2018

Report on operations and financial statements at 31 December 2018

Banco Desio

Gruppo Banco Desio

Contents

Directors and Officers

BOARD OF DIRECTORS

Chairman	Stefano Lado
Deputy Chairman	Tommaso Cartone**
Directors	Graziella Bologna* Marina Brogi Nicolò Dubini Cristina Finocchi Mahne Agostino Gavazzi* Egidio Gavazzi* Paolo Gavazzi* Tito Gavazzi* Gerolamo Pellicanò Gigliola Zecchi Balsamo

* *Members of the Executive Committee*
** *Director responsible for the Internal Control and Risk Management System*

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

GENERAL MANAGEMENT

General Manager	Angelo Antoniazzi
Senior Deputy General Manager	Mauro Walter Colombo
Deputy General Manager "Corporate Affairs"	Maurizio Ballabio

FINANCIAL REPORTING MANAGER AS PER ART. 154-BIS CFA

Financial Reporting Manager	Mauro Walter Colombo

INDEPENDENT AUDITORS

Independent Auditors	Deloitte & Touche S.p.A.

Report on Operations

Introduction

The figures and ratios in this Report on Operations, as well as the comments on the composition of the various captions and any changes to them, to the extent that they can be traced back, refer to the balance sheet included in the financial statements and to the reclassified income statement, which has been prepared on the basis of the financial statements.

IFRS 9 "Financial instruments", which replaced IAS 39, came into force on 1 January 2018 with an impact on the classification and measurement of financial instruments and on the logic and methods of calculating adjustments. For the purpose of preparing these financial statements, the comparative figures for the balance sheet and income statement (at 31 December 2017) have been conventionally restated in the financial statement schedules required by the fifth update of Circular 262, as reported in the chapter "Basis of preparation".
In particular, in September the business models that affect the financial assets held for investment purposes by the Bank were changed (as explained in the paragraph "Significant events"). The financial report at 30 September 2018 was prepared in compliance with IAS 34 Interim Financial Statements so that 1 October 2018 qualifies as the "reclassification date" (according to the definition in IFRS 9 Financial Instruments) for the recognition of the accounting effects of this change in business models.

1 - First-time adoption of IFRS 1 and IFRS 15

1.1 - IFRS 9 "Financial instruments"

IFRS 9 "Financial instruments", which replaced IAS 39, came into force on 1 January 2018 with an impact on the classification and measurement of financial instruments and on the logic and methods of calculating adjustments. As a result of regulatory, changes and choices made regarding:

- definition of business models for the management of financial assets and the allocation of financial instruments held in individual portfolios;
- structuring of the model for calculating the expected loss on loans and other financial instruments held within the "held to collect" and "held to collect & sell" business models for performing exposures (stage 1 and stage 2);

the balance sheet effects, summarised in the following table, were recorded on 1 January 2018.

	Classification and measurement	Impairment - stage 1 and stage 2	Impairment - stage 3	Total
Financial assets	9,201	(590)		8,611
- debt securities held to collect	*5,616*	*(590)*		5,026
- debt securities held to collect & sell	*3,585*			3,585
Loans to ordinary customers		(6,894)	(16,645)	(23,539)
Guarantees and commitments		306		306
Total financial instruments	9,201	(7,178)	(16,645)	(14,622)
Associated tax assets/liabilities	(3,043)	1,974	4,577	3,508
Total effect on shareholders' equity	**6,158**	**(5,204)**	**(12,068)**	**(11,114)**
- of which: recorded in the valuation reserve	7,290	568		7,858
- of which: recorded in other reserves - FTA reserve	(1,132)	(5,772)	(12,068)	(18,972)

Overall, the effect of first-time adoption (FTA) of IFRS 9 on shareholders' equity was 11.1 million euros.

1.2 - IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenues from contracts with customers", replacing IAS 18 "Revenues" and IAS 11 "Contract work" and related interpretations, also came into force on 1 January 2018.
The standard establishes a new model for revenue recognition, which will apply to all contracts with customers except for those that fall within the scope of other IAS/IFRS, such as leases, insurance contracts and financial instruments. The new model, in particular, provides for the recognition of revenue based on the so-called "5 steps": (1) identification of the contract with the customer, (2) identification of the performance obligations, (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligations in the contracts and (5) recognition of the revenue at the moment the performance obligation is fulfilled.
Based on our analyses, the main effect of FTA of IFRS 15 is to require more disclosures; in this regard, the most detailed disclosures required by the standard and by the Bank of Italy in its 5th update of Circular 262 "Bank financial statements: schedules and rules for preparation" will be provided by the Bank in the 2018 financial statements.

2 - Key figures and ratios

Balance sheet

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

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

Income statement [1]

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

[2] *from the reclassified income statement*

Key figures and ratios

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

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

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

Structure and productivity ratios

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

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

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

(4) *excluding net profit (loss) for the period;*

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

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

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

3 - Underlying scenario

Reference should be made to the Consolidated Report on Operations for an explanation of the macroeconomic scenario and of the capital markets and the banking system in Italy.

4 - Regional market presence and corporate issues

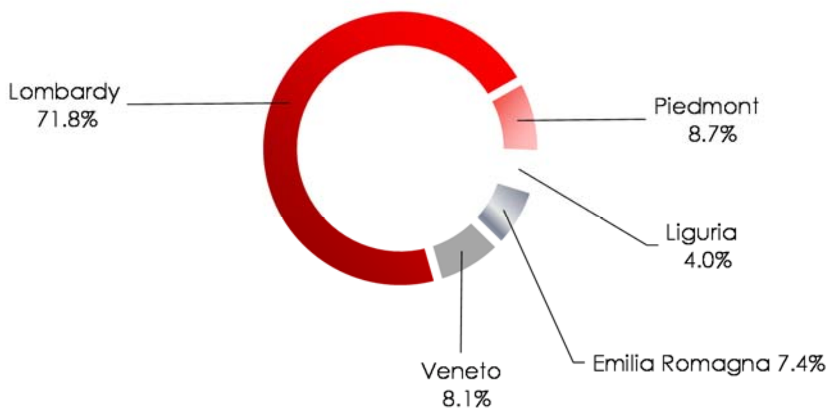
4.1 - The distribution network

The distribution network of the Bank comprises 146 branches at 31 December 2018, unchanged since the end of the prior year.
The distribution network gives top priority to customer relationships. The Bank is present in Northern Italy in 5 regions (Lombardy, Piedmont, Veneto, Emilia Romagna and Liguria).
The organisational model envisages:

- a distribution network divided into eight 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 2018.

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



4.2 - Significant events

Approval of the 2018-2020 Group Business Plan

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

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

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

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

Non-performing loans (NPL) disposal programme

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

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

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

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

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

At the end of a competitive process that saw the participation of several international institutional investors, on 11 July, the Banco Desio Group accepted the final binding agreement for the sale of 95% of the mezzanine and junior securities, which was finalised on 23 July 2018 by settling the transaction, which in turn permitted derecognition of the NPLs concerned.
On 3 October 2018, the Banco Desio Group received a formal communication that the Minister of Economy and Finance, with the provision of 5 September, had granted the State guarantee on senior securities issued by the SPV, with effect from the date of adoption of this provision, as the conditions laid down in Decree Law 18/2016 had already been fulfilled.
In these financial statements at 31 December 2018, as well as in the quarterly financial report at 30 September 2018, in addition to the economic effects of the Transaction, the relative supervisory benefits are also fully included due to the application of the SRT and the aforementioned State guarantee.

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme
In line with with IFRIC 21, the Bank made the following entries when the "obligating event" occurred:
- standard contribution to the SRM of about 2.7 million euros. The contribution was paid in June;
- the additional contribution requested by the Bank of Italy in May, as required by Law 208/2015, for approximately 1.0 million euros. The contribution was paid in June;
- standard contribution to the DGS of about 2.5 million euros. The contribution was paid in December.

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

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

Change in the business models with which financial instruments in the proprietary portfolio are managed
According to IFRS 9 Financial instruments, a business model represents the way in which groups (or portfolios) of financial assets are managed collectively to pursue certain strategic corporate objectives, i.e. the collection of contractual cash flows, earning profits by selling them, or a combination of the two, which in relation to the contractual characteristics of the cash flows of the financial assets in question (SPPI test - Solely Payments of Principal and Interest) determines the measurement at amortised cost, at fair value through profit or loss or at fair value recognised in equity. The business model does not therefore depend on management's intentions with respect to a single financial instrument, but at a higher level of aggregation (the portfolio) and is determined by management according to the scenarios that are reasonably expected to occur, also taking into account the methods for measuring the performance of financial assets held under the model, the methods of communication (and remuneration) of performance to managers with strategic responsibilities and of the risks that affect the performance of the business model (and therefore of the financial assets held within the 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 established by IAS 39, for which the prevailing destination for bond instruments (mainly Italian government securities) held for investment purposes has been identified by the Banco Desio Group in the categories HTC and HTC&S to a more or less equal extent.
This decision was made following a specific analysis of the performance and management of the securities portfolio over the previous two years, with the aim of ensuring periodic cash flows through the HTC&S category, while reserving the possibility of taking advantage of market opportunities to sell securities before their maturity (but not on a regular basis); this business model was seen as the main category to which financial investments should be allocated, while reflecting the exposure to market risk by measuring them at fair value with an impact on comprehensive profitability in each reporting period.
Considering the evolution of the 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 and of Banca Popolare di Spoleto (the "Group Banks") therefore met on 26 September 2018 to discuss, among other things, the results of this assessment; in this context, the rationale underlying the work of the Finance Department has been critically reviewed with particular regard to the risk profile expressed by the groups of financial assets allocated to the various business models.
The 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 Group Banks opted for a more decisive management strategy aimed at favouring stability in the collection of medium-long term financial flows of the securities portfolio and therefore mitigation of the risks of weakening the capital ratios (albeit at the expense of taking advantage of any market opportunities).
Operationally, this necessarily involves a change of approach in the overall management of financial assets:

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

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

Department of the reports produced and integration of the primary indicators included in the Risk Appetite Framework.
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 on 26 September 2018 (e.g. the methodological framework of IFRS 9, Group risk management policies, operating policy limits, etc.). In October and November, amendments were made to the internal regulations of the Finance Department relating to the management of the Group's own securities and treasury portfolio, approved on 20 December 2018, reflecting the operational procedures implemented as of 27 September 2018.
The accounting effects of this operation, which only affect the balance sheet, took place on 1 October 2018 (the "reclassification date"), for which the conditions established by IFRS 9 in the case of a change in business models were satisfied (in terms of rarity of occurrence, decision made by senior management following external or internal changes, materiality[1] for operations in general and the fact that they can be demonstrated to third parties).
The financial instruments involved in the change of business model from HTC&S to HTC are mainly represented by sovereign debt securities, as well as corporate bonds for a total nominal value of 940 million euros for the Parent Company. The relative accumulated loss on the reclassification date of o 41.5 million euros (gross of the related tax effect), previously recognised in the other components of comprehensive income (valuation reserve), is eliminated from equity against the fair value of the same financial instruments, which are therefore recognised as if they had always been valued at amortised cost.
It should also be noted that the transactions carried out in financial assets included in the HTC/ALM portfolio after 26 September 2018 are in accordance with the frequency, value and timing of sales, as defined in the accounting standard (IFRS 9 Classification and Measurement) adopted by the Banco Desio Group, according to which the following are considered consistent with an HTC business model in the annual reporting period: (a) indicators of frequency and materiality of sales turnover of less than or equal to 5%, and (b) time to maturity of sales greater than or equal to 95% (thresholds that were not updated when the business models in question were changed).
More specifically, starting from 27 September 2018, there were no purchase or sale transactions with reference to the HTC/ALM portfolio, with the sole exception of the subscription for 1.8 million of the Tier 2 subordinated bond issued by Banca Carige on 30 November 2018, which, having failed the SPPI test, was measured at fair value through profit or loss.
Simulating at the reference date of 30 September 2018 the accounting effects of the change in the business model (BM) in question, which were recognised on the date of the reclassification, 1 October 2018, the following effects on the supervisory coefficients were estimated:

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

IFRS 9 transitional regime at 30 September 2018	coefficients measured without change in BM			estimated effect because of change in BM			pro-forma coefficients with change in BM		
	CET 1	Tier 1	Total	CET 1	Tier 1	Total	CET 1	Tier 1	Total
Banco di Desio e della Brianza	17.50%	17.55%	19.64%	0.66%	0.67%	0.68%	18.16%	18.22%	20.32%

For completeness of information, it should be noted here that on 31 December 2018, the cumulative capital loss in the absence of the transfer amounts to approximately 28.5 million euros (pre-tax), from which the following effects on the supervisory coefficients were estimated:

IFRS 9 transitional regime at 31 December 2018	pro-forma coefficients without change in BM			estimated effect because of change in BM			coefficients measured with change in BM		
	CET 1	Tier 1	Total	CET 1	Tier 1	Total	CET 1	Tier 1	Total
Banco di Desio e della Brianza	17.58%	17.61%	19.42%	0.40%	0.40%	0.40%	17.98%	18.01%	19.83%

As regards the representation of the prospective effects on the income, capital and cash flows of the Banco Desio Group deriving from the change in business model, it should be noted that these were reflected in the updated performance forecasts for the 2018-20 Business Plan, developed by the Parent Company's management, taking into account the main drivers of the events of the period, the results achieved at 30 September 2018, the forecasts at 31 December 2018 and the most recent market forecasts available.
These updated performance forecasts, with further projections of future results extended again by the Parent Company's management at 31 December 2022, were used by the respective advisors of Banco di Desio e della Brianza and Banca Popolare di Spoleto in charge of the assessment activities (with reference to the Dividend Discount Model or DDM) as part of the project for absorption of the subsidiary Banca Popolare di Spoleto by the Parent Company Banco di Desio e della Brianza approved by the respective Board meetings held on 11 December 2018, as well as to perform the impairment test on equity investments and goodwill for the financial reporting of the two banks of the Banco Desio Group at 31 December 2018.

Development of the network of financial advisors authorised to provide doorstep banking services
In line with the indications of the 2018-2020 Business Plan on the evolution of the distribution model through an integrated multi-channel approach, in the third quarter of 2018 Consob was informed of the start-up of doorstep banking by Banco di Desio e della Brianza. At 31 December 2018, Banco di Desio e della Brianza started agency relationships with 3 authorised financial advisors.

Approval of the plan for Banca Popolare di Spoleto S.p.A. to be absorbed by Banco di Desio e della Brianza S.p.A.
On 11 December 2018, the Boards of Directors of Banco di Desio e della Brianza S.p.A. ("Banco Desio" or the "Parent Company") and Banca Popolare di Spoleto S.p.A. ("Banca Popolare di Spoleto" or "BPS") approved the plan for BPS (held 81.67%) to be absorbed by the Parent Company (the "Merger" or "Transaction")
The Merger proposes to complete the operational and business integration that has been in progress for some time between the Parent Company and BPS, making it possible to achieve important benefits in terms of cost and revenue synergies, simplification and overall rationalisation of the Banco Desio Group's organisational structure, especially, but not only, in credit & loans and sales & marketing. The synergies resulting from the Merger will make it possible, among other things, to allocate additional resources to the commercial development of the Banco Desio Group, in order to refine the quality of the products and services offered to customers.
The Transaction also sets the scene for a redefinition of the Banco Desio Group's territorial strategy by rationalising the commercial network. The aim of this, on the one hand, is to safeguard the "Banca

Popolare di Spoleto" brand, especially in Umbria; and, on the other hand, to ensure harmonisation of the product portfolio and services offered to customers, which will be helped by strengthening the centralised structures in commercial matters and the policy and management of the credit & loans area.

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

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

On the basis of the indications received from their respective independent financial advisors, the Boards of Directors of the two banks decided on an Exchange Ratio of 1 Banco Desio ordinary share for every 5 BPS ordinary shares. To service the exchange, the Parent Company will authorise a Capital Increase for a maximum nominal amount of 2,987,819.64 euros by issuing up to a maximum of 5,745,807 ordinary shares, with regular rights, with an indication of the nominal value of 0.52 euros, to be assigned to the shareholders of BPS on the basis of the Exchange Ratio.

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

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

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

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

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

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

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

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

Further disposals of non-performing loans (NPL)

In line with the pro-active strategy for the management of non-performing loans and in compliance with the guidelines issued by the European Central Bank, on 28 December 2018, we completed a further sale to a specialist intermediary of a loan portfolio consisting of mortgage and unsecured loans classified as doubtful loans for a total nominal value of 38.7 million euros, which was sold for a consideration of 4.8 million euros, after which, taking account of doubtful items, losses on disposal were reported for 0.2 million euros, gross of the related tax effect.

Inspections on Anti-Money Laundering

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

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

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

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

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

- measures to revise and streamline the organisational structure of the Operations Area at Group level (Development Plan for the "CSO" Operations Area) aimed at a more flexible structure able to perform new and diversified activities. This would be implemented with periods of support for resources in the various new roles, as well as through specific training courses for those involved in role "reconversion", considering that a more extended observation period will allow possible refinements of a managerial nature based on actual business needs;

- closure in the afternoon of cashier operations at another 20 branches of Banco Desio (involving a total of 66 branches), redistributing the staff around the network, in consideration of their various career paths, personal characteristics and growth potential;

- activation, from October 2018, of the second "window" of voluntary access to the Solidarity Fund for 47 resources (who terminated service on 30 November 2018), as defined by the agreement with the Trade Unions which dates back to November 2016, including those affected by the subsequent agreement with the Unions in May 2018, for a total of 136 resources involved at Group level in the two-year period 2017/2018;

- introduction of the new *Affluent Customer Manager* role, in addition to the roles of Private Banker and Corporate Banker, as part of the interventions aimed at making customer segmentation more effective and organic. This will have repercussions on the structure of the distribution network with a view to improving the relationship with our clientele in a market characterised by increased competitiveness and lower customer loyalty;

- following the adoption of Consob Resolution 20307 of 15 February 2018 (the so-called "Intermediaries' Regulation"), implementation of a tutoring model which, with a particularly prudent approach, envisages support activity starting from January 2019. This will involve the autonomous network resources for ESMA purposes in relation to colleagues who are qualified but not yet autonomous in providing advice to customers on financial investments;

- as part of the gradual centralisation of Banca Popolare di Spoleto's corporate functions at the Parent Company, the Auditing Business Office, the Special Credit Office and the Credit and Guarantee Office of Banca Popolare di Spoleto were absorbed, respectively, by the Internal Audit Department, the Special Credit Area and the Credit and Guarantee Department of Banco di Desio e della Brianza;

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

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

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

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

As a result of what was described previously, at 31 December 2018, the Bank had 1,316 employees, 55 fewer (-4.0%) than at the end of the previous year.

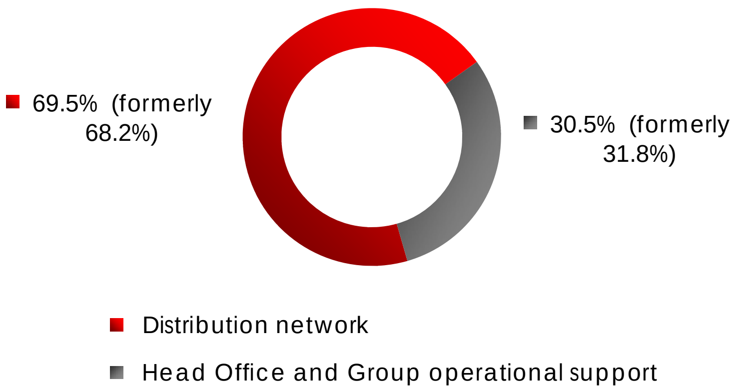
The following table provides a breakdown of employees by level at the end of 2017, compared with the previous year.

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

No. of Employees	**31.12.2018**	**%**	**31.12.2017**	**%**	**Change Amount**	**%**
Managers	25	1.9%	24	1.8%	1	4.2%
3rd and 4th level middle managers	331	25.1%	343	25.0%	-12	-3.5%
1st and 2nd level middle managers	393	29.9%	401	29.2%	-8	-2.0%
Other personnel	567	43.1%	603	44.0%	-36	-6.0%
Employees	**1,316**	**100.0%**	**1,371**	**100.0%**	**-55**	**-4.0%**

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

Chart no. 2 - **BREAKDOWN OF EMPLOYEES BY AREA**



6.2 - Training

Considering the importance that training activities play in the professional development of human resources, in 2018, we implemented training programmes, an integral part of specific company projects to 56,183 man/hours, and an average of 5.7 days per employee.
The training hours provided in the previous year were higher (83,346) mainly because of the particular effort that was needed for changes in the regulatory framework. Some training modules planned for the last quarter of 2018 were also transferred to 2019.
In the area of behavioural training, courses were addressed to more limited and targeted corporate clusters, completing activities that had been commenced previously.
Various technical-professional programmes launched during the last quarter of 2018 will be planned and delivered with greater intensity in 2019, in order to involve the entire company population to which they are addressed.
62.7% of the total training hours were taught in the classroom; use of the classroom mode has increased compared with the previous year (41%), reducing the proportion of e-learning. 17% of the hours of training carried out in the classroom were provided by internal teachers belonging to the various Company Functions (around 70 resources), thereby enhancing and spreading their professional skills. The internal teaching activity also required a significant commitment on the part of colleagues in the planning phase of the training content to ensure didactic quality and the contextualization of the course content to the needs of the population involved, which is very important.
Training programmes were developed according to the following main guidelines:

- To strengthen technical knowledge so as to give advice on financial instruments and insurance products
- To improve technical knowledge about credit management, bringing behaviour into line with operational logic and processes in order to guarantee an overall improvement in the quality of service and of the credit granted
- To raise efficiency and effectiveness in sales and marketing activities through actions that involve various professional roles
- To keep knowledge of regulatory provisions constantly up-to-date in order to reduce operational and reputational risks

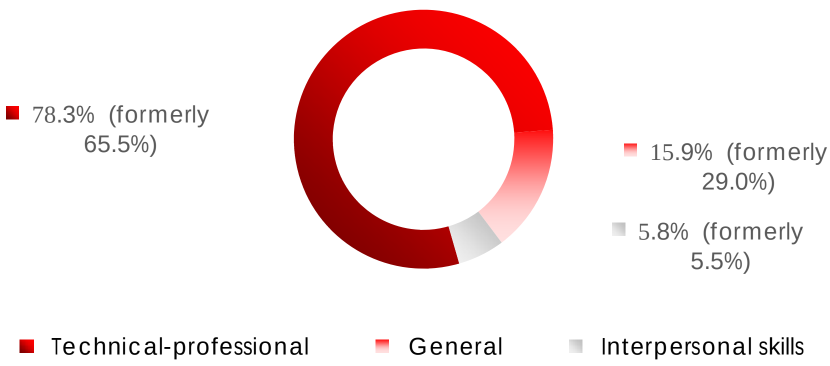
Based on these guidelines, training has been structured to guarantee the development of the technical knowledge and behavioural skills needed to act in the various professional roles, in line with the strategic plan and with the Company's programmes.
The following is a summary description of the types 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. 3 - **TRAINING ACTIVITIES BY TYPE**



The main "General" training initiatives, defined according to different regulatory contexts, included the following programmes.

With reference to the issue of anti-money laundering, in continuity with the programme implemented in previous years, different professional figures (Branch Managers, Supervisors, Deputy Branch Managers, Customer Assistant Coordinators) were involved.

At the same time, in a perspective of continuous strengthening of risk management, sessions were scheduled for:

- operational alignment, involving professional figures with areas that had room for improvement, based on the surveys conducted in the exercise of self-assessment of the risks of money laundering and terrorist financing;
- operational awareness, aimed at Customer Assistants, in order to align behaviour with current regulations (programme continued during the current year);
- operational training on the new VISIUS platform. Courses were run by members of staff belonging to the various Territorial Areas, who taught their branch colleagues in the respective areas.

Consistent with the programmes provided, the intention is to propose in 2019 modules set up on specific content areas and defined according to the actual training needs highlighted by the company population. In e-learning mode, an on-line module entitled "Anti-money laundering: what has changed" (duration: 1 hour) was released, addressed to all Network professionals and to the corporate structures of the Head Office involved in the various operational steps.

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

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

- Cyber Security, distributed through an online form aimed at increasing awareness of cyber risks and threats, activating behaviours that allow the prevention of risk factors;
- Qualified Intermediary Agreement, distributed through an online form and integrated with classroom attendance by approximately 140 resources;
- Whistleblowing - carried out in continuity with the current year - through training sessions carried out both in the classroom and through Skype.

The "Technical-Professional" training accounted for 78.3% of total activities, an increase compared with the previous year (65.5%).

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

- Administration

  Two workshop sessions were carried out for new Customer Assistants with a view to facilitating their insertion into the Network by helping them to acquire awareness about the role that they play. Training sessions were also held on the new sale processes and on CIT, the new interbank procedure. All training activities belonging to this group were provided by internal teaching resources belonging to different Company Functions.
- Credit & Loans, International, Sales & Marketing and Other

  The programmes belonging to these segments of technical and professional content increased compared with the previous year, supported by a significant activity provided by internal lecturers, which guaranteed a contextualized treatment of the content, which could be referenced to the participants' working environment.

  The following initiatives involved the various professional roles belonging to the credit chain (Area Sales Representatives, Area Credit Managers/Employees, Corporate Managers/Employees, Branch Managers, Supervisors, Deputy Branch Managers, Corporate Managers):
  - Training activities on AIRB, based on the following content: internal rating systems and impacts on the Bank's governance, banking risk, credit risk and PD Corporate rating model, new attribution process, updating and monitoring of the rating, adjustments to the granting and renewal of credit procedures, involving 453 resources overall;
  - Evaluation criteria of Farming Loans, which involved 281 resources;
  - Consumer Credit, which involved a total of 55 resources.

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

  As part of the "professional conversion" programme, a 6-day training course was provided to resources to be allocated to the credit and loans department, consisting of various modules: Basic elements in credit assessment, Analysis of the financial statements and Monitoring the credit.

  Training sessions for the "International" area involved 79 Branch Managers and included not just technical content, but also the characteristics of the international market, a focus on political and financial risk, in addition to operating methods used in exchanges with counterparties that develop a high number of business deals for this area.

  With reference to the "Sales & Marketing" area, training was held for various professional figures in the Network to launch new products and to help market existing ones, in order to increase the efficiency and effectiveness of commercial development measures.
- Finance and Insurance

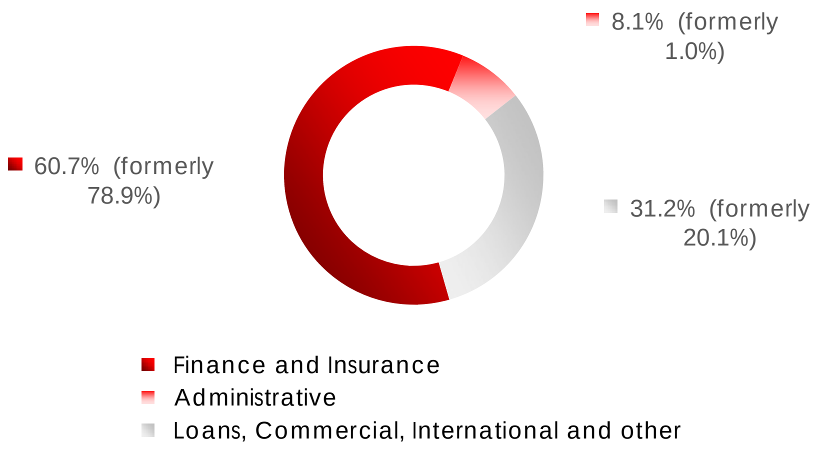
  In the "Insurance" area, both the first qualification course for the sale of insurance products and the update programme were implemented, completing the 2017/2018 two-year plan (for about 700 resources).

  As regards the "Professional Conversion" programme, aimed at resources who will be involved in the provision of investment services, a programme focused on knowledge of the markets and financial instruments was defined and provided, for a duration of 5 days.

The following chart analyses the "Technical-Professional" training provided by topic.

The decrease in training hours with reference to the previous year is attributable to the fact that the refresher programme held in 2018 (for 370 resources) envisaged 30 hours of classes - partially through modules belonging to "Insurance" training - unlike the "Certification of Skills" course given in 2017 in 60 hours (in light of the ESMA guidelines on assessing the knowledge and skills necessary to provide investment advice). Furthermore, in the previous year, there was significant training activity on regulatory changes and the impacts on operating processes deriving from the entry into force of the MiFID II directive.

Chart no. 4 - **"TECHNICAL-PROFESSIONAL" TRAINING BY ISSUES**



As part of "Behavioural" training, a course was created for Affluent Customer Managers in preparation for a strengthening of operational planning and time management skills, as well as the acquisition of skills in the field of Behavioural Finance. To support the process of improving sales and marketing performance, the programme also provided for individual meetings, with the aim of verifying the level of learning of the content delivered and monitoring the achievement of the individual objectives assigned to participants.
For a group of 30 Corporate Managers, a course was aimed at strengthening interpersonal skills in the relationship with SMEs.
The 26 resources included in the "Professional Conversion" programme were provided with a training course that focused on the development of management skills for the various phases of commercial negotiations with customers and the application of customer loyalty tools: skills required for the various professional profiles that are consistent with the objectives defined in the strategic plan.
As regards initiatives aimed at equal opportunities, a training session was held in 2018 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.
The attention paid to the growth and development of professional skills has again been acknowledged in 2018 by the Fondo Banche Assicurazioni (FBA), which provided funding for training activities.

6.3 - Industrial relations

In May 2018, an Agreement was signed with the Trade Unions with regards to the Company Bonus for 2017 to be paid to employees of Banco Desio Group companies. In line with what already happened in recent years regarding the methods of awarding the productivity bonus, given the rising preference for specific corporate welfare policies aimed at maximising workers' remuneration, it was decided to continue providing a welfare plan, so-called "flexible benefits", for all employees for the 4th consecutive year. Incremental values have been defined with respect to the previous year related to the operating results achieved by the Bank, and more generally by the Group, shifting to employees all of the tax benefits of the welfare plan with respect to the cash payment option and with an accessibility further extended in the choice of services offered.
As part of the negotiations carried out in connection with the 2017 ATB, agreement was also reached to award - exclusively to lower income brackets - an additional one-off contribution to the Pension Fund of 0.5% of their annual salary and related items.

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

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

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

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

6.4 - Future activities

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

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

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

7 - Control activities

7.1 - The levels of control in the management control and coordination function

In exercising its management control and coordination function, the Bank, 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 internal 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.

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 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 Bank's Risk Management Department, with the objective of ensuring that controls over the management of various types of risk by means of the adoption of integrated processes, reference should be made to Part E of the explanatory notes – Information on risks and related hedging policy.

8 - Results of operations

8.1 - Savings deposits: customer assets under administration

Total customer funds under management amounted to 19.4 billion euros, a decrease of 0.4 billion euros (-2.2%), due above all to the 3.8% decrease in direct deposits, as well as the trend in indirect deposits (-1.2%).

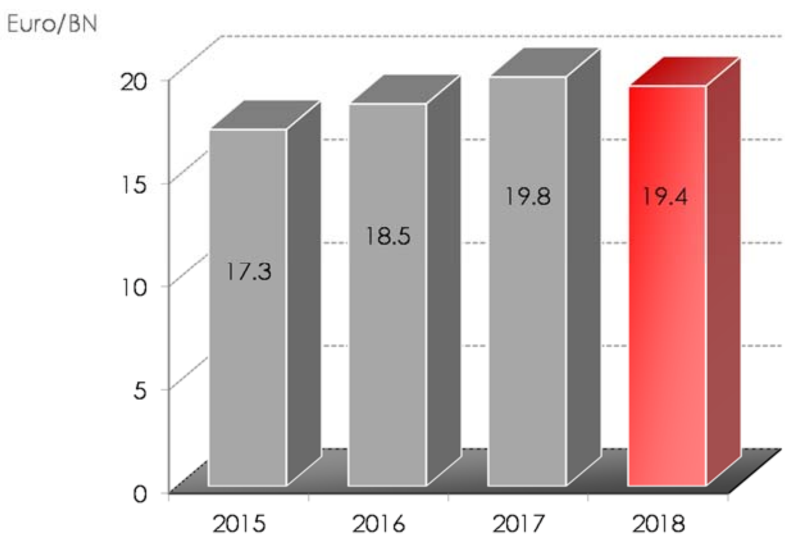
The composition and balances that make up this aggregate are shown in the following table.

Table no. 2 - **CUSTOMER DEPOSITS**

Amounts in thousands of Euro	31.12.2018	%	31.12.2017	%	Change Amount	Change %
Due to customers	5,964,901	30.8%	5,988,799	30.2%	-23,898	-0.4%
Debt securities in issue	1,338,854	6.9%	1,602,047	8.1%	-263,193	-16.4%
Direct deposits	**7,303,755**	**37.7%**	**7,590,846**	**38.3%**	**-287,091**	**-3.8%**
Ordinary customer deposits	6,967,942	36.0%	7,057,209	35.6%	-89,267	-1.3%
Institutional customer deposits	5,102,416	26.3%	5,164,954	26.1%	-62,538	-1.2%
Indirect deposits	**12,070,358**	**62.3%**	**12,222,163**	**61.7%**	**-151,805**	**-1.2%**
Total customer deposits	**19,374,113**	**100.0%**	**19,813,009**	**100.0%**	**-438,896**	**-2.2%**

The trend in total deposits since 2015 is shown in the following graph, which shows an average annual growth rate of 3.9%.

Chart no. 5 - **TREND IN DIRECT DEPOSITS IN RECENT YEARS**



Direct deposits

The balance of direct deposits at the end of 2018 came to 7.3 billion euros, 3.8% down on the previous year's figure, because of the decrease in debt securities in issue (-16.4%) and the reduction in due to customers (-0.4%).

Due to customers of 6.0 billion euros represents the most significant component as it makes up 81.7% of the total balance, of which some 5.3 billion euros relates to demand deposits, that is, current accounts and savings deposits, while some 0.6 billion euros relates to restricted deposits and the remainder relates to other payables.
Debt securities in issue relate to bonds issued and placed of some 1.3 billion euros (including some 0.2 billion euros of subordinated bonds) and certificates of deposits for the balance.
Debt securities in issue show the following breakdown by maturity based on their nominal value:

- within one year 330 million euros (of which 100 million euros subordinated securities);
- between 1 and 3 years 320 million euros (of which 50 million euros subordinated securities);
- between 3 and 5 years104 million euros (of which 80 million euros subordinated securities);
- beyond 5 years 575 million euros (of which 0 million euros subordinated securities).

During the third quarter, the bank filed the Prospectus relating to the EMTN Programme (Euro Medium Term Notes), in order to have an instrument for issuing bonds to be allocated to the institutional market, also through public operations. The Program is set up as a contractual platform that allows the issuance of a wide range of debt instruments, generally on the Eurobond market, to be placed in different ways, possibly in different currencies, contributing to the reduction in costs and issue times, and to respond efficiently to any market opportunities that might arise.
The main types of bonds issued by the EMTN Programme include:

- Unsecured Senior securities;
- Non-Preferred Senior securities: issuing these instruments as part of the EMTN Programme will allow the Bank to calculate these securities as eligible liabilities for the purpose of compliance with the "minimum requirement of own funds and eligible liabilities" (so-called MREL);
- TIER 2: in particular, this instrument makes it possible to raise additional regulatory capital with limited access time to the market.

Indirect deposits
Indirect deposits decreased overall during the year by 0.2 billion euros, down 1.2%, to about 12.1 billion euros.
This trend is attributable to deposits from institutional customers, down by 0.1 billion euros (-1.2%) to5.1 billion euros, and ordinary customer deposits, which fell by 0.1 billion euros to 7.0 billion euros (-1.3%), due to the performance of assets under management (+0.3%), partially offset by a decrease in assets under administration (-4.2%).

