151	241	489	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	12,791	-	-	204	3,416	186	651	15,392	42,070	-
- Short positions	74,710	-	-	-	-	-	-	-	-	-
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	15,401	1,696	35,697	8,150	14,493	3,743	32	209	380	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	2,563	-	-	13	-
A.3 Mutual funds	772	-	-	-	-	-	-	-	-	-
A.4 Loans	14,629	1,696	35,697	8,150	14,493	1,180	32	209	367	-
- Banks	13,634	-	30,201	-	-	-	-	-	-	-
- Customers	995	1,696	5,496	8,150	14,493	1,180	32	209	367	-
Cash liabilities	59,786	3,445	9,691	-	-	2,894	-	-	-	-
B.1 Deposits and current accounts	59,786	3,445	9,691	-	-	2,894	-	-	-	-
- Banks	-	3,445	-	-	-	-	-	-	-	-
- Customers	59,786	-	9,691	-	-	2,894	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	3,913	1,328	129,447	3,240	2,398	2,092	-	-	-
- Short positions	-	3,075	1,355	129,447	3,240	2,398	2,092	-	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
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:

- Loss Data Collection – structured process for gathering data on operational losses arising within the Group;
- Risk Self-Assessment – structured process for the measurement of operational risks designed to have complete vision of risk events in terms of the potential impact and the worst case impact.

The Risk Management function applied company regulations to structure an adequate monitoring and reporting system for operational risk (including IT Risk) by integrating it with the dictates of the supervisory regulations about the provisions regarding coordination between control functions. With respect to the detrimental events gathered in the Corporate Database of Operational Losses (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, the Group adopted:

- Security Policy;
- Procedure for Accident Management;
- IT Risk Assessment methodology.

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, compound interest charges and early repayment.

Risk related to outstanding legal disputes

The Banco Desio e della Brianza Group, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions. The following table summarises the outstanding disputes at the end of the period, together with the related provisions:

	Number	Claim	Provisions
Claw-back suits	15	€ 11.817 million	€ 0.734 million
Other lawsuits	668	€ 73.797 million	€ 9.196 million

The principal disputes (claims in excess of Euro 1 million) are described below:

- Claim of Euro 12.569 million. Following the rejection of the Preventive Technical Assessment established in March 2018, the plaintiff initiated a judgement of merit at the Court of Monza (first hearing on 28 March 2019) to request the return of the amounts made available (transfers and requests for bank drafts), according to the plaintiff, based on false signatures and consequently stolen from his assets for the total of Euro 12,569,843. As things stand at present, the Bank's legal advisor thought that the risk of losing the case was remote, also considering the outcome of the Preventive Technical Assessment. The Judge ordered an expert appraisal by a graphologist and the case was adjourned at 31.01.2020 for the swearing in of the court appointed expert witness;
- Claim of Euro 7.310 million. With a writ notified in 2013, the Receivership summoned our former subsidiary BPS together with Banca delle Marche and Monte dei Paschi di Siena before the Court of Perugia to hear ascertained and declared invalid and/or ineffective and/or unenforceable as the receiver of the sale of the loan and, therefore, to hear them condemned, jointly and severally, to pay the sum. The application seems totally unfounded as confirmed by the counsel that we appointed to appear in court. On 2 December 2009 (about three years before the declaration of bankruptcy with judgement on 21 March 2013), the Bank, together with the two other banks, granted a line of credit to the bankrupt company, usable in the technical form of an advance on contracts to public entities and/or the public administration, for an amount of Euro 1 million for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. The Judge rejected all of the preliminary enquiries proposed by the Receivership and scheduled the hearing for 5 November 2020 for clarification of the conclusions without carrying out any investigation work. The case is being decided;
- Claim of Euro 3.6 million. The receivership cited Banca Popolare di Spoleto before the Court of Perugia - Section specialized in business matters (first hearing set for 4 November 2019) asking for verification of whether under art. 2377 of the Italian Civil Code the resolution of the shareholders' meeting of Banca Popolare di Spoleto S.p.A. of 7 May 2019 which approved the project for the merger of Banca Popolare di Spoleto with Banco di Desio e della Brianza S.p.A. can be cancelled for lack of information and incongruity on the determination of the exchange ratio between the shares of the two Banks; the Court condemned Banca Popolare di Spoleto to reimburse the Bankruptcy for the presumed damages that it caused as a consequence of the incongruity of the exchange ratio; damages quantified by the counterparty at Euro 3,600,000 or a higher or lower sum that may be decided by the Court. Without prejudice to the fact that, under art. 2504 *quater* of the Italian Civil Code, since the merger deed was registered, the validity of the merger deed could no longer be questioned, the case returned to Court, which reiterated the fairness of the exchange ratio established for the transaction. The proceedings

are currently suspended: after the filing of the statements provided by the Code of Procedure (deadline 4 February 2020), the Judge will decide on whether to admit the means of investigation that the parties may request;

- Claim of Euro 3.052 million. The plaintiff has filed suit concerning a loss of capital deriving from operations in financial instruments deemed inconsistent with the risk profile thereof. The Bank appeared before the court to request that the claims be dismissed, given that the contractual documentation had been signed and that the operations appeared to be consistent with the risk profile. The case is at the preliminary stage with the completion of an expert appraisal for the accounting verification of all purchase and sale orders. After the deposition of the expert appraisal, the Judge postponed the case to the hearing of 30 January 2020 to hear the witnesses;
- Claim of Euro 3.0 million. The receivership summoned Banca Popolare di Spoleto to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, 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;
- Claim of Euro 2.504 million. The plaintiff initiated a suit at the Court of Monza to request the return of the amounts made available (bank transfers and requests for banker's cheques), according to the plaintiff, based on false signatures and consequently stolen from the plaintiff's assets for the total of Euro 2,504,080 in addition to a request for damages on an equitable basis. The Bank appeared before the court to request that the claim be dismissed, also in consideration of the results of the internal expert's investigations. The case is under investigation and the hearing for the admission of evidence has been scheduled for 1 June 2020;
- Claim of Euro 2.305 million. 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) Euro 1.9 million as penalty for the corporate and accounting crimes perpetrated by former officers and (b) Euro 0.4 million for alleged abusive lending by granting a mortgage for the same amount. The inclusion of the Bank in point a) appears to be an error, as the brief does not contain anything that involves the Bank in the acts for which the other defendants (former directors) are called upon to pay the above amount; moreover, the question made to the Bank would seem in any case to be unfounded, as there seems to be no causal link between the loan and the instrumental use that the company made of it while it was operating; and, in any case, there is no evidence of a state of economic difficulty to justify the action in question. The Judge scheduled the hearing for 22 February 2018 for the assignment of the expert appraisal and for the performance of the witness testimony, which did not, however, refer to circumstances related to the Bank's activities. Following completion of the expert appraisal, at the hearing on 23 January 2020 the case was assumed for a decision;
- Claim of Euro 2.0 million. By writ of summons, the counterparty brought legal proceedings against the Bank to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered the Bank to return an amount that was lower than the claim. The counterparty lodged an appeal. The Bank paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty

appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree. The Supreme Court has not yet set the date for the hearing;