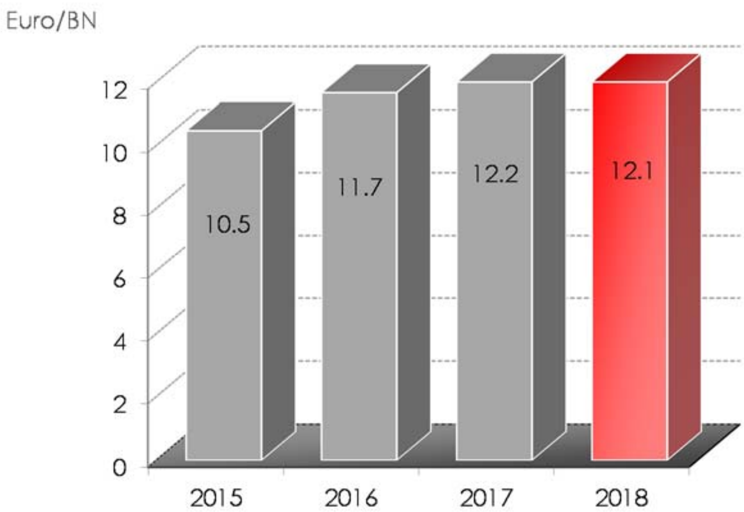
Table no. 3 - **INDIRECT DEPOSITS**

Amounts in thousands of Euro	**31.12.2018**	**%**	**31.12.2017**	**%**	**Change Amount**	**Change %**
Assets under administration	**2,374,155**	**19.6%**	**2,478,774**	**20.3%**	**-104,619**	**-4.2%**
Assets under management	**4,593,787**	**38.1%**	**4,578,435**	**37.5%**	**15,352**	**0.3%**
of which: Mutual funds and Sicavs	*1,867,206*	*15.5%*	*1,760,813*	*14.4%*	*106,393*	*6.0%*
Managed portfolios	*684,601*	*5.7%*	*735,398*	*6.0%*	*-50,797*	*-6.9%*
Bancassurance	*2,041,980*	*16.9%*	*2,082,224*	*17.0%*	*-40,244*	*-1.9%*
Ordinary customer deposits	**6,967,942**	**57.7%**	**7,057,209**	**57.7%**	**-89,267**	**-1.3%**
Institutional customer deposits (1)	**5,102,416**	**42.3%**	**5,164,954**	**42.3%**	**-62,538**	**-1.2%**
Indirect deposits (1)	**12,070,358**	**100.0%**	**12,222,163**	**100.0%**	**-151,805**	**-1.2%**

(1) *institutional customer deposits include securities of the Bancassurance segment of ordinary customers for Euro 1.9 billion (Euro 2 billion at 31.12.2017).*

The trend in indirect deposits in recent years can be seen in the following chart, which shows them growing at an average annual rate of 4.9% from 2015.

Chart no. 6 - **TREND IN INDIRECT DEPOSITS IN RECENT YEARS**



The following graph shows the breakdown in percentage terms of indirect ordinary customer deposits while the one below focuses on the breakdown of assets under management. Compared with the previous year's total, it highlights the increase in the majority share in favour of assets under management as opposed to assets under administration, in line with the previous year.

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

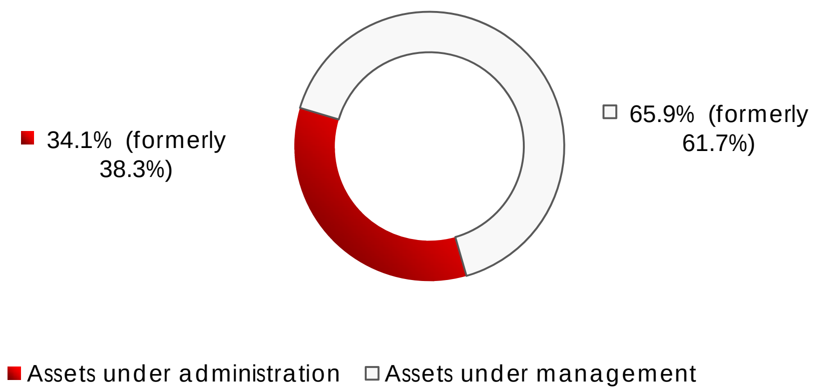
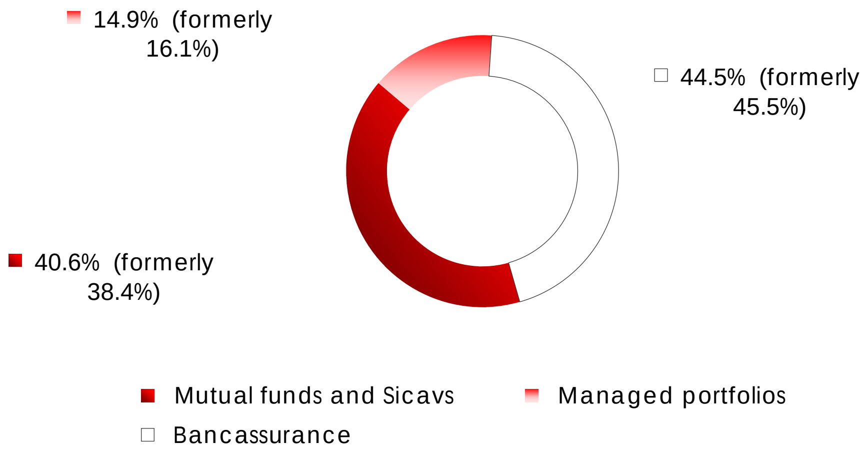


Chart no. 8 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2018**



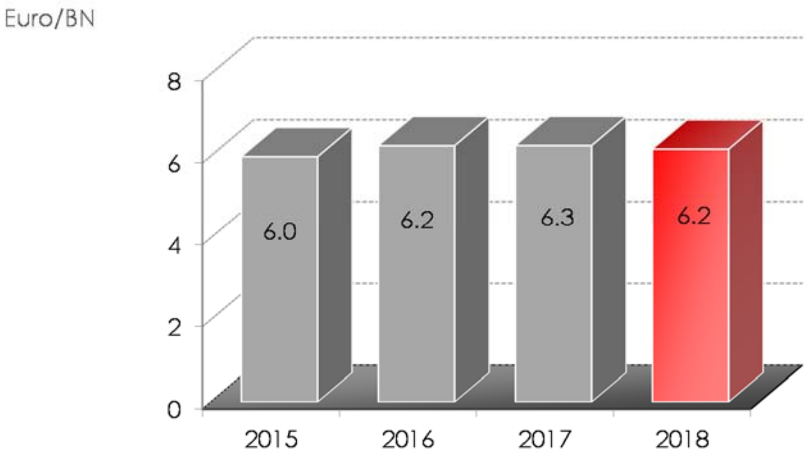
In 2018 the stock markets showed a sharp increase in volatility and returns below expectations at the beginning of the year. The reasons can be identified mainly in the Fed's monetary policy, which is more restrictive than expected, and in a series of geopolitical issues that have affected investors'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

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

8.2 - Credit management: loans to customers

The value of loans to ordinary customers at 31 December 2018 amounted to 6.2 billion euros, substantially in line with the previous year's closing balance (-1.4%), mainly due to the sales of non-performing loans. The following chart shows the trend in loans in the last three years, reflecting an average annual compound growth rate of 1.2%.

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



Changes in the amounts of the components of loans to customers by technical form are summarised in the following table, while the subsequent table shows changes in the year by customer grouping.

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

Amounts in thousands of Euro	**31.12.2018**	**%**	**31.12.2017**	**%**	**Change Amount**	**Change %**
Current accounts	1,581,814	25.6%	1,585,818	25.4%	-4,004	-0.3%
Mortgages and other long-term loans	3,739,179	60.7%	3,777,673	60.4%	-38,494	-1.0%
Other	842,681	13.7%	888,051	14.2%	-45,370	-5.1%
Loans to customers	**6,163,674**	**100.0%**	**6,251,542**	**100.0%**	**-87,868**	**-1.4%**
- of which non-performing loans	*213,411*	*3.5%*	*408,222*	*6.5%*	*-194,811*	*-47.7%*
- of which performing loans	*5,950,263*	*96.5%*	*5,843,320*	*93.5%*	*106,943*	*1.8%*

Table no. 5 - **BREAKDOWN OF LOANS TO CUSTOMERS BY TYPE OF CUSTOMER**

Amounts in thousands of Euro	**31.12.2018**	**%**	**31.12.2017**	**%**	**Change Amount**	**Change %**
Households	1,547,889	25.1%	1,522,098	24.3%	25,791	1.7%
Non-financ cos, artisans and other fam. bus.	3,977,747	64.5%	4,169,752	66.7%	-192,005	-4.6%
Financial companies	589,978	9.6%	518,705	8.3%	71,273	13.7%
Private and other social institutions (1)	48,060	0.8%	40,987	0.7%	7,072	17.3%
Loans to customers	**6,163,674**	**100.0%**	**6,251,542**	**100.0%**	**-87,868**	**-1.4%**

(1) *inclusive of financial and non-financial companies in the rest of the world*

Loans to non-financial companies, artisans and family businesses amounted to about 4.0 billion euros, down by 4.6%. This still represents the bulk (64.5%) of total lending to customers (66.7% in the comparative period).
The following chart shows the percentage breakdown of loans at the end of 2018, analysed by type of customer, while the subsequent chart focuses on the loans made to non-financial companies, artisans and family businesses, analysed by business sector.

Chart no. 10 - **% BREAKDOWN OF LOANS TO CUSTOMERS AT 31.12.2018, ANALYSED BY TYPE OF CUSTOMER**

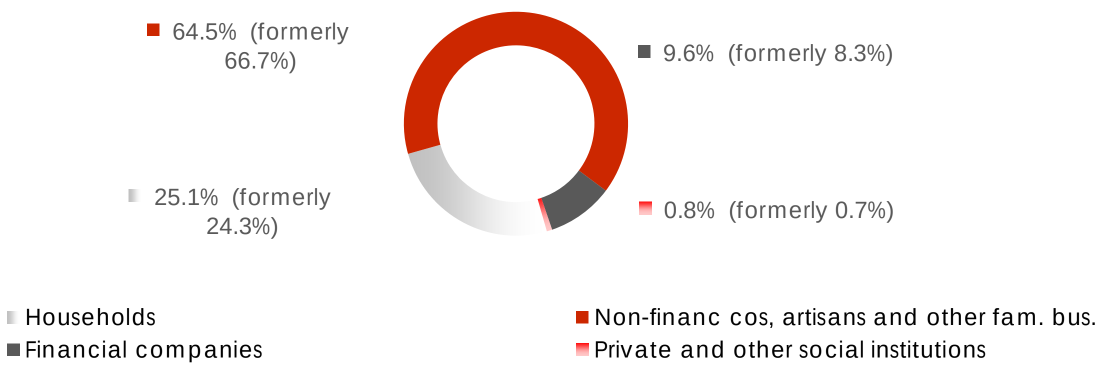
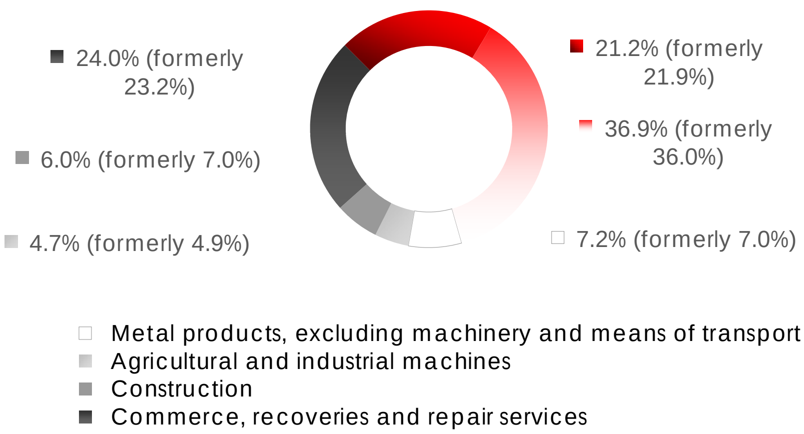


Chart no. 11 - **% BREAKDOWN OF LOANS TO CUSTOMERS AT 31.12.2018 REGARDING NON-FINANCIAL COMPANIES, ARTISANS AND FAMILY BUSINESSES**



Loans to customers in the service sector generally continue to be very important, especially those in other sales related services, wholesale and retail services, recoveries and repairs and the construction industry. Taken together, these loans represent 51.3% (52.1% last year) of the total corresponding to some 2.0 billion euros.
Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest 50 customers at the end of 2018 continues to reflect a high degree of risk diversification, although amounts are slightly increasing as can be seen from the following table.

Table no. 6 - **RATIOS OF CONCENTRATION OF CREDIT ON LARGEST CUSTOMERS**

Number of customers [(1)]	**31.12.2018**	**31.12.2017**
First 10	2.04%	1.67%
First 20	3.26%	2.82%
First 30	4.30%	3.80%
First 50	6.08%	5.51%

(1) *net of loans to FIDES S.p.A.*

None of our customers is considered a "Large Exposure" for supervisory purposes at the reference date; in fact, "Large Exposures" only comprise Group companies, the Bank of Italy, the Ministry of the Treasury, the Guarantee Fund under Law no. 662 of 23.12.1996 and the SPV Two Worlds S.r.l., with a total nominal value (including guarantees given and commitments) of 3.8 billion euros, equal to a total weighted amount of 0,2 billion euros.

As a result of the sales of non-performing loans under the "GACS" scheme and first-time adoption of "IFRS 9 Financial Instruments" (the effects of which are explained in the section "First-time adoption of IFRS 9 and IFRS 15" in this report) the total amount of net non-performing loans consisting of doubtful loans, unlikely to pay loans and non-performing past due and/or overdrawn exposures came to 213.4 million euros, net of adjustments for169.8 million euros, with a decrease of 194.8 million euros compared with 408.2 million euros at the end of 2017. In particular, net doubtful loans totalled 64.6 million euros (formerly 246.0 million), unlikely to pay loans147.7 million euros and non-performing past due and/or overdrawn exposures 1.1 million euros.

The following table summarises the gross and net indicators of credit risk, where due to the above mentioned sales of non-performing loans, there has been a significant reduction in the ratio of "gross non-performing loans/gross loans" to 6.0% and "net non-performing loans/net loans" to 3.5%, below their respective targets of 10% and 5% forecast at the end of the 2018-2020 Business Plan, while the ratio of "gross doubtful loans/gross loans" has fallen to 2.7% and "net doubtful loans/net loans" to 1.1%.

Table no. 7 - **INDICATORS OF CREDIT RISK VERSUS CUSTOMERS**

% of gross loans	**31.12.2018**	**31.12.2017**
Gross non-performing loans to customers	6.03%	12.26%
of which:		
- gross doubtful loans	2.68%	8.71%
- unlikely to pay, gross	3.33%	3.48%
- non-performing past due and/or overdrawn exposures, gross	0.02%	0.08%

% of net loans	**31.12.2018**	**31.12.2017**
Net non-performing loans to customers	3.46%	6.53%
of which:		
- net doubtful loans	1.05%	3.93%
- unlikely to pay, net	2.40%	2.52%
- non-performing past due and/or overdrawn exposures, net	0.02%	0.07%

The main indicators for the coverage of non-performing loans are shown below, also considering the amount of direct write-downs made over the years, and those of performing loans, highlighting a trend in the level of coverage that reflects the facts previously described with reference to the change in the stock of NPLs and first-time adoption of "IFRS 9 Financial Instruments".

Table no. 8 - **INDICATORS OF COVERAGE OF LOANS TO CUSTOMERS**

% Coverage of non-performing and performing loans	**31.12.2018**	**31.12.2017**
% Coverage of doubtful loans	62.08%	57.75%
% Coverage of doubtful loans, gross of cancellations	69.79%	64.76%
% Total coverage of non-performing loans	44.31%	50.20%
% Coverage of non-performing loans, gross of cancellations	49.99%	56.37%
% Coverage of performing loans	0.45%	0.40%

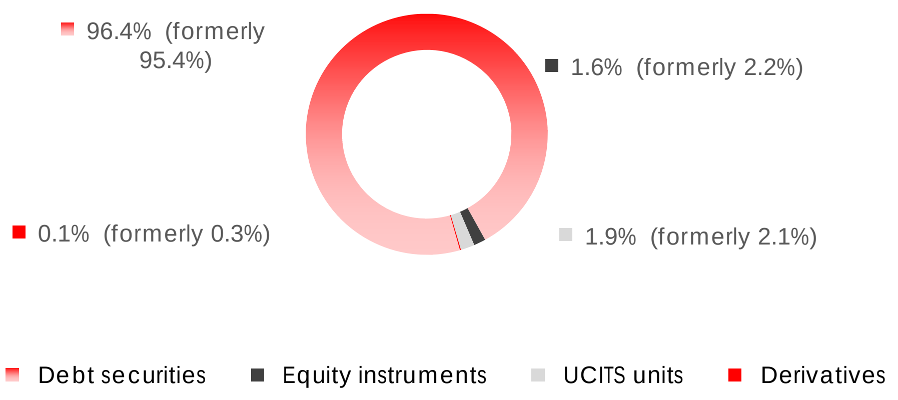
8.3 - The securities portfolio and interbank position

Securities portfolio

2018 was a particularly challenging year on the financial market front. The increase in rates by the Fed and the progressive reduction of Quantitative Easing by the ECB have had an impact on the liquidity and risk appetite of investors. The United States saw negative annual returns on both the stock market (S&P 500) and bond market (10-year Treasuries) for the third time since 1873 (precedents in 1931 and 1969). In Italy, the negative trend was to some people exacerbated by the market distrust of the new executive, which led to a drastic increase in the spread between Italian and German 10-year bonds, which, after a first quarter stable below 150 bps, increased starting from May, recording frequent peaks above 300 bps. After an excellent start, the macroeconomic picture showed a progressive deterioration during the year; Germany and Italy both reported a third quarter decline of 0.2% and 0.1% respectively. Meanwhile, various

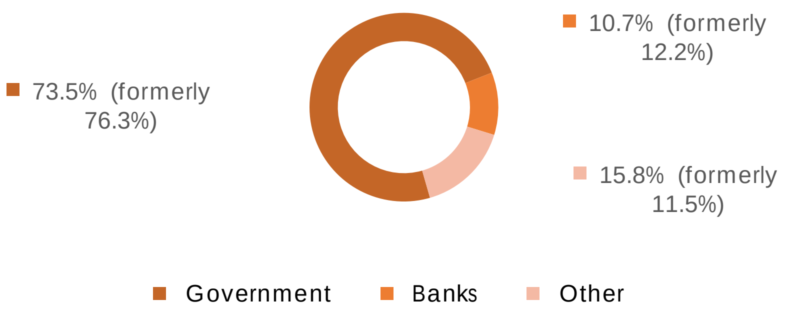
entities, including the ECB, have revised their estimates of growth and future prices, lowering them to 1.7% and 1.6% respectively, both figures on the decline by two decimals compared with those expected for 2018. The economic slowdown has therefore also affected the 5-year Euro-zone inflation expectation, which moved away from the ECB target to 1.6%. Long-term yields therefore completely reversed the forecasts widely used at the beginning of the year and suffered a reduction, with the yield on the German 10-year benchmark falling from 0.46% to 0.24% at the end of the year.
As the year continued, negative sentiment also extended to equities with widespread losses on all the main price lists: S&P 500: -6.24%; Eurostoxx 50 -14.34%; FTSE Mib -16.15%; Nikkei 225 - 12.08%.
On the other hand, there was greater tranquillity in the forex market, which went through a stable phase after the Euro strengthened in 2017.
Long-term investment policy is characterised by a significant exposure to Italian government securities, while the residual life of Available For Sale securities has been significantly curtailed, also in relation to future commitments to repay the TLTRO II maturities. Also worth noting is the increase in short-term trading activity on the trading portfolio.
At 31 December 2018, the total financial assets amounted to 2.6 billion euros, an increase of 33.3% compared with the end of the previous year.
In particular, during the year, there was a significant increase in the Held To Collect (HTC) investment portfolio, valued at amortised cost, which at 31 December 2018 amounted to about 2,289.0 billion euros (87.1% of the entire proprietary portfolio), also due to the change in the business model described above, while at 31 December 2017, in application of IAS 39, which was in force at the time, the largest part of the portfolio consisted of the Available For Sale (AFS) segment, measured at fair value with an impact on total profitability, which amounted to about 1.208,5 million (61.3% of the entire proprietary portfolio).
The Held to Collect category of financial instruments also includes159.5 million euros of senior securities of the 2Worlds securitisation subscribed by the Bank following the sale of doubtful loans through the GACS scheme, while the residual 5% of mezzanine and junior securities held is included in financial assets that have to be valued at fair value through profit or loss.
Bonds of the HTC portfolio, diversified by issuer, geographical area and type of rate, have a duration of 2.1 years.
Debt securities held for treasury purposes, classified in the Held To Collect And Sell (HTCS) portfolio, instead present a duration of 0.9 years at the reference date, also in relation to the future commitments to repay the TLTRO II maturities.
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (96.4%) of the investments still consist of debt securities.

Chart no. 12 - **% BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2018 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the year, 73.5% relates to government securities, 10.7% to securities issued by leading banks and the remainder to other issuers, as shown by the following chart.

Chart no. 13 - **% BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2018 BY TYPE OF ISSUER**



Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 31 December 2018 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

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

Amounts in thousands of Euro		31.12.2018				31.12.2017				
		Italy	**Spain**	**Portugal**	**Total**	**Italy**	**France**	**Spain**	**USA**	**Total**
Financial assets designated at fair value through other comprehensive income	Nominal value	240,000			240,000	931,709			8,338	940,047
	Book value	241,492			241,492	932,825			8,225	941,050
Financial assets measured at amortised cost	Nominal value	1,641,421	15,000	25,000	1,681,421	320,000	80,000	160,000		560,000
	Book value	1,648,054	15,260	27,451	1,690,765	321,699	79,917	162,051		563,667
Sovereign debt	**Nominal value**	**1,881,421**	**15,000**	**25,000**	**1,921,421**	**1,251,709**	**80,000**	**160,000**	**8,338**	**1,500,047**
	Book value	**1,889,546**	**15,260**	**27,451**	**1,932,257**	**1,254,524**	**79,917**	**162,051**	**8,225**	**1,504,717**

Table no. 10 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO, ISSUER AND MATURITY**

Amounts in thousands of Euro		Italy	Spain	Portugal	31.12.2018 Nominal value	31.12.2018 Book value
Financial assets measured at fair value through other comprehensive income	up to 1 year	220,000	-	-	220,000	220,077
	1 to 3 years	20,000	-	-	20,000	21,415
	3 to 5 years	-	-	-	-	-
	over 5 years	0	-	-	-	-
	Total	240,000	-	-	240,000	241,492
Financial assets measured at amortised cost	up to 1 year	-	-	-	-	-
	1 to 3 years	575,000	15,000	25,000	615,000	617,834
	3 to 5 years	681,421		-	681,421	684,298
	over 5 years	385,000	-	-	385,000	388,633
	Total	1,641,421	15,000	25,000	1,681,421	1,690,765
Sovereign debt	**up to 1 year**	**220,000**	**-**	**-**	**220,000**	**220,077**
	1 to 3 years	**595,000**	**15,000**	**25,000**	**635,000**	**639,249**
	3 to 5 years	**681,421**	**-**	**-**	**681,421**	**684,298**
	over 5 years	**385,000**	**-**	**-**	**385,000**	**388,633**
	Total	**1,881,421**	**15,000**	**25,000**	**1,921,421**	**1,932,257**

Net interbank position

The net interbank position at year-end is negative for 1.0 billion euros, compared with the position at the end of the previous year, which was also negative for 0.2 billion euros.

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

8.4 - Shareholders' equity and capital adequacy

Shareholders' equity at 31 December 2018, inclusive of net profit for the year, increased to 914.5 million euros compared with 912.4 million euros at the 2017 year end.
After a payout of 36.01% (based on the proposed allocation of net profit to be approved at the Shareholders' Meeting), capital for supervisory purposes, otherwise known as Own Funds, at 31 December 2018 amounts to 1,005.9 million euros (CET 1 + AT1 913.9 million euros + T2 92.0 million euros). This is 31.1 million euros lower than the amount reported at the end of the prior year, 1,037.0 million euros, due to the reduction in class 2 capital since 31 December 2017.
At 31 December 2018, the Common Equity Tier 1 (CET1/Risk-weighted assets) was 18.0% (17.1% at 31 December 2017). The Tier 1 ratio (T1/Risk-weighted assets) was 18.0% (17.2% at 31 December 2017), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 19.8% (19.9% at 31 December 2017).
The minimum capital required by law for 2018 for banks that belong to a banking group, including the capital conservation buffer of 1.875%, amounted to 6.375% for the Common Equity Tier 1 ratio, 7.875% for the Tier 1 ratio and 9.875% for the Total Capital ratio.
The new prudential regulations have imposed a capital reserve that is in addition to the minimum regulatory requirements, with the objective of equipping the banks with high quality capital to be used in times of market stress to prevent any malfunctioning of the banking system and to avoid interruptions in the credit granting process.
Note that, on 25 January 2018, the Board of Directors of the Bank resolved to join the transitional regime introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of the new standard on own funds and capital ratios, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time application of the standard and to the increase in expected losses on performing loans compared with the date of first-time application of the standard. The table below therefore shows the composition of own funds and capital ratios calculated with and without application of the transitional provisions.

Own Funds and Ratios with and without application of the transitional regime

	31.12.2018	
	Application of the transitional regime	Without application of the transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	912,335	
Common Equity Tier 1 - CET1 without application of the transitional provisions		*895,677*
Tier 1 capital	913,854	
Tier 1 capital without application of the transitional provisions		*897,196*
Total own funds	1,005,869	
Total own funds without application of the transitional provisions		*989,211*
RISK ASSETS		
Risk-weighted assets	5,073,517	
Risk-weighted assets without application of the transitional provisions		*5,070,420*
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	17.982%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional provisions		*17.665%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	18.012%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional provisions		*17.695%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	19.826%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional provisions		*19.509%*

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 financial statements, which forms the basis of the specific comments.

The criteria for the construction of the reclassified income statement are summarised 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 190 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers and flat-rate tax on long-term loans, as well as amortisation of leasehold improvements, reclassified respectively as a reduction to caption 160b) "Other administrative expenses" and as an increase in caption 190 "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 cost component for outsourcing services provided by the Parent Company referring to the use of its workforce is reclassified in caption 160.a "Payroll costs" from caption 160b. "Other administrative costs";
- 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 loans and advances", has been reclassified to caption 130b) "Net adjustments to securities owned" (which also includes the balance of net adjustments for credit risk on securities at fair value with impact on overall profitability).
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 170 "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 270 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

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

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

Captions *Amounts in thousands of Euro*		31.12.2018	31.12.2017	Change Amount	 %
10+20	Net interest income	121,215	130,963	-9,748	-7.4%
70	Dividends and similar income	2,441	625	1,816	290.6%
40+50	Net commission income	112,513	111,985	528	0.5%
80+90+100 +110	Net results on financial assets and liabilities	10,022	24,069	-14,047	-58.4%
200	Other operating income/expense	5,172	6,203	-1,031	-16.6%
	Operating income	**251,363**	**273,845**	**-22,482**	**-8.2%**
160 a	Payroll costs	-109,053	-113,009	3,956	-3.5%
160 b	Other administrative costs	-56,770	-53,890	-2,880	5.3%
180+190	Net adjustments to property, plant and equipment and intangible assets	-6,676	-7,549	873	-11.6%
	Operating costs	**-172,499**	**-174,448**	**1,949**	**-1.1%**
	Result of operations	**78,864**	**99,397**	**-20,533**	**-20.7%**
100a+130a	Cost of credit	-45,452	-47,330	1,878	-4.0%
130 b	Net adjustments to securities owned	-3,601	-2,235	-1,366	61.1%
140	Profit/losses from contractual changes without write-offs	-10		-10	
170 a	Net provisions for risks and charges - commitments and guarantees given	-99	74	-173	n.s.
170 b	Net provisions for risks and charges - other	-854	407	-1,261	n.s.
	Dividends from equity investments in subsidiaries	8,100	6,640	1,460	22.0%
	Profit (loss) from operations before tax	**36,948**	**56,953**	**-20,005**	**-35.1%**
270	Income taxes on current operations	-6,620	-16,952	10,332	-60.9%
	Net profit (loss) from operations after tax	**30,328**	**40,001**	**-9,673**	**-24.2%**
	Net provisions for risks and charges, other provisions and expenses	946	-3,938	4,884	n.s.
	Non-recurring result before tax	**946**	**-3,938**	**4,884**	**n.s.**
	Income taxes from non-recurring items	-319	1,933	-2,252	n.s.
	Non-recurring result after tax	**627**	**-2,005**	**2,632**	**n.s.**
300	**Net profit (loss) for the period**	**30,955**	**37,996**	**-7,041**	**-18.5%**

Note: **the balances of the comparative period have been restated conventionally** in the financial statement schedules required by Circular 262 – fifth update. In particular, the *"Impairment adjustments to other financial transactions"* (referred to in caption "130. d)" of the formats previously envisaged) are transferred to caption "170. a) Provisions for risks and charges - commitments and guarantees given".
"Net interest income" at 31 December 2018 is shown net of the release of the time value element of impaired financial assets, equal to Euro 4,818 thousand, and net of adjustments on interest related to non-performing loans for 1,527 thousand euros, both reclassified to "Cost of credit".

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

Captions		As per financial statements	Reclassifications								Reclassified income statement
Amounts in thousands of Euro		31.12.2018	Measurement effects on non-performing loans	Tax/expense recoveries	Dividends from equity investments	Expected loss on securities at amortized cost	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	31.12.2018
10+20	Net interest income	124,506	-3,291								121,215
70	Dividends and similar income	10,541			-8,100						2,441
40+50	Net commission income	112,513	0								112,513
80+90+100 +110	Net results on financial assets and liabilities	-4,357						14,019	360		10,022
200	Other operating income/expense	32,238		-28,108			1,042				5,172
	Operating income	**275,441**	**-3,291**	**-28,108**	**-8,100**	**0**	**1,042**	**14,019**	**360**	**0**	**251,363**
160 a	Payroll costs	-112,280		5,540					-2,313		-109,053
160 b	Other administrative costs	-80,345		22,568					1,007		-56,770
180+190	Net adjustments to property, plant and equipment and intangible asset	-5,634	0				-1,042				-6,676
	Operating costs	**-198,259**	**0**	**28,108**			**-1,042**		**-1,306**	**0**	**-172,499**
	Result of operations	**77,182**	**-3,291**	**0**	**-8,100**	**0**	**0**	**14,019**	**-946**	**0**	**78,864**
100a+130a	Cost of credit	-38,425	3,291			3,987		-14,019	-286		-45,452
130 b	Net adjustments to securities owned	386				-3,987					-3,601
140	Profit/losses from contractual changes without write-offs	-10									-10
170 a	Net provisions for risks and charges - commitments and guarantees given	-99									-99
170 b	Net provisions for risks and charges - other	-1,140							286		-854
	Dividends from equity investments in subsidiaries				8,100						8,100
	Profit (loss) from operations before tax	**37,894**	**0**	**0**	**0**	**0**	**0**	**0**	**-946**	**0**	**36,948**
270	Income taxes on current operations	-6,939								319	-6,620
	Net profit (loss) from operations after tax	**30,955**	**0**	**0**	**0**	**0**	**0**	**0**	**-946**	**319**	**30,328**
	Net provisions for risks and charges, other provisions and expenses				0				946		946
	Non-recurring result before tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**946**	**0**	**946**
	Income taxes from non-recurring items									-319	-319
	Non-recurring result after tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**946**	**-319**	**627**
300	**Net profit (loss) for the period**	**30,955**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**30,955**

Captions		As per financial statements	Reclassifications								Reclassified income statement
	Amounts in thousands of Euro	31.12.2017	Interest adjustments	Tax/expense recoveries	Dividends from equity investments	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Impairment adjustments to financial assets	Income taxes	31.12.2017
10+20	Net interest income	131,991	-1,028								130,963
70	Dividends and similar income	11,339			-10,714						625
40+50	Net commission income	111,985	0								111,985
80+90+100 +110	Net results on financial assets and liabilities	19,210					631		4,228		24,069
190	Other operating income/expense	32,976		-28,100		1,327					6,203
	Operating income	**307,501**	**-1,028**	**-28,100**	**-10,714**	**1,327**	**631**	**0**	**4,228**	**0**	**273,845**
150 a	Payroll costs	-117,898		4,873				16			-113,009
150 b	Other administrative costs	-77,117		23,227				0			-53,890
170+180	Net adjustments to property, plant and equipment and intangible asset	-6,222	0			-1,327					-7,549
	Operating costs	**-201,237**	**0**	**28,100**		**-1,327**		**16**	**0**	**0**	**-174,448**
	Result of operations	**106,264**	**-1,028**	**0**	**-10,714**	**0**	**631**	**16**	**4,228**	**0**	**99,397**
100a+130a	Cost of credit	-46,406					-631	-293			-47,330
130 b	Net adjustments to securities owned	-9,271							7,036		-2,235
170 a	Net provisions for risks and charges - commitments and guarantees given	2,314							-2,240		74
170 b	Net provisions for risks and charges - other	114						293			407
	Dividends from equity investments in subsidiaries				6,640						6,640
	Profit (loss) from operations before tax	**53,015**	**-1,028**	**0**	**-4,074**	**0**	**0**	**16**	**9,024**	**0**	**56,953**
270	Income taxes on current operations	-15,019								-1,933	-16,952
	Net profit (loss) from operations after tax	**37,996**	**-1,028**	**0**	**-4,074**	**0**	**0**	**16**	**9,024**	**-1,933**	**40,001**
	Net provisions for risks and charges, other provisions and expenses		1,028		4,074			-16	-9,024		-3,938
	Non-recurring result before tax	**0**	**1,028**	**0**	**4,074**	**0**	**0**	**-16**	**-9,024**	**0**	**-3,938**
	Income taxes from non-recurring items									1,933	1,933
	Non-recurring result after tax	**0**	**1,028**	**0**	**4,074**	**0**	**0**	**-16**	**-9,024**	**1,933**	**-2,005**
300	**Net profit (loss) for the period**	**37,996**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**37,996**

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

Operating income
Core revenues decreased by about 22.5 million euros compared with the previous period (-8.2%), coming in at 251.4 million euros. The trend is attributable to the *net results on financial assets and liabilities* down by around 14.0 million euros (-58.4%) and net interest income that, in view of the continuing effects of the expansive monetary policy which strongly compresses interest income, shows a reduction of 9.7 million euros (-7.4%), partially offset by the positive contribution from *dividends*, which stood at 2.4 million euros (formerly 0.6 million euros).
The *net results on financial assets and liabilities* were 10.0 million euros (formerly 24.1 million euros); this item includes capital losses on mutual funds that have to be measured at fair value for 3.2 million euros (in the comparative period, the negative valuation effect of 0.4 million euros was recognised in other comprehensive income in accordance with IAS 39).
Other operating income/expense has fallen by 1.0 million euros.

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

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

Amounts in thousands of Euro	**31.12.2018**	**%**	**31.12.2017**	**%**	**Change Amount**	**Change %**
Collection and payment services	16,527	14.7%	16,264	14.5%	263	1.6%
Placement of securities	15,805	14.0%	15,231	13.6%	574	3.8%
Managed portfolios and order taking	9,605	8.5%	11,061	9.9%	-1,456	-13.2%
Distribution of insurance products	14,569	12.9%	13,972	12.5%	597	4.3%
Maintenance and management of current acco	45,168	40.2%	45,524	40.7%	-356	-0.8%
Other commission	10,839	9.7%	9,933	8.8%	906	9.1%
Net commission income	**112,513**	**100.0%**	**111,985**	**100.0%**	**528**	**0.5%**

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 172.5 million euros and have decreased, with respect to the comparative period, by 1.9 million euros (-1.1%).
In particular, other administrative expenses have increased by 2.9 million euros (+5.3%). The balance includes 5.2 million euros for the ex-ante ordinary gross contributions to the Single Resolution Mechanism (SRM) and to the Deposit Guarantee Scheme (DGS) (4.5 million euros in the prior year).
Payroll costs have decreased by 3.5% on the prior period, whereas the balance of net adjustments to property, plant and equipment and intangible assets came to 6.7 million euros (-11.6%).

Results of operations
The results of operations at 31 December 2018 therefore amounted to 78.9 million euros, 20.5 million euros down on the prior period (-20.7%).

Net profit (loss) from operations after tax
The result of operations of 78.8 million euros leads to a net profit (loss) from operations after tax of 30.3 million euros, 24.2% down on the 40.0 million euros in the comparative period, mainly because of:

- the cost of credit (net impairment adjustments to financial assets measured at amortized cost plus gains (losses) on disposal or repurchase of loans) of 45.5 million euros (formerly 47.3 million euros), affected by:

- losses from the sale of loans on completion of the securitisation transaction under the GACS scheme, which involves an Italian State guarantee on the senior securities issued following the securitisation of doubtful loans pursuant to Decree Law 18/2016;
- application of the new models for the determination of the expected loss on loans adopted by the bank in application of IFRS 9 starting from 1 January 2018, and therefore not fully comparable with the prior period figure;

- net adjustments to proprietary securities of 3.6 million euros (formerly 2.2 million euros), which during the period includes the adjustments deriving from application of the new models for the determination of the expected loss on the proprietary securities portfolio in accordance with IFRS 9 starting from 1 January 2018 and therefore not comparable with the previous period;
- net provisions for risks and charges of 0.9 million euros (formerly 0.4 million euros);
- dividends from investments in subsidiaries for 8.1 million euros (formerly 6.6 million euros);
- income taxes on current operations of 6.6 million euros (formerly 17.0 million euros).

Result of non-recurring items after tax

On 31 December 2018 there was a *non-recurring profit after tax* of 0.6 million euros. This item basically consists of:

- the revenue component of 2.3 million euros relating to the adjustment of the liabilities recorded to cover the redundancy plan at the end of 2016, reclassified from *personnel costs*;
- 1 million euros 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 0.4 million euros;

net of the related tax effect (negative for 0.3 million euros).

In the comparative period, *non-recurring profit (loss) after tax* was a loss of 2.0 million euros. This mainly consists of:

- interest income of 1.0 million euros relating to the first few months of TLTRO II, recognised on the basis of the lending policies implemented by the Banco Desio Group, which in December 2017 enabled it to achieve higher net lending than the target needed to benefit from negative interest expense at a rate of 0.40%;
- impairment adjustments (net of the use of provisions) recognised:
  - for 2.1 million euros on a minority bank shareholding acquired during the period under a commitment made previously;
  - for 3.6 million euros on the Atlante Fund following the write-off of the value of the banking interests held by the fund;

  both reclassified from *net adjustments to securities owned.*
- the negative income components linked to participation in the Interbank Deposit Protection Fund's Voluntary Intervention Scheme (VIS), in particular:
  - 2.7 million euros paid to the VIS during the year for the capital increases of the three banks sold to Cariparma in December, reclassified from the *net results on financial assets and liabilities*;
  - 0.7 million euros for the impairment made on the nominal value of the securitisation tranches of NPLs subscribed by the VIS, reclassified from *net adjustments to securities owned*;
- income of 4.1 million euros from the special dividend paid by Cedacri S.p.A.;

net of the related (positive) tax effects of 1.9 million euros.

Profit for the period

The total of the *profit from operations* and the *non-recurring profit*, leads to a net profit at 31 December 2018 of 31.0 million euros (formerly 38.0 million euros).

9 - Other information

9.1 – Investments in Banco di Desio e della Brianza S.p.A. held by members of the Boards of Directors and Statutory Auditors, by the General Manager and by the Deputy General Manager holding office at the year end

Name and Surname	Offices held at Banco di Desio e della Brianza S.p.A.	Title/Nature of holding	Ordinary shares at 31.12.2017	%	Savings shares at 31.12.2017	%	Ordinary shares purchased	Savings shares purchased	Ordinary shares sold	Savings shares sold	Ordinary shares at 31.12.2018	%	Savings shares at 31.12.2018	%
Stefano Lado *	Chairman	Owned	2,145,111	1.833	196,000	1.485	35,000	0	0	0	2,180,111	1.863	196,000	1.485
		Registered to spouse	6,500	0.006	0	0.000	0	0	0	0	6,500	0.006	0	0.000
		Owned via Vega Finanziaria SpA *	6,885,730	5.885	571,522	4.329	0	0	0	0	6,885,730	5.885	571,522	4.329
Tommaso Cartone	Deputy Chairman		27,500	0.024	0	0.000	0	0	0	0	27,500	0.024	0	0.000
Graziella Bologna	Director		0	0	0	0	0	0	0	0	0	0	0	0
Marina Brogi	Director		0	0	0	0	0	0	0	0	0	0	0	0
Nicolò Dubini	Director		0	0	0	0	0	0	0	0	0	0	0	0
Cristina Finocchi Mahne	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Agostino Gavazzi	Director	Owned	78,244	0.067	0	0.000	0	0	0	0	78,244	0.067	0	0.000
		Bare ownership	5,500	0.005	0	0.000	0	0	0	0	5,500	0.005	0	0.000
		Registered to spouse	2,900	0.002	0	0.000	0	0	0	0	2,900	0.002	0	0.000
Egidio Gavazzi	Director	Owned	15,000	0.013	0	0.000	0	0	0	0	15,000	0.013	0	0.000
Paolo Gavazzi	Director	Owned	638,453	0.546	15,004	0.114	0	0	0	0	638,453	0.546	15,004	0.114
Tito Gavazzi	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Gerolamo Pellicano'	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Gigliola Zecchi Balsamo	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Angelo Antoniazzi	General Manager		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Giulia Pusterla	Chairman of the Board of Statutory Auditors		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Rodolfo Anghileri	Acting Statutory Auditor		0	0.000	20,000	0.151	0	0	0	0	0	0.000	20,000	0.151
Franco Fumagalli Romario	Acting Statutory Auditor		5,000	0.004	5,000	0.038	0	0	5,000	0	0	0.000	5,000	0.038
Erminio Beretta	Alternate Statutory Auditor		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Massimo Celli	Alternate Statutory Auditor		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Elena Negonda	Alternate Statutory Auditor		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Mauro Walter Colombo	Senior Deputy General Manager		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Maurizio Ballabio	Deputy General Manager "Corporate Affairs"		13,000	0.011	0	0.000	0	0	0	0	13,000	0.011	0	0.000

* Pending succession of Luigi Stefano Lado on a 33.33% interest in Vega Finanziaria SpA (Stefano Lado is also the owner of another 33.33% stake).

9.2 – Investments in subsidiaries held by members of the Boards of Directors and Statutory Auditors, by the General Manager and by the Deputy General Manager holding office at the year end

At 31 December 2018, as was the case throughout the year, no equity investments were held in subsidiaries by members of the Boards of Directors and Statutory Auditors, by the General Manager or by the Deputy General Managers currently in office.

9.3 - Treasury shares and shares of the Parent Company

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

9.4 – Transactions between Banco di Desio e della Brianza S.p.A. and the parent company and with subsidiaries or companies subject to significant influence

Set out below is a summary of balances at 31 December 2013 and transactions in the year then ended with the Bank's parent company and with its subsidiaries or companies subject to significant influence, by counterparty and by nature.

Table no. 15 - **TRANSACTIONS WITH THE PARENT COMPANY AND WITH SUBSIDIARIES OR COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE IN THE YEAR ENDED 31.12.2018**

Amounts in thousands of Euro	Assets	Liabilities	Guarantees/commitments	Income	Expenses
Parent Company					
Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A.	4,984	2,313	0	8	4
Subsidiaries					
Banca Popolare di Spoleto S.p.A.	451,258	60,803	13,093	11,717	6,153
FIDES S.p.A.	517,423	449	0	18,865	0
Desio OBG	0	0	0	6	0
Transactions by company	**973,665**	**63,565**	**13,093**	**30,596**	**6,157**
Breakdown of transactions by type					
Financial	969,464	62,499	0	23,005	571
Trade	101	30	13,093	963	76
Lease / management of assets	0	508	0	0	682
Supply of services	3,906	0	0	6,165	0
Other	194	528	0	463	4,828
Transactions by type	**973,665**	**63,565**	**13,093**	**30,596**	**6,157**

Note that, to the extent that it is possible to make a comparison, all of the above transactions were entered into by applying market conditions and rates, and in any case, they are justified by being in the Group's interest.

In compliance with art. 37 paragraph 2 of Consob's Market Regulations (Resolution 16191 of 29 October 2007), it is hereby disclosed that Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A., the Bank's parent company, as laid down by its articles of association, does not exercise any management control and coordination activities over the Bank and its subsidiaries and neither does it do so under banking legislation nor under civil law. For further details on the Group structure concerning the exercise of management control and coordination activities, reference should be made to 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.

9.5 - Ratings

On 13 June 2018, following its annual review, the international agency Fitch Ratings Ltd confirmed all of the ratings assigned to Banco di Desio e della Brianza S.p.A.

The ratings are as follows:

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

9.6 – Transactions with related parties and 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 2017 are disclosed in Part H of the explanatory notes; worth noting in this regard is the Merger of Banca Popolare di Spoleto (BPS) with Banco di Desio e della Brianza approved by the respective Boards of Directors of Banco Desio on 20 December 2018 which constitutes a transaction with an "intercompany" related party for the purposes of the "Internal Procedure for transactions with related parties and entities included in the scope of application of art. 136 of the Consolidated Banking Act", approved by the Board of Directors of Banco Desio on 25 November 2010 (as subsequently amended) (the "Banco Desio Procedure"), as it was carried out with one of its own subsidiaries (BPS).

9.7 – Information on incentive plans

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

9.8 – 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.

9.9 – Research and development activities

In its capacity as Parent Company, the Bank, as described in paragraph 6.1 "The levels of control in the management control and coordination function", undertakes development with a view to supporting and coordinating the companies belonging to the Group, as well as research and investment in operational solutions aimed, in particular, at continuous improvements in the customer relationship.
The Banco Desio Group is closely involved in the development of "multichannel" operations, in order to make banking services easier to use, in a way that is simple and flexible. Widespread connectivity, mobility, advanced payment services and user-friendly technology have led to an evolution in customers' access to banking services, new models of interpersonal relationships and, consequently, a growing digitisation of services, processes and multi-channel approach to relationships.
As a consequence of this evolution in digital services, the action to strengthen the Group's range of technological solutions offered to customers continued in 2018. In particular, during the year some important projects were finalized or launched in the areas of payment systems and telematic services.
Payment services were also activated via smartphone and the first agreement was finalised with Satispay, an Italian fintech.
Again, in the context of web and mobile banking services, in the second part of the year the basis were laid for a revision of the web platforms dedicated to individuals and companies that will take place in 2019.

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

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

9.11 – 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 - Outlook for the rest of 2019 and principal risks and uncertainties

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

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

– during 2018, the foundations were laid for the start of the evolutionary process of the distribution model through an evaluation process that required in-depth analysis for decisions that are necessarily longer, also in relation to a macroeconomic scenario that requires that priority be given to further streamlining of processes in close correlation with the programme of instrumental and training investments. These are needed for the reorientation towards a multi-channel model (consisting of branches, financial and web consultants) with which the Group intends to expand its customer base and the methods of operational contact and customer assistance according to their behavioural profiles;
– in the wake of this process, the decision was made in the latter part of 2018 to merge Banca Popolare di Spoleto with Banco di Desio e della Brianza, bringing the unification of the banks into a single entity to benefit even more from the cost and revenue synergies related to reorientation of the business model according to the guidelines indicated in the 2018-2020 Business Plan;
– the macroeconomic prospects, also in the light of recent Italian political events, confirm a trend in the financial margin that will not show elements of discontinuity with the last few months of 2018, i.e. a trend that is not particularly dynamic taking into account the monetary policy forecasts of the EU in 2019 and the effects of the change in the business model, which provide for a strengthening of net interest income from the proprietary securities portfolio, but with a substantial reduction in the proceeds from the purchase/sale of these securities;
– the trend in the cost of credit is expected to be slightly down as, on the one hand, there is confirmation of containment with respect to 2018, both in relation to the expected reduction in default rates (lower non-performing loans in the context of a macroeconomic scenario that is not, at present, expected to change towards a lasting recession) and to the positive effects deriving from the substantial disposals of non-performing loans during 2018; on the other hand, however, it could be affected by some effects deriving from further indications coming from the more updated version of the "calendar provisioning" expected by the Supervisory Authorities during the first half of 2019;
– maintaining constant pressure to contain operating costs, while leaving space to complete the necessary adjustments organised in line with the model's evolution, will continue to represent the primary guideline in the process of making the organisational structures and processes more efficient; in 2019 operating costs will then be able to fully benefit from the reduction in personnel costs resulting from the last voluntary redundancy in 2016 and, at least in part, from the expected synergies deriving from the merger of BPS with which to cope with the natural turnover of personnel. This without prejudice, on the one hand, to having recourse to the market for those professional-specialist figures that will be considered appropriate for inclusion as part of the process of reorientation of the business model referred to in the previous points and a continuation

of the charges deriving from the contributions to the National Resolution Fund and the Deposit Guarantee Scheme.

11 – Motion for approval of financial statements and allocation of net profit

Dear Shareholders,
we hereby submit for your approval the financial statements for the year ended 31 December 2018, which report a net profit for the year of 30,955,480.81 euros as shown by the income statement.
Considering:

- the provisions of art. 31 of the Articles of Association;
- the Recommendation of the European Central Bank dated 7 January 2019, which requires:
  i) the adoption of a dividend distribution policy that still makes it possible, after each distribution, for the bank to comply with its minimum capital requirements;
  ii) for institutions like Banco Desio that on 31 December 2018 have already reached the fully loaded ratios required on full implementation of EU Regulation 575/2013, the distribution of dividends on a prudent basis, so as to continue to meet all of the minimum requirements, also in the event of poorer economic and financial conditions;
- the dividend distribution policies approved by the Board of Directors on 13 May 2014;

we propose the following allocation of the net profit:

- 10% to be allocated to the legal reserve	Euros	3,095,548.00
- 10% to be allocated to the statutory reserve	Euros	3,095,548.00
- to the shareholders:		
0.0839 euros for each of the 117,000,000 ordinary shares	Euros	9,816,300.00
0.1007 euros for each of the 13,202,000 savings shares	Euros	1,329,441.40
- to the charity reserve	Euros	50,000.00
- further allocation to the statutory reserve	Euros	13,568,643.41
Total net profit	**Euros**	**30,955,480.81**

Desio, 7 February 2019

The Board of Directors

Financial statements

BALANCE SHEET

ASSETS

Assets	31.12.2018	31.12.2017	Change amount	%
10. Cash and cash equivalents	31,528,825	29,119,155	2,409,670	8.3%
20. Financial assets designated at fair value through profit or loss	56,773,826	15,675,341	41,098,485	262.2%
a) Financial assets held for trading	5,660,472	15,675,341	(10,014,869)	-63.9%
c) Other financial assets that are necessarily measured at fair value	51,113,354		51,113,354	
30. Financial assets measured at fair value through other comprehensive income	283,371,961	1,208,510,323	(925,138,362)	-76.6%
40. Financial assets measured at amortised cost	9,128,052,098	8,562,902,887	565,149,211	6.6%
a) Due from banks	943,527,855	1,687,156,872	(743,629,017)	-44.1%
b) Loans to customers	8,184,524,243	6,875,746,015	1,308,778,228	19.0%
70. Equity investments	274,570,929	274,570,929		
80. Property, plant and equipment	134,591,380	135,292,877	(701,497)	-0.5%
90. Intangible assets	2,789,952	3,043,863	(253,911)	-8.3%
of which:				
- goodwill	1,728,505	1,728,505		
100. Tax assets	117,971,379	124,686,767	(6,715,388)	-5.4%
a) current	8,088,578	16,131,271	(8,042,693)	-49.9%
b) deferred	109,882,801	108,555,496	1,327,305	1.2%
120. Other assets	83,192,456	105,524,650	(22,332,194)	-21.2%
Total assets	**10,112,842,806**	**10,459,326,792**	**(346,483,986)**	**-3.3%**

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

LIABILITIES

Liabilities and shareholders' equity	31.12.2018	31.12.2017	Change amount	%
10. Financial liabilities measured at amortised cost	8,972,851,681	9,351,080,210	(378,228,529)	-4.0%
a) Due to banks	1,669,096,626	1,760,233,555	(91,136,929)	-5.2%
b) Due to customers	5,964,900,951	5,988,799,307	(23,898,356)	-0.4%
c) Debt securities in issue	1,338,854,104	1,602,047,348	(263,193,244)	-16.4%
20. Financial liabilities held for trading	2,832,082	4,530,526	(1,698,444)	-37.5%
40. Hedging derivatives	2,055,449	1,414,056	641,393	45.4%
60. Tax liabilities	11,034,657	12,343,107	(1,308,450)	-10.6%
b) deferred	11,034,657	12,343,107	(1,308,450)	-10.6%
80. Other liabilities	170,768,278	127,724,256	43,044,022	33.7%
90. Provision for termination indemnities	17,511,297	20,018,994	(2,507,697)	-12.5%
100. Provisions for risks and charges	21,275,012	29,844,434	(8,569,422)	-28.7%
a) commitments and guarantees given	589,489		589,489	
c) other provisions for risks and charges	20,685,523	29,844,434	(9,158,911)	-30.7%
110. Valuation reserves	39,435,419	35,927,907	3,507,512	9.8%
140. Reserves	760,273,322	754,597,546	5,675,776	0.8%
150. Share premium reserve	16,145,088	16,145,088		
160. Share capital	67,705,040	67,705,040		
180. Net profit (loss) for the period (+/-)	30,955,481	37,995,628	(7,040,147)	-18.5%
Total liabilities and shareholders' equity	**10,112,842,806**	**10,459,326,792**	**(346,483,986)**	**-3.3%**

INCOME STATEMENT

Captions		31.12.2018	31.12.2017	Change amount	%
10.	Interest and similar income	157,039,495	163,755,218	(6,715,723)	-4.1%
	of which: interest income calculated using the effective interest method	94,890,527	104,618,236	(9,727,709)	-9.3%
20.	Interest and similar expense	(32,533,644)	(31,764,404)	(769,240)	2.4%
30.	**Net interest income**	**124,505,851**	**131,990,814**	**(7,484,963)**	**-5.7%**
40.	Commission income	117,554,997	116,400,259	1,154,738	1.0%
50.	Commission expense	(5,041,758)	(4,414,844)	(626,914)	14.2%
60.	**Net commission income**	**112,513,239**	**111,985,415**	**527,824**	**0.5%**
70.	Dividends and similar income	10,540,804	11,338,831	(798,027)	-7.0%
80.	Net trading income	620,031	2,525,355	(1,905,324)	-75.4%
90.	Net hedging gains (losses)		32,173	(32,173)	-100.0%
100.	Gains (losses) on disposal or repurchase of:	(1,947,107)	16,660,998	(18,608,105)	n.s.
	a) financial assets measured at amortised cost	(13,611,660)	*1,552,550*	(15,164,210)	n.s.
	b) financial assets designated at fair value through other comprehensive income	*11,976,436*	*15,727,420*	(3,750,984)	-23.8%
	c) financial liabilities	*(311,883)*	*(618,972)*	307,089	-49.6%
110.	Net result of other financial assets and liabilities designated at fair value through profit and loss	(3,029,960)	(7,738)	(3,022,222)	n.s.
	a) financial assets and liabilities designated at fair value		(7,738)	7,738	-100.0%
	b) other financial assets that have to be measured at fair value	(3,029,960)		(3,029,960)	n.s.
120.	**Net interest and other banking income**	**243,202,858**	**274,525,848**	**(31,322,990)**	**-11.4%**
130.	Net value adjustments/write-backs for credit risk relating to:	(38,039,748)	(55,676,850)	17,637,102	-31.7%
	a) financial assets measured at amortised cost	*(38,425,600)*	*(46,405,960)*	7,980,360	-17.2%
	b) financial assets designated at fair value through other comprehensive income	*385,852*	*(9,270,890)*	9,656,742	n.s.
140.	Profit/losses from contractual changes without write-offs	(9,949)		(9,949)	n.s.
150.	**Net profit from financial activities**	**205,153,161**	**218,848,998**	**(13,695,837)**	**-6.3%**
160.	Administrative costs:	(192,624,253)	(195,015,325)	2,391,072	-1.2%
	a) payroll costs	*(112,279,534)*	*(117,898,079)*	5,618,545	-4.8%
	b) other administrative costs	*(80,344,719)*	*(77,117,246)*	(3,227,473)	4.2%
170.	Net provisions for risks and charges	(1,238,770)	2,428,106	(3,666,876)	n.s.
	a) commitments for guarantees given	*(98,670)*	*2,313,788*	(2,412,458)	n.s.
	b) other net provisions	(1,140,100)	114,318	(1,254,418)	n.s.
180.	Net adjustments to property, plant and equipment	(4,647,801)	(4,877,952)	230,151	-4.7%
190.	Net adjustments to intangible assets	(985,978)	(1,344,597)	358,619	-26.7%
200.	Other operating charges/income	32,237,690	32,975,283	(737,593)	-2.2%
210.	**Operating costs**	**(167,259,112)**	**(165,834,485)**	**(1,424,627)**	**0.9%**
260.	**Profit (loss) from current operations before tax**	**37,894,049**	**53,014,513**	**(15,120,464)**	**-28.5%**
270.	Income taxes on current operations	(6,938,568)	(15,018,885)	8,080,317	-53.8%
280.	**Profit (loss) from current operations after tax**	**30,955,481**	**37,995,628**	**(7,040,147)**	**-18.5%**
300.	**Net profit (loss) for the period**	**30,955,481**	**37,995,628**	**(7,040,147)**	**-18.5%**

Note: **the balances of the comparative period have been restated conventionally** in the financial statement schedules required by Circular 262 – fifth update. In particular, the "Impairment adjustments to other financial transactions" (referred to in caption "130. d)" of the formats previously envisaged) have been transferred to caption "170. a) Provisions for risks and charges - commitments and guarantees given", while "Gains (losses) on disposal of financial assets held to maturity" (referred to in caption "100. c)" of the formats previously envisaged) have been transferred to caption "100. a) Gains (losses) on disposal or repurchase of financial assets measured at amortised cost".
In order to facilitate the comparability of caption "10. Interest and similar income", it should be noted that the balance of the caption at 31 December 2018 includes the release of the time value component of non-performing financial assets of 4,818 thousand euros, as well as the interest write-downs on NPLs for 1,527 thousand euros.

STATEMENT OF COMPREHENSIVE INCOME

	Captions	31.12.2018	31.12.2017
10.	**Net profit (loss) for the period**	**30,955,481**	**37,995,628**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Equity instruments designated at fair value through other comprehensive income	(84,987)	15,245,405
70.	Defined-benefit pension plans	278,928	(383,214)
	Other elements of income, net of income taxes with reversal to income statement		
120.	Cash-flow hedges	(430,674)	915,625
130.	Hedging instruments (non-designated elements)		
140.	Financial assets (other than equities) designated at fair value through other comprehensive income	(4,113,815)	4,349,814
170.	**Total other elements of income (net of income taxes)**	**(4,350,548)**	**20,127,630**
180.	**Total comprehensive income (Captions 10+170)**	**26,604,933**	**58,123,258**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31.12.18

	Balance at 31.12.2017	Changes in opening balances	Balance at 01.01.2018	Allocation of prior year results		Changes during the year								Shareholders' equity at 31.12.2018
							Transactions on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 31.12.2018	
Share capital:														
a) ordinary shares	60,840,000		60,840,000											60,840,000
b) other shares	6,865,040		6,865,040											6,865,040
Share premium reserve	16,145,088		16,145,088											16,145,088
Reserves:														
a) from profits	754,597,546	(18,971,672)	735,625,874	24,697,048		(49,600)								760,273,322
b) other	-		-											-
Valuation reserves	35,927,907	7,858,060	43,785,967										(4,350,548)	39,435,419
Equity instruments	-		-											-
Treasury shares	-		-											-
Net profit (loss) for the period	37,995,628		37,995,628	(24,697,048)	(13,298,580)								30,955,481	30,955,481
Shareholders' equity	**912,371,209**	**(11,113,612)**	**901,257,597**	**-**	**(13,298,580)**	**(49,600)**							**26,604,933**	**914,514,350**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2017

	Balance at 31.12.2016	Changes in opening balances	Balance at 01.01.2017	Allocation of prior year results		Changes during the year								Shareholders' equity at 31.12.2017
							Transactions on shareholders' equity						Comprehensive income at 31.12.2017	
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options		
Share capital:														
a) ordinary shares	60,840,000		60,840,000											60,840,000
b) other shares	6,865,040		6,865,040											6,865,040
Share premium reserve	16,145,088		16,145,088											16,145,088
Reserves:														
a) from profits	734,237,940		734,237,940	20,439,606		(80,000)								754,597,546
b) other	-		-											-
Valuation reserves	15,800,277		15,800,277										20,127,630	35,927,907
Equity instruments	-		-											-
Treasury shares	-		-											-
Net profit (loss) for the period	31,679,130		31,679,130	(20,439,606)	(11,239,524)								37,995,628	37,995,628
Shareholders' equity	**865,567,475**		**865,567,475**	**-**	**(11,239,524)**	**(80,000)**							**58,123,258**	**912,371,209**

CASH FLOW STATEMENT

	31.12.2018	31.12.2017
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**77,952,801**	**98,788,267**
- interest received (+)	150,475,103	159,877,588
- interest paid (-)	(34,685,124)	(33,581,507)
- dividends and similar income (+)	101,591	44,776
- net commission income (+/-)	112,513,239	112,563,639
- payroll costs (-)	(112,279,534)	(117,898,079)
- other costs (-)	(66,728,030)	(62,460,687)
- other revenues (+)	35,494,124	55,261,422
- taxation (-)	(6,938,568)	(15,018,885)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**306,868,451**	**(1,570,231,206)**
- financial assets held for trading	9,321,994	(7,189,864)
- financial assets designated at fair value through profit and loss		
- other financial assets that are necessarily measured at fair value	(16,946,769)	
- financial assets designated at fair value through other comprehensive income	890,801,481	285,966,810
- financial assets measured at amortised cost	(601,893,818)	(1,879,793,411)
- other assets	25,585,563	30,785,259
3. Cash generated (absorbed) by financial liabilities	**(377,791,599)**	**1,489,726,705**
- financial liabilities measured at amortised cost	(376,073,274)	1,508,104,435
- financial liabilities held for trading	(1,698,444)	2,329,977
- financial liabilities designated at fair value through profit and loss		(15,907,989)
- other liabilities	(19,881)	(4,799,718)
Net cash generated/absorbed by operating activities (A)	**7,029,653**	**18,283,766**
B. INVESTING ACTIVITIES		
1. Cash generated by	**10,439,212**	**11,295,737**
- sale of equity investments		
- dividends collected on equity investments	10,439,212	11,294,054
- sale of property, plant and equipment		
- sale of intangible assets		1,683
- sale of businesses		
2. Cash absorbed by	**(4,678,372)**	**(16,109,625)**
- purchase of equity investments		(10,006,000)
- purchase of property, plant and equipment	(3,946,305)	(4,953,363)
- purchase of intangible assets	(732,067)	(1,150,262)
- purchase of businesses		
Net cash generated/absorbed by investing activities (B)	**5,760,840**	**(4,813,888)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(13,298,580)	(11,239,524)
Net cash generated/absorbed by financing activities (C)	**(13,298,580)**	**(11,239,524)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(508,087)**	**2,230,354**

Note: **the balances of the comparative period were restated conventionally** in the tables required by Circular 262 – fifth update.

RECONCILIATION

	31.12.2018	31.12.2017
Cash and cash equivalents at beginning of period	**29,119,155**	**24,193,580**
Net increase (decrease) in cash and cash equivalents	(508,087)	2,230,354
Cash and cash equivalents: effect of changes in exchange rates	2,917,757	2,695,221
Cash and cash equivalents at end of period	**31,528,825**	**29,119,155**

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 financial statements of Banco di Desio e della Brianza S.p.A. are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2018 and endorsed by the European Commission.

Section 2 - Basis of preparation

The 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 financial statements, reference was made to the Bank of Italy Circular 262 "Bank financial statements: schedules and rules for preparation" of 22 December 2005 as subsequently updated on 22 December 2017. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.
The financial statements have been prepared in a clear manner to give a true and fair view of the balance sheet, financial position and result for the year on a going-concern basis, complying with the principle of recognition on an accruals basis and giving preference to economic substance over form in the recognition and representation of transactions.
The accounting standards applied in preparing the financial statements at 31 December 2018 for the classification, recognition, measurement and derecognition of financial assets and liabilities, as well as the methods for recognising revenues and costs, are different from those applied in preparing the financial statements at 31 December 2017. These changes derive essentially from the mandatory application, from 1 January 2018, of the following international accounting standards:

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

In light of the above, this document explains in detail the updated accounting policies and provides an analysis of the main items in the financial statements.
The amounts in the financial statements are expressed in Euro, while the figures reported in the explanatory notes are expressed in thousands of Euro – unless otherwise indicated.

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

IFRS 16 "Leases"

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

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

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

The new standard provides a new definition of lease and introduces a criterion based on control (or "right of use") of an asset to distinguish leasing contracts from contracts for the provision of services, 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 (financial) leases could now fall into the scope of application of the new standard.

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

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

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

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

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

In terms of disclosure, the lessee must also provide:

- a breakdown of the figures for right of use, lease liability, depreciation charges and interest expense between the different "classes" of leased assets;
- an analysis by maturity of liabilities relating to lease contracts;
- any other information that may help understand the business's lease contracts (e.g. early repayment and renewal options).

With reference to 2019, the effects on the financial statements of adopting IFRS 16 can therefore be identified as an increase in the assets recorded in the financial statements ("RoU Asset"), an increase in liabilities ("Lease Liability"), a reduction in operating costs (for lease payments) and a simultaneous increase in financial costs (for the remuneration of the recorded debt) and depreciation of the assets. It follows that the impact on the income statement in the first few years will be higher under IFRS 16 than under IAS 17: the depreciation charges are in fact constant over time, whereas interest charges are higher in the first few years, after which they tend to decrease over time.
There are no particular changes for lessors, on the other hand, apart from some more disclosure requirements, as the current distinction between operating and financial leases is maintained for them.

Section 3 – Subsequent events

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

Section 4 - Other aspects

Implementation of IFRS 16 "Leases"

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

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

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

IT and organisational impacts

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

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

The methodologies adopted

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

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

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

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

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

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

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

An estimate of the accounting and supervisory impacts

On the basis of a preliminary estimate made in January 2019, excluding the tax impacts and applying option "B" of the modified retrospective approach, the Bank considers that the effects of adopting IFRS 16 can be estimated as an increase in the bank's financial liabilities for 32.3 million euros against a substantially similar increase in fixed assets (increased due to the balance of accruals/prepayments on 31 December 2018), from which no initial impact on shareholders' equity emerges.
However, there is still an impact on risk-weighted assets equal to the increase in fixed assets (the weighting assigned to the RoU is in fact 100%), with a consequent decrease in the CET 1 ratio (fully loaded) put at around 11 basis points for the Bank.
Lastly, it should be noted that property leases constitute the most significant area of impact, as they represent 98.6% of rights of use.

Use of estimates and assumptions in preparing the financial statements

The preparation of the financial statements requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement, and on the disclosures provided in the notes.
The use of such estimates involves the use of available information and the adoption of subjective assessments, partly based on historical experience, in order to make reasonable assumptions for the recognition of operating events. By their nature, these estimates and assumptions may change from year

to year and, therefore, it cannot be excluded that the values currently shown here may in future differ because of a change in the subjective assessments used.
The main areas in which the use of subjective estimates and assessments is applied are:
- the valuation models used for carrying out impairment tests relating to investments and to intangible assets with an indefinite useful life (goodwill);
- quantification of the losses arising from the impairment of loans and financial assets in general;
- determination of the fair value of financial instruments for disclosure purposes;
- the use of valuation models for determining the fair value of financial instruments not quoted in active markets;
- quantification of the provisions for employee benefits and the provisions for risks and charges;
- estimates and assumptions about the recoverability of deferred tax assets;
- the valuation of the assets acquired and liabilities taken on at their fair value as part of the business combination.

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

Comparability of financial statements
In compliance with the applicable legislation, the financial statements have to include not only the financial schedules at the reference date, but also comparative figures for the previous period.
As regards the effects of first-time adoption of IFRS 9, the bank has decided to take the option provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 First-time Adoption of International Financial Reporting Standards, according to which mandatory restatement of the comparative figures in the first financial statements after FTA is not envisaged, without prejudice to retrospective application of the new measurement and presentation rules required by the new standard.
Without changing the figures, we have prepared reconciliations to show how the comparative figures reconcile back to how they were shown in the financial statements at 31 December 2017 as part of the new formats envisaged by the 5th update of Circular no. 262 of the Bank of Italy, in force since 1 January 2018. In particular:
– the previous items for Loans to customers, Due from banks and Financial assets held to maturity have all been transferred to Financial assets measured at amortised cost;
– the securities previous shown under Financial assets available for sale have all been reclassified to Financial assets measured at fair value through other comprehensive income, while the securities previously shown under Financial assets held to maturity have been allocated to Financial assets valued at amortised cost (regardless of the choice made for their subsequent allocation, with effect from 1 January 2018, to the business models defined by the Banco Desio Group in application of IFRS 9);
– the previous items for Due to banks, Due to customers and Debt securities in issue have all been allocated to Financial liabilities valued at amortised cost;
– the previous item Impairment adjustments to other financial transactions has been allocated entirely to Net provisions for risks and charges - commitments and guarantees given.

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

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

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

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

Following notification of the contributions by the competent authorities (Bank of Italy as the resolution authority and FITD as the deposit protection authority), the standard and special contributions paid 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 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 (microhedging of fair value): the objective is to hedge the risk of changes in the fair value of the hedged instrument (assets, liabilities or irrevocable commitment not recognised subject to changes in fair value attributable to a particular risk that may affect the income statement, including exchange rate risk);
– cash-flow hedges: the objective is to hedge the change in cash flows attributable to specific risks of the instrument (assets, liabilities or highly probable scheduled transaction exposed to changes in cash flows attributable to a particular risk that may affect the income statement).
Recognition
Derivatives, including hedging instruments, are initially recognised and then measured at fair value.
The recognition of hedging transactions assumes:
– the involvement of counterparties outside the Banco Desio Group;
– a specific designation and identification of financial hedging and hedged instruments used for the transaction;
– definition of the risk management objectives being pursued, specifying the nature of the risk being hedged;
– passing the effectiveness test at the beginning of the hedging relationship and prospectively, with specific measurement procedures and frequency;
– preparation of formal documentation of the hedging relationship.
Measurement
A hedging transaction is defined as effective if the changes in fair value (or future cash flows) of the hedging instrument offset the changes in the financial instrument being hedged within the 80%-125% limits laid down in IAS 39.
Effectiveness tests are performed at each annual or interim balance sheet date, both in retrospective terms, to measure the actual results, and in prospective terms, to demonstrate the expected efficacy for future periods.
If the tests do not confirm the effectiveness of the hedge and, depending on corporate policy, hedge accounting is interrupted from that moment, the hedging derivative is reclassified under trading instruments and the hedged instrument reacquires the method of valuation corresponding to its classification in the financial statements.

Recognition of items affecting the income statement – Fair value hedges

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

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

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

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

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

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

Derecognition

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

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

Equity investments

Classification

Equity investments are classified as investments in subsidiaries, associates or as investments in 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).*

Subsidiaries are entities in which Banco di Desio e della Brianza is exposed to variable returns, or holds rights to these returns, deriving from its relationship with them and at the same time has the capacityto affect these returns by exercising its power over these entities.

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 euros at the exchange rate ruling on the settlement date.

Measurement

Afterinitial 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, equipment, furniture and fittings and other office equipment. These consist of tangible fixed assets held for use in the provision of services (used for business purposes) and for rental to third parties (investment property) and for which it is deemed that they will be used for more than one financial year.

Recognition

Property, plant and equipment are initially recorded at purchase price, including all attributable costs of purchasing and bringing the asset to working condition.
On first-time adoption of IAS/IFRS, we made use of the exemption provided by art. 16 of IFRS 1, opting to assess property at fair value as the deemed cost at 1 January 2004. After that date, buildings have been valued at cost.
Extraordinary maintenance costs are attributed to the assets to which they relate. Routine maintenance costs are charged directly to the income statement.
In application of IAS 17, financial leases are recognised in the financial statements in accordance with the financial method. Assets leased to others are therefore shown under receivables. Conversely, assets held under finance lease contracts are included in this caption, even though the lessor retains legal title.

Measurement

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

Property, plant and equipment are systematically depreciated, on a straight-line basis at rates that reflect the residual useful life of the asset in question. Exceptions are made for land and works of art, which are not subject to depreciation because of the uncertainty of their useful life, and in view of the fact that normally their value is unlikely to fall over time. Extraordinary maintenance costs are capitalised and depreciated over the residual useful life of the assets to which they relate.
Impairment tests are performed on an annual basis. If it is ascertained that the carrying amount of an asset is higher than its recoverable value, the carrying amount is adjusted as appropriate in the income statement.
If the reasons for recognising an impairment loss cease to apply, the asset is written back but without exceeding the carrying amount that the asset would have had (net of depreciation) if no impairment losses had been recognised in prior years.
Derecognition
Property, plant and equipment are derecognised on disposal.
Recognition of items affecting the income statement
Depreciation, 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. 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.

Recognition

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

Measurement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Exceptions to this are short-term liabilities, for which the time factor is negligible, which remain recorded for the amount collected.

Derecognition

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

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

Financial liabilities held for trading

Recognition and classification

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

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

Measurement and recognition of items affecting the income statement

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

Derecognition

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

Currency transactions

Recognition

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

Measurement

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

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

Recognition of items affecting the income statement

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

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

Other information

Valuation reserves

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

Recognition of costs and revenues

Revenues are recognised:

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

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

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

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

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

Costs are recognised in the income statement according to the accruals principle; the costs related to obtaining and fulfilling contracts with customers are recognised in the income statement in the periods in which the related revenues are recorded. If costs and revenues can be associated in a generic and indirect way, costs are allocated systematically to several periods with rational procedures. Costs that cannot be associated with income are booked immediately to the income statement.
Note that the contributions to the Single Resolution Mechanism (SRM) and the Deposit Guarantee Scheme (DGS) are recognised in the income statement under caption "180 b) Other administrative costs", taking into account the recommendations of IFRIC 21 and the Bank of Italy communication of 19 January 2016. In particular, the contribution (DGS) is accounted for when the "obligating event" takes place, based on the provisions of the new Articles of Association of the Interbank Deposit Protection Fund, under which the Fund builds up financial resources until the target level is reached through the ordinary contributions of the banks that are members at 30 September of each year.