- Claim of Euro 1.933 million. The receivership summoned Banca Popolare di Spoleto to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, so the Bank's operations allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank appeared in court to defend itself, arguing that the credit lines granted were very low (maximum Euro 60 thousand), so lacking any causal link for the allegation of abusive concession of credit. The investigation authorised by the Judge did not address conduct attributable to the Bank. With a judgement of 15 December 2017, the Court of Terni rejected the request filed against the defendant Banks, believing that the conduct of the credit institutions did not contribute to the bad management of the administrator. On 16 January 2018, an appeal against this judgement was served at the request of the receivership. The suit has been decided;
- Claim of Euro 1.526 million. By writ notified in 2015, the counterparty summoned Banco Desio and 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 lawsuit was filed by contesting the request. An expert appraisal by a graphologist is in progress and an integration has been ordered at the hearing of 13 February 2020;
- Claim of Euro 1.395 million. A Cooperative Company has sued the Bank before the Court of Spoleto asking to ascertain the nullity, cancellation, termination, pre-contractual and contractual liability, the abuse of a dominant position or at least of economic dependence exercised by Banca Popolare di Spoleto S.p.A., under a contract for the provision of investment services and a contract for the purchase of shares for a total of 36,000 shares issued by Spoleto Credito e Servizi Soc. Coop. (SCS, former parent of Banca Popolare di Spoleto) for a total of Euro 1,395,365. The shares (partially pledged) were allegedly purchased by the customer through the mediation of the merged Bank, but with a bank transfer in 2001 directly to SCS. The disputed transaction is very old and the protective measures seem to be prescribed, despite the fact that the operations were used for a loan and a guarantee held with the merged bank which were subsequently extinguished. The first hearing is scheduled for 10 February 2020;
- Claim of Euro 1.103 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by the Bank and leased to the counterparty plus amounts paid into a current account. The receiver contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court, which has not yet set a date for the hearing. The receivership has served notice of an injunction for a sum of Euro 1,240,712 and the Bank has opposed the injunction, mainly by reason of the legitimacy of the request, including the stance that an appeal had been made to the Supreme Court. The Judge competent to decide on the opposition to the injunction, however, pending the outcome of the Supreme Court's decision, has ordered the Bank to pay a sum of Euro 1,219,537 million and, at the same time, has obliged the receivership not to take delivery of the sum, until the outcome of the decision by the court of third instance (Supreme Court) concerning the appeal lodged by the Bank against the Court of Appeal's decision. The Supreme Court has not yet set the date for the first hearing;
- Claim of Euro 1.136 million. One of the founding members of a cooperative, which is now in liquidation, has alleged that it had obtained, via the cooperative, various loans granted by other banks, upon the issue of guarantees by the cooperative. In July 2013, the founding member claims it had agreed with

the cooperative to fully settle the loans obtained from the latter; as a consequence, the cooperative should have arranged for the member to be freed of its guarantee commitments that had been assumed towards the other banks. This, according to the founding member, had not occurred, so he summoned all of the members of the Board of Directors before the Court of Perugia with effect from 23 May 2013 (including a former officer of Banca Popolare di Spoleto) and asked that they be convicted, jointly and severally among them and with the cooperative bank, to pay the sum of Euro 1.1 million as compensation for damages. Banca Popolare di Spoleto appealed by claiming its total lack of involvement in the claims made by the counterparty. The judgement was declared interrupted due to the subsequent opening of the compulsory administrative liquidation of the cooperative bank. The counterparty summarised the judgement, but subsequently passed away and the suit was declared interrupted at the hearing of 14 January 2020;

- Claim of Euro 1.0 million. In a preventive summons, the counterparty contends that the merged company Banca Popolare di Spoleto, by exploiting its bargaining power, refused to grant a mortgage loan requested by the company in 2011 of Euro 1 million for a building project in Frascati, demanding a different form of facility be taken out, namely, a mortgage current account, with an undertaking to convert the financing to a mortgage loan on completion of the project. According to the counterparty's defence, the failure to convert the facility to a mortgage loan, in breach of the alleged agreement, would have given rise to severe financial difficulties for the company. The case presented by the adversary, which is totally unfounded, appears to be somewhat pretentious. The case is under investigation and was postponed to 22 January 2020 for the examination of the expert appraisal currently in progress.

* * *

Action for damages against former corporate officers of Banca Popolare di Spoleto S.p.A.