Finance leases

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

Securitisations

Exposures to the securitisation (in the form of junior securities or deferred purchase price) are allocated to Financial assets measured at fair value through profit or loss. However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control[2] introduced by IFRS 10, it is included in the Banco Desio Group's scope of consolidation. According to the breakdown by type, Financial assets measured at amortised cost include loans to customers involved in securitisations subsequent to 1 January 2004, which do not have the requisites under IFRS 9 for derecognition from the financial statements, or transactions with which loans are assigned to the special purpose vehicle and in which, even if there is formal transfer of legal title to the loans, control over the cash flows deriving from them and the substantial risks and benefits are maintained.

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

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

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

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

Type of financial instrument (1)	Source portfolio (2)	Destination portfolio (3)	Date of reclassification (4)	Reclassified book value (5)	Interest income recorded during the year (before tax) (6)
Debt securities	HTCS	HTC	01.10.2018	898,391	n.a.

The "Reclassified book value" column shows the amount transferred from the HTCS to the HTC portfolio, including the cumulative OCI valuation reserve at 30 September 2018, negative for 41,512 thousand euros (pre-tax), which was eliminated from shareholders' equity on the reclassification date in exchange for the fair value of the reclassified financial assets which are consequently recognised as if they had always been valued at amortised cost.

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

Type of financial instrument (1)	Source portfolio (2)	Destination portfolio (3)	Fair value at 31.12.2018 (4)	Gains/losses without transfer to the income statement (before tax)		Gains/losses without transfer to equity (before tax)	
				2018 (5)	2017 (6)	2018 (7)	2017 (8)
Debt securities	HTCS	HTC	910,849	n.a.	n.a.	(28,521)	n.a.

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

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

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

A.4 INFORMATION ON FAIR VALUE

Qualitative information

The accounting standard IFRS 13 "Fair Value Measurement" defines fair value as the price that would be received for the sale of an asset or that would be paid to transfer a liability in a regular transaction between market participants (exit price). The definition of fair value provided by IFRS 13 makes it clear that fair value measurements are market based and not entity specific.
This standard introduced disclosure requirements about fair value measurements and the inputs used for the measurement of assets and liabilities that are measured at fair value on a recurring or non-recurring basis after initial financial statement recognition, as well as about the effect on comprehensive income of fair value measurements of instruments using effective unobservable inputs.
When a price for the same asset or a liability 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:
    - interest rates and yield curves observable at commonly quoted intervals;
    - implied volatilities;
    - credit spreads;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means ("market-corroborated inputs").

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

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

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

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

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

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

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

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

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

A.4.2 Process and sensitivity of valuations

Valuation techniques and inputs selected are applied consistently, except where events take place that require them to be replaced or modified, such as: new markets develop, new information becomes available, information previously used is no longer available or valuation techniques improve.
The measurement process for financial instruments consists of the phases summarised below:
- for each asset class, market inputs are identified as well as the manner in which they have to be incorporated and used;
- the market inputs used are checked to ensure they are worthy of use in the valuation techniques employed;
- the valuation techniques used are compared with market practices to identify any critical issues and to determine if any changes need to be made to the valuations.

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

A.4.3 Fair value hierarchy

For financial assets and liabilities measured at fair value on a recurring basis, their categorisation within the aforementioned fair value hierarchy levels reflects the significance of the inputs used for the valuation.
If the market for assets and liabilities no longer qualifies as active, then the valuation technique and inputs are changed and the assets and liabilities are categorised within a lower level of the fair value hierarchy.
A valuation technique is used consistently from period to period, except where circumstances arise that necessitate the use of a more appropriate technique, such as the development of new markets, the availability of new information or a change in market conditions. This could lead to assets and liabilities measured at different dates being categorised in a different fair value hierarchy.
The policy for the determination of the levels is applied on a monthly basis.

A.4.4 Other information

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

Quantitative information

A.4.5 Fair value hierarchy

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

	31.12.2018			31.12.2017		
Financial assets/liabilities designated at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets designated at fair value through profit or loss	39,690	907	16,176	8,662	2,475	4,538
a) Financial assets held for trading	2,248	439	2,973	8,662	2,475	4,538
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	37,442	468	13,203	-	-	-
2. Financial assets designated at fair value through other comprehensive income	244,034	36,351	2,987	968,746	226,937	12,827
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	283,724	37,258	19,163	977,408	229,412	17,365
1. Financial liabilities held for trading	-	-	2,832	-	-	4,531
2. Financial liabilities designated at fair value through profit	-	-	-	-	-	-
3. Hedging derivatives	-	2,055	-	-	1,414	-
Total	-	2,055	2,832	-	1,414	4,531

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

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

Investments measured on the basis of unobservable inputs (Level 3) represent a small percentage of total financial assets measured at fair value (5.63% at 31 December 2018 compared with 1.42% at 31 December 2017, following the reallocation of debt securities previously measured at fair value in the category of financial assets measured at amortised cost due to the reclassification of the business models on 1 October 2018).

At 31 December 2018, 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	**4,538**	**4,538**	**-**	**-**	**12,827**	**-**	**-**	**-**
2. Increases	**17,916**	**2,973**	**-**	**14,943**	**333**	**-**	**-**	**-**
2.1. Purchases	4,462	-	-	4,462	333	-	-	-
2.2. Profits posted	2,975	2,973	-	2	-	-	-	-
2.2.1. Income	2,975	2,973	-	2	-	-	-	-
- of which: capital gains	2,973	2,973	-	-	-	-	-	-
2.2.2. Shareholders' equity					-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other	10,479	-	-	10,479	-	-	-	-
3. Decreases	**6,278**	**4,538**	**-**	**1,740**	**10,173**	**-**	**-**	**-**
3.1. Sales	-	-	-	-	141	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3. Losses posted	6,277	4,538	-	1,739	90	-	-	-
3.3.1. Income	6,277	4,538	-	1,739	90	-	-	-
- of which: capital losses	6,277	4,538	-	1,739	90	-	-	-
3.3.2. Shareholders' equity					-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	1	-	-	1	9,942	-	-	-
4. Closing balance	**16,176**	**2,973**	**-**	**13,203**	**2,987**	**-**	**-**	**-**

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 or loss	Hedging derivatives
1. Opening balance	**4,531**	**-**	**-**
2. Increases	**2,832**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses posted to:	2,832	-	-
2.2.1. Income statement	2,832	-	-
- of which: capital losses	2,832	-	-
2.2.2. Shareholders' equity		-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**4,531**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits posted to:	4,531	-	-
3.3.1. Income statement	4,531	-	-
- of which: capital gains	4,531	-	-
3.3.2. Shareholders' equity		-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**2,832**	**-**	**-**

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2018				31.12.2017			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	9,128,052	1,638,186	3,935,469	3,397,910	8,562,903	570,327	3,601,324	4,614,711
2. Investment property	1,729			1,837	1,049			922
3. Non-current assets and disposal groups held for sale								
Total	**9,129,781**	**1,638,186**	**3,935,469**	**3,399,747**	**8,563,952**	**570,327**	**3,601,324**	**4,615,633**
1. Financial liabilities measured at amortised cost	8,972,852		1,329,907	7,642,516	9,351,080		1,591,731	7,760,070
2. Liabilities associated with assets held for sale								
Total	**8,972,852**	**-**	**1,329,907**	**7,642,516**	**9,351,080**	**-**	**1,591,731**	**7,760,070**

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 Banco di Desio e della Brianza and on the basis of the internal valuation methodologies currently in use, no such differences have been recognised, since the fair value of financial instruments upon initial recognition coincides with the transaction price.

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - caption 10

1.1 Cash and cash equivalents: breakdown

	31.12.2018	31.12.2017
a) Cash	31,529	29,119
b) Demand deposits with central banks	-	-
Total	**31,529**	**29,119**

Section 2 - Financial assets designated at fair value through profit or loss - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	439	-	-	2,475	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	439	-	-	2,475	-
2. Equity instruments	2,207	-	-	4,642	-	-
3. Mutual funds	-	-	-	3,839	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**2,207**	**439**	**-**	**8,481**	**2,475**	**-**
B. Derivatives						
1. Financial derivatives	41	-	2,973	181	-	4,538
1.1 for trading	41	-	2,973	181	-	4,538
1.2 connected with the fair value	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**41**	**-**	**2,973**	**181**	**-**	**4,538**
Total (A+B)	**2,248**	**439**	**2,973**	**8,662**	**2,475**	**4,538**

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 in the three levels of the fair value hierarchy is explained in section "Information on fair value" of the condensed quarterly consolidated financial statements of the Banco Desio Group.
All financial instruments included in financial assets held for trading are measured at fair value.

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

Captions/Amounts	31.12.2018	31.12.2017
A. Cash assets		
1. Debt securities	**439**	**2,475**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	439	2,475
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**2,207**	**4,642**
a) Banks	-	1,131
b) Other financial companies	1,322	735
of which: insurance companies	-	-
c) Non-financial companies	885	2,776
d) Other issuers	-	-
3. Mutual funds	**-**	**3,839**
4. Loans	**-**	**-**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**2,646**	**10,956**
B. DERIVATIVES		
a) Central counterparties	-	-
b) Other	3,014	4,719
Total (B)	**3,014**	**4,719**
Total (A+B)	**5,660**	**15,675**

2.5 Other financial assets mandatorily at fair value: breakdown

Captions/Amounts	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**468**	**1,460**	**-**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	468	1,460	-	-	-
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Mutual funds	**37,442**	**-**	**11,743**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**37,442**	**468**	**13,203**	**-**	**-**	**-**

The item "Financial assets mandatorily at fair value" includes the mutual fund units that are not held for trading purposes; these instruments, previously classified under item 40 "Assets available for sale" in application of the IAS 39, by their very nature do not pass the SPPI test ("solely payments of principal and interests") foreseen in IFRS 9 "Financial Instruments". The comparative figure of 37,623 euros thousand has been conventionally restated under item 30. "Financial assets measured at fair value through other comprehensive income".

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

	31.12.20518	31.12.2017
1. Equity instruments	**-**	**-**
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	**1,928**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	1,460	-
d) Other financial companies	468	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Mutual funds	**49,185**	**-**
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	**51,113**	**-**

Section 3 - Financial assets designated at fair value through other comprehensive income - caption 30

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

Captions/Amounts	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	244,034	-	-	941,050	190,586	-
1.1 Structured securities	-	-	-	-	2,033	-
1.2 Other debt securities	244,034	-	-	941,050	188,553	-
2. Equity instruments	-	36,351	2,987	-	36,351	2,900
3. Loans	-	-	-	-	-	-
4. Mutual funds	-	-	-	27,696	-	9,927
Total	**244,034**	**36,351**	**2,987**	**968,746**	**226,937**	**12,827**

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

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

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

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

The change in the balance of item "1. Debt securities" compared with the comparative period is mainly attributable to reclassification of the business models that began on 1 October 2018 with the consequent reallocation of securities for a nominal value of 936.2 million euros from the "held to collect & sell" portfolio to the "held to collect" portfolio, recognised for accounting purposes under item "40. Financial assets measured at amortised cost".

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

Captions/Amounts	31.12.2018	31.12.2017
1. Debt securities	**244,034**	**1,131,636**
a) Central banks	-	941,051
b) Public administrations	241,492	-
c) Banks	2,542	98,095
d) Other financial companies	-	92,490
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**39,338**	**39,251**
a) Banks	10,000	10,141
b) Other issuers:	29,338	29,110
- other financial companies	2,104	2,104
of which: insurance companies	-	-
- non-financial companies	27,234	27,006
- other	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
4. Mutual funds	**-**	**37,623**
Total	**283,372**	**1,208,510**

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		244,034	244,034	-	-	(462)	-	-	-
Loans		-	-	-	-	-	-	-	-
Total	**31.12.2018**	**244,034**	**244,034**	**-**	**-**	**(462)**	**-**	**-**	**X**
Total	**31.12.2017**	**1,131,636**	**-**	**-**	**-**	**-**	**-**	**-**	**X**
of which: impaired financial assets acquired or originated		X	X	-	-	X	-	-	-

The caption "Total write-downs" includes the expected credit loss (ECL) calculated on debt securities following the introduction of IFRS 9. This component does not affect the book value of the securities recorded at fair value, but represents the expected loss due to credit risk, whose changes are anticipated in the income statement under item 130.b) "Net adjustments for credit risk relating to financial assets measured at fair value through other comprehensive income" with contra-entry to the shareholders' equity caption 110 "Valuation reserves".

Section 4 - Financial assets measured at amortised cost - caption 40

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

Type of transaction/Amounts	31.12.2018						31.12.2017					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired	L1	L2	L3
A. Due from central banks	**66,205**	**-**	**-**	**-**	**-**	**66,205**	**1,097,955**	**-**	**-**	**-**	**-**	**1,097,955**
1. Time deposits	-	-	-				-	-	-			
2. Reserve requirement	66,205	-	-				1,097,955	-	-			
3. Repurchase agreements	-	-	-				-	-	-			
4. Other	-	-	-				-	-	-			
B. Due from banks	**877,323**	**-**	**-**	**-**	**262,737**	**609,174**	**589,202**	**-**	**-**	**-**	**125,934**	**464,710**
1. Loans	609,174	-	-	-	-	609,174	464,710	-	-	-	-	464,710
1.1 Current accounts and demand	441,018	-	-				371,477	-	-			
1.2. Time deposits	44,472	-	-				36,593	-	-			
1.3. Other loans:	123,684	-	-				56,640	-	-			
- Repurchase agreements	-	-	-				-	-	-			
- Finance leases	-	-	-				-	-	-			
- Other	123,684	-	-				56,640	-	-			
2. Debt securities	268,149	-	-	-	262,737	-	124,492	-	-	-	125,934	-
2.1 Structured securities	3,885	-	-	-	3,687	-	-	-	-	-	-	-
2.2 Other debt securities	264,264	-	-	-	259,050	-	124,492	-	-	-	125,934	-
Total	**943,528**	**-**	**-**	**-**	**262,737**	**675,379**	**1,687,157**	**-**	**-**	**-**	**125,934**	**1,562,665**

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

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

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

c) stage 3 for non-performing exposures.

The balances of item "B. Due from banks "are shown net of adjustments deriving from the application of the new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments" starting from 1 January 2018.

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

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

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

Amounts due from the subsidiary Banca Popolare di Spoleto at 31 December 2018 amount to 446,566 thousand euros (364,702 thousand euros at the end of last year), of which:

- 18,000 thousand euros related to the subordinated loan with fixed maturity (10 years) granted to the subsidiary to strengthen the Tier 2 capital of BPS pursuant to the EU Supervisory Regulations;
- 428,122 thousand euros related to current accounts and unrestricted deposits;
- 444 thousand euros related to restricted deposits.

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows. The change in the balance of caption "2.2 Debt securities" with respect to the comparative period is mainly attributable to reclassification of the business models that took place on 1 October 2018.

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

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

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

Type of transaction/Amounts	31.12.2018						31.12.2017					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquire	L1	L2	L3
1. Loans	**5,950,262**	**213,412**	**4,552**	**-**	**3,348,852**	**2,722,531**	**5,843,320**	**408,222**	**-**	**-**	**3,414,520**	**3,052,046**
1.1. Current accounts	1,525,616	56,198	319				1,482,017	103,801	-			
1.2. Repurchase agreements	-	-	-				-	-	-			
1.3. Mortgage loans	3,404,394	139,195	4,196				3,248,994	280,621	-			
1.4. Credit cards, personal loans and assignments of one-fifth of salary	4,764	266	-				7,748	755	-			
1.5. Finance leases	177,054	13,506	-				223,325	16,230	-			
1.6. Factoring	23,410	27	-				24,781	934	-			
1.7. Other loans	815,024	4,220	37				856,455	5,881	-			
2. Debt securities	**2,020,850**	**-**	**-**	**1,638,186**	**323,880**	**-**	**624,204**	**-**	**-**	**570,327**	**60,870**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	2,020,850	-	-	1,638,186	323,880	-	624,204	-	-	570,327	60,870	-
Total	**7,971,112**	**213,412**	**4,552**	**1,638,186**	**3,672,732**	**2,722,531**	**6,467,524**	**408,222**	**-**	**570,327**	**3,475,390**	**3,052,046**

Gross loans amount to a total of 6,360,308 thousand euros (6,686,396 thousand euros at the end of last year), of which 5,977,074 thousand euros relate to performing loans (5,866,653 at the end of 2017) and 383,234 thousand euros to non-performing loans (819,715 thousand euros at the end of 2017).

Total write-downs on the same loans amount to 196,634 thousand euros (434,826 thousand euros last year), of which 169,822 thousand euros relate to non-performing loans (411,493 euros at the end of 2017) and 26,812 thousand euros to performing loans (23,333 thousand euros at the end of 2017).

As regards non-performing loans, additional details are provided in the section entitled "Information on risks and related hedging policy" to supplement the information already provided in the report on operations.
The table also includes the amounts of receivables sold which have not been derecognised, constituting eligible assets for the Covered Bond programme; On 31 December 2018 these loans amount to 645,937 thousand euros (versus 550,352 thousand euros) due to a further sale to Desio OBG in November for 165,071 thousand euros.
Sub-caption "Mortgage loans" also includes collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to 1,284,924 thousand euros (1,278,455 thousand euros at the end of last year).
Loans and receivables from companies belonging to the Banco Desio Group amount to 517,270 thousand euros; they all relate to the subsidiary Fides S.p.A. (460,828 thousand euros last year).

The sub-caption "Other loans" includes financing operations other than those indicated in other sub-captions (for example, bullet loans, advances on invoices and bills of exchange, import/export advances and other miscellaneous items).
With reference to the stock of non-performing loans (in the "Third stage" column), there is a significant reduction in the amount at the reference date compared with the end of the previous year due to the transactions carried out during the year to reduce the stock of NPLs.
This caption includes the interest accrued at 31 December 2018 that is recoverable from 1 March of the following year, due to application of the new rules for the calculation of interest on banking transactions established in MEF Decree no. 343/2016, which implements art. 120, para. 2, of the Consolidated Banking Law (T.U.B.).
The fair value of non-current performing loans is measured using techniques that discount the cash flows expected after considering the related credit risk, while the carrying amount of non-performing and current performing loans is considered to be a reasonable approximation of fair value.
Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows. The value of debt securities is shown net of adjustments deriving from the application of the new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments" starting from 1 January 2018. This portfolio includes 159,454 thousand euros of senior notes issued by the "2Worlds s.r.l." SPV following the sale of doubtful loans through use of the GACS scheme.
The change in the balance of caption "2.2 Debt securities" with respect to the comparative period is mainly attributable to reclassification of the business models that took place on 1 October 2018.
The comparative period includes the balances conventionally restated from the captions previously adopted in application of IAS 39:
- "70. Loans to customers";
- "50. Financial assets held to maturity", limited to securities issued by non-banking counterparties.

4.3 Finance leases

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

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

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

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

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

Type of transaction/Amounts	31.12.2018			31.12.2017		
	First and second stage	Third stage	of which: impaired assets acquired or originated	First and second stage	Third stage	of which: impaired assets acquired or originated
1. Debt securities	**2,020,850**	**-**	**-**	**624,204**	**-**	**-**
a) Public administrations	1,690,764	-	-	563,667	-	-
b) Other financial companies	299,280	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	30,806	-	-	60,537	-	-
2. Loans to:	**5,950,262**	**213,412**	**4,552**	**5,843,320**	**408,222**	**-**
a) Public administrations	-	-	-	-	-	-
b) Other financial companies	616,019	2,346	-	534,302	6,880	-
of which: insurance	2,738	-	-	2,027	-	-
c) Non-financial companies	3,709,327	150,239	3,009	3,889,679	283,889	-
d) Households	1,624,916	60,827	1,543	1,419,339	117,453	-
Total	**7,971,112**	**213,412**	**4,552**	**6,467,524**	**408,222**	**-**

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

		Gross value				Total write-downs			Total partial write-offs
		First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities		2,284,013	2,284,013	9,564	-	4,514	64	-	-
Loans		6,065,767	-	587,044	383,234	12,572	14,598	169,822	24,060
Total	**31.12.2018**	**8,349,780**	**2,284,013**	**596,608**	**383,234**	**17,086**	**14,662**	**169,822**	**X**
Total	**31.12.2017**	**8,178,014**	**-**	**-**	**819,715**	**23,333**	**-**	**411,493**	**X**
of which: impaired financial assets acquired or originated		X	X	474	5,393	X	3	1,312	-

The table shows the distribution of the exposures measured at amortised cost (both to banks and to customers) and the related adjustments in the three stages with increasing level of credit risk (due to the evolution over time) envisaged by IFRS 9 "Financial Instruments", applied from 1 January 2018. Stage segmentation takes place in compliance with the following requirements:

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

The breakdown into stages is relevant for the application of the model for the calculation of impairment based on expected losses, determined on the basis of past events, current and reasonable conditions and "supportable" future forecasts (current model based on losses incurred but not recorded). In particular, the model for the calculation of the expected loss has the following characteristics:

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

With reference to debt securities only, the so-called "low credit risk exemption" is active, on the basis of which we identified as low credit risk exposures and therefore to be considered in stage 1 the exposures that, at each reference date, will have a rating equal or higher than "investment grade" (or a similar quality), regardless of whether the rating has or hasn't got worse since the time the security was purchased. All performing exposures to banks and customers valued at amortised cost in the comparative period (and the related value adjustments determined in application of the IAS 39 in force at the time) are conventionally allocated in the first stage; non-performing exposures and write-downs, on the other hand, are included in the third stage.

Section 7 - Equity investments - caption 70

7.1 Equity investments: details of holdings

Name	Registered office	Operational headquarters	% Held	Voting rights
A. Subsidiaries				
Fides S.p.A.	Rome	Rome	100.000	100.000
Banca Popolare di Spoleto S.p.A.	Spoleto	Spoleto	81.673	81.673
Desio OBG S.r.l	Conegliano	Conegliano	60.000	60.000

7.2 Significant equity investments: book value, fair value and dividends received

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 7.2 of the Banco Desio Group's consolidated financial statements.

7.3 Significant equity investments: accounting information

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 7.3 of the Banco Desio Group's consolidated financial statements.

Impairment testing of equity investments

In compliance with the requirements of IAS 36 and taking account of the guidance laid down in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, details are provided below of impairment testing of equity investments held at the reporting date.

Impairment testing is designed to check that the carrying amount of equity investments does not exceed their 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 investment.

The recoverable amount of equity investments was determined, where there was no fair value arising from transactions concerning the target of the impairment test or from market transactions involving similar targets, by reference to the 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 it, 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.
Impairment testing has thus been performed on the basis of the criteria and assumptions set out below.

Criterion to estimate the recoverable amount (impairment)

To estimate the recoverable amount of an equity investment, reference is made to the so-called value in use (equity value for banks and financial intermediaries).
"Explicit" time period for the determination of future cash flows
Pending the overall update of the strategic planning documents following the merger plan and the approval process currently in progress, the time horizon used is the same as the 2018-2020 Business Plan approved by the Directors on 11 January 2018, with the update of the performance forecasts developed by the Parent Company's management to take into account the main drivers of the events for the period, the results achieved at 30 September 2018, the forecasts at 31 December 2018 and the most recent market forecasts available.
These updated performance forecasts, with further projections of future results (again prepared by the Parent Company's management) extended to 31 December 2022, were used by the advisors of Banco di Desio e della Brianza and Banca Popolare di Spoleto in charge of the assessment activities (with reference to the Dividend Discount Model) as part of the project for the absorption of Banca Popolare di Spoleto S.p.A. by Banco di Desio e della Brianza S.p.A. approved by the respective Board meetings held on 11 December 2018, as well as to perform the impairment test on equity investments and goodwill, with the related sensitivity analysis, approved by the Directors on 20 December 2018 for financial reporting purposes at 31 December 2018.
Including an explicit forecast period to 31 December 2022 makes it possible to minimise potential distortions from using only the time horizon of the Business Plan, which could be strongly influenced by the situation of the banking system that remains complex because of considerable uncertainty in forecasting the macroeconomic scenario due to the prolonged effects of the crisis, the lasting impacts that it has had on the money market and on interest rates, or otherwise linked to extraordinary events for which it is worth

trying to normalise the results so as to focus better on the effective medium/long term potential of the entity being tested.

Cash flows

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

Discount rate

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

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

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

Terminal Value

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

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

Parameters used for impairment testing

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

Legal entity	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratios
Banca Popolare di Spoleto Spa	DDM	2018-2020 Business Plan extended to 2022	-0.29%	9.24%	2.00%	Net results	CET 1 8.50% (*)
Fides Spa	DDM	2018-2020 Business Plan extended to 2022	-4.32%	9.24%	2.00%	Net results	CET 1 8.50% (*)

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

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

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, which are currently unforeseeable, that would consequently have an impact on the main assumptions applied and, thus, potentially, also on the results of future years that could be different from those set out herein.

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 equity investments match their carrying amounts.

Equity investments	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banca Popolare di Spoleto Spa	2.85%	24
Fides Spa	67.98%	Over 1,000

7.4 Not significant equity investments: accounting information

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 7.4 of the Banco Desio Group's consolidated financial statements.

7.5 Equity investments: changes during the year

	31.12.2018	31.12.2017
A. Opening balance	**274,571**	**264,565**
B. Increases		**10,006**
B.1 Purchases		10,006
2. Write-backs		
B.3 Revaluations		
B.4 Other changes		
C. Decreases		
C.1 Sales		
C.2 Write-downs		
C.3 Other changes		
D. Closing balance	**274,571**	**274,571**
E. Total revaluations		
F. Total write-downs		

Caption "B.1 Purchases" in the comparative period included the following transactions:

- Acquisition of 60% in the share capital of the SPV "Desio OBG S.r.l." for 6 thousand euros;
- Subscription of 10,000,000 ordinary shares issued by Fides S.p.A as a result of the Extraordinary Shareholders' Meeting of 21 March 2017, that approved an increase in the Company's share capital for payment.

LISTING OF EQUITY INVESTMENTS AND SIGNIFICANT EQUITY INVESTMENTS

List of investments in subsidiaries (Caption 70. Equity investments)

(amounts in euros)

Equity investments	*Number of shares or*	*% quotas*	*Nominal value*	*Book value*
Subsidiaries				
Banca Popolare di Spoleto S.p.A.	128,240,177	81.673	-	232,371,200
Fides S.p.A.	35,000,000	100.000	35,000,000	42,193,729
Desio OBG S.r.l.	1	60.000	6,000	6,000
Total Caption 100. Equity investments				**274,570,929**

List of equity investments (Caption 30. Financial assets measured at fair value through other comprehensive income)

(amounts in euros)

Equity investments	*Number of shares or*	*% quotas*	*Nominal value*	*Book value*
Cedacri S.p.A.	898	7.122	898,000	26,351,020
Bank of Italy	400	0.133	10,000,000	10,000,000
S.S.B. Società Servizi Bancari S.p.A.	*51,491*	*0.030*	*6,694*	*3,640*
Consorzio Bancario S.I.R. S.p.A.	*882,939*	*0.057*	*883*	*274*
S.W.I.F.T. - Bruxelles	*17*	*0.015*	*2,125*	*38,227*
AcomeA Sgr S.p.A.	*50,000*	*8.658*	*500,000*	*1,451,000*
Sviluppo Como - ComoNExt Spa	*150,000*	*1.779*	*150,000*	*150,000*
Unione Fiduciaria	*15,050*	*1.394*	*82,775*	*485,212*
Baires Produzioni s.r.l.	-	-	-	*690,000*
Total				**39,169,373**

7.8. Significant restrictions

There are no significant 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.

Section 8 - Property, plant and equipment - caption 80

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

Assets/Amounts	31.12.2018	31.12.2017
1. Own assets	**132,862**	**134,244**
a) land	42,124	42,454
b) property	77,647	80,021
c) furniture	3,505	3,089
d) electronic systems	2,695	2,289
e) other	6,891	6,391
2. Land and property under finance lease	**-**	**-**
a) land	-	-
b) property	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**132,862**	**134,244**
of which: obtained through enforcement of the guarantees received	-	-

There are no assets held under finance leases at 31 December 2018.
Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, all the other tangible fixed assets are measured at cost.
The expected useful lives of the main asset categories are as follows:

- property: 50 years,
- office furniture, fittings, miscellaneous plant and equipment, armoured counters and compasses and alarm systems: 10 years,
- terminals and PCs, mixed use vehicles: 4 years.

Within each asset category, where necessary, certain types of assets may be attributed different and specified useful lives.
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.

8.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	31.12.2018				31.12.2017			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,729**	**-**	**-**	**1,837**	**1,049**	**-**	**-**	**922**
a) land	778	-	-	812	448	-	-	378
b) property	951	-	-	1,025	601	-	-	544
2. Land and property under finance lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) property	-	-	-	-	-	-	-	-
Total	**1,729**	**-**	**-**	**1,837**	**1,049**	**-**	**-**	**922**
of which: obtained through enforcement of the guarantees					-	-	-	-

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

Commitments to purchase property, plant and equipment (IAS 16/74.c)
At year-end there are no commitments to purchase property, plant and equipment.

8.3 Property, plant and equipment for business purposes: breakdown of revalued assets
As at the respective balance sheet dates, the Bank did not have any revalued property, plant and equipment for business purposes.

8.4 Investment property: breakdown of assets carried at fair value
As at the respective balance sheet dates, the Bank did not have any investment property measured at fair value.

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

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**42,454**	**103,795**	**29,156**	**16,613**	**36,324**	**228,342**
A.1 Total net write-downs	-	(23,774)	(26,067)	(14,324)	(29,933)	(94,098)
A.2 Net opening balance	**42,454**	**80,021**	**3,089**	**2,289**	**6,391**	**134,244**
B. Increases:	**-**	**223**	**921**	**1,579**	**1,459**	**4,182**
B.1 Purchases	-	73	899	1,517	1,459	3,948
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increase in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	-	-	-	-
B.7 Other changes	-	150	22	62	-	234
C. Decreases:	**330**	**2,597**	**505**	**1,173**	**959**	**5,564**
C.1 Sales	-	-	22	62	-	84
- of which: business combinations	-	-	-	-	-	-
C.2 Depreciation	-	2,073	483	1,111	959	4,626
C.3 Impairment write-downs booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property, plant and equipment	-	-	-	-	-	-
b) non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	330	524	-	-	-	854
D. Net closing balance	**42,124**	**77,647**	**3,505**	**2,695**	**6,891**	**132,862**
D.1 Net total write-downs	-	(25,698)	(26,528)	(15,373)	(30,892)	(98,491)
D.2 Gross closing balance	**42,124**	**103,345**	**30,033**	**18,068**	**37,783**	**231,353**
E. Measurement at cost	-	-	-	-	-	-

The captions A.1 and D.1 – "Net total write-downs" relate to accumulated depreciation.
Captions "B.7 Other changes", "C.1 Sales" and "C.7 Other changes" include the effects of disposals and sales of property, plant and equipment during the year; in particular, caption "B.7 Other changes" includes the release of the accumulated depreciation on the assets sold and caption "C.7 Other changes" includes the release of the historical cost of the same assets.

As a result of the aforementioned disposals, losses of 4 thousand euros were recorded to the income statement under caption 190 "Other operating charges/income".

8.7 Investment property: changes during the year

	Total	
	Land	Buildings
A. Opening balance	**448**	**601**
B. Increases	**330**	**523**
B.1 Purchases		
B.2 Capitalised improvement costs		
B.3 Positive changes in fair value		
B.4 Write-backs		
B.5 Foreign exchange gains		
B.6 Transfers from assets used in business		
B.7 Other changes	330	523
C. Decreases		**173**
C.1 Sales		
C.2 Depreciation		22
C.3 Negative changes in fair value		
C.4 Impairment write-downs		
C.5 Foreign exchange losses		
C.6 Transfers to other asset categories		
a) assets used in business		
b) non-current assets and disposal groups held for sale		
C.7 Other changes		151
D. Closing balance	**778**	**951**
E. Measurement at fair value	812	1,025

8.9 Commitments to purchase property, plant and equipment

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

FREEHOLD PROPERTY

(excluding property under finance lease)

Location of the property		Surface area of office space (sqm)	Net carrying amount (in thousand of euros)
Assets used in business			
ALBINO	Viale Libertà 23/25	332	655
ARCORE	Via Casati, 7	362	523
BAREGGIO	Via Falcone, 14	200	261
BESANA BRIANZA	Via Vittorio Emanuele, 1/3	625	781
BOLOGNA	Porta Santo Stefano, 3	1,223	8,426
BOLOGNA SANTA VIOLA	Via Della Ferriera, 4	200	948
BOVISIO MASCIAGO	Via Garibaldi, 8	382	398
BRESCIA	Via Verdi, 1	530	1,753
BRESCIA	1st floor Via Verdi, 1	190	1,039
BRIOSCO	Via Trieste, 14	430	385
BRUGHERIO	Viale Lombardia, 216/218	425	1,200
BUSTO ARSIZIO	Via Volta, 1	456	952
CADORAGO	Via Mameli, 5	187	279
CANTU'	Via Manzoni, 41	1,749	2,083
CARATE BRIANZA	Via Azimonti, 2	773	915
CARUGATE	Via XX Settembre, 8	574	579
CARUGO	Via Cavour, 2	252	357
CASTELLANZA	Corso Matteotti, 18	337	394
CESANO MADERNO	Corso Roma, 15	692	823
CHIAVARI	Piazza Matteotti	68	962
CINISELLO BALSAMO	Via Frova, 1	729	856
CINISELLO BALSAMO	Piazza Gramsci	26	14
COLOGNO MONZESE	Via Cavallotti, 10	128	44
COMO	Via Garibaldi, angolo Via Varese	548	2,187
CUSANO MILANINO	Viale Matteotti, 39	522	647
DESIO	Piazza Conciliazione, 1	1,694	1,961
DESIO	Via Rovagnati, 1	20,032	27,893
DESIO	Via Volta, 96	238	555
GARBAGNATE	Via Varese, 1	400	1,124
GIUSSANO	Via Addolorata, 5	728	874
LECCO	Via Volta, ang. Via Montello	615	1,618
LEGNANO	Corso Italia, 8	1,545	2,527
LISSONE	Via San Carlo, 23	583	1,256
MEDA	Via Indipendenza, 60	678	753
MILAN	Via della Posta, 8	1,912	7,521
MILAN	Via Foppa	223	756
MILAN	Via Menotti	825	2,806

Location of the property		Surface area of office space (sqm)	Net carrying amount (in thousand of euros)
MILAN	Via Moscova, 30/32	668	5,070
MILAN	Via Trau', 3	422	1,969
MILAN	Piazza De Angeli, 7/9	385	2,077
MISINTO	Piazza Mosca, 3	330	342
MODENA	Via Saragozza, 130	720	4,027
MONZA	Corso Milano, 47	453	824
MONZA	Via Rota, 66	330	513
MONZA	Piazza S. Paolo, 5	496	3,539
NOVA MILANESE	Piazza Marconi, 5	526	638
NOVATE MILANESE	Via Matteotti, 7	462	636
ORIGGIO	Largo Croce, 6	574	718
PADUA	Via Matteotti, 20	550	3,310
PALAZZOLO MILANESE	Via Monte Sabotino, 1	605	620
PIACENZA	Via Vittorio Veneto,67/a	486	1,356
REGGIO EMILIA	Via Terrachini,1 ang. Via Risorgimento	713	2,506
RENATE	Piazza don Zanzi, 2	429	606
RHO	Via Martiri Libertà, 3	410	697
RUBIERA	Via Emilia Ovest, 7	310	1,314
SARONNO	Via Rimembranze, 42	530	721
SEGRATE	Via Cassanese, 200	170	276
SEREGNO	Via Trabattoni, 40	1,233	1,968
SESTO SAN GIOVANNI	Piazza Oldrini	377	737
SEVESO	Via Manzoni, 9	382	1,007
SOVICO	Via Frette, 10	673	1,007
TURIN	Via Filadelfia, 136	370	1,630
VAREDO	Via Umberto I°, 123	501	491
VEDUGGIO	Via Vittorio Veneto, 51	257	226
VERANO BRIANZA	Via Preda, 17	322	364
VERANO BRIANZA	Via Furlanelli, 3	790	660
VIGEVANO	Via Decembrio, 21	480	1,924
VIMERCATE	Via Milano, 6	338	894
Sub total		**56,705**	**119,772**
Investment property			
MEDA parking space	Via Indipendenza, 60	15	6
MILAN	1st floor Via Trau', 3	205	1,028
MONZA	Via Manzoni, 37	397	695
Sub total		**617**	**1,729**
Total		**57,322**	**121,501**

Table of revalued assets recognised in the financial statements
(pursuant to art. 10 of Law no. 72 of 19/3/1983)

(amounts in euros)

	Revaluations in line with inflation			Revaluations to reflect change in value		
	Law 576/75	Law 72/83	Law 413/91	Merger deficit	Voluntary revaluations	TOTAL
DESIO, via Rovagnati		937,369	6,844,273			7,781,642
CINISELLO, P.zza Gramsci			1,173			1,173
CUSANO M.NO, Via Matteotti	10,170	25,483	19,944		12,925	68,522
CANTU', Via Manzoni		22,884	185,972	1,321,713		1,530,569
CARUGATE, Via XX Settembre			355		4,132	4,487
MILAN, Via della Posta			189,958		51,645	241,603
NOVATE M.SE, Via Matteotti			22,022	170,257		192,279
GIUSSANO, Via dell'Addolorata			26,067			26,067
MEDA, Via Indipendenza			51,616			51,616
MONZA Corso Milano			227,521			227,521
BOVISIO, Via Garibaldi			26,357			26,357
PADERNO DUGNANO, Via Casati			24,339			24,339
LEGNANO, Corso Garibaldi			176,676			176,676
SOVICO, Via G. da Sovico			62,703			62,703
Total	**10,170**	**985,736**	**7,858,976**	**1,491,970**	**68,702**	**10,415,554**

Section 9 - Intangible assets - caption 90

9.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2018		31.12.2017	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		**1,729**		**1,729**
A.2 Other intangible assets	**1,061**		**1,315**	**-**
A.2.1 Carried at cost	1,061		1,315	-
a) Intangible assets generated internally	-		-	-
b) Other assets	1,061		1,315	-
A.2.2 Carried at fair value	-		-	-
a) Intangible assets generated internally	-		-	-
b) Other assets	-		-	-
Total	**1,061**	**1,729**	**1,315**	**1,729**

The Bank's intangible assets are valued at cost. Goodwill recorded in the financial statements, having an indefinite useful life, is not amortised on a straight-line basis but subjected to impairment testing at least once a year, particularly at the year end reporting date or, in any case, any time circumstances arise that suggest that there may be impairment.