For completeness, it should be noted that, under article 72, paragraph 5, of the CBA, after approval has been obtained from the Bank of Italy, the Extraordinary Commissioners of in charge of special administration of the former subsidiary Banca Popolare di Spoleto, at the end of their mandate, had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager. On 7 April 2016, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto resolved, among other things, confirmation of the action of responsibility already taken by the Extraordinary Commissioners and its extension against the former Statutory Auditors. It should be noted that this action contains a request for the defendants to be sentenced to pay damages of approximately Euro 30 million, broken down according to their respective responsibilities. The proceedings relating to admission of the evidence and the case brought against the former auditors have been combined. The Judge invited the parties to file a list of the documents that they asked to exhibit. The case is under investigation and has been postponed to 6 February 2020 for the admission of the means of investigation (possibly also on the expert appraisal).

Quantitative information

The number of detrimental events recorded by the Group at 31 December 2019 comes to 1990. 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	0.15%	0.51%	0.35%	32.76%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	2.41%	4.70%	4.51%	4.45%
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	0.35%	3.28%	3.29%	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)	14.12%	78.92%	79.24%	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	0.60%	0.15%	0.15%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.25%	0.04%	0.04%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	82.11%	12.39%	12.42%	0.17%
TOTAL Banco Desio e della Brianza Group	100.00%	100.00%	100.00%	0.40%

The gross operating loss comes to Euro 10.855 million, for which provisions were made during the period of Euro 8.977 million; recoveries were recorded for Euro 43 thousand, so the net operating loss amounted to Euro 10.812 million.

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 book equity: breakdown by business type

Captions	Regulatory consolidation	Insurance companies	Other businesses	Consolidation adjustments and eliminations	31.12.2019
1. Share capital	54,026				54,026
2. Share premium reserve	10,809				10,809
3. Reserves	812,147				812,147
6. Valuation reserves:	45,374				45,374
- Equity instruments designated at fair value through other comprehensive income	25,092				
- Financial assets (other than equities) designated at fair value through other comprehensive income	1,925				1,925
- Property, plant and equipment	161				161
- Cash-flow hedges	(1,355)				(1,355)
- Actuarial gains (losses) on defined-benefit pension plans	(3,515)				(3,515)
- Special revaluation laws	23,066				23,066
7. Net profit (loss) of the year (+/-) pertaining to the Group and minority interests	39,319				39,319
Total	961,675				961,675

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	1,925								1,925	
2. Equity instruments	25,448	(356)							25,448	(356)
3. Loans										
Total 31.12.2019	27,373	(356)							27,373	(356)
Total 31.12.2018	25,092	(85)							25,092	(85)

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	983	24,024		
2. Positive changes	1,683	1,341		
2.1 Fair value increases	1,683			
2.2 Write-downs for credit risk				
2.3 Reversal of negative reserves on disposal to profit or loss				
2.4 Transfers to other components of shareholders' equity (equity instruments)				
2.5 Other changes			1,341	
3. Negative changes	(741)	(273)		
3.1 Fair value decreases				
3.2 Write-backs for credit risk	(65)			
3.3 Reversal to income statement from positive reserve: from disposals	(676)			
2.4 Transfers to other components of shareholders' equity (equity instruments)			(3)	
3.4 Other changes			(270)	
4. Closing balance	1,925	25,092	-	

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 Euro 494 thousand (net of the related tax effect of Euro 187 thousand) 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 6th 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 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 2019 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 2019. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents/Related Parties" section.

Given that, pursuant to art. 5 of Consob Regulation 17221/2010 and art. 154-ter of the CFA, periodic information has to be provided:

- a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation⁴;
- 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,

there were no transactions worthy of note during the period

other than the approval of the merger of Banca Popolare di Spoleto SpA with Banco di Desio e della Brianza SpA by the Extraordinary Shareholders' Meetings on 7 and 9 May 2019, respectively, subject to authorization from the Bank of Italy pursuant to arts. 56, 57 and 61 of the CBA.