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

Impairment testing of goodwill

According to the provisions of IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, we report below information on the impairment test on cash generating units (CGU) carried out at the reporting date.

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

The recoverable amount of the CGU has been determined with reference to its value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived from it, 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.

<u>Criterion to estimate the recoverable amount (impairment)</u>

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

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

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

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

Including an explicit forecast period to 31 December 2022 makes it possible to minimise potential distortions from using only the time horizon of the Business Plan, which could be strongly influenced by the situation of the banking system that remains complex because of considerable uncertainty in forecasting the macroeconomic scenario due to the prolonged effects of the crisis, the lasting impacts that it has had on the money market and on interest rates, or otherwise linked to extraordinary events for which it is worth trying to normalise the results so as to focus better on the effective medium/long term potential of the entity being tested.

Cash flows

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

Discount rate

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

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

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

Terminal Value

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

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

Parameters used for impairment testing

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

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco di Desio e della Brianza Spa	DDM	2018-2020 Business Plan extended to 2022	-0.29%	9.24%	2.00%	Net results	CET 1 8.50% (*)

(*) The ratio of 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.

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 Spa	25.60%	304

9.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets		Total
		LIM	UNLIM	LIM	UNLIM	
A. Opening balance	**3,458**	**-**	**-**	**9,876**	**-**	**13,334**
A.1 Total net write-downs	(1,729)	-	-	(8,638)	-	(10,367)
A.2 Net opening balance	**1,729**	**-**	**-**	**1,315**	**-**	**3,044**
B. Increases	**-**	**-**	**-**	**732**	**-**	**732**
B.1 Purchases	-	-	-	732	-	732
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
3. Write-backs	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- recognised in equity	X	-	-	-	-	-
- recognised in income statement	X	-	-	-	-	-
B.5 Foreign exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**986**	**-**	**986**
C.1 Sales	-	-	-	-	-	-
C.2 Write-downs	-	-	-	986	-	986
- Amortisation	X	-	-	986	-	986
- 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	**1,729**	**-**	**-**	**1,061**	**-**	**2,790**
D.1 Total net write-downs	(1,729)	-	-	(9,625)	-	(11,354)
E. Gross closing balance	**3,458**	**-**	**-**	**10,686**	**-**	**(14,144)**
F. Measurement at cost	-	-	-	-	-	-

Key
LIM: limited duration
UNLIM: unlimited duration

9.3 Intangible assets: other information

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

Section 10 - Tax assets and liabilities - Asset caption 100 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.

10.1 Deferred tax assets: breakdown

	IRES	IRAP	31.12.2018	31.12.2017
A) With contra-entry to the income statement:				
Tax losses				
Tax deductible goodwill	2,236	453	2,689	2,766
Write-down of loans to customers deductible on a straight-line basis	86,859	11,447	98,306	91,300
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994				1
Statutory depreciation of property, plant and equipment	197		197	164
Provision for guarantees and commitments and country risk	162		162	219
Provisions for personnel costs	3,524	578	4,102	6,634
Provision for lawsuits	1,577		1,577	2,084
Provision for claw-backs	93	19	112	146
Provision for sundry charges	273		273	187
Tax provision for termination indemnities	289		289	340
Other general expenses deductible in the following year				249
Other	109	281	390	1
Total A	**95,624**	**12,778**	**108,402**	**104,396**
B) With contra-entry to shareholders' equity:				
Tax provision for termination indemnities	113		113	219
Write-down of securities classified as FVOCI	2	5	7	2,783
Other	1,131	230	1,361	1,157
Total B	**1,246**	**235**	**1,481**	**4,159**
Total (A+B)	**96,870**	**13,013**	**109,883**	**108,555**

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 93,716 thousand euros to taxes pursuant to Law 214/2011 (write-downs of receivables from customers not yet deducted and value of goodwill deductible in more than one fiscal year), which are certain to be recovered, in fact making the probability test contemplated by IAS 12 automatically satisfied.

The Parent Company Banco di Desio e della Brianza S.p.A. is not obliged to pay the annual guarantee fee for the transformation of deferred tax assets into tax credits as per Law 214/2011 as introduced by art. 11 of D.L. 59/2016, as the tax base, calculated according to regulations, is negative.
The additional deferred tax assets described above, which are outside the scope of Law 214/2011, have been recognised in view of the probability of their recovery, expecting there to be sufficient taxable income in the future to recover these assets. In particular, deferred tax assets have been analysed by type and by the timing of the reversal of the related temporary differences, considering the future profitability of the Bank and the related taxable income forecast in the business plan to 2022. The analysis showed that there will be sufficient taxable income in the future to recover these assets.

10.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2018	31.12.2017
A) With contra-entry to the income statement:				
Tax depreciation of buildings	6,688	871	7,559	7,561
Tax depreciation of property, plant and equipment		16	16	15
Tax amortisation of goodwill	475	96	571	572
Tax amortisation of deferred charges (software)				7
Tax provision as per art. 106, paragraph 3				20
Other	428	15	443	790
Total A	**7,591**	**998**	**8,589**	**8,965**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	504	102	606	606
Revaluation of securities valued at FVOCI	405	82	487	1,419
Revaluation of equity investments	268	1,085	1,353	1,353
Tax provision for termination indemnities				
Total B	**1,177**	**1,269**	**2,446**	**3,378**
Total (A+B)	**8,768**	**2,267**	**11,035**	**12,343**

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".

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

	31.12.2018	31.12.2017
1. Opening balance	**104,396**	**115,519**
2. Increases	**9,354**	**2,508**
2.1 Deferred tax assets recognised during the year	3,285	2,366
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	3,285	2,366
2.2 New taxes or increases in tax rates		
2.3 Other increases	6,069	142
3. Decreases	**5,348**	**13,631**
3.1 Deferred tax assets cancelled in the year	5,348	13,631
a) reversals	5,348	13,631
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
a) Conversion to tax credits as per L. 214/2011		
b) Other		
4. Closing balance	**108,402**	**104,396**

The deferred tax assets recognised during the year mainly comprised:

- 1,707 thousand euros relating to non-deductible provisions to risks and charges and employee related provisions;
- 1,180 thousand euros relating to prepaid IRAP set aside on the income components deriving from adoption of the expected loss recognition model on loans to customers, recorded on FTA of IFRS 9, 90% deductible pursuant to the 2019 Budget Law on a straight-line basis from 2019 to 2027;
- 210 thousand euros for non-deductible provisions for legal disputes and bankruptcy clawback actions.

Sub-caption "2.3 Other increases" mainly refers:

- Euro 5,826 thousand euros to prepaid IRES set aside on the income components deriving from adoption of the expected loss recognition model on loans to customers, recorded on FTA of IFRS 9, 90% deductible pursuant to the 2019 Budget Law on a straight-line basis from 2019 to 2027;
- for 185 thousand euros to the recognition of deferred tax assets as a result of the recalculation carried out for the purpose of the tax return for 2017.

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

10.3.bis Changes in deferred tax assets under Law 214/2011

	31.12.2018	31.12.2017
1. Opening balance	**93,716**	**102,255**
2. Increases		
3. Decreases		**8,539**
3.1 Reversals		8,539
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	**93,716**	**93,716**

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

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

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

	31.12.2018	31.12.2017
1. Opening balance	**8,965**	**9,684**
2. Increases	**281**	**533**
2.1 Deferred tax liabilities recognised during the year		310
a) relating to prior years		
b) due to changes in accounting policies		
c) other		310
2.2 New taxes or increases in tax rates		
2.3 Other increases	281	223
3. Decreases	**657**	**1,252**
3.1 Deferred tax liabilities cancelled during the year	657	1,252
a) reversals	657	1,252
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**8,589**	**8,965**

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

Deferred tax liabilities cancelled during the year are mainly attributable:

- for 612 thousand euros to the share of capital gains realised on financial assets in 2014, 2015, 2016 and 2017, deductible on a straight-line basis over the following four years in accordance of art. 86.4 of TUIR (Consolidated Income Tax Act);
- for 43 thousand euros to dividends pertaining to the previous year and collected during the current year.

10.5 Changes in deferred tax liabilities (as a contra-entry to shareholders' equity)

	31.12.2018	31.12.2017
1. Opening balance	**4,159**	**6,038**
2. Increases	**234**	**679**
2.1 Deferred tax assets recognised during the year	234	679
a) relating to prior years		
b) due to changes in accounting policies		
c) other	234	679
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**2,912**	**2,558**
3.1 Deferred tax assets cancelled in the year	236	2,558
a) reversals	236	2,558
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	2,676	
4. Closing balance	**1,481**	**4,159**

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

Deferred tax assets cancelled mainly comprise

- 122 thousand euros for the valuation of securities classified as financial assets at fair value through other comprehensive income (FVOCI);
- for 106 thousand euros to the actuarial measurement of the Provision for termination indemnities.

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

10.6 Changes in deferred tax liabilities (as a contra-entry to shareholders' equity)

	31.12.2018	31.12.2017
1. Opening balance	**3,378**	**1,678**
2. Increases	**1,784**	**2,806**
2.1 Deferred tax liabilities recognised during the year	334	2,806
a) relating to prior years		
b) due to changes in accounting policies		
c) other	334	2,806
2.2 New taxes or increases in tax rates		
2.3 Other increases	1,450	
3. Decreases	**2,716**	**1,106**
3.1 Deferred tax liabilities cancelled during the year	2,473	1,106
a) reversals	2,473	1,106
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases	243	
4. Closing balance	**2,446**	**3,378**

Deferred tax liabilities recognised during the year are due to the valuation of securities classified as Financial assets valued at fair value through other comprehensive income (FVOCI).
Deferred tax liabilities cancelled during the year are due to the valuation of securities classified as Financial assets valued at fair value through other comprehensive income (FVOCI).
Captions "2.3 Other increases" and "3.3. Other decreases" refer to the realignment of deferred taxes as a consequence of applying IFRS 9 to the original IAS 39 portfolios ("Financial assets available for sale" and "Financial assets held to maturity").

10.7 Other information

Current tax assets

Captions	31.12.2018	31.12.2017
Ires	2,021	10,065
Irap	6,068	6,066
Total	**8,089**	**16,131**

Section 12 - Other assets - caption 120

12.1 Other assets: breakdown

	31.12.2018	31.12.2017
Tax credits	7,088	7,132
Amounts recoverable from the tax authorities for advances paid	20,807	21,997
Cheques negotiated to be cleared	12,038	15,133
Invoices issued to be collected	676	874
Debtors for securities and coupons to be collected by third parties	19	
Items being processed and in transit with branches	12,841	13,452
Currency spreads on portfolio transactions	19	2,512
Investments of the supplementary fund for termination indemnities	180	315
Leasehold improvement expenditure	8,514	9,470
Accrued income and prepaid expenses	1,684	963
Other items	19,326	33,677
Total	**83,192**	**105,525**

The "Tax credits" caption mainly relates to the reimbursement 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.

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

- a receivable for withholding tax on interest on deposits and current accounts of 172 thousand euros;
- a receivable for virtual stamp duty of 16,654 thousand euros;
- a receivable for an advance payment of substitute tax due on capital gains of 3,981 thousand euros, as per art. 2, para. 5, of Legislative Decree no. 133 of 30 November 2013.

The "Items being processed and in transit with branches" principally include security transactions, Euro 2,023 thousand; the F24 tax payment forms accepted through internet and home banking instructions that will be debited to accounts on the due date, 1,386 thousand euros, and the recovery of commissions on lines of credit made available to customers, 5,696 thousand euros. This caption comprises transactions that are usually closed out within a few days of the start of the new reference period.

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

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

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

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

- commissions and taxes awaiting collection for 8,343 thousand euros;
- receivables for invoices to be issued for 1,597 thousand euros;
- 747 thousand euros due following currency transactions;
- 4,200 thousand euros due from Banca Popolare di Spoleto 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	31.12.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**1,586,367**	X	X	X	**1,592,800**	X	X	X
2. Due to banks	**82,730**	X	X	X	**167,434**	X	X	X
2.1 Current accounts and demand deposits	29,960	X	X	X	48,615	X	X	X
2.2 Time deposits	34,062	X	X	X	35,754	X	X	X
2.3 Loans	18,708	X	X	X	83,065	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	18,708	X	X	X	83,065	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Other payables	-	X	X	X	-	X	X	X
Total	**1,669,097**	**-**	**-**	**1,669,097**	**1,760,234**	**-**	**-**	**1,760,234**

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

The "Due to central banks" caption reflects the funding facility assigned to the Bank by the ECB as part of the "TLTRO II" operation. To assist this loan, the Bank has lodged collateralised mortgage loans with the ECB (via the A.Ba.Co. procedure).
Intragroup balances with Banco Popolare di Spoleto S.p.A. at 31 December 2018 amount to 59,670 thousand euros.

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

Type of transaction/Amounts	31.12.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	5,299,446	X	X	X	5,055,871	X	X	X
2. Time deposits	629,817	X	X	X	897,424	X	X	X
3. Loans	-	X	X	X	-	X	X	X
3.1 Repurchase agreements	-	X	X	X	-	X	X	X
3.2 Other	-	X	X	X	-	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Other payables	35,638	X	X	X	35,504	X	X	X
Total	**5,964,901**	**-**	**-**	**5,964,901**	**5,988,799**	**-**	**-**	**5,988,799**

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

The main components of "Other payables" relate to: cashier's cheques for 35,097 thousand euros and cheques for 540 thousand euros (cashier's cheques for 34,970 thousand euros and cheques for 535 thousand euros respectively at the end of the previous year).
Amounts due to Group companies total 449 thousand euros (236 thousand euros at the end of the previous year), all relating to the subsidiary Fides S.p.A. Transactions are carried out at market rates.

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

	31.12.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	1,330,336	-	1,329,907	-	1,591,010	-	1,591,731	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,330,336	-	1,329,907	-	1,591,010	-	1,591,731	-
2. Other securities	8,518	-	-	8,518	11,037	-	-	11,037
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	8,518	-	-	8,518	11,037	-	-	11,037
Total	**1,338,854**	**-**	**1,329,907**	**8,518**	**1,602,047**	**-**	**1,591,731**	**11,037**

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

This caption reflects funding by means of securities, which include bonds and certificates of deposit, the book value of which is measured at amortised cost (or at fair value if the security is hedged), inclusive of accrued interest thereon. The total funds collected are shown net of repurchased securities.
The caption "A.1.2 Bonds: other" includes the Guaranteed Bank Bonds (GGB) issued last year for 575 million euros.
During the year, new debt securities were issued of a nominal value (N.V.) of 93,209 thousand euros, while debt securities redeemed on maturity amounted to 380,818 thousand euros (N.V.). Again during the year, repurchases were made of securities Euro 47,008 thousand euros (N.V.), resold for 77,121 thousand euros (N.V.).
"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, with a short term maturity.

1.4 Details of subordinated payables/securities

Bonds	Issue date	Maturity date	Currency	Interest rate	31.12.2018	31.12.2017
ISIN code IT0004921166	03.06.2013	03.06.2018	EUR	FR	-	12,485
ISIN code IT0005038085	28.08.2014	28.08.2019	EUR	FR	50,262	47,873
ISIN code IT0005070179	22.12.2014	22.12.2019	EUR	FR	49,935	48,097
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,939	79,382
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	50,069	49,481
Total					**230,205**	**237,318**

No subordinated bond was issued by Banco Desio during the period.

Section 2 - Financial liabilities held for trading - caption 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	31.12.2018					31.12.2017				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	X	-	-	2,832	X	X	-	-	4,531	X
1.1 For trading	X	-	-	2,832	X	X	-	-	4,531	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**	**-**	**-**	**2,832**	**X**	**X**	**-**	**-**	**4,531**	**X**
Total (A+B)	**X**	**-**	**-**	**2,832**	**X**	**X**	**-**	**-**	**4,531**	**X**

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

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

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

Banca Popolare di Spoleto did not have any subordinated loans due to customers at the reporting date.

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

Banca Popolare di Spoleto did not have any structured loans due to customers at the reporting date.

Section 4 - Hedging derivatives - caption 40

4.1 Hedging derivatives: breakdown by type and level

	31.12.2018				31.12.2017			
	NV	Fair value			NV	Fair value		
		L1	L2	L3		L1	L2	L3
A) Financial derivatives	**130,000**	**-**	**2,055**	**-**	**130,000**	**-**	**1,414**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	130,000	-	2,055	-	130,000	-	1,414	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**130,000**	**-**	**2,055**	**-**	**130,000**	**-**	**1,414**	**-**

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

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

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

Section 6 - Tax liabilities - caption 60

The breakdown and changes in the year of tax liabilities are disclosed in Section 10, Assets, together with information on deferred tax assets.

Section 8 - Other liabilities - caption 80

8.1 Other liabilities: breakdown

	31.12.2018	31.12.2017
Due to tax authorities	155	252
Amounts payable to tax authorities on behalf of third parties	16,199	17,249
Social security contributions to be paid	3,222	3,846
Dividends due to shareholders	4	4
Suppliers	11,583	9,612
Amounts available to customers	10,262	12,458
Interest and dues to be credited	126	20
Payments against bill instructions	97	724
Early payments on loans not yet due	5	613
Items being processed and in transit with branches	13,396	65,303
Currency differences on portfolio transactions	59,354	
Due to personnel	6,886	7,495
Sundry creditors	48,800	8,505
Provisions for guarantees given and commitments		797
Accrued expenses and deferred income	679	844
Total	**170,768**	**127,724**

The "Amounts payable to tax authorities on behalf of third parties" mainly relate to the F24 tax payments to be made on behalf of customers and to the taxes withheld by the Bank for payment to the tax authorities.

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

- to transitory items for standing orders on current accounts, 6,722 thousand euros,
- to MAV/RAV receipts, payment slips and Sepa direct debit (SDD) instructions for 3,992 thousand euros,
- items related to transactions in securities settled afterwards for 464 thousand euros,
- transitory items for the settlement of purchase orders of customers of asset management products (funds and bancassurance) for 687 thousand euros.

The amount of "Currency differences on portfolio transactions" is the result of the offset of illiquid liability positions against illiquid asset positions, in relation to various types of transactions connected with the accounts of customers and correspondent banks. The change compared with the previous year, when the balance was shown under other assets, was caused by payments on the portfoliomade at different dates, depending on the calendar (last day of the business year, unlike the previous year).

"Due to personnel" includes the payable relating to early retirement incentives of 5,651 thousand euros (6,046 thousand euros at the end of last year) and the amount due for holiday pay of 1,235 thousand euros (1,449 thousand euros at the prior year end).

The main items included under caption "Sundry creditors" refer to: bank transfers being processed of 45,107 thousand euros (58,520 thousand euros at the prior year end, classified under "Items being processed and in transit with branches"), sundry creditors for currency transactions of 525 thousand euros (1,865 thousand euros last year) and creditors for bills paid of 287 thousand euros (1,440 thousand euros last year).

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

Section 9 - Provision for termination indemnities - caption 90

9.1 Provision for termination indemnities: changes during the year

	31.12.2018	31.12.2017
A. Opening balance	**20,019**	**21,355**
B. Increases	**166**	**913**
B.1 Provision for the year	166	385
B.2 Other changes		528
C. Decreases	**2,674**	**2,249**
C.1 Payments made	2,289	2,249
C.2 Other changes	385	
D. Closing balance	**17,511**	**20,019**

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 Bank, 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 7,481 thousand euros (7,678 thousand euros last year), is recognised in Personnel expenses in the sub-caption "g) payments to external supplementary pension funds: defined contribution".
The captions "B.2 Other changes" and "C.2 Other changes" reflects the impact of discounting the provision for termination indemnities for statutory purposes (positive and negative).
The statutory liability to the employees of the Bank at year end amounts to 16,435 thousand euros (18,380 thousand euros at the end of the prior year).

9.2 Other information

The actuarial assumptions used by the independent actuary for the measurement of the liability at the reporting date are the following:
Demographic assumptions
- for the probability of death, those determined by gender by the State General Accounting Department, denominated RG 48;
- for the probability of disability, those, by gender, adopted by the 2010 INPS forecasting model. These probabilities were arrived at by starting with the distribution by age and gender of pensions at 1 January 1987 with effect from 1984, 1985 and 1986 relating to personnel in the credit sector;
- for the retirement age for the general working population, it was assumed that the first of the pension requirements valid for compulsory social security insurance had been met;
- for the probability of leaving employment for reasons other than death, based on internal statistics, an annual frequency of 2.50% was used; account has also been taken of the Bank's redundancy plan;
- for the probability of advances, an annual amount of 4% was assumed;

Economic-financial assumptions

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

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

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

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

	Increase in parameter (+)	**Decrease in parameter (-)**
Annual discounting rate (+/- 0.25%)	17,199	17,832
Annual inflation rate (+/- 0.25%)	17,694	17,331
Annual turn over rate (+/- 2.00%)	17,386	17,657

Section 10 - Provisions for risks and charges - caption 100

10.1 Provisions for risks and charges: breakdown

Captions/Amounts	**31.12.2018**	**31.12.2017**
1. Credit risk provisions relating to commitments and financial guarantees given	589	-
2. Provisions for other commitments and other guarantees given	-	-
3. Pensions and similar commitments	-	-
4. Other provisions for risks and charges	20,686	29,844
4.1 Legal and tax disputes	6,070	8,020
4.2 Personnel expenses	13,050	20,875
4.3 Other	1,566	949
Total	**21,275**	**29,844**

In caption "1. Provisions for credit risk relating to commitments and financial guarantees given", the risk provision is determined by applying the models for calculating the expected loss defined on first-time adoption of "IFRS 9 Financial Instruments" (1 January 2018). In the comparison period, the provision for guarantees issued and commitments determined in application of the accounting standard IAS 39 is classified under item "80. Other liabilities" for 797 thousand euros.

The "Legal disputes" sub-caption includes provisions made for losses expected to arise from disputes, of which 6,357 thousand euros relates to legal disputes (7,579 thousand euros at the end of last year) and 341 thousand euros relates to bankruptcy clawback actions (441 thousand euros at the end of 2017).

"Personnel expenses" mainly include estimated liabilities regarding the Solidarity fund, Euro 5,284 thousand (Euro 10,726 thousand last year); the bonus system, Euro 5,110 thousand (Euro 5,156 thousand last year), and the long-service and additional holiday awards, Euro 2,430 thousand (Euro 2,436 thousand last year). The caption "Other" includes provisions for charges pertaining to other operating risks.

10.2 Provisions for risks and charges: changes in the year

	Provisions for other commitments and other guarantees given	Other provisions	Total
A. Opening balance	**-**	**29,844**	**29,844**
B. Increases	**589**	**6,605**	**7,194**
B.1 Provision for the year	99	6,586	6,685
B.2 Changes due to the passage of time		19	19
B.3 Changes due to changes in the discount rate			
B.4 Other changes	490		490
C. Decreases		**15,763**	**15,763**
C.1 Utilisations during the year		10,960	10,960
C.2 Changes due to changes in the discount rate			
C.3 Other changes	-	4,803	4,803
D. Closing balance	**589**	**20,686**	**21,275**

Caption "B.4 Other changes" of "Provisions for other commitments and other guarantees given" refers to the calculation of the expected loss defined on first-time adoption of "IFRS 9 Financial Instruments" (1 January 2018), to which further provisions were made during the year for Euro 99 thousand.
With reference to "Other provisions", "B.1 Provisions of the year" include accruals for:

- to the bonus fund of Euro 4,990 thousand,
- for other operational risks, including the provisions related to the indemnities to be paid to financial advisors, for Euro 787 thousand,
- charges for legal disputes and bankruptcy of Euro 695 thousand.

The caption "B.2 Changes due to the passage of time" includes discount interest accrued during the year on the provision for legal disputes and on the staff provision for solidarity, due to the proximity of the expected maturities of the liabilities.
The caption "C.1 Utilisations in the year" includes direct utilisations of Provisions for risks and charges as a result of agreements and settlements executed in the year, as well as conditions having been met for the payment of provisions to the personnel. In particular, utilisations related mainly to payments for legal disputes and claims from bankruptcy administrators, Euro 2,658 thousand, payments relating to the bonus fund, Euro 7,386 thousand, and to the solidarity fund, Euro 747 thousand.

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	47	4	-	51
2. Financial guarantees given	119	78	341	538
Total	**166**	**82**	**341**	**589**

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

10.5 Pensions and similar commitments - defined benefits

At the reference dates, the caption shows a zero balance.

10.6 Provisions for risks and charges: other provisions

	31.12.2018	31.12.2017
Legal disputes	6,070	8,020
Other operating risks	1,566	949
Solidarity fund	5,318	10,726
Long-service bonuses and additional holidays	2,385	2,436
Other employee related provisions	5,347	7,714
Total	**20,686**	**29,844**

Section 12 - Shareholders' equity - captions 110, 130, 140, 150, 160, 170 and 180

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

	31.12.2018	31.12.2017
A. Share capital	67,705	67,705
A.1 Ordinary shares	60,840	60,840
A.2 Savings shares	6,865	6,865
A.3 Preference shares		
B. Treasury shares		
B.1 Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	67,705	67,705

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

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

12.2 Share capital - Number of shares: changes in the year

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

12.3 Share capital: other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

12.4 Revenue reserves: other information

In compliance with the requirements of art. 2427, paragraph 1.7 bis of the Civil Code, set out below is a summary of the components of shareholders' equity in accordance with their origin and with an indication of their possible use and distribution, as well as their utilisation in the previous three years.

	31.12.2018	Possible uses		Unrestricted portion	Uses in the last three years	
					Loss coverage	Other uses
Share capital	67,705					
Share premium reserve	16,145	A,B,C	(1)	16,145		
Legal reserve	95,216	A, B	(2)			
Statutory reserve	549,722	A,B,C		549,722		
Merger surplus/deficit reserve	(27)					
Reserves for intercompany transactions	8,929	A, B	(3)			
Valuation reserves:						
- financial assets available for sale	19,028		(4)			
- actuarial measurement of provision for termination indemnities	(1,297)		(4)			
- special revaluation laws	22,198	A,B	(5)			
- revaluation reserve Law 413/1991	697	A,B,C		697		
- cash-flow hedges	(1,191)		(4)			
IAS transition reserve	121,936		(6)			
Reserves for FTA IFRS 9	- 18,972		(6)			
Charity reserve	100		(7)			175
Other	3,369	A,B,C		3,369		
Total	**883,558**			**569,933**		**175**

Key: A = increase in share capital B = for loss coverage C = for distribution

Notes:
(1) Pursuant to article 2431 of the Civil Code, that portion of the share premium reserve needed to ensure the legal reserve meets the minimum legal requirements (one fifth of share capital) is non distributable
(2) This may be used for increases in share capital, but only the portion that exceeds one fifth of the share capital
(3) Reserves deriving from the transfer of the business unit and purchase/sale of the Milan branch with BPS in connection wit the application of OPI 1.
(4) Restricted reserve as per art. 6 of Legislative Decree 38/2005
(5) Reserve set up on first-time adoption of IAS/IFRS for the impact of the valuation at "deemed cost" of property and equipment, as required by the "IAS decree"
(6) The IAS/IFRS transition reserve complies with article 7 of Legislative Decree 38/2005
(7) Reserve for social-cultural contributions, as specified in the articles of association

12.5 Equity instruments: breakdown and changes in the year

None.

12.6 Other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

OTHER INFORMATION

1. Commitments and financial guarantees given (other than those designated at fair value)

	Nominal value on commitments and financial guarantees given			31/12/2018
	First stage	Second stage	Third stage	
Commitments to disburse funds	**2,121,776**	**29,295**	**31,021**	**2,182,092**
a) Central banks	-	-	-	-
b) Public administrations	-	-	-	-
c) Banks	123,286	-	-	123,286
d) Other financial companies	43,527	14	-	43,541
e) Non-financial companies	1,853,018	24,597	30,870	1,908,485
f) Households	101,945	4,684	151	106,780
Financial guarantees given	**210,152**	**11,619**	**963**	**222,734**
a) Central banks	-	-	-	-
b) Public administrations	-	-	-	-
c) Banks	21,772	-	-	21,772
d) Other financial companies	881	1,208	-	2,089
e) Non-financial companies	174,682	8,015	895	183,592
f) Households	12,817	2,396	68	15,281

3. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31/12/2018	31/12/2017
1. Financial assets designated at fair value through profit or loss	-	-
2. Financial assets designated at fair value through other comprehensive income	-	868,103
3. Financial assets measured at amortised cost	2,845,492	550,352
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. In the comparative period, caption "2. Financial assets designated at fair value through other comprehensive income" conventionally includes debt securities classified in the available for sale (AFS) portfolio based on IAS 39.

4. Information on operating leases
This is not foreseen in Banco Desio.

5. Administration and trading on behalf of third parties

Type of services	31/12/2018
1. Execution of orders on behalf of customers	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	**1,412,721**
3. Custody and administration of securities	**20,509,247**
a) third-party securities on deposit as custodian bank (excluding portfolio management schemes)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) third-party securities held on deposit (excluding portfolio management schemes): other	8,989,751
1. securities issued by the reporting bank	775,897
2. other securities	8,213,854
c) third-party securities deposited with third parties	8,950,032
d) portfolio securities deposited with third parties	2,569,464
4. Other transactions	**-**

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

Technical forms	Gross amount of financial liabilities (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2018 (f=c-d-e)	Net amount 31.12.2017
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1. Derivatives	2,055		2,055		2,450	(395)	(156)
2. Repurchase							
3. Securities lending							
4. Other transactions							
Total 31.12.2018	**2,055**		**2,055**		**760**	**653**	
Total 31.12.2017	**1,414**		**1,414**		**1,570**		**(156)**

Tables 5 and 6 show the positive fair values (Table 5 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 6 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";
- 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 INCOME STATEMENT

Section 1 - Interest – captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2018	31.12.2017
1. Financial assets designated at fair value through profit or loss	30	-	-	30	200
1.1 Financial assets held for trading	30	-	-	30	200
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	-	-	-	-	-
2. Financial assets designated at fair value through other comprehensive income	4,681	-	X	4,681	8,559
3. Financial assets measured at amortised cost	7,212	140,875	X	148,087	150,369
3.1 Due from banks	1,737	3,392	X	5,129	2,041
3.2 Loans to customers	5,475	137,483	X	142,958	148,328
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	1	1	6
6. Financial liabilities	X	X	X	4,240	4,621
Total	**11,923**	**140,875**	**1**	**157,039**	**163,755**
of which: interest income on impaired financial assets	-	258	-	258	-

Interest on "Loans to customers" is recognised net of default interest accrued in the year on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question amounts to 1,920 thousand euros (2,967 thousand euros last year). Conversely, the caption includes default interest collected in the year of 935 thousand euros (495 thousand euros last year), of which 567 thousand euros relate to prior years (Euro 483 thousand last year).
The caption includes interest payable to Group companies of 14,687 thousand euros (12,689 thousand euros last year).
Caption "3. Financial assets valued at amortised cost" of the comparative period includes interest accrued on securities classified as "held to maturity" on the basis of IAS 39 in force up to 31 December 2017, for 573 thousand euros under "loans to banks" and for 1,682 thousand euros under "loans to customers".
The balance of item "3.2 Loans to customers" at 31 December 2018 includes:

- the positive part of the release of the time value component of non-performing financial assets of 4,818 thousand euros;
- the negative part of write-downs on interest relating to impaired loans of approximately 1,527 thousand euros;

shown under caption "130.a Net adjustments for credit risk relating to financial assets measured at amortised cost" in the comparative period.
The interest on item "6. Financial liabilities" includes Euro 4.2 million as the benefit deriving from application of the negative interest rate of 0.40% on part of the total loan granted by the Eurosystem to the Banco Desio Group within the ambit of "TLTRO II".

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Captions	31.12.2018	31.12.2017
Interest income on financial assets in foreign currency	1,570	1,307

1.2.2 Interest income from finance leases

Total interest recognised as income in the year is included in the caption "Loans to customers – loans" and amounts to 3,910 thousand euros (5,547 thousand euros last year); of this, 3,406 thousand euros relates to index-linked contracts, of which Euro 217 thousand relates to leaseback agreements (in 2017 4,857 thousand euros related to index-linked contracts, of which 283 thousand euros related to leaseback agreements).
Financial income pertaining to subsequent years amounts to 36,305 thousand euros, of which 3,111 thousand euros relate to leaseback agreements (last year 47,420 thousand euros and 4,419 thousand euros, respectively).

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2018	31.12.2017
1. Financial liabilities measured at amortised cost	(8,433)	(20,751)	X	(29,184)	(30,898)
1.1 Due to central banks	-	*X*	*X*	-	*(1,481)*
1.2 Due to banks	*(946)*	*X*	*X*	*(946)*	*(901)*
1.3 Due to customers	*(7,487)*	*X*	*X*	*(7,487)*	*(7,252)*
1.4 Debt securities in issue	*X*	*(20,751)*	*X*	*(20,751)*	*(21,264)*
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	(48)
4. Other liabilities and provisions	X	X	(228)	(228)	(69)
5. Hedging derivatives	X	X	(892)	(892)	(749)
6. Financial assets	X	X	X	(2,230)	-
Total	**(10,663)**	**(20,751)**	**(1,120)**	**(32,534)**	**(31,764)**

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

Captions	31.12.2018	31.12.2017
Interest expense on foreign currency financial liabilities	(472)	(518)

1.4.2 Interest expense on finance leases

Banco Desio is not party to any finance lease agreements that generate interest expense.

1.5 Differentials on hedging transactions

Captions	31.12.2018	31.12.2017
A. Positive differentials on hedging transactions	-	180
B. Negative differentials on hedging transactions	(892)	(930)
C. Balance (A-B)	**(892)**	**(750)**

Section 2 - Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2018	31.12.2017
a) guarantees given	1,913	2,138
b) credit derivatives	-	
c) management, brokerage and consulting services	46,284	45,349
1. trading in financial instruments	-	
2. trading in foreign exchange	1,190	1,266
3. portfolio management	5,788	6,300
4. custody and administration of securities	1,226	1,272
5. custodian bank	-	
6. placement of securities	15,821	15,263
7. order taking	4,307	4,761
8. advisory services	-	
8.1 regarding investments	-	
8.2 regarding financial structuring	-	
9. distribution of third-party services	17,952	16,487
9.1 asset management	410	468
9.1.1 individual	410	468
9.1.2 collective	-	
9.2 insurance products	14,078	13,972
9.3 other products	3,464	2,047
d) collection and payment services	18,564	18,228
e) servicing related to securitisation	-	
f) services for factoring transactions	110	114
g) tax collection services	-	
h) management of multilateral trading systems	-	
i) maintenance and management of current accounts	45,170	45,524
j) other services	5,514	5,047
Total	**117,555**	**116,400**

Commission income from Group companies amounts to 673 thousand euros (555 thousand euros in December 2017).

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

Commissions for "other services" include recoveries of expenses on customer collection and payments for 669 thousand euros (1,027 thousand euros last year), fees for the Internet banking service of 805 thousand euros (724 thousand euros last year) and recoveries of expenses on mortgage instalments for 914 thousand euros (860 thousand euros last year).

2.2 Fee and commission income: product and service distribution channels

Channels/Amounts	31.12.2018	31.12.2017
a) at own branches		
1. portfolio management	5,788	6,300
2. placement of securities	15,821	15,263
3. distribution of third-party services and products	17,952	16,487
b) doorstep banking		
1. portfolio management		
2. placement of securities		
3. distribution of third-party services and products		
c) other distribution channels		
1. portfolio management		
2. placement of securities		
3. distribution of third-party services and products		

2.3 Commission expense: breakdown

Services/Amounts	**31.12.2018**	**31.12.2017**
a) Guarantees received	(437)	(293)
b) credit derivatives	-	-
c) management and brokerage services:	(950)	(1,056)
1. trading in financial instruments	(45)	(66)
2. trading in foreign exchange	-	-
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	(843)	(958)
5. placement of financial instruments	(16)	(32)
6. offer of securities, financial products and services through financial promoters	(46)	-
d) collection and payment services	(2,035)	(1,964)
e) other services	(1,620)	(1,102)
Total	**(5,042)**	**(4,415)**

Commissions for "other services" include fees for the presentation of customers and loans granted to them for 1,052 thousand euros (700 thousand euros in December 2017).

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2018		31.12.2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	102	0	45	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	2,339	0	4,654	0
D. Equity investments	8,100	0	6,640	0
Total	**10,541**	**0**	**11,339**	**0**

In addition to the dividends received from subsidiaries, the table shows dividend income from non-controlling interests classified as "Financial assets that have to be measured at fair value" and dividends relating to equity instruments classified as "Financial assets held for trading".
Dividend income from equity investments, as per caption "D. Equity investments", relates to:

- Banca Popolare di Spoleto Euro 2,334 thousand (Euro 1,770 thousand in December 2017)
- Fides Euro 5,766 thousand (Euro 4,870 thousand in December 2017)

The dividends in caption "C. Financial assets designated at fair value through other comprehensive income" for the comparative period include 4,074 thousand euros recorded after the resolution to distribute reserves on 6 December 2017 by Cedacri S.p.A.

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 held for trading	**-**	**1,244**	**(728)**	**(843)**	**(327)**
1.1 Debt securities	-	222	(3)	(420)	(201)
1.2 Equity instruments (other than banking investments)	-	417	(725)	(423)	(731)
1.3 Mutual funds	-	526	-	-	526
1.4 Loans	-	-	-	-	-
1.5 Other	-	79	-	-	79
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**	**2,917**
4. Derivatives	**4**	**6,557**	**(144)**	**(8,486)**	**(1,970)**
4.1 Financial derivatives:	4	6,557	(144)	(8,486)	(1,970)
- On debt securities and interest rates	1	3,857	-	(4,743)	(885)
- On equities and equity indices	3	1,419	(144)	(2,105)	(827)
- On currency and gold	**X**	**X**	**X**	**X**	99
- Other	-	1,281	-	(1,638)	(357)
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	**X**	**X**	**X**	**X**	-
Total	**4**	**7,801**	**(872)**	**(9,329)**	**620**

The captions "1 Financial assets held for trading" and "4 Derivatives" include income from financial assets held for trading.

Caption "3 Other financial assets: exchange differences" includes the gains (or losses) arising from the translation of foreign currency assets and liabilities that differ from those held for trading.

Section 5 - Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31.12.2018	31.12.2017
A. Income relating to:		
A.1 Fair value hedges		
A.2 Hedged financial assets (fair value)		
A.3 Hedged financial liabilities (fair value)		178
A.4 Cash flow hedges		
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)		**178**
B. Charges relating to:		
B.1 Fair value hedges		(146)
B.2 Hedged financial assets (fair value)		
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)		**(146)**
C. Net hedging gains (losses) (A-B)		**(32)**

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 and bonds issued by the Bank, 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	31.12.2018			31.12.2017		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	3,893	(17,505)	(13,612)	4,432	(2,880)	1,552
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	3,893	(17,505)	(13,612)	4,432	(2,880)	1,552
2. Financial assets designated at fair value through other comprehensive income	13,307	(1,331)	11,976	26,037	(10,309)	15,728
2.1 Debt securities	13,307	(1,331)	11,976	21,067	(4,602)	16,465
2.2 Loans	-	-	-	-	-	-
2.3 Equity instruments	-	-	-	-	(4,230)	(4,230)
2.4. Mutual funds	-	-	-	4,970	(1,477)	3,493
Total assets	**17,200**	**(18,836)**	**(1,636)**	**30,469**	**(13,189)**	**17,280**
Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	83	(395)	(312)	65	(684)	(619)
Total liabilities	**83**	**(395)**	**(312)**	**65**	**(684)**	**(619)**

This caption includes the net gain (loss) on disposal of financial assets, excluding those held for trading and those designated at fair value through profit and loss, as well as the net gain (loss) from the repurchase of own securities.

The "1.2 Loans to customers" caption includes the net gain (loss) on the disposal of loans and securities, among which the figure relating to the completion of the securitisation of doubtful loans through use of the State guarantee. With reference to the comparative period, "Gains" relating to "loans to customers" conventionally include 2,183 thousand euros arising from the sale of debt securities previously classified as "Financial assets held to maturity" based on IAS 39.

The caption "2. Financial assets designated at fair value through other comprehensive income" includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect. With reference to the comparative period, the profit/loss component generated by financial instruments classified as "available for sale" has been conventionally shown in this item in accordance with IAS 39, including:

- mutual funds which, starting from 1 January 2018 with first-time adoption of "IFRS 9 Financial Instruments" have been classified as financial assets that are mandatorily valued at fair value, the economic effects of which are all shown under item 110.b) Net result of financial assets mandatorily at fair value;
- equities which, starting from the same date, have been designated at fair value through other comprehensive income (FVOCI option) and without reversal to the income statement in the event of sale of the realisable component.

In particular, the sub-item "2.3 losses on equity instruments" of the comparative period includes:
- the loss resulting from payments to the FITD Voluntary Scheme for the recapitalisation of the banks sold to Cariparma Crédit Agricole (2,702 thousand euros);
- the difference between the transaction price and the amount determined using valuation techniques (day one loss) on a minority shareholding acquired during the reference period (1,528 thousand euros).

As regards financial liabilities, the caption "3. Debt securities in issue" includes the net gain (loss) from the repurchase of own bonds.

Section 7 - Net 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	**119**	**427**	**(3,575)**	**(1)**	**(3,030)**
1.1 Debt securities	-	-	(360)	-	(360)
1.2 Equity instruments	-	-	-	-	-
1.3 Mutual funds	119	427	(3,215)	(1)	(2,670)
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**119**	**427**	**(3,575)**	**(1)**	**(3,030)**

This item consists of the result of financial instruments which, with the introduction of "IFRS 9 - Financial Instruments" from 1 January 2018, must be valued at fair value through profit or loss, even if they are not held for trading, as they fail to pass the SPPI test foreseen in the new standard. At 31 December 2018 this item is made up mainly of mutual funds, which by their very nature do not have characteristics compatible with passing the test. These instruments were previously classified as "available for sale" as required by IAS 39; so, with reference to the comparative period:
- the valuation component (gain/loss) of this type of instrument, negative for 354 thousand euros, is reflected in other comprehensive income;
- the realisable component (profit/loss), which is positive for 3,493 thousand euros, is conventionally re-stated under item "100.b Profit/loss from sale or repurchase of financial assets measured at fair value through other comprehensive income".

Section 8 - Net impairment write-downs/write-backs - caption 130

8.1 Net adjustments for credit risk relating to financial assets measured at amortised cost: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)		31.12.2018	31.12.2017
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Due from banks	**(1,041)**	**-**	**-**	**13**	**-**	**(1,028)**	**-**
- loans	(359)	-	-	-	-	(359)	-
- debt securities	(682)	-	-	13	-	(669)	-
of which: non-performing loans acquired or originated	-	-	-	-	-	-	-
B. Loans to customers	**(3,318)**	**(1,322)**	**(57,919)**	**3,357**	**21,804**	**(37,398)**	**(46,406)**
- loans	-	(1,322)	(57,919)	3,357	21,804	(34,080)	(46,406)
- debt securities	(3,318)	-	-	-	-	(3,318)	-
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
Total	**(4,359)**	**(1,322)**	**(57,919)**	**3,370**	**21,804**	**(38,426)**	**(46,406)**

This caption includes the adjustments and write-backs made for the impairment of loans to banks and customers, including debt securities.
As regards "Write-downs" the figure in the "Write-offs" column relates to losses of 1,322 thousand euros (1,173 thousand euros last year) from the write-off of non-performing loans.
"Write-downs – third stage", which arise from the analytical assessment of the probability of recovery of non-performing loans and by discounting cash flows expected to be generated, particularly on non-performing loans, relate to:

- doubtful loans Euro 27,555 thousand (versus Euro 46,762 thousand)
- unlikely-to-pay loans Euro 30,228 thousand (versus Euro 36,186 thousand)
- Past due non-performing loans Euro 136 thousand (versus Euro 584 thousand)

"First and second stage" write-backs, which amounted to 3,357 thousand euros (write-downs of 4,152 thousand euros last year), relate to the performing loans portfolio.
"Write-backs - Third Stage" relate to:

- doubtful loans written down in prior years Euro 1,268 thousand (versus Euro 1,542 thousand)
- collections of loans previously written down Euro 12,298 thousand (versus Euro 16,184 thousand)
- measurement write-backs Euro 8,238 thousand (versus Euro 4,716 thousand)

The write-backs to loans at 31 December 2018 are determined by applying the new models for the calculation of the expected credit losses adopted by the bank in application of "IFRS 9 Financial Instruments" starting from 1 January 2018, and are therefore not fully comparable with the prior period.
The adjustments to debt securities classified in the first/second stage were determined for the first time on application of the new accounting standard and do not therefore have a comparative figure.
It should be noted that the comparative figure includes the release of the time value component of impaired financial assets and value adjustments on interest relating to non-performing loans, which at the reporting date are included in item "10. Interest and similar income".

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

Transactions/Income components	Write-downs (1)			Write-backs (2)		31.12.2018	31.12.2017
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Debt securities	-	-	(462)	-	848	386	-
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: impaired loans acquired or originated							
C. Mutual funds	-	-	-	-	-	-	(6,400)
D. Equity instruments	**-**	**-**	**(462)**	**-**	**848**	**386**	(2,871)
Total	-	-	(462)	-	848	386	**(9,271)**

This item includes the adjustments and write-backs deriving from application of the new models for determining the expected loss on the "held to collect & sell" debt securities portfolio in application of "IFRS 9 - Financial Instruments" starting from 1 January 2018; it is not therefore comparable with the prior period. Write-backs recorded during the year mainly refer to the lack of the expected first-time adoption loss on securities that were subsequently reallocated in the "held to collect" portfolio as part of the reclassification of business models from 1 October 2018, for which the expected loss was recognised as a contra-entry in caption "130a. Net adjustments for credit risk relating to financial assets measured at amortised cost".
The comparative figure conventionally includes the adjustments to all instruments classified as available-for-sale financial assets on the basis of IAS 39, in particular mutual funds and equity securities, and is therefore not comparable on a like-for-like basis with the balance at the reporting date.
In particular, caption "D. Equity instruments" was made up of:

- an adjustment of a minority bank shareholding acquired during the period under a commitment made previously as part of broader business agreements in connection with the sale of a stake held in the insurance business (2,231 thousand euros);
- the adjustment recorded on the equity instrument recorded for the contributions paid to the FITD Voluntary Scheme for the subscription of securities of the non-performing loan securitisation, on which a fair value adjustment was subsequently recognised (640 thousand euros).

Caption "D. Mutual funds" included adjustments for 4,165 thousand euros on the Atlante fund, of which:

- offset by the use of the same amount of the provision for the adjustment to the payment commitment made the previous year (557 thousand euros);
- following the write-off of the value of the banking interests held by the fund (3,608 thousand euros).

Section 9 - Profits/losses from contractual changes without cancellations - caption 140

This caption includes the adjustment made to the book values of loans to customers that undergo changes to the contractual cash flows without giving rise to accounting cancellations pursuant to para. 5.4.3 and Appendix A of IFRS 9.

Section 10 - Administrative costs - caption 160

10.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2018	31.12.2017
1) Employees	(105,061)	(112,354)
a) wages and salaries	(73,534)	(75,848)
b) social security charges	(19,249)	(19,833)
c) termination indemnities	-	-
d) pension expenses	-	-
e) provision for termination indemnities	(246)	(385)
f) provision for post-retirement benefits and similar commitments:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(7,481)	(7,678)
- defined contribution	(7,481)	(7,678)
- defined benefit	-	-
h) equity-based payments	-	-
i) other personnel benefits	(4,551)	(8,610)
2) Other active employees	(346)	(311)
3) Directors and auditors	(2,669)	(2,805)
4) Retired personnel	-	-
5) Recovery of cost of employees seconded to other companies	623	859
6) Reimbursement of cost of third-party employees seconded to the Company	(4,827)	(3,287)
Total	**(112,280)**	**(117,898)**

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 9.4 below.
Caption "6. Reimbursement of cost of third-party employees seconded to the Company" refers to employees of Banca Popolare di Spoleto seconded to Banco di Desio in connection with the operational concentration at the Parent Company.

10.2 Average number of employees by level

	31.12.2018	31.12.2017
1) Employees	**1,355**	**1,403**
a) managers	25	25
b) middle managers	747	762
c) other employees	583	616
2) Other personnel	**3**	**1**

10.3 Defined post-employment benefit obligations: costs and revenues

None.

10.4 Other personnel benefits

	31.12.2018	**31.12.2017**
Provision for sundry charges	(3,718)	(4,500)
Contributions to healthcare fund	(1,358)	(1,413)
Training and instruction costs	(344)	(416)
Rent expense of property used by employees	(223)	(192)
Redundancy incentives	2,313	(16)
Other	(1,221)	(2,073)
Total	**(4,551)**	**(8,610)**

The main components of the "Other" caption include company canteen costs of 1,216 thousand euros (1,246 thousand euros last year) and costs relating to insurance premiums of 265 thousand euros (271 thousand euros last year), partially offset by use of the welfare plan.

10.5 Other administrative costs: breakdown

	31.12.2018	31.12.2017
Indirect taxes and duties:		
- Stamp duty	(17,957)	(17,784)
- Other	(3,960)	(3,978)
Other costs:		
- IT expenses	(10,897)	(9,943)
- Lease of property and other assets	(7,912)	(7,982)
- Maintenance of buildings, furniture and equipment	(4,457)	(4,064)
- Post office and telegraph	(1,376)	(1,231)
- Telephone and data transmission	(3,810)	(3,870)
- Electricity, heating, water	(2,630)	(2,622)
- Cleaning services	(848)	(860)
- Printed matter, stationery and consumables	(459)	(657)
- Transport costs	(642)	(675)
- Surveillance and security	(1,133)	(1,261)
- Advertising	(1,513)	(1,392)
- Information and surveys	(1,106)	(930)
- Insurance premiums	(652)	(735)
- Legal fees	(4,018)	(4,270)
- Professional consulting fees	(6,116)	(5,443)
- Various contributions and donations	(76)	(90)
- Sundry expenses	(10,783)	(9,330)
Total	**(80,345)**	**(77,117)**

The caption "Sundry expenses" comprises the contributions of the year to Single Resolution Mechanism and to Deposit Guarantee Scheme for 6,226 thousand euros (4,511 thousand euros in the previous year) of which:

- 2,686 thousand euros for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for the year (2,402 thousand euros in the previous period);
- 1,007 thousand euros referring to the extraordinary contribution to the same resolution fund (not present in the comparative period);
- 2,533 thousand euros for the ex-ante ordinary contribution to the Deposit Guarantee Scheme (DGS) for the year (2,109 thousand euros in the previous year).

The same caption also includes reimbursements to employees for travel expenses and mileage reimbursements for 1,029 thousand euros (1,089 thousand euros), expenses for registration of mortgage, injunctions and assignment of receivables for 330 thousand euros (513 thousand euros), membership fees for 1,177 thousand euros (917 thousand euros) and subscriptions to newspapers and magazines for 201 thousand euros (218 thousand euros).

It also includes the fees paid to the auditing firm Deloitte & Touche S.p.A. and/or to other entities of the same network, for services provided to the Bank for a total of 671 thousand euros, summarised below by type of service provided.

Type of services	Party which provided the service	Recipient	Fees (Euro/000)
Audit	Deloitte & Touche S.p.A.	Banco Desio Brianza	275
Attestation services	Deloitte & Touche S.p.A.	Banco Desio Brianza	106
Other services:			
CSR methodological support	Deloitte & Touche S.p.A.	Banco Desio Brianza	14
Risk Management and IFRS9 Methodological Support	Deloitte Consulting S.r.l.	Banco Desio Brianza	276
Total			**671**

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

Section 11 - Net provisions for risks and charges - caption 170

11.1 Net provisions for risks and charges: breakdown

	Provision	Utilisations	31.12.2018	31.12.2017
Commitments for guarantees given	(99)		(99)	2,314
Charges for legal disputes	(2,946)	2,263	(683)	186
Other	(457)		(457)	(72)
Total	**(3,502)**	**2,263**	**(1,239)**	**2,428**

The item "Commitments for guarantees given" represents the provision/use of the provision for risks determined by applying the models for calculating the expected loss defined in application of "IFRS 9 Financial Instruments" (1 January 2018). The comparative figure conventionally includes the net accrual to the provision for guarantees given and commitments determined in application of IAS 39. In particular, the balance in the comparative period includes the use of:

- the adjustment to the payment commitment versus the Atlante Fund recorded the previous year (557 thousand euros);
- the provision for the purchase of the minority holding in a bank recorded the previous year (1,683 thousand euros).

Charges for legal disputes include provisions made in the year for expected losses arising from legal disputes and bankruptcy clawback actions.
Other provisions include provisions for other operating risks.

Section 12 - Net adjustments to property, plant and equipment - caption 180

12.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c)
A. Property, plant and equipment				
A.1 Owned	(4,648)	-	-	(4,648)
- For business purposes	(4,626)	-	-	(4,626)
- For investment purposes	(22)	-	-	(22)
- Inventories	X	-	-	-
A.2 Held under finance leases	-	-	-	-
- For business purposes	-	-	-	-
- For investment purposes	-	-	-	-
Total	**(4,648)**	**-**	**-**	**(4,648)**

The adjustments consist entirely of depreciation computed over the useful lives of the assets.
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 "11.5 and 11.6 Changes in the year" of Section 11, Assets.

Section 13 - Net adjustments to intangible assets - caption 190

13.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 31.12.2018
A. Intangible assets				
A.1 Owned	(986)	-	-	(986)
- *Generated internally*	-	-	-	-
- *Other*	(986)	-	-	(986)
A.2 Held under finance leases	-	-	-	-
Total	**(986)**	**-**	**-**	**(986)**

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

Section 14 - Other operating charges/income - caption 200

14.1 Other operating charges: breakdown

	31.12.2018	31.12.2017
Amortisation of leasehold improvements	(1,041)	(1,327)
Losses on disposal of property, plant and equipment		(20)
Charges on non-banking services	(371)	(869)
Total	**(1,412)**	**(2,216)**

14.2 Other operating income: breakdown

	31.12.2018	31.12.2017
Recovery of taxes from third parties	19,668	19,541
Recharge of costs of current accounts and deposits	4,234	5,218
Rental and leasing income	70	48
Other expense recoveries	3,294	4,465
Gains on disposal of property, plant and equipment	4	2
Other	6,380	5,917
Total	**33,650**	**35,191**

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of 2,547 thousand euros (3,434 thousand euros at 31 December 2017) and other recoveries for various communications to customers of 1,552 thousand euros (1,642 thousand euros in the previous year).
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 18,349 thousand euros, and the recovery of flat-rate taxes totalling 2,091 thousand euros.
"Other expense recoveries" include, in particular, recoveries of legal costs relating to various doubtful loans of 858 thousand euros (1,765 thousand euros at 31 December 2017), the recovery of investigation costs of various loans for 1,557 thousand euros (1,149 thousand euros last year), recovery of appraisals in connection with mortgage loans of 328 thousand euros (438 thousand euros), the recovery of sundry expenses relating to lease applications of 290 thousand euros (381 thousand i euros n 2017).

The main component of the "Other" caption relates to income from services rendered to Group companies totalling 6,114 thousand euros (compared with 5,371 thousand euros last year), of which 5,980 thousand euros from the outsourcing contract with Banca Popolare di Spoleto S.p.A..

Section 17 - Goodwill impairment - caption 240

The outcome from impairment testing of goodwill recognised in the financial statements did not require any impairment adjustments to be made.
As regards the method adopted for the performance of the testing, reference should be made to "Section 12 – Intangible assets", Assets.

Section 19 - Income taxes on current operations - caption 270

19.1 Income taxes on current operations: breakdown

Income items/Amounts	31.12.2018	31.12.2017
1. Current taxes (-)	(5,542)	(5,154)
2. Change in prior period income taxes (+/-)	10	457
3. Reduction in current taxes (+)		
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	(2,064)	(11,264)
5. Change in deferred tax liabilities (+/-)	657	942
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	(6,939)	(15,019)

The change in deferred tax assets (item 4) includes 1,180 thousand euros of prepaid IRAP on the revenue components deriving from adoption of the expected loss recognition model on loans to customers, recorded on FTA of IFRS 9, 90% deductible pursuant to the 2019 Budget Law on a straight-line basis from 2019 to 2027.
On FTA of IFRS 9, considering the non-recoverability as a deduction of these revenue components because of the 2018 value of production assessed as negative, it was not possible to record the related tax effect for IRAP purposes.

19.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	37,894		37,894	
Costs not deductible for IRAP purposes			17,885	
Revenue not taxable for IRAP purposes			(9,508)	
Sub total	37,894		46,271	
Theoretical tax charge 27.5% IRES - 5.57% IRAP		**(10,421)**		**(2,577)**
Temporary differences taxable in subsequent years			(3)	
Temporary differences deductible in subsequent years	6,481		26,978	
Reversal of prior year temporary differences	(13,898)		(15,588)	
Differences that will not reverse in subsequent years	(10,326)		(79,552)	
Taxable income	20,151		(21,894)	
Current taxes for the year 27.5% IRES - 5.57% IRAP		**(5,541)**		**-**

The effective total tax charge of 5,541 thousand euros is reported the "1. Current taxes" caption of table 19.1.
The difference between the theoretical Ires tax charge and the current Ires tax charge was principally due to:

- the non-deductibility of accruals to taxed provisions included under "Temporary differences deductible in subsequent years", amounting to 5,972 thousand euros;
- the tax exemption on use of these provisions included under "Reversal of prior year temporary differences", amounting to 15,201 thousand euros;
- the tax exemption for dividends received on shares other than those held for trading, classified in caption 70 of the income statement, and included under "Differences that will not reverse in subsequent years", amounting to 9,486 thousand euros.

For IRAP purposes, there are no current taxes as the value of net production is negative due to the deduction of the valuation components (adjustments and write-backs) on the receivables sold during the year, booked to the income statement in the tax periods from 2008 to 2012 and not recognised for IRAP purposes at the time that they were first recorded. This amount is included in "Differences that will not reverse in subsequent years".

Section 21 - Other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

Section 22 - Earnings per share

21.1 Average number of ordinary shares (fully diluted)

Please refer to the equivalent section in the Consolidated Financial Statements for the information on earnings per share.

21.2 Other information

There is no other information to be disclosed.

PART D – COMPREHENSIVE INCOME

Captions		31/12/2018	31/12/2017
10.	**Net profit (loss) for the period**	**30,955**	**37,996**
	Other elements of income, without reversal to income statement		
20.	**Equity instruments designated at fair value through other comprehensive income:**	**-90**	**0**
	a) change in fair value	-90	0
	b) transfers to other components of shareholders' equity	0	0
70.	**Defined-benefit pension plans**	**385**	**(384)**
100.	**Taxes on other elements of income without reversal to profit or loss**	**(101)**	**-**
	Other elements of income, with reversal to income statement		
130.	**Cash-flow hedges:**	**(644)**	**916**
	a) changes in fair value	(644)	916
	b) reversal to income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
150.	**Financial assets (other than equities) designated at fair value through other comprehensive income:**	**(6,146)**	**19,595**
	a) changes in fair value	1,010	16,661
	b) reversal to income statement	(4,474)	2,299
	- adjustments for credit risk	(386)	1,351
	- gains/losses on disposal	(4,088)	948
	c) other changes	(2,682)	635
180.	**Taxes on other elements of income with reversal to profit or loss**	**2,246**	**-**
190.	**Total other elements of income**	**(4,350)**	**20,127**
200.	**Total comprehensive income (Captions 10+190)**	**26,605**	**58,123**

PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

The Internal Control and Risk Management System consists of a set of rules, procedures and organisational structures designed to permit the identification, measurement, management and monitoring of major risks. This system has been integrated into the Group's organisational and corporate governance structures.

The system's guidelines have been set out in specific internal regulations. The operational instructions and detailed information regarding the controls that have been put in place to protect business processes, at various levels, are included in specific regulations organised by function and internal procedures.

The organisational model adopted by the Group envisages that the Risk Management function reports directly to the Board of directors and participates in the risk management process designed to identify, measure, assess, monitor, prevent, mitigate and communicate the risks assumed or which could be assumed in the conduct of business.

In this context, at least once a year, the Board of Directors of the Parent Company approves the Group's "Risk Appetite Framework (RAF)" and the "Policy for Risk Management". Taking into account the nature and size of the activities being carried on by the bank, they define the risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks, identifying the functions of the bank and/or of the Parent Company that are responsible for specific control mechanisms.

SECTION 1 – CREDIT RISK

<u>Qualitative information</u>

1. *General aspects*

The lending activity of Banco di Desio e della Brianza 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), medium and large companies and customers in the financial sector, mainly include the following products: loans and deposits in any form; financial, banking and payment services; factoring documentary credit; financial, insurance and asset management products; debit and credit cards.

Commercial policy is pursued through the Bank's branch network based on credit policies geared primarily 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 Parent Company's 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 formalised within the Risk Management Department the activities of verification and supervision of the monitoring and debt collection activities carried out by the competent company departments, providing for the right to intervene, where necessary, with regard to the classification of anomalous credit and provisional accruals and postings.

2.2. Systems for managing, measuring and monitoring credit risk

Systems for managing, measuring and monitoring credit risk are developed in an organisational context that involves the whole cycle of the credit process, from initial inquiry and periodic review to final withdrawal and recovery.
During the fact finding stages of the lending process, the 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 an internal procedure for an intervention by the competent corporate functions in order to maintain a risk appetite level consistent with guidance provided by the RAF and risk management policy.

For risk management purposes, Banco Desio uses an internal rating system (CRS - Credit Rating System) that classifies each counterparty in risk classes that reflect their probability of default. The classification of

performing counterparties is on a scale from 1 to 10, while there are three non-performing classes (past due, unlikely-to-pay and doubtful loans).
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 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 Bank 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, there are also pledges on securities and/or cash. Guarantees received 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 by codifying the rules that establish the minimum percentages to be applied in determining expected losses, depending on the type of impaired loan, the original technical form and the type of collateral. The management of non-performing exposures is delegated to a specific organisational unit, the NPL Department, responsible for identifying strategies for maximising recovery on individual positions and defining the adjustments to be applied to them. The only "non-performing past due/overdue" exposures subject to a collective write-down and with a high probability of reclassification between "performing" exposures are managed by the function delegated to credit performance monitoring, which eventually proceeds to classify among the "unlikely to pay" loans, transferring their management to the NPL Department.

The expected loss is the synthesis of several elements derived from various (internal and external) assessments about the principal debtor's assets and those of any guarantors. Monitoring of the expected loss is constant and compared with the development of the individual position. The Risk Management function periodically monitors compliance with the doubtful percentages foreseen in the policy for managing non-performing loans by reporting any discrepancies to the relevant departments for realignment and monitors the recovery of non-performing loans, both managed directly and through external specialised operators.

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

Consistent with the Group's objectives for the reduction of non-performing loans indicated in the business plan and with a view to maximising recoveries, the competent corporate functions identify the best management strategy for non-performing exposures, which, based on the subjective characteristics of the individual counterparty/exposure and internal policies, can be identified in a revision of the contractual terms (forbearance), assignment to an internal recovery unit rather than to a specialised third-party operator, sale to third parties in the credit sector (at single exposure level or within a set of positions with homogeneous characteristics).

In execution of its capital management strategy, the Banco Desio Group has implemented a programme of sales of NPLs for a gross value of 1.0 billion euros. As part of this, a securitisation transaction was also carried out, for around 327.7 billion euros, with recourse to the procedure for the issuance of a guarantee by the Italian State on the securitisation of non-performing loans on senior securities pursuant to Legislative Decree 18/2016 ("GACS"). The purpose of this was to deconsolidate Banco Desio Group loans, while the remainder, 88.4 million euros, was disposed of in December through a traditional sale. These disposals of non-performing loans bring the Banco Desio's NPL ratio (ratio of gross non-performing loans/gross loans) to 6%. Following the significant reduction carried out during the current year, in line with the policy of lowering the NPL ratio, a series of actions have been provided for that will enable a further improvement in the NPL ratio already achieved.

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 80% of the flows, in terms of volume, the focus is more on reducing transfers to UTP for this type of loan.

The methods and operational tools used by the 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 Board of Directors. Among the strategies identified for the containment of non-performing loans, a distinction between the "going" and "gone concern" approach was established 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 Bank 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 Bank'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 Performing and non-performing loans: amounts, adjustments, trends and economic 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		64,625	147,701	1,086	63,481	8,851,159	9,128,052
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	244,034	244,034
3. Financial assets designated at fair value		-	-	-	-	-	-
4. Other financial assets that have to be measured at fair value		-	-	-	-	1,928	1,928
5. Financial assets being sold		-	-	-	-	-	-
Total	**31.12.2018**	**64,625**	**147,701**	**1,086**	**63,481**	**9,097,121**	**9,374,014**
Total	**31.12.2017**	**245,958**	**157,834**	**4,430**	**71,722**	**9,214,594**	**9,694,538**

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net amounts)

Portfolio/Quality		Non-performing				Performing			Total (Net exposure)
		Gross exposure	Total write-downs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs	Net exposure	
1. Financial assets measured at amortised cost		383,234	169,822	213,412	24,060	8,946,388	31,748	8,914,640	9,128,052
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	244,034	-	244,034	244,034
3. Financial assets designated at fair value		-	-	-	-	X	X	-	-
4. Other financial assets that have to be measured at fair value		-	-	-	-	X	X	1,928	1,928
5. Financial assets being sold		-	-	-	-	-	-	-	-
Total	**31.12.2018**	**383,234**	**169,822**	**213,412**	**24,060**	**9,190,422**	**31,748**	**9,160,602**	**9,374,014**
Total	**31.12.2017**	**819,715**	**411,493**	**408,222**	**-**	**9,309,649**	**23,333**	**9,286,316**	**9,694,538**

Portfolio/Quality		Assets with an obviously poor credit quality		Other assets
		Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading		-	3	3,451
2. Hedging derivatives		-	-	-
Total	**31.12.2018**	**-**	**3**	**3,451**
Total	**31.12.2017**	**-**	**-**	**7,194**

A.1.3 Distribution of financial assets by past due bands (book values)

		First stage			Second stage			Third stage		
		From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days
1. Financial assets measured at amortised cost		27,668	-	-	24,761	10,153	899	8,272	23,172	122,301
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-
Total	**31/12/2018**	**27,668**	**-**	**-**	**24,761**	**10,153**	**899**	**8,272**	**23,172**	**122,301**
Total	**31/12/2017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and provisions (Part 1)

Description/stages of risk	Total write-downs							
	Assets included in the first stage				Assets included in the second stage			
	Financial assets measured at amortised cost	Financial assets designated at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets designated at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs
Opening balance	**(13,386)**	**(798)**	**-**	**(14,184)**	**(17,432)**	**(50)**	**-**	**(17,482)**
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-
Cancellations other than write-offs	-	-	-	-	-	-	-	-
Net adjustments/write-backs for credit risk (+/-)	(3,251)	(113)	-	(3,364)	2,820	-	-	2,820
Contractual changes without write-offs	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Other changes	(449)	449	-	-	(50)	(50)	-	-
Closing balance	**(17,086)**	**(462)**	**-**	**(17,548)**	**(14,662)**	**-**	**-**	**(14,662)**
Recoveries of financial assets subject to write-off	-	-	-	-	-	-	-	-
Write-offs booked directly to the income statement	-	-	-	-	-	-	-	-

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and provisions (Part 2)

Description/stages of risk	Total write-downs					Total provisions on commitments to disburse funds and financial guarantees given			Total
	Assets included in the third stage				Of which: impaired financial assets acquired or originated				
	Financial assets measured at amortised cost	Financial assets designated at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs		First stage	Second stage	Third stage	
Opening balance	**(428,138)**	**-**	**(428,138)**	**-**	**-**	**(173)**	**(87)**	**(231)**	**(460,295)**
Increases in financial assets acquired or originated	(471)	-	(471)	-	-	-	-	-	(471)
Cancellations other than write-offs	-	-	-	-	-	-	-	-	-
Net adjustments/write-backs for credit risk (+/-)	(47,555)	-	(47,555)	-	(1,312)	7	5	(110)	(48,197)
Contractual changes without write-offs	-	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-	-
Write-offs	305,744	-	305,744	-	-	-	-	-	305,744
Other changes	598	-	598	-	-	-	-	-	598
Closing balance	**(169,822)**	**-**	**(169,822)**	**-**	**(1,312)**	**(166)**	**(82)**	**(341)**	**(202,621)**
Recoveries of financial assets subject to write-off	1,268	-	1,268	-	-	-	-	-	1,268
Write-offs booked directly to the income statement	-	-	-	-	-	-	-	-	-

The "opening balance" reflects all of the adjustments at 1 January 2018 after FTA of IFRS 9 "Financial instruments".

A.1.5 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		176,134	257,714	52,713	9,120	54,307	1,569
2. Financial assets designated at fair value through other comprehensive income		-	49	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued		8,215	3,286	688	117	1,484	67
Total	**31/12/2018**	**184,349**	**261,049**	**53,401**	**9,237**	**55,791**	**1,636**
Total	**31/12/2017**	**-**	**-**	**-**	**-**	**-**	**-**

The transfers between stages shown in the table have as their starting point the distribution of financial assets in the three stages of risk as of 1 January 2019, after FTA of IFRS 9 "Financial instruments". Note that comparing the situation at the beginning and end of the year does not take account of any transfers between stages that took place during the period.

A.1.6 On- and off-balance sheet exposures to banks: gross and net amounts

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. CASH EXPOSURES					
a) Doubtful loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
c) Past due non-performing loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
d) Past due performing loans	X	-	-	-	-
- of which: exposures subject to forbearance	X	-	-	-	-
e) Other performing exposures	X	949,145	1,176	947,969	-
- of which: exposures subject to forbearance	X	-	-	-	-
TOTAL A	**-**	**949,145**	**1,176**	**947,969**	**-**
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing	-	X	-	-	-
b) Performing	X	146,627	21	146,606	-
TOTAL B	**-**	**146,627**	**21**	**146,606**	**-**
TOTAL A+B	**-**	**1,095,772**	**1,197**	**1,094,575**	**-**

"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.1.7 On- and off-balance sheet credit exposures to customers: gross and net amounts

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. CASH EXPOSURES					
a) Doubtful loans	170,419	X	105,794	64,625	24,060
- of which: exposures subject to forbearance	17,453	X	9,319	8,134	-
b) Unlikely to pay	211,562	X	63,861	147,701	-
- of which: exposures subject to forbearance	103,964	X	25,894	78,070	-
c) Past due non-performing loans	1,253	X	167	1,086	-
- of which: exposures subject to forbearance	761	X	103	658	-
d) Past due performing loans	X	65,207	1,726	63,481	-
- of which: exposures subject to forbearance	X	10,666	675	9,991	-
e) Other performing exposures	X	8,178,439	28,846	8,149,593	-
- of which: exposures subject to forbearance	X	61,732	2,264	59,468	-
TOTAL A	**383,234**	**8,243,646**	**200,394**	**8,426,486**	**-**
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing	32,195	X	341	31,854	-
b) Performing	X	2,229,629	227	2,229,402	-
TOTAL B	**32,195**	**2,229,629**	**568**	**2,261,256**	**-**
TOTAL A+B	**415,529**	**10,473,275**	**200,962**	**10,687,742**	**24,060**

"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.1.8 On-balance sheet credit exposures to banks: changes in gross doubtful loans

There are no such credit exposures at the reporting date.

A.1.8 bis On-balance sheet credit exposures to banks: changes in exposures subject to gross forbearance broken down by credit quality

There are no such credit exposures at the reporting date.