As indicated in the Merger Deed of 29 May 2019, the merger runs for legal purposes from 1 July 2019, whereas for accounting and tax purposes, the merged company's transactions are recorded in the Parent Company's financial statements from 1 January 2019.

The merger plan in question is detailed in paragraph "Significant events" of the Report on Operations.

* * *

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 2019 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.

⁴ 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)

The following paragraphs summarise - in a prudential logic of unified management of potential conflicts of interest - existing relationships with the Parent Company, subsidiary companies, associates and other related parties pursuant to art. 53 CBA and/or art. 2391-bis of the Italian Civil Code, included entities treated as per art 136 of CBA also in compliance with Italian laws), highlighting, in particular, the balance of current accounts and of the securities portfolio at the end of the 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 Euro 172 million, of which Euro 170.1 million, relating to the securities portfolio.

It should be recalled that at the end of the previous year, a five-year unsecured "bullet" loan was entered into with this Company for a total of 5 million to replace a similar credit line at another bank which was about to expire. This transaction falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers, carried out at market conditions (also on the list of conditions in force for Related Parties according to the specific framework resolution) and included in ordinary credit and loans activity.

The service agreement has also been renewed with the same Company governing the reciprocal rights and obligations inherent to the accounting and reporting activities delegated to Banco di Desio e della Brianza SpA for regulatory consolidation purposes pursuant to art. 11 and 99 of EU Regulation no. 575/2013 (CRR). The fees paid to the latter are of a minor amount and have in any case been determined with the same methodology as similar agreements with subsidiaries. It should be noted that this transaction also falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers referred to in the following paragraph "Transactions with Officers and parties related to them".

II - Transactions with Officers and parties related to them

As for the granting of credit lines approved in 2019 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 37 positions existing at 31 December 2019 comes to some Euro 14.5 million and the related utilisations amount in total to some Euro 7.0 million.

As regards funding relationships held by Group banks directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2019 amounted to Euro 134.3 million in amounts due to customers (including approximately Euro 103.1 million 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 31.12.2019 (in €/million)
<u>Lending transactions:</u>	
Amount granted	14.5
Amount drawn down	7.0
<u>Funding transactions:</u>	
C/c and d/r amount (a)	31.2
Amount of securities portfolios (b)	103.1
Total (a+b)	134.3

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 take operating decisions about the allocation of resources, the Group's segment reporting takes account of the organisational and managerial structure described below.

The "banking" segment comprises the network bank of the Group, i.e. the Parent Company Banco di Desio e della Brianza S.p.A. and the vehicle company Desio OBG S.r.l., which was set up specifically for the guaranteed bank bond 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 of the comparative period 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	Near-banking	Consolidation adjustments	Total 31.12.2019
Net profit from financial and insurance activities ⁽¹⁾	421,554	16,416	(7,006)	430,964
Fixed costs ⁽²⁾	(306,292)	(6,935)	145	(313,082)
Provisions and adjustments ⁽³⁾	(53,308)	(6,898)	-	(60,206)
Profit (loss) from equity investments carried at equity	-	-	-	-
Gains (losses) on disposal of investments	-	-	-	-
Profit (loss) from current operations before tax	61,954	2,583	(6,861)	57,676

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 31.12.2019
Financial assets	3,365,907	15		3,365,922
Due from banks ⁽⁴⁾	619,619	4,571	(4,396)	619,794
Loans to customers ⁽⁴⁾	9,515,796	793,523	(741,633)	9,567,686
Due to banks	1,603,208	741,748	(741,748)	1,603,208
Due to customers	9,498,854	3,729	(4,396)	9,498,187
Debt securities in issue	1,749,103			1,749,103
Indirect deposits, under administration and management	15,562,375			15,562,375

Income statement	Banking	Near-banking	Consolidation adjustments	Total 31.12.2018
Net profit from financial and insurance activities ⁽¹⁾	414,372	16,813	(17,064)	414,121
Fixed costs ⁽²⁾	(308,355)	(6,537)	7,989	(306,903)
Provisions and adjustments ⁽³⁾	(63,882)	(47)		(63,929)
Profit (loss) from equity investments carried at equity	-	-		-
Gains (losses) on disposal of investments	-	-		-
Profit (loss) from current operations before tax	42,135	10,229	(9,075)	43,289

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 31.12.2018
Financial assets	3,082,124	15	(709)	3,081,430
Due from banks ⁽⁴⁾	790,948	2,922	(508,556)	285,314
Loans to customers ^{(4) (5)}	9,562,530	706,240	(652,070)	9,616,700
Due to banks	2,127,174	652,071	(1,158,421)	1,620,824
Due to customers	9,253,258	3,678	(2,345)	9,254,591
Debt securities in issue	1,426,659	-	(446)	1,426,213
Indirect deposits, under administration and management	14,118,658	-	(25,947)	14,092,711

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⁽⁴⁾ net of held to collect (HTC) debt securities measured at amortised cost and reported under financial assets

PART M – INFORMATION ON LEASES

SECTION 1 - LESSEE

Qualitative information

As required by IFRS 16 "Leases", for the contracts that confer the right to control the use of an identified asset (see IFRS 16.B9 and paragraphs B13-B20) for a certain period of time, over the period of use, the Banco Desio Group has assessed whether both of the following requirements have been satisfied:

- a) The right to obtain substantially all the economic benefits from use of the identified asset, as described in paragraphs B21-B23;
- b) The right to direct the use of the identified asset, as described in paragraphs B24-B30.

Consequently, when a lease contract is identified and the asset is made available for use by the lessee, the Group recognised:

- a liability consisting of payments due for leases (i.e. Lease Liability). This liability is initially recognised at the present value of future payments due for the lease discounted at the interest rate implicit in the lease or, if this rate cannot easily be determined, at the lessee's incremental borrowing rate;
- an asset consisting of the right of use (i.e. RoU Asset). This asset is initially recognised as a sum of the lease liabilities, initial direct costs, payments made on the date or before the effective date of the contract, net of any lease incentives received, and dismantling costs.

The Banco Desio Group adopted some of the practical expedients and recognition exemptions provided for by IFRS 16 "Leases":

- 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;
- the initial direct costs of measuring the RoU Asset on the FTA date were excluded.

Estimated dismantling costs for the purpose of 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.

Estimated dismantling costs for the purpose of 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.

As regards 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, 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.

Quantitative information

During the first-time adoption of the standard, the following were recognised:

- an "RoU Asset" of Euro 60.4 million for properties and Euro 0.8 million for cars
- a "Lease Liability" for Euro 61.2 million, so there is no initial impact on equity.

Subsequently, during the year, charges of Euro 11,906 thousand were recorded in connection with lease contracts, of which Euro 1,245 thousand recognised under "Interest and similar expense" and Euro 10,660 thousand under "Net adjustments to property, plant and equipment" by way of depreciation of the right of use, with an increase of Euro 657 thousand compared with the costs that would have arisen in application of IAS 17.

In particular, the depreciation recognised in the income statement refers:

- for Euro 295 thousand to cars,
- for Euro 10,365 thousand to properties.

Overall costs for the year referring to lease contracts and not falling within the application of IFRS 16 (low-value assets and short-term assets) amount to Euro 1,470 thousand.

With reference to the "Lease liability" recognised at 31 December 2019, equal to Euro 52,288 thousand, a breakdown by residual maturity of the liabilities is shown below:

- Euro 9,902 thousand within 12 months;
- Euro 17,388 thousand from 1 to 3 years;
- Euro 11,985 thousand from 3 to 5 years;
- Euro 13,013 thousand over 5 years.

SECTION 2 – LESSOR

Qualitative information

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.