A.1.9 On-balance sheet credit exposures to customers: changes in gross doubtful loans

Description/Categories	Doubtful loans	Unlikely to pay loans	Past due non-performing loans
A. Opening gross exposure	**582,102**	**232,507**	**5,106**
- of which: exposure sold but not derecognised	-	1,133	70
B. Increases	**86,854**	**124,964**	**11,575**
B.1 transfers from performing loans	824	90,770	10,785
B.2 transfers from impaired financial assets acquired or originated	-	435	6
B.3 transfers from other categories of doubtful exposures	76,866	6,492	20
B.4 contractual changes without write-offs	-	-	-
B.5 other increases	9,164	27,267	764
C. Decreases	**498,537**	**145,909**	**15,428**
C.1 transfers to performing loans	66	11,160	6,909
C.2 write-off	7,302	-	-
C.3 collections	31,915	57,991	1,903
C.4 proceeds from disposal	156,260	-	-
C.5 losses on disposal	300,073	-	-
C.6 transfers to other categories of doubtful exposures	4	76,758	6,616
C.7 contractual changes without write-offs	-	-	-
C.8 other decreases	2,917	-	-
D. Closing gross exposure	**170,419**	**211,562**	**1,253**
- of which: exposure sold but not derecognised	-	3,021	-

A.1.9bis 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	**154,438**	**103,033**
- of which: exposure sold but not derecognised	205	2,046
B. Increases	**45,554**	**45,006**
B.1 transfers from performing positions not subject to forbearance	6,295	27,567
B.2 transfers from performing positions subject to forbearance	19,464	X
B.3 transfer from exposures subject to forbearance	X	7,435
B.4 other increases	19,795	10,004
C. Decreases	**77,814**	**75,641**
C.1 transfers to performing positions not subject to forbearance	X	35,159
C.2 transfers to performing positions subject to forbearance	7,435	X
C.3 transfers to exposures subject to forbearance on non-performing positions	X	19,464
C.4 write-off	50	-
C.5 collections	37,303	17,495
C.6 proceeds from disposal	21,182	2,859
C.7 losses on disposal	11,844	-
C.8 other decreases	-	664
D. Closing gross exposure	**122,178**	**72,398**
- of which: exposure sold but not derecognised	1,259	6,673

A.1.10 On-balance sheet credit exposures to banks: changes in total adjustments

There are no such contractual arrangements at the reporting date.

A.1.11 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	**336,144**	**24,738**	**74,673**	**26,592**	**676**	**315**
- of which: exposure sold but not derecognised	-	-	189	15	9	9
B. Increases	**112,839**	**123**	**31,927**	**8,993**	**155**	**82**
B.1 write-downs of impaired assets acquired or originated	-	X	-	X	-	X
B.2 other write-downs	46,008	43	31,751	8,864	140	79
B.3 losses on disposal	17,132	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	31,786	80	176	129	15	3
B.5 contractual changes without write-offs	-	X	-	X	-	X
B.6 other increases	17,913	-	-	-	-	-
C. Decreases	**343,189**	**15,542**	**42,739**	**9,691**	**664**	**294**
C.1 measurement write-backs	2,859	489	6,432	3,975	279	81
C.2 write-backs on collection	12,337	11	4,565	469	150	5
C.3 gains on disposal	3,486	-	-	-	-	-
C.4 write-off	7,302	-	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	31,742	4,608	235	129
C.6 contractual changes without write-offs	-	X	-	X	-	X
C.7 other decreases	317,205	15,042	-	639	-	79
D. Total closing adjustments	**105,794**	**9,319**	**63,861**	**25,894**	**167**	**103**
- of which: exposure sold but not derecognised	-	-	484	160	-	-

Caption "A. Total opening adjustments" includes the adjustments as of 31 December 2017, prior to FTA of IFRS 9 "Financial instruments"; the effects of FTA are therefore included in the movements during the period.

A.2 Classification of exposures on the basis of external and internal rating

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees given for external rating classes (gross values)

Exposures	External rating class						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**4,121**	**514,024**	**2,783,187**	**424,524**	**50,628**	**16,146**	**5,536,993**	**9,329,623**
- First stage	4,121	507,228	2,743,185	368,759	36,560	6,688	4,683,240	8,349,781
- Second stage	-	6,796	39,301	46,320	11,616	8,445	484,131	596,609
- Third stage	-	-	701	9,445	2,452	1,013	369,622	383,233
B. Financial assets designated at fair value through other comprehensive income	**2,542**	**-**	**171,643**	**-**	**-**	**-**	**69,849**	**244,034**
- First stage	2,542	-	171,643	-	-	-	69,849	244,034
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total financial assets	**6,663**	**514,024**	**2,954,830**	**424,524**	**50,628**	**16,146**	**5,606,842**	**9,573,657**
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	5,867	5,867
C. Commitments to disburse funds and financial guarantees issued								
- First stage	1,738	312,133	338,953	102,530	6,572	896	1,569,102	2,331,924
- Second stage	-	159	9,697	2,104	99	1,076	27,781	40,916
- Third stage	-	-	3	1,575	-	1,500	28,908	31,986
Total commitments to disburse funds and financial guarantees issued	**1,738**	**312,292**	**348,653**	**106,209**	**6,671**	**3,472**	**1,625,791**	**2,404,826**
Total (A+ B + C)	**8,401**	**826,316**	**3,303,483**	**530,733**	**57,299**	**19,618**	**7,232,633**	**11,978,483**

The attribution of external ratings refers to the positions of the Bank proprietary securities portfolio and to loans for which Cerved, an external credit assessment institution (or ECAI) has assigned a credit risk rating.

The following table gives a reconciliation between the rating classes indicated in table A.2.1 and those provided by the ECAIs Moody's and Cerved, the agencies that the Bank 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 and below	C12 and below

A.2.2 Distribution of cash and "off-balance sheet" exposures by internal rating class
Banco Desio does not use internal rating models for the determination of capital requirements.
The Bank uses a rating model to assess retail customers (individual consumers) and corporate customers (Small Businesses, Small and Medium-sized Enterprises, Large Corporate, Real Estate, Financial and Institutional).
The following table shows performing loans belonging to the above categories with the proportion of each rating class to the overall exposure.

Exposures at 31.12.2018	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
Cash exposures	71.13%	23.05%	4.37%	1.44%	100%
Off-balance sheet exposures	86.94%	11.55%	0.51%	1.00%	100%

A.3 Distribution of guaranteed exposures by type of guarantee
There are no such credit exposures at the reporting date.

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

			Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Property - Mortgages	Property under finance leases	Securities	Other secured guarantees	CLN	Central counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	
1. Guaranteed on-balance sheet exposures:	3,790,551	3,669,483	2,144,140	170,294	188,073	88,732	-	-	-	-	-	333,396	98	8,247	695,782	3,628,762
1.1. totally guaranteed	3,591,206	3,476,477	2,143,305	170,294	164,377	83,385	-	-	-	-	-	245,836	68	4,966	660,869	3,473,100
- of which: non-performing	270,207	172,505	131,574	10,335	351	4,278	-	-	-	-	-	2,591	-	274	22,898	172,301
1.2. partially guaranteed	199,345	193,006	835	-	23,696	5,347	-	-	-	-	-	87,560	30	3,281	34,913	155,662
- of which: non-performing	10,224	5,294	276	-	702	143	-	-	-	-	-	1,741	-	560	1,098	4,520
2. Guaranteed off-balance sheet exposures:	486,316	486,064	1,956	-	41,639	32,018	-	-	-	-	-	201	665	2,050	372,870	451,399
2.1. totally guaranteed	390,247	390,012	1,956	-	29,143	26,466	-	-	-	-	-	72	-	702	331,663	390,002
- of which: non-performing	4,829	4,693	4	-	40	114	-	-	-	-	-	20	-	10	4,506	4,694
2.2. partially guaranteed	96,069	96,052	-	-	12,496	5,552	-	-	-	-	-	129	665	1,348	41,207	61,397
- of which: non-performing	2,185	2,185	-	-	-	500	-	-	-	-	-	-	-	-	979	1,479

B. Distribution and concentration of credit exposures

B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

(Part 1)

Exposures/Counterparties		Public administrations		Financial companies		Financial companies (of which: insurance companies)	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures							
A.1 Doubtful loans		-	-	1,835	8,797	-	-
- of which: exposures subject to forbearance		-	-	-	2	-	-
A.2 Unlikely to pay		-	-	511	532	-	-
- of which: exposures subject to forbearance		-	-	474	420	-	-
A.3 Past due non-performing loans		-	-	-	-	-	-
- of which: exposures subject to forbearance		-	-	-	-	-	-
A.4 Performing loans		1,932,257	3,206	915,767	1,600	-	-
- of which: exposures subject to forbearance		-	-	1,532	179	-	-
Total A		**1,932,257**	**3,206**	**918,113**	**10,929**	**-**	**-**
B. Off-balance sheet exposures							
B.1 Non-performing loans		-	-	-	-	-	-
B.2 Performing loans		-	-	46,324	3	-	-
Total B		**-**	**-**	**46,324**	**3**	**-**	**-**
Total (A+B)	**31/12/2018**	**1,932,257**	**3,206**	**964,437**	**10,932**	**-**	**-**
Total (A+B)	**31/12/2017**	**1,505,070**	**-**	**663,290**	**5,718**	**-**	**-**

B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

(Part 2)

Exposures/Counterparties		Non-financial companies		Households	
		Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures					
A.1 Doubtful loans		49,592	82,862	13,198	14,135
- of which: exposures subject to forbearance		5,098	7,278	3,036	2,039
A.2 Unlikely to pay		100,167	50,772	47,022	12,558
- of which: exposures subject to forbearance		50,533	18,799	27,064	6,674
A.3 Past due non-performing loans		479	73	608	93
- of which: exposures subject to forbearance		290	45	368	58
A.4 Performing loans		3,740,133	22,651	1,624,917	3,115
- of which: exposures subject to forbearance		46,953	2,588	20,974	172
Total A		**3,890,371**	**156,358**	**1,685,745**	**29,901**
B. Off-balance sheet exposures					
B.1 Non-performing loans		-	-	-	-
B.2 Performing loans		2,060,262	195	122,451	29
Total B		**2,060,262**	**195**	**122,451**	**29**
Total (A+B)	**31/12/2018**	**5,950,633**	**156,553**	**1,808,196**	**29,930**
Total (A+B)	**31/12/2017**	**4,474,140**	**355,579**	**1,551,394**	**73,826**

B.2 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		64,625	105,794	-	-	-	-	-	-	-	-
A.2 Unlikely to pay		147,371	63,844	329	18	-	-	-	-	-	-
A.3 Past due non-performing loans		1,085	167	-	-	-	-	-	-	1	-
A.4 Performing loans		8,034,389	30,341	132,475	186	45,772	42	394	1	45	1
TOTAL A		**8,247,470**	**200,146**	**132,804**	**204**	**45,772**	**42**	**394**	**1**	**46**	**1**
B. Off-balance sheet exposures											
B.1 Non-performing loans		-	-	-	-	-	-	-	-	-	-
B.2 Performing loans		2,225,000	227	3,642	-	395	-	-	-	-	-
TOTAL B		**2,225,000**	**227**	**3,642**	**-**	**395**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B)	**31/12/2018**	**10,472,470**	**200,373**	**136,446**	**204**	**46,167**	**42**	**394**	**1**	**46**	**1**
TOTAL (A+B)	**31/12/2017**	**7,810,206**	**435,556**	**329,230**	**66**	**54,026**	**-**	**432**	**1**	**-**	**-**

B.3 Regulatory consolidation – Territorial distribution of on- and off-balance sheet credit exposures to banks

Exposures/Geographical areas		ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures											
A.1 Doubtful loans		-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-	-	-	-	-	-
A.4 Performing loans		840,998	1,060	102,205	111	813	2	683	1	3,270	2
TOTAL		**840,998**	**1,060**	**102,205**	**111**	**813**	**2**	**683**	**1**	**3,270**	**2**
B. Off-balance sheet exposures											
B.1 Non-performing loans		-	-	-	-	-	-	-	-	-	-
B.2 Performing loans		31,983	2	6,733	19	-	-	2,700	-	500	-
TOTAL		**31,983**	**2**	**6,733**	**19**	**-**	**-**	**2,700**	**-**	**500**	**-**
TOTAL	**31/12/2018**	**872,981**	**1,062**	**108,938**	**130**	**813**	**2**	**3,383**	**1**	**3,770**	**2**
TOTAL	**31/12/2017**	**1,720,905**	**-**	**85,705**	**-**	**2,829**	**-**	**2,096**	**-**	**5,555**	**-**

B.4 Large exposures

With reference to current supervisory regulations, the situation at 31 December 2018 is reported below:

Description	***Nominal amount***	***Weighted amount***	***Number of positions***
Large exposures	3,848,643	233,686	5

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

C. Securitisation transactions

Qualitative information

In execution of its capital management strategy, a securitisation has been carried out that makes use of the Italian State guarantee on the senior securities issued following a securitisation of doubtful loans pursuant to Decree Law 18/2016 ("GACS") aimed at deconsolidating Banco Desio Group loans for a gross value of 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 to "2Worlds s.r.l." (the special purpose vehicle or "SPV" set up specifically for this purpose) consists of mortgage or unsecured loan contracts granted by Banco di Desio e della Brianza and by Banca Popolare di Spoleto in favour of secured customers, i.e. with relationships guaranteed by mortgages, and unsecured customers, i.e. with relationships that do not have any collateral.

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

- senior securities for 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 2017, to which DBRS Ratings Ltd and Scope Ratings GmbH have given "BBB low" and "BBB" ratings respectively;

- mezzanine securities for 30.2 million euros to which DBRS Ratings Ltd and Scope Ratings GmbH have given "B low" and "B" ratings respectively;

- junior securities for 9.0 million euros, with no rating.

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

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

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

Quantitative information

C.1 Exposures arising from principal "own" securitisations, broken down by type of securitised asset and by type of exposure

TYPE OF SECURITISED ASSETS/EXPOSURES	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
A. Fully derecognised	159,455	306	467			
- *financial assets measured at amortised cost*	*159,455*	*306*				
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. Disclosures on structured entities not consolidated from an accounting point of view (other than SPVs)

Not applicable

E. Asset disposals

E.4 Covered bonds

This section includes covered bond transactions in which the transferring bank and the financing bank coincide.

2017 saw the launch of the "Covered Bond - Desio OBG" programme, designed to achieve benefits in terms of funding (diversification of deposits, lower funding cost and funding sources with longer maturities). The Programme, which is multi-seller in nature, involves:
- Banco di Desio e della Brianza (Parent Company) in the role of (1) originator bank, (2) lending bank, and (3) bank issuing the covered bonds;
- Banca Popolare di Spoleto, in the role of (1) originator bank and (2) lending bank;
- Desio OBG S.r.l. (Vehicle or SPV), as a special purpose vehicle for the sale of eligible assets by BDB and BPS, 60% owned by the Parent Company;
- BNP Paribas, as the counterparty in the swap taken out to hedge the potential risk generated by the mismatch between the fixed rate on the covered bond and the mix of rates on the portfolio.

More specifically, the "Covered Bond - Desio OBG" programme initially envisaged:
1. the non-revolving sale without recourse of a residential mortgage loan portfolio made up 70.1% by mortgages of the Parent Company and 29.9% by loans of BPS;
2. simultaneous disbursement of a subordinated loan to the SPV by BDB and BPS, pro-quota for their share of the loan portfolio transferred;
3. issuance by BDB of covered bonds for 500 million euros with a maturity of 7 years (first issue on 5 September 2017), subsequently integrated on 31 October 2017, bringing the total issue of covered bonds to 575 million euros.

4. disbursement by the Parent Company to BPS of a loan of 171.9 million euros, in proportion to its participation in the Programme, at the same terms as those obtained by issuing the covered bonds.
5. a liability swap on the covered bonds issued taken out by the SPV for a notional amount of 300 million euros with a counterparty external to the Group (BNP Paribas);
6. a back-swap taken out by BDB for the same notional amount of 300 million euros with the same counterparty, as a mirror-image of the previous one;
7. another back-swap taken out by BDB for a notional amount of 89.7 million euros (or 29.9% of the notional value of the previous derivatives) with BPS as counterparty, as a mirror-image of the previous one.

On 7 November 2018, a further 1,441 mortgages were securitised for Banco Desio at a price of 165.1 million euros, while for Banca Popolare di Spoleto another 2,659 were securitised at a price of 248.6 million euros.

The main characteristics of the transaction are summarised below:

a) *SPV name:* Desio OBG S.r.l.
b) *Type of underlying loans:* Residential mortgage loans;
c) *Value of the loans sold:* total of 1,245 million euros, of which 747.6 million euros sold by Banco Desio and 497.4 million euros by the subsidiary Banca Popolare di Spoleto;
d) *Amount of subordinated loan:* 1,245 million euros, of which 747.6 million euros disbursed by the Parent Company and 497.4 million euros by Banca Popolare di Spoleto;
e) *Nominal value of the covered bonds issued:* 575 million euros;
f) *Interest rate on covered bonds issued:* fixed rate of 0.875%.

At 31 December 2018, the loan portfolio sold by the Bank has a book value of about 645.9 million euros.

F. Credit risk measurement models

At the reporting date, the Bank does not use internal portfolio models for measuring credit risk exposure.

SECTION 2 – MARKET RISK

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 bank to changes in the economic value of assets and liabilities.

Banco Desio 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

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 Bank 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 the operational areas.

For the quantification of generic risks, the Bank 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	**-**	**-**	**71**	**100**	**268**	**-**	**-**	**-**
1.1 Debt securities	-	-	71	100	268	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	71	100	268	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	41	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	41	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	476,640	6,575	1,662	1,272	-	-	-
+ Short positions	-	477,208	6,572	1,661	1,272	-	-	-

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	-	482,503	6,748	1,695	1,310	-	-	-
+ Short positions	-	481,834	6,749	1,695	1,310	-	-	-

2. Regulatory trading book: distribution of exposures concerning equities and equity indices by the main countries where they are listed

Type of operation/equity index	Listed			Unlisted
	Italy	United States	Other	
A. Equity instruments	**1,793**		**414**	
long positions	1,793		414	
short positions				
B. Unsettled transactions in equity securities				
long positions				
short positions				
C. Other equity security derivatives	**40**		**1**	
long positions	40		1	
short positions				
D. Equity index derivatives				
long positions				
short positions				

3 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" in 2017 evidenced a structure with limited market risks. Related VaR at 31.12.2018 amounted to 35 thousand euros, with ad euro percentage of 1.60% of the trading portfolio.

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 risk management, which is autonomous with respect to operational areas. All of the Bank's business associated with the transformation of maturities of assets and liabilities, treasury operations and the respective hedging derivatives is monitored with Asset and Liability Management (ALM) methodologies using ERMAS3. The static analysis currently performed allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income.

The model covers assets and liabilities exposed to interest rate risk included in the banking book and in the financial statements. 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 several variants of GapAnalysis in order to achieve more accurate estimates.

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	**2,217,832**	**3,638,170**	**744,838**	**548,250**	**1,558,705**	**337,913**	**251,044**	**-**
1.1 Debt securities	-	560,781	564,326	227,360	1,073,633	96,077	10,242	-
- with early redemption option	-	201,139	-	-	8,618	6,014	-	-
- other	-	359,642	564,326	227,360	1,065,015	90,063	10,242	-
1.2 Loans to banks	371,171	76,194	-	167,669	-	18,000	665	-
1.3 Loans to customers	1,846,661	3,001,195	180,512	153,221	485,072	223,836	240,137	-
- current accounts	1,555,597	1,790	1,983	3,958	17,506	616	-	-
- other loans	291,064	2,999,405	178,529	149,263	467,566	223,220	240,137	-
- with early redemption option	33,756	2,417,347	123,593	147,360	461,271	222,025	239,930	-
- other	257,308	582,058	54,936	1,903	6,295	1,195	207	-
2. Cash liabilities	**5,289,672**	**654,331**	**228,271**	**180,132**	**1,938,156**	**573,147**	**-**	**-**
2.1 Due to customers	5,255,294	293,158	138,526	86,097	109,861	-	-	-
- current accounts	5,225,890	293,153	138,517	86,095	109,861	-	-	-
- other payables	29,404	5	9	2	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	29,404	5	9	2	-	-	-	-
2.2 Due to banks	23,059	32,493	-	-	1,586,367	-	-	-
- current accounts	4,351	-	-	-	-	-	-	-
- other payables	18,708	32,493	-	-	1,586,367	-	-	-
2.3 Debt securities	11,319	328,680	89,745	94,035	241,928	573,147	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	11,319	328,680	89,745	94,035	241,928	573,147	-	-
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	-	65	365	14	-	-	-	-
+ Short positions	-	444	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	14,390	14,261	20,730	88,165	35,704	24,027	-
+ Short positions	-	196,708	569	-	-	-	-	-
- Other								
+ Long positions	-	130,000	-	-	-	-	-	-
+ Short positions	-	-	-	-	130,000	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	44,538	-	-	-	-	-	-	-
+ Short positions	44,538	-	-	-	-	-	-	-

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

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	**7,671**	**66,267**	**781**	**-**	**2,542**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	2,542	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	2,542	-	-	-
1.2 Loans to banks	7,198	34,481	-	-	-	-	-	-
1.3 Loans to customers	473	31,786	781	-	-	-	-	-
- current accounts	473	-	-	-	-	-	-	-
- other loans	-	31,786	781	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	31,786	781	-	-	-	-	-
2. Cash liabilities	**69,483**	**1,569**	**2,454**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	43,874	-	2,454	-	-	-	-	-
- current accounts	43,874	-	2,454	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	25,609	1,569	-	-	-	-	-	-
- current accounts	25,609	-	-	-	-	-	-	-
- other payables	-	1,569	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	-	3,977	-	-	-	-	-	-
+ Short positions	-	3,977	-	-	-	-	-	-

2. Banking book - internal models and other methodologies for the analysis of sensitivity

The Bank's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value.
The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations.
The following table shows the results of the impact on the interest margin - from a static perspective and in the absence of behavioural models for demand items - of the analyses carried out at 31 December 2018, assuming a parallel shift in the yield curve, and considering the time effect of repricing.
Risk ratios: parallel shifts in the yield curve at 31.12.2018

	+100 bps	*-100 bps*
% of the expected margin	*18.77%*	*-26.79%*
% of net interest and other banking income	*10.60%*	*-15.12%*
% of the result of the year	*55.78%*	*-79.61%*
% of shareholders' equity	*2.05%*	*-2.92%*

In terms of economic value, the results, which were estimated with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, evidenced a risk exposure at 31 December 2018 that has been maintained at levels that do not significantly affect total capital.
The following table shows the changes in the economic value analysed by applying deterministic approaches with parallel shifts in the yield curve.

Risk ratios: parallel shifts in the yield curve at 31.12.2018

	+100 bps	*-100 bps*
% of the economic value	*-11.62%*	*7.86%*

2.3 EXCHANGE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

The Bank 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 Bank is marginally exposed to foreign exchange risk. The Operations Room of the Finance Department manages forex operations, with respect to which it:

- operates in domestic and international foreign exchange, interest rate and foreign currency deposits markets;
- executes spot and forward currency contracts on its own account and on behalf of customers;
- executes currency forwards and foreign currency deposits with resident and non-resident counterparties.

Exchange rate risk is managed through "intraday" and "end-of-day" 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 Bank's main objective is to manage exchange risk in a prudent manner, always taking into consideration the possibility of taking advantage of any market opportunities. Transactions that involve taking on exchange risk are managed through appropriate hedging strategies.

Quantitative information

1. Distribution by currency of denomination of assets, liabilities and derivatives

Captions	Currencies				
	Us Dollar	Pound Sterling	Swiss Franc	Japanese Yen	OTHER CURRENCIES
A. Financial assets	**59,614**	**5,469**	**3,431**	**2,924**	**6,011**
A.1 Debt securities					2,542
A.2 Equity instruments	10				178
A.3 Loans to banks	31,461	3,931	2,952	113	3,222
A.4 Loans to customers	28,143	1,538	479	2,811	69
A.5 Other financial assets					
B. Other assets	**139**	**115**	**78**	**58**	**76**
C. Financial liabilities	**61,767**	**5,164**	**3,307**	**98**	**3,170**
C.1 Due to banks	25,094	1,732	53		299
C.2 Due to customers	36,673	3,432	3,254	98	2,871
C.3 Debt securities					
C.4 Other financial liabilities					
D. Other liabilities	**1,380**	**301**	**89**		**1**
E. Financial derivatives					
- Options					
+ Long positions					
+ Short positions					
- Other					
+ Long positions	428,090	29,754	1,541	30,020	2,852
+ Short positions	424,503	29,808	1,571	32,486	2,860
Total assets	**487,843**	**35,338**	**5,050**	**33,002**	**8,939**
Total liabilities	**487,650**	**35,273**	**4,967**	**32,584**	**6,031**
Net balance (+/-)	**193**	**65**	**83**	**418**	**2,908**

2. Internal models and other methodologies for the analysis of sensitivity

The Bank'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.

3. DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

3.1 Financial trading derivatives

A. Financial derivatives

A.1 Financial trading derivatives: period-end notional values

Underlying assets/Type of derivatives	Total 31/12/2018				Total 31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With compensation arrangements	Without compensation arrangements			With compensation arrangements	Without compensation arrangements	
1. Debt securities and interest rates	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	41	-	-	-	181	-
a) Options	-	-	41	-	-	-	181	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	973,037	-	-	-	813,003	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	973,037	-	-	-	813,003	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**973,078**	**-**	**-**	**-**	**813,184**	**-**

A.2 Financial trading derivatives: positive and negative gross fair value - breakdown by product

Type of derivatives	31/12/2018				31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties: With compensation arrangements	Without central counterparties: Without compensation arrangements		Central counterparties	Without central counterparties: With compensation arrangements	Without central counterparties: Without compensation arrangements	
1. Positive fair value								
a) Options	-	-	41	-	-	-	181	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	5,805	-	-	-	4,538	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**5,846**	**-**	**-**	**-**	**4,719**	**-**
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	2,832	-	-	-	4,531	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**2,832**	**-**	**-**	**-**	**4,531**	**-**

A.3 OTC financial trading derivatives – notional values, positive and negative gross fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of compensation arrangements				
1) Debt securities and interest rates				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equities and equity indices				
- notional value	X	-	11	30
- positive fair value	X	-	11	30
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	425,143	180,903	366,991
- positive fair value	X	1,549	671	753
- negative fair value	X	1,220	-	1,612
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of compensation arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equities and equity indices	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currency and gold	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial trading 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		-	-	-	-
A.2 Financial derivatives linked to equities and stock indices		-	41	-	41
A.3 Financial derivatives linked to currencies and gold		970,417	2,620	-	973,037
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	**31/12/2018**	**970,417**	**2,661**	**-**	**973,078**
Total	**31/12/2017**	**813,003**	**181**	**-**	**813,184**

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 31/12/2018				Total 31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counter-parties	Without central counterparties			Central counter-parties	Without central counterparties		
		With compensation arrangements	Without compens-ation arrange-ments			With compensation arrangements	Without compens-ation arrange-ments	
1. Debt securities and interest rates	-	-	130,000	-	-	-	130,000	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	130,000	-	-	-	130,000	-
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**	**-**	**-**	**-**	**130,000**	**-**

A.2 Hedging financial derivatives: positive and negative gross fair value - breakdown by product

Type of derivatives	Positive and negative fair value								Change in the value used to calculate the effectiveness of the hedge	
	Total 31/12/2018				Total 31/12/2017				Total	Total
	Over the counter			Organised markets	Over the counter			Organised markets	31/12/18	31/12/17
	Central counter-parties	Without central counterparties			Central counter-parties	Without central counterparties				
		With compens-ation arrange-ments	Without compens-ation arrange-ments			With compens-ation arrange-ments	Without compens-ation arrange-ments			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	2,055	-	-	-	1,414	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**2,055**	**-**	**-**	**-**	**1,414**	**-**	**-**	**-**

A.3 OTC hedging financial derivatives - notional values, positive and negative gross fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of compensation arrangements				
1) Debt securities and interest rates				
- notional value	X	130,000	-	-
- positive fair value	X	-	-	-
- negative fair value	X	2,055	-	-
2) Equities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of compensation arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying/Residual life		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives linked to debt securities and interest rates		-	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	**31/12/2018**	**-**	**130,000**	**-**	**130,000**
Total	**31/12/2017**	**-**	**130,000**	**-**	**130,000**

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	-	130,000	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	2,055	-	-
2) Equities and equity indices				
- notional value	-	-	11	30
- net positive fair value	-	-	11	30
- net negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	425,143	180,903	366,991
- net positive fair value	-	1,549	671	753
- net negative fair value	-	1,220	-	1,612
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	-	-	-	-

SECTION 4 - LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Finance Department with the aim of meeting 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 ERMAS3 application: by developing all of the cash flows generated by operations, it allows us to evaluate and manage in the various periods any liquidity requirement that the Bank may encounter due to imbalances between inflows and outflows.
The analysis of the overall structural liquidity is developed on a monthly basis using the technique, i.e. showing imbalances by date of liquidation of capital flows over a set time horizon.
In order to evaluate the impact of the negative events on the risk exposure, stress tests are performed at consolidation level. In particular, the events considered are:

- outflow from overdrafts repayable on demand considered non-core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) due to unpaid instalments;
- decrease in value of the owned securities portfolio;
- repurchase of 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 Bank'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.

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 Bank 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	Unspec-ified duration
Cash assets	**1,990,602**	**40,538**	**125,372**	**129,913**	**660,219**	**329,116**	**870,872**	**3,373,850**	**1,883,677**	**66,205**
A.1 Government securities	-	-	241	-	1,565	4,410	223,586	1,316,421	385,000	-
A.2 Other debt securities	-	1	-	336	3,789	556	9,043	353,345	233,347	-
A.3 Mutual funds	49,176	-	-	-	-	-	-	-	-	-
A.4 Loans	1,941,426	40,537	125,131	129,577	654,865	324,150	638,243	1,704,084	1,265,330	66,205
- Banks	377,865	-	-	-	10,021	-	171,925	-	18,667	66,205
- Customers	1,563,561	40,537	125,131	129,577	644,844	324,150	466,318	1,704,084	1,246,663	-
Cash liabilities	**5,339,543**	**11,552**	**14,860**	**150,312**	**270,919**	**173,718**	**290,570**	**2,143,137**	**575,000**	**-**
B.1 Deposits and current accounts	5,303,900	11,098	14,753	129,842	172,148	138,913	86,486	109,618	-	-
- Banks	46,759	-	-	32,493	-	-	-	-	-	-
- Customers	5,257,141	11,098	14,753	97,349	172,148	138,913	86,486	109,618	-	-
B.2 Debt securities	5	454	107	20,470	98,771	30,191	199,470	424,040	575,000	-
B.3 Other liabilities	35,638	-	-	-	-	4,614	4,614	1,609,479	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	3,154	1,075	128,444	344,031	6,940	1,676	1,272	-	-
- Short positions	-	4,159	1,078	128,393	343,957	6,572	1,726	1,313	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	87	135	217	437	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	9,500	-	-	-	-	1,000	55	8,357	25,626	-
- Short positions	44,538	-	-	-	-	-	-	-	-	-
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	**7,699**	**36,141**	**3,742**	**14,433**	**12,148**	**821**	**-**	**2,513**	**13**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	28	-	2,513	13	-
A.3 Mutual funds	10	-	-	-	-	-	-	-	-	-
A.4 Loans	7,689	36,141	3,742	14,433	12,148	793	-	-	-	-
- Banks	7,217	32,556	-	444	1,573	-	-	-	-	-
- Customers	472	3,585	3,742	13,989	10,575	793	-	-	-	-
Cash liabilities	**69,484**	**-**	**-**	**-**	**1,575**	**2,476**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	69,484	-	-	-	1,575	2,476	-	-	-	-
- Banks	25,609	-	-	-	1,573	-	-	-	-	-
- Customers	43,875	-	-	-	2	2,476	-	-	-	-
B.2 Debt securities	**7,699**	**36,141**	**3,742**	**14,433**	**12,148**	**821**	**-**	**2,513**	**13**	**-**
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	7,186	1,089	129,058	345,171	6,748	1,695	1,310	-	-
- Short positions	-	6,520	1,085	129,057	345,170	6,749	1,695	1,310	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	3,417	-	-	-	-	-	-	-	-
- Short positions	-	3,417	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	-	560	-	-	-	-	-	-	-	-
- Short positions	-	560	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

SECTION 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 Bank 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 Bank;
- Risk Self-Assessment – structured process for the measurement of operational risks designed to have complete vision of risk events in terms of the potential impact and the worst case impact.

The Risk Management function applied company regulations to structure an adequate monitoring and reporting system for operational risk by integrating it with the dictates of the supervisory regulations about the provisions regarding coordination between control functions. With respect to the detrimental events gathered in the Corporate Database of Operational Losses (DBPOA), a reporting system was implemented some time ago that is capable of providing senior management with information concerning the events in question: number of events, amount of losses, gross and net of any recoveries, at predefined intervals.
In compliance with Bank of Italy regulations (Circular 285/2013, Part I, Title IV, chap. 4, 5), Banco Desio e della Brianza adopted:

- Security Policy;
- Procedure for Accident Management;
- IT Risk Assessment methodology.

During the year, in a broader project to revise the strategic and organisational structure of the ICT system, Banco Desio e della Brianza completely revised the IT Risk Assessment model. With this activity, the Bank:

1. expanded the scope of the assets being measured
2. refined the measurement criteria;
3. identified monitoring indicators that will expand the current ICT Risk reporting set.

As regards the management of risks impacting the Bank's 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", the Bank has adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned to specific bodies.
As regards legal risk, the various corporate functions operate with standard contracts that have previously been vetted by the appropriate business structure. Accordingly, it should be noted that most of the ongoing legal disputes at the year-end relate to disputes concerning compensation for damages, alleged usury and compound interest charges.
Banco Desio e della Brianza, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions, applying the current corporate policies. The following table summarises the disputes outstanding at the end of the year, together with related provisions:

	Number	Claim	Provisions
Claw-back suits	10	€ 4.027 million	€ 0.339 million
Other lawsuits	258	€ 42.998 million	€ 5.717 million

The principal disputes (with claims in excess of 1 million euros) are described below according to the age of the proceedings:

- Claim of 2.0 million euros. By writ of summons, the counterparty brought legal proceedings against the Bank to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered the Bank to return an amount that was lower than the claim. The counterparty lodged an appeal. The Bank paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree. The Supreme Court has not yet set the date for the hearing;
- Claim of 1.103 million euros. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by the Bank and leased to the counterparty plus amounts paid into a current account. The receiver contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court, which has not yet set a date for the hearing. The receivership has served notice of an injunction for a sum of 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;
- Claim of 3.052 million euros. The plaintiff has filed suit concerning a loss of capital deriving from operations in financial instruments deemed inconsistent with the risk profile thereof. The Bank appeared before the court to request that the claims be dismissed, given that the contractual documentation had been signed and that the operations appeared to be consistent with the risk profile. The case is at the preliminary stage with the completion of an expert appraisal for the accounting verification of all purchase and sale orders. Having asked the expert witness for clarification, the judge ordered him to correct the inaccuracy in the calculation highlighted by the respondent and to review all of the figures, adjourning the case to 11 April 2019;

- Claim of 12.569 million euros. Following the rejection of the Preventive Technical Assessment established in March 2018, the plaintiff initiated a judgement of merit at the Court of Monza (first hearing on 28 March 2019) to request the return of the amounts made available (transfers and requests for bank drafts), according to the plaintiff, based on false signatures and consequently stolen from his assets for the total of 12,569,843 euros. As things stand at present, the Bank's legal advisor thought that the risk of losing the case was remote, also considering the outcome of the Preventive Technical Assessment.

Quantitative information

Event type	No. events	% Events	Gross loss	% of total	Net loss	% of total	Recoveries	% 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	0.00%	0	0.0%	0	0.0%	0	0.00%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	16	1.62%	180	7.9%	180	7.9%	0	0.00%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	3	0.30%	70	3.1%	70	3.1%	0	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)	78	7.91%	1,090	47.8%	1,090	47.8%	0	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	6	0.61%	6	0.2%	6	0.2%	0	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	7	0.71%	1	0.1%	1	0.1%	0	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	876	88.84%	935	41.0%	935	41.0%	0	0.00%
TOTAL Banco Desio e della Brianza	**986**	**100.00%**	**2,282**	**100.00%**	**2,282**	**100.00%**	**0**	**0.0%**

The operating loss was Euro 2.282 million (net of the adjustments for events recognised and recorded in the period 2013-2015), in relation to which prudent provisions totalling 1.089 million euros were recorded.