Quantitative information

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

Type of transaction	31.12.2019				31.12.2018			
	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)
Finance lease	187,869	28,562	159,307	42,539	221,579	36,305	185,274	44,467
- of which leaseback agreements	13,609	2,530	11,079	3,605	16,761	3,111	13,650	3,743
Total	187,869	28,562	159,307	42,539	221,579	36,305	185,274	44,467

Falling due	31.12.2019			31.12.2018		
	Gross investment	Deferred profit	Net investment	Gross investment	Deferred profit	Net investment
- Within one year	2,873	51	2,822	7,018	110	6,908
- Between one and two years	9,373	384	8,989	7,601	247	7,354
- Between two and three years	20,602	1,654	18,948	13,720	821	12,899
- Between three and four years	7,557	709	6,848	25,278	2,683	22,595
- Between four and five years	9,051	676	8,375	7,584	968	6,616
- Beyond five years	138,413	25,088	113,325	160,378	31,476	128,902
Total	187,869	28,562	159,307	221,579	36,305	185,274

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

Total interest recognised as income in the year is included in the caption "Loans to customers – loans" and amounts to Euro 2,769 thousand (Euro 3,910 thousand last year); of this, Euro 2,590 thousand relates to index-linked contracts, of which Euro 160 thousand relates to leaseback agreements (in 2018 Euro 3,406 thousand related to index-linked contracts, of which Euro 217 thousand related to leaseback agreements).

Financial income pertaining to subsequent years amounts to Euro 28,562 thousand, of which Euro 2,530 thousand relates to leaseback agreements (last year Euro 36,305 thousand and Euro 3,111 thousand, respectively).

**Certification pursuant to art. 154-bis of Legislative Decree
58/98**

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/98

- a. 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 financial statements with respect to the Company and their
 - effective application during 2019.
- b. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2019 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.
- c. We also certify that:
- 3.1. the 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, 6 February 2020

Chairman
Stefano Lado

Financial Reporting Manager
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 December 31, 2019, 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 December 31, 2019, 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 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.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

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Classification and valuation of non-performing loans to customers measured at amortised cost classified as doubtful loans and unlikely to pay

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 December 31, 2019 non-performing loans to customers measured at amortised cost of Banco di Desio e della Brianza Group amount to a gross book value of Euro 624 million (Euro 695 million at the end of 2018), while allowances for impairment amount to Euro 284 million (Euro 294 million at the end of 2018); the coverage ratio increases from 42.3% to 45.5%. In particular, the above-mentioned non-performing loans are composed by net doubtful loans for Euro 120 million (gross value of Euro 311 million and coverage ratio equal to 61.4% compared to 59.3% at the end of 2018) and net unlikely to pay loans for Euro 217 million (gross value of Euro 310 million and coverage ratio equal to 30.0% compared to 29.4% at the end of 2018).

In order to classify the 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 Group, 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 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 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 have been carried out:

- 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;

- comparative analysis procedures, in historical series and for each class of non-performing loans, through the calculation of coverage indices and the comparison of such indices with the comparable information relating 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 the 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 December 31, 2019, performing loans to customers of Banco di Desio e della Brianza Group amount to a gross book value of Euro 9,273 million (Euro 9,265 million at the end of 2018), while allowances for impairment amount to Euro 46 million (Euro 50 million at the end of 2018); 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 their 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:

- 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 coverage 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 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.
- 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 April 26, 2012 as auditors of the Bank and the Group for the years from December 31, 2012 to December 31, 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 December 31, 2019, 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 December 31, 2019 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 December 31, 2019 and is prepared in accordance with the law.

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 December 30, 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 December 30, 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree December 30, 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
March 10, 2020

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 2019

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 2019 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., 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 also offers 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	389,785
c) Number of employees on full-time equivalent basis ⁽²⁾	Number	1,894
d) Profit (loss) before taxes	Euro/thousand	57,676
e) Income taxes	Euro/thousand	(17,520)

Notes:

⁽¹⁾ The figure represents caption 120 "Net interest and other banking income" of the consolidated income statement

⁽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.