PART F - INFORMATION ON SHAREHOLDERS' EQUITY

Section 1 – Shareholders' equity

A. Qualitative information

The Board of Directors has always paid a great deal of attention to the Bank's capital. It is well aware of its importance in inspiring confidence in external providers of finance, 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 Bank.

The concept of book equity used by Banco Desio 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.

The policy of the Board of Directors is thus to assign a considerable priority to capital, so as to use it in the best way possible to expand the Bank's business and to maximise the return for shareholders, while maintaining a prudent risk profile. As regards this last aspect, it should be borne in mind that the main component of mandatory minimum capital requirements relates to credit risk associated with a diversified loan portfolio focused on the core sector of local businesses and households.

Shareholders' equity at 31 December 2018, inclusive of net profit for the year, increased to 914.5 million euros compared to 912.4 million euros at the 2017 year-end.

B. Quantitative information

B.1 Shareholders' equity: breakdown

Captions/Amounts	**31/12/2018**	**31/12/2017**
1. Share capital	67,705	67,705
2. Share premium reserve	16,145	16,145
3. Reserves	760,273	754,597
- revenue reserves	760,273	754,597
a) legal reserve	95,216	91,417
b) extraordinary reserve	549,722	528,905
c) reserve for treasury shares		
d) other	115,335	134,275
- other		
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves:	39,435	35,928
- Equity instruments designated at fair value through other comprehensive income	18,044	
- Equity instruments designated at fair value through other comprehensive income		
- Financial assets designated at fair value through other comprehensive income	984	15,369
- Property, plant and equipment		
- Intangible assets		
- Foreign investment hedges		
- Cash-flow hedges	(1,298)	(867)
- Hedging instruments [non-designated elements]		
- Exchange differences		
- Non-current assets and disposal groups held for sale		
- Financial liabilities designated at fair value through profit or loss (changes in own creditworthiness)		
- Actuarial gains (losses) on defined-benefit pension plans	(1,191)	(1,470)
- Portion of the valuation reserves of the equity investments carried at equity		
- Special revaluation laws	22,896	22,896
7. Net profit (loss) for the period	30,955	37,996
Total	**914,513**	**912,371**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amounts	31.12.2018		31.12.2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	984		2,873	(4,500)
2. Equity instruments	18,129	85	18,128	
3. Mutual funds				(1,132)
4. Loans				
Total	**19,113**	**85**	**21,001**	**(5,632)**

The comparative figure includes the total positive and negative reserves of the mutual fund units classified under assets available for sale in compliance with IAS 39; these valuation reserves were reclassified to profit reserves (in particular, the IFRS9 FTA reserve) on 1 January 2018. In fact, starting from that date mutual funds were reclassified to item "20.c. Financial assets mandatorily at fair value" since by their very nature they are not compatible with passing the SPPI test (solely payments of principal and interests) foreseen in IFRS 9 "Financial Instruments" for the classification of financial assets measured at fair value through other comprehensive income.

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	**(1,627)**	**18,128**	**(1,132)**	
2. Positive changes	**8,142**		**1,132**	
2.1 Fair value increases	676			
2.2 Write-downs for credit risk				
2.3 Reversal of negative reserves on disposal to profit or loss	67			
2.4 Transfers to other components of shareholders' equity (equity instruments)				
2.5 Other changes	7,399		1,132	
3. Negative changes	**(5,531)**	**(85)**		
3.1 Fair value decreases				
3.2 Write-backs for credit risk	(258)			
3.3 Reversal to income statement from positive reserve: from disposals	(2,804)			
2.4 Transfers to other components of shareholders' equity (equity instruments)				
3.4 Other changes	(2,469)	(85)		
4. Closing balance	**984**	**18,043**	**-**	

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 279 thousand euros (net of the related tax effect of 106 thousand euros) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.

Section 2 – Own funds and capital adequacy ratios

As required by the 5th update of Circular 262 "Bank financial statements: schedules and rules for preparation", reference should be made to the contents of the public disclosure ("Third Pillar") provided by the Bank at consolidated level.

PART H - TRANSACTIONS WITH RELATED PARTIES

1 - Information on the remuneration of Managers with strategic responsibilities

For information on the remuneration paid to directors and managers with strategic responsibilities, please refer to the "Report on the Group's Remuneration Policies" at 31 December 2018 prepared in accordance with art. 123-ter CFA.

2 - Related party disclosures

The internal procedure ("Internal Regulations") for the management of transactions with related parties and entities included in the scope of application of art. 136 of the CBA, adopted in accordance with Consob Regulation no. 17221/2010 and supplemented in accordance with the Minimum Capital Requirement in respect of risk assets and conflicts of interest with respect to persons linked to Banco di Desio e della Brianza or the Banking Group pursuant to art. 53 TUB, is explained in the Annual Report on Corporate Governance at 31 December 2018. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents/Related Parties" section.

Given that, pursuant to art. 5 of Consob Regulation 17221/2010 and art. 154-ter of the CFA, periodic information has to be provided:

a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation[3];
b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Bank;
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 Bank

in the reference period there were no transactions worthy of note other than the approval, on 11 December 2018, by the respective Boards of Directors of the project for the absorption of Banca Popolare di Spoleto S.p.A. by Banco di Desio e della Brianza S.p.A. as detailed in the section on "Significant events" in the Report on Operations. A request was submitted to the Bank of Italy pursuant to articles 56 and 57 CBA on 13 December 2018 for this transaction and for the consequent change in the share capital of Banco Desio. Subject to obtaining the necessary authorisations and the adequacy report pursuant to art. 2501-sexies of the Italian Civil Code, the merger project will be submitted to the examination and approval of the Extraordinary Shareholders' Meetings of the two banks due to be called in the next few months.

As regards transactions carried out during the year with the subsidiary Banca Popolare di Spoleto S.p.A, reference should be made to the report on operations and Part A and B of these notes.

* * *

Transactions with related parties are generally entered into on an arm's length basis and are, in any case, in the Group's interest. Comparison with the equivalent market or standard conditions is mentioned in the periodic reporting of transactions to the Corporate Bodies.

In this context, there are no transactions outstanding at 31 December 2018 that present particular risk profiles compared with those considered part of the normal course of banking business and related financial activity or that present profiles of atypical/unusual features worthy of note.

The following paragraphs summarise - in a prudential logic of unified management of potential conflicts of interest - existing relationships with the Parent company, subsidiary companies and other related parties

[3] With respect to the level of significance of the transactions with related parties, the Internal Regulations refer to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised for Banco Desio at the date of adoption of the Procedure)

pursuant to art. 53 CBA and/or art. 2391 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 S.A.p.A. amounted to Euro 119.5 million, of which Euro 117.1 million, relating to the securities portfolio.

At the end of the year, a five-year unsecured "bullet" financing transaction was entered into with this Company for a total of Euro 5 million to replace a similar credit line at another Bank which was about to expire. Note that the operation falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the offices held by certain officers referred to in the following paragraph "Transactions with Officers and parties related to them". We can confirm, also in this case in question, that this is a transaction falling within the ordinary lending activity, carried out at market conditions (within the scope of the list of conditions in force for related parties in accordance with a specific framework resolution).

A service agreement has also been stipulated with the same Company governing the reciprocal rights and obligations inherent to the accounting and reporting activities delegated to Banco di Desio e della Brianza S.p.A. for regulatory consolidation purposes pursuant to art. 11 and 99 of EU Regulation no. 575/2013 (CRR). The fees paid to the latter are of a minor amount and have in any case been determined with the same methodology as similar agreements with subsidiaries belonging to the same banking group. It should be noted that this transaction also falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers referred to in the following paragraph "Transactions with Officers and parties related to them".

II - Subsidiaries

Set out below is a summary of significant transactions with subsidiaries approved by the Board of Directors during the year and during board meetings held prior to the date of approval of the financial statements for the year ended 31 December 2018, in compliance with the above Procedure:

Counterparty	Nature of Transaction	Amounts/financial conditions (Euro)
BPS	Line of credit granted to Banco di Desio e della Brianza S.p.A.	Guarantees for commercial transactions of Euro 268 thousand
BPS	Amendment of the Service Agreement between Banco di Desio e della Brianza S.p.A. and Banca Popolare di Spoleto S.p.A.	Amount for 2018 in favour of the Parent Company (determined on the basis of the new estimated commitment) Euro 6,470 thousand (VAT included). In consideration of the merger plan explained in the Report on Operations, the 2019 Service Agreement will continue up to the expected legal effectiveness of the deal, based on the previously approved quantification methods.
Fides	Amendment of the Service Agreement between Banco di Desio e della Brianza S.p.A. and Fides S.p.A.	Amount for 2018 in favour of the Parent Company Euro 153 thousand (VAT included). Amount for 2019 in favour of the Parent Company Euro 145 thousand (service not subject to VAT following the establishment of the VAT Group)
Desio OBG	Service agreement between Banco di Desio e della Brianza S.p.A. and Desio OBG S.r.l.	Amount for 2018 in favour of the Parent Company Euro 9 thousand (VAT included). Amount for 2019 in favour of the Parent Company Euro 7 thousand (service not subject to VAT following the establishment of the VAT Group, as mentioned above)

Counterparty	Nature of Transaction	Amounts/financial conditions (Euro)
BPS - Fides - Desio OBG	Joining the "VAT Group" for the three-year period 2019 - 2020 - 2021	Conditions detailed in the resolution
BPS - Fides	Joining the tax consolidation for the years 2018-2019-2020	Conditions detailed in the resolution
Fides	Agreement for the distribution of products	Conditions (amounts of commission) detailed in the resolution
Fides	Overdraft facility	Total increase from Euro 485 million to Euro 510 million
Fides	Overdraft facility	Total increase from Euro 510 million to Euro 530 million

The amounts of assets/liabilities, guarantees/commitments and income/costs arising from transactions with the aforementioned companies are disclosed in Para. 9.4 of the Report on Operations under the caption “subsidiaries”.

III - Transactions with Officers and parties related to them

As for the granting of credit lines approved in 2018 pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of the Bank 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 32 positions existing at 31 December 2018 comes to some 7.1 million euros and the related utilisations amount in total to some 4.7 million euros.
As regards funding relationships held by Banco Desio directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2018 amounted to 104 million euros in amounts due to customers (including approximately 87.4 million euros in securities portfolios).

The above computation excludes transactions and balances with the parent company and with subsidiaries as per paragraphs above.
Details on to the lending and funding relationships referred to in this paragraph are shown in the following table:

	Balances at 31.12.2018 (in €/million)
Lending transactions:	
Amount granted	7.1
Amount drawn down	4.7
Funding transactions:	
C/c and d/r amount (a)	16.6
Amount of securities portfolios (b)	87.4
Total (a+b)	104.0

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.

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

1. The undersigned, Stefano Lado, Chairman, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 bis of Legislative Decree 58 of 24 February 1998:

   – the adequacy of the administrative and accounting procedures for the preparation of the financial statements with respect to the Company and their

   – effective application during 2018.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the financial statements at 31 December 2018 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.

3. We also certify that:

   3.1. the 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;

   3.2. the Report on Operations includes a reliable analysis of the results of operations and of the situation of the issuer, together with a description of the principal risks and uncertainties faced by them.

Desio, 7 February 2019

Chairman	Financial Reporting Manager
Stefano Lado	Mauro Walter Colombo

Auditors' report

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Banco di Desio e della Brianza S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Banco di Desio e della Brianza S.p.A. (the "Bank"), which comprise the balance sheet as at 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement for the year then ended and the explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Derecognition of an NPL portfolio following a securitisation through GACS	
Description of the key audit matter	As represented in Explanatory Notes *Part E - Information on risks and related hedging policy* as at 31st December 2018, the Board of Directors of the Bank on 27th March 2018 approved a plan for the sale of NPLs, for which a securitisation of doubtful loans that makes use of a guarantee of the Minister of Economy and Finance pursuant to Decree Law 18/2016 ("GACS") was also foreseen. In June 2018 the operation of disposal through securitisation of a portfolio of doubtful loans was carried out with the concurrent issue of senior, mezzanine and junior securities by the underwriter Special Purpose Vehicle 2Worlds S.r.l., which the Bank subscribed. In July 2018, after having obtained the GACS on the senior securities and sold 95% of the mezzanine and junior securities to investors, the Bank deconsolidated the doubtful loans sold, after the conditions required by IFRS 9 were met. In Explanatory Notes *Part C – Information on the Revenues* Section 6 - *Gains (Losses) on disposal/repurchase – caption 100*, reports the information on the economic effects recorded during the year that derive from the NPLs disposal programme. In consideration of the complexity of the operation of securitisation of doubtful loans through GACS, we consider that the derecognition of NPLs portfolio represents a key area for the audit of the financial statements of Banco di Desio e della Brianza S.p.A..
Audit procedures performed	As part of the audit procedures, we learned about the operation and controls implemented by the Bank with the aim of verifying the compliance with the requirement established by IFRS 9 for the derecognition of the disposable NPL. As part of the audit procedures, the following activities have been carried out: - analysis of the approval process of the disposal operation of doubtful loans carried out by the competent bodies of the Bank; - analysis of the underwritten contracts as well as interviews with the Management of the Bank; - obtaining and analysis of the prepared documents for the issuance of the GACS guarantee; - verification of the fullfilment of the conditions required by the accounting principle IFRS 9 for the derecognition of the NPLs sold, with reference to the significant transfer of the risks and benefits associated with the securitised loans. Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.

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Classification and valuation of non-performing loans to customers measured at amortised cost	
Description of the key audit matter	As represented in Explanatory Notes *Part B – Information on the balance sheet* and *Part E – Information on risks and related hedging policy*, as at 31st December 2018 non-performing loans to customers measured at amortised cost of Banco di Desio e della Brianza S.p.A. amount to a gross book value of 383 million euros (820 million euros at the end of 2017), allowances for impairment to 170 million euros (411 million euros at the end of 2017); the coverage ratio, also following the securitisation of NPLs carried out during the year, moves from 50.2% to 44.3%. In particular, doubtful loans coverage is equal to 62.1% (57.7% at the end of 2017); unlikely to pay coverage is equal to 30.2% (32.1% at the end of 2017); past due non-performing coverage is equal to 13.3% (13.2% at the end of 2017). In order to classify loans in consistent risk categories, the Bank 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 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 Bank credit policies for each category in which loans are classified. In consideration of the complexity of the estimation process held by the Board of Directors, that involves classification activity into consistent risk categories, as well as the significance of the judgmental process inherent in the estimate nature of the recoverable amount, we consider that the classification and valuation of such loans and the related classification and impairment process represent a key area for the audit of the financial statements of Banco di Desio e della Brianza S.p.A..
Audit procedures performed	As part of the audit procedures, we learned about the Bank lending process which includes the recognition and the understanding of the organisational and procedural controls implemented by the Bank 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 Bank related to non-performing loans recoverable amount according to applicable accounting standards and sector's policies. As a result of these activities, audit procedures have been defined to test data used to calculate the recoverable amount and verify the estimation process. As part of the audit procedures, the following activities has been carried out: - verification, on a sample basis, of the appropriateness of the recoverable amount determined by the Bank 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 Bank;

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- obtaining and review of the written confirmations from lawyers in order to gather information and evidences to support the Bank's evaluation;
- comparative analysis procedures, in historical series and for each class of non-performing loans, through the calculation of hedging indices and the comparison of such indices with the comparable information 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 Explanatory Notes *Part B – Information on the balance sheet* and *Part E – Information on risks and related hedging policy*, as at 31st December 2018, performing loans to customers of Banco di Desio e della Brianza S.p.A. amount to a gross book value of 5,977 million euros (5,867 million euros at the end of 2017), allowances for impairment to 27 million euros (23 million euros at the end of 2017); the coverage ratio is 0.5% (0.4% at the end of 2017). As better specified in 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 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 financial statements of Banco di Desio e della Brianza S.p.A..
Audit procedures performed	As part of the audit procedures, we learned about the Bank's lending process which includes the recognition and the understanding of the organisational and procedural controls implemented by the Bank 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 Bank 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 Bank;

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- verification, on a sample of performing loans, of their proper classification;
- comparative analysis procedures, in historical series, through the calculation of hedging indices and the comparison of such indices with the comparable information relating to previous periods and with data derived from the market;
- analysis of the events occurred after the reference date of the balance sheet in order to make considerations regarding the classification and evaluation that have been made.

Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.

Transition process to accounting principle IFRS 9 Financial Instruments

Description of the key audit matter	As represented in Explanatory Notes *Part A – Accounting policies* that reports the disclosure required in accordance with IAS 8, including the main methodological choices and *Part B – Information on the balance sheet* and in the *Report on Operations*, on 1st January 2018, the first-time adoption of IFRS 9 *Financial Instruments* had an impact on the classification and measurement of the Bank's financial assets and liabilities according to the new accounting categories established by the accounting principle and the definition of a new approach for the determination of *impairment* of financial assets according to the *expected credit losses* model. The first-time adoption of IFRS 9 determined an overall negative effect on the shareholders' equity of Banco di Desio e della Brianza S.p.A. of 11,1 million euros, of which 19,0 million euros (negative) recorded in caption 140. Reserves and 7,9 million euros (positive) recorded in caption 110. Valuation reserves. The transition process to IFRS 9 has been centrally managed by the Bank for all the Group companies through the creation of specific "streams", with the aim of determining the same accounting and risk monitoring methods at a Group level. In detail, the following "planning streams" have been created: - stream "classification and measurement", aimed at revising the classification of financial instruments in line with the new criteria of IFRS 9; - stream "impairment", aimed at developing and implementing models and methodologies for the computation of value adjustments. It is also stated that the Bank made use of the possibility to continue to apply the *hedge accounting* requirement established by IAS 39 for all the hedging relationships until IASB completes the process of definition of the standards related to the record of the hedging of portfolios of financial instruments (*macro-hedging*). As a result of the carried out activities, the Steering Committee of the 22nd November 2017 validated the decisions and rules defined in the so called "methodological framework IFRS 9" and reflected in the internal policy that was submitted for approval to the Board of the companies of the Group starting from the Bank on 30th November 2017.

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	In consideration of the fact that IFRS 9 made a significant impact on the classification, measurement and valuation criteria of financial assets and of the relevance of the effects on the shareholders' equity of the Bank, we consider the transition process to IFRS 9 a key area of the audit of the financial statements of Banco di Desio e della Brianza S.p.A..
Audit procedures performed	As part of the audit procedures, we learned about the decisions and rules that have been defined in the "methodological framework IFRS 9" and reflected in the internal policy of the Bank. For this purpose, we made use of the support of specialists belonging to the Deloitte network for the analysis of the methodological approach and the compliance with the accounting principle IFRS 9. As part of the audit procedures, the following activities have been carried out: - obtaining and examination of the minutes of the Bank's management and supervisory bodies and further documents available; - analysis of the rationality and compliance to the accounting standards regarding the main decisions made for the first time application of the accounting principle IFRS 9, also through the information and interviews with the Bank's employees; - understanding of the impairment models developed by the Bank and analysis of the rationality of the assumptions and parameters used in the allocation models between "stages" (so called *staging allocation*) and of the computing of the expected credit losses; - verification, for a sample of financial instruments, of the accuracy of the classification with what established by the "methodological framework IFRS 9" and the *impairment* made with the first-time adoption of IFRS 9; - verification of the fiscal effects deriving from the first-time adoption of the accounting principle following the implementation of the new legislation. Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance to accounting standards.
Change in the Business Model with which financial instruments in the banking book are managed	
Description of the key audit matter	On first-time adoption of IFRS 9 Financial Instruments, the Bank carried out an analysis and census of the way in which financial instruments were managed in order to generate cash flows and proceeded to define such business models, coherently with the risk appetite stated in the *Risk Appetite Framework* and associating the financial instruments with different portfolios according to specific parameters. During the second half of 2018, due to the strategic importance of the Business Models, the Bank started an analysis, supported by a consultant, at the end of which the Bank adopted new policies for the management of the banking book, redefining the business models accordingly. The new policies were approved by the Board of Directors on 26th September 2018 and involved the reclassification of a nominal value of 936 million euros of debt instruments from the caption "Financial assets measured at fair value through other comprehensive income" to the caption "Financial assets measured at amortised cost".

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The accounting effects of such operation had an effect only on the balance sheet on 1st October 2018, that is the date in which the conditions established by the accounting principle IFRS 9 in case of a change in the business model have been met.

As reported in Explanatory Notes *Part A – Accounting policies*, financial instruments, aim of the business model change and of the subsequent reclassification, are sovereign debt instruments and corporate bond, accounting for a total book value of 898 million euros, including the loss accrued at the date of reclassification of 42 million euros (gross pre-tax value), recorded in the statement of comprehensive income (valuation reserves). Such negative component, according to what established by IFRS 9, was derecognited from the shareholders' equity in compensation of the value of the same financial instruments that were accounted among the instruments measured at amortised cost, as if they were classified in this category from the beginning.

In consideration of the fact that the change in the business model represents an unusual event and the importance of it both on the balance sheet and on the business processes, we consider that the change in the business model in which financial instruments in the banking book are managed is a key area of the audit of the financial statements of Banco di Desio e della Brianza S.p.A..

Audit procedures performed

As part of the audit procedures, the following activities has been carried out:

- review and analysis of the minutes of the Board of Directors of the Bank;
- review and analysis of the document "Assessment on the investment activities of the banks of the Group" prepared by the Bank external consultant;
- verification of the fulfillment of the conditions related to the change in the business model established by IFRS 9 par. B4.4.1 to define the facts and circumstances above mentioned as relevant for the reclassification of financial instruments according to what established by the accounting principle; such review involved:
    - the analysis of the operativeness of the bank on the instruments subject to change in the business model;
    - the analysis of the organizational and procedural controls implemented by the Bank coherently with the change in the business model, including the internal policy subject to amendments and the daily documentation prepared for the monitoring of the financial assets portfolios;
- the review of the accounting effects deriving from the change in the business model.

Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.

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Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank'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 Bank or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Banco di Desio e della Brianza S.p.A. has appointed us on 26 April 2012 as auditors of the Bank and the Group for the years from 31 December 2012 to 31 December 2020.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Banco di Desio e della Brianza S.p.A. as at 31 December 2018, including their consistency with the related financial statements and their 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 ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Banco di Desio e della Brianza S.p.A. as at 31 December 2018 and on their 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 information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Banco di Desio e della Brianza S.p.A. as at 31 December 2018 and are prepared in accordance with the law.

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With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by

Maurizio Ferrero
Partner

Milan, Italy
5 March 2019

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

Report of the Board of Statutory Auditors

Dear Shareholders,

In accordance with art. 153 of Legislative Decree 58 of 24 February 1998, we submit this report to you on the supervision and inspections that we performed during the year, that ended with the financial statements at 31/12/2018 and which will be presented together with the Directors' Report on Operations and supporting documentation where the performance, financial and economic data and results of Banco di Desio della Brianza S.p.A. (the Bank) and its subsidiaries are explained in sufficient detail.

The Board of Statutory Auditors in office at the date of this Report was appointed by the Shareholders' Meeting on 6 April 2017 and will terminate its mandate with the Shareholders' Meeting for the approval of the financial statements at 31 December 2019.

As regards the audit of the books of accounts and financial statements, we would remind you that this task was carried out by the Independent Auditors, Deloitte & Touche S.p.A. ("Deloitte" or "Independent Auditors"), who were appointed by the Shareholders' Meeting of 26 April 2012 as per Legislative Decree 58/1998 and Legislative Decree 39/2010 for the years 2012 to 2020[4], based on a reasoned proposal made by the Board of Statutory Auditors.

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The Board of Statutory Auditors performed its institutional duties in accordance with the provisions of the Italian Civil Code, Legislative Decrees 385/1993 (CBA), 58/1998 (CFA) and 39/2010, with the statutory regulations and with those issued by the Public Authorities that perform supervisory and control activities, also taking into consideration the standards of conduct recommended by the Italian Accounting Profession, represented by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*.

In reporting to you about the institutional activity for which we are responsible, up to the date of preparation of this Report, we would like to point out that:

- we attended the Shareholders' Meeting, meetings of the Board of Directors and of the Executive Committee, as well as of the Board Committees (i.e. the Control and Risk Committee, the Related-Party Transactions Committee, the Nominations Committee and the Remuneration Committee) and obtained, in compliance with the provisions of law and the articles of association, comprehensive information on the activities carried out and on the more significant transactions carried out by the Bank and its subsidiaries;
- we acquired the information necessary to assess compliance with the law and the articles of association, compliance with the principles of correct administration as well as the functionality and adequacy of the Bank's organisational structure and of the internal and administrative-accounting control systems, through direct investigations and collection of data and information from the Managers of the main corporate functions involved, as well as from the Independent Auditors;
- we carried out our checks on the internal control and risk management system, making use of the assiduous presence at our works of the Financial Reporting Manager, the Heads of the Internal Audit and Risk Management Departments and the Heads of the Compliance and Anti-Money Laundering Offices, who ensured in this way the necessary exchange of information on the methods of carrying out their respective institutional control duties, as well as on the outcome of their respective activities;
- we carried out the necessary checks on the adequacy of the instructions given to the subsidiaries, also pursuant to art. 114, paragraph 2, of Legislative Decree 58/1998;
- we verified compliance with the laws and regulations on the training process, the format and the financial statements for 2018, as well as compliance with the laws and regulations in force and consistency with the resolutions adopted by the Board of Directors;

[4] For the sake of completeness, it should be noted that during 2019, pursuant to art. 19 of Legislative Decree 39/2010, we will start the process of selecting the Independent Auditors for the years 2021-2029.

- we performed the supervisory activity in the various profiles required by art. 19 of Legislative Decree 39/2010;
- we received on 5 March 2019 from the Independent Auditors the additional report pursuant to art. 11 of EU Regulation 537/2014, which the Board of Statutory Auditors immediately sent to the Chairman of the Board of Directors without any observations;
- we received on 5 March 2019 from the Independent Auditors, pursuant to art. 6, paragraph 2, letter a) of EU Regulation 537/2014, confirmation of their independence as well as an indication of their fees for any other non-audit services provided to the Bank by the same or by entities belonging to their network, after discussion with them on the risks relating to their independence and the measures adopted to limit these risks;
- we monitored the procedures for implementing the corporate governance rules envisaged by the current edition of the Code of Conduct for Listed Companies promoted by Borsa Italiana S.p.A. The recommendations formulated by the Chairman of the Corporate Governance Committee by letter dated 21 December 2018 were brought to the attention of the Chairman and the Deputy Chairman of the Board of Directors, as well as the Chairman of the Board of Statutory Auditors. During a specific meeting, we noted that these recommendations were taken into consideration in the Report on Corporate Governance and Ownership Structure, where a specific summary was also attached. The recommendations were also considered during the self-assessment;
- we supervised the compliance of the Internal Regulations for Transactions with "Related Parties" and art. 136 of the CBA, implemented directly or through subsidiaries, also pursuant to Consob Regulation 17221 of 12 March 2010 and subsequent amendments, as well as compliance with the said Regulation. On 8 February 2018 the Bank's Board of Directors approved the updating of the Internal Regulation with the favourable opinion of the Related-Party Transactions Committee and the Board of Statutory Auditors;
- we ascertained, on the basis of the declarations issued by the individual Directors and the assessments collectively expressed by the Board of Directors, that the criteria and procedures adopted by the Board to assess the independence of its members have been correctly applied.

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In order to systematise and upgrade corporate regulation as a whole, it was deemed appropriate to provide the Board of Directors and the Board of Statutory Auditors with their own separate Regulations. On 22 May 2018 we therefore approved the "Internal Regulation of the Board of Statutory Auditors", which repealed and replaced, as of 1 June 2018, art. 4 bis of the Internal Regulations for Corporate Bodies of 27 April 2017.

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The functions of the Supervisory Body (SB) pursuant to Legislative Decree 231/2001 are granted to the Board of Statutory Auditors (art. 28 of the Articles of Association).

Given this assignment, we consider it appropriate to report to you the main activities carried out by the Supervisory Body during the 17 meetings that we held in 2018.

We monitored the functioning and compliance with the Organisational Model 231 (OM 231) and reported every six months to the Board of Directors regarding the monitoring and verification activities performed and their results.

Given that the OM 231 affects business operations, it must be constantly checked and updated in light of any changes in the organisation and in the regulatory framework.

In 2018, activities continued to update the OM 231 adopted by the Bank pursuant to Legislative Decree 231/2001 following the regulatory introductions and changes to the Bank's organisational structure. We met the Working Group dedicated to the revision of the OM 231 with whom we shared the planning activities. In particular, the preliminary activities took place at meetings held on 12 and 30 July 2018; on 6 September, we expressed our favourable assessment of the actions proposed with a view to constantly strengthening the effectiveness of the OM 231 adopted by the Bank and by the Subsidiaries.

The amendments to the General Part and the Special Part of the OM 231 were approved by the Board of Directors at the meeting held on 6 September 2018.

For the sake of completeness, it should be noted that 16 January 2019 saw the publication of the Law entitled "Measures to combat crimes against the public administration, prescription of the crime and the transparency of political parties and movements" in force since 31 January 2019. Worth noting in particular is the introduction of the crime pursuant to art. 346-bis of the criminal code (Trafficking of illicit influences) in the category of "predicate crimes" that can lead to administrative liability on the part of the entity (pursuant to art. 25, paragraph 1 of Legislative Decree 231/2001); a tightening of the disqualification sanctions in the event that one of the crimes pursuant to art. 25, paragraphs 2 and 3, of Legislative Decree 231/2001 (crimes of extortion, undue inducement to give or promise some benefit or corruption). A further update of OM 231 is therefore necessary.

During the second half of 2018, we appointed a qualified consulting firm to review and revise the "231 Supervisory Body Regulation". The activity carried out allowed us to further refine the document in question (which had already been updated at the time of the separation of the Regulation from the General Part of OM 231, which took place in October 2017). On 30 July 2018, we approved the Regulation in the version that repealed and replaced the previous version approved on 9 October 2017.

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We provide below the specific details required by Consob Communication 1025564 of 6 April 2001 and subsequent amendments.

<u>More significant economic, financial and capital transactions</u>

By participating in meetings of the Board of Directors, Executive Committee and Board Committees, we received adequate information about the Bank's activities and its major economic and financial transactions during 2018, as explained in considerable detail in the Report on Operations.

On the basis of the information received and as a result of the analyses carried out, it emerged that the more significant economic, financial and capital transactions carried out by the Bank consisted essentially of the following:

Approval of the 2018-2020 Group Business Plan

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

Non-performing loans (NPL) disposal programme

On 27 March 2018, in execution of its capital management strategy defined in the last few months of 2017 and included in the 2018-2020 Business Plan, the Board of Directors of the Bank approved a plan for the sale of NPLs with a gross value of about 1.1 billion euros. The plan includes a securitisation that makes use of the Italian State guarantee on the senior securities issued following a securitisation of doubtful loans pursuant to Decree Law 18/2016 ("GACS") aimed at deconsolidating Banco Desio Group loans.

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.

The Board of Statutory Auditors had several meetings with the Head of the NPL Department, during which the details of the operation were analysed. The topic was also the object of specific focus during the periodic meetings with the Independent Auditors.

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 2.7 million euros. The payment of the contribution took place in September 2018;
- the additional contribution requested by the Bank of Italy in May 2018, as required by Law 208/2015, for approximately 1.0 million euros. The payment of the contribution took place in September;
- standard contribution to the DGS of about 2.5 million euros. The contribution was paid in December 2018.

Convertible Bond Loan issued by Banca Carige

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

Tax audit

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

The Board of Statutory Auditors was kept informed by the Tax Department at the beginning and end of the tax audit.

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

During the third quarter of 2018, the business models that involved financial assets held for investment purposes were changed in order to pursue a more stable risk mitigation and capital requirements reinforcement policy. 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, three business models have been defined: Held to Collect (HTC), Held to Collect and Sell (HTC&S) and Trading (FVTPL).

Analysing the final results as of 30 June 2018, the Board of Directors of Banco di Desio e della Brianza gave a boost to the implementation of initiatives aimed at protecting equity and, on 26 September 2018, opted for a more decisive management strategy aimed at favouring stability in the collection of medium-long term financial flows generated by the securities portfolio and therefore mitigating the risk of weakening the Bank's capital ratios. In order to ensure consistent management of the new business models, it has therefore become necessary to review the allocation of financial assets among the different portfolios, change the organisational structure of the Parent Company's Finance Department, redefine/integrate the previous operating limits, as well as revise the reports produced by the Finance Department and update the relevant internal regulations.

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

For further details, reference should be made to the financial statements.

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

In the third quarter of 2018 Consob was informed about the start-up of doorstep banking by the Bank.

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

On 11 December 2018, the Boards of Directors of the Bank and Banca Popolare di Spoleto ("BPS") approved the plan for BPS to be absorbed by the Parent Company (the "Merger" or "Transaction"). It should be noted that the Parent Company holds a controlling interest in BPS equal to 81.67% of the share capital.

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

On the basis of the indications received from their respective independent advisors, the Boards of Directors of the two banks decided on an Exchange Ratio of 1 Banco Desio ordinary share for every 5 BPS ordinary shares. To service the exchange, the Parent Company will authorise a Capital Increase for a maximum nominal amount of 2,987,819.64 euros by issuing up to a maximum of 5,745,807 ordinary shares, with regular rights, with an indication of the nominal value of 0.52 euros, to be assigned to the shareholders of BPS on the basis of the Exchange Ratio.

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

Subject to obtaining the above authorisation and the adequacy report on the exchange ratio pursuant to art. 2501-sexies of the Italian Civil Code, the merger project will be submitted to the examination and approval of the Extraordinary Shareholders' Meetings which are currently being called.

As regards Banco Desio, the Merger constitutes a transaction with an "intercompany" related party for the purposes of the "Internal Regulations for transactions with related parties and art. 136 of the Consolidated Banking Act", as it was carried out with one of its own subsidiaries (BPS). However, given that other related parties of Banco Desio do not have any significant interests in BPS, the Merger falls within the exemption pursuant to Sec. II, Par. 1.4, letter d) of the Banco Desio RPT Procedure. As a result, it has not been subjected to the procedural processes and disclosure obligations required by the RPT procedure, as confirmed by an opinion acquired by the Bank from a leading law firm.

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

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

Further disposals of non-performing loans (NPL)

In continuity with the proactive management strategy for non-performing loans and in line with the guidelines issued by the European Central Bank, on 28 December 2018 another sale was finalised to a specialist intermediary of a loan portfolio consisting of mortgage and unsecured loans classified as doubtful for a total nominal value of 38.7 million euros, sold for a consideration of 4.8 million euros. Therefore, there were overall losses on disposal of 0.2 million euros before the related tax effect.

Inspections pursuant to art. 7 of Legislative Decree 231/2007

On 5 September 2018, an inspection was initiated by the Bank of Italy, Milan Office, pursuant to art. 7 of Legislative Decree 231/2007 at the branches of the Bank and of the subsidiary Banca Popolare di Spoleto.

On 17 January 2019, the Bank received the Bank of Italy's Report containing the results of the inspections carried out at 10 branches of the Group. The Report shows that no critical elements or serious deficiencies were found, such as to increase the "low" residual risk calculated in 2017 as part of the self-assessment process for the risks of money laundering and terrorist financing.

<u>Atypical and/or unusual transactions, intercompany or with related parties/associated persons</u>

Intercompany transactions and other ordinary transactions with related parties/associated persons, pursuant to art. 2391-bis of the Italian Civil Code and art. 53 of the Consolidated Banking Act (CBA), as well as transactions with bank officers pursuant to art. 136 CBA, have always been subject to specific review by the Board of Directors and Executive Committees.

In the Report on Operations and Notes accompanying the financial statements, the Board of Directors has adequately reported and explained the characteristics of the main transactions with third parties, intercompany and related parties, of which we have verified compliance with the law and internal regulations in force from time to time.

As for intercompany transactions, after examining the profiles of legitimacy and reasonableness, we can confirm that they are based on correct economic, financial and accounting principles.

<u>Reports of the Independent Auditors pursuant to law</u>

On 5 March 2019, the Independent Auditors issued the reports required by art. 14 of Legislative Decree 39/2010 and art. 10 of EU Regulation 537/2014 on the financial statements and the consolidated financial statements at 31 December 2018, without any exceptions, remarks or matters to be highlighted, including their judgement of compliance and consistency with the report on operations required by art. 14, paragraph 2, letter e) of the Legislative Decree.

<u>Complaints as per Art. 2408 of the Italian Civil Code</u>

During 2018, we did not receive any complaints pursuant to art. 2408 of the Italian Civil Code.

<u>Complaints</u>

For completeness of information we would like to inform that all complaints received by Banco di Desio e della Brianza S.p.A. from customers during 2018 (a total of 203, of which 6 relating to investment services) were duly examined by the Complaints Office, which carried out for the required formalities; of such complaints, 183 were rejected and 20 were accepted. In addition, the Bank of Italy sent 17 requests for information on the basis of complaints submitted to it by customers.

<u>Other tasks assigned to the Independent Auditors and to other entities linked to them and related costs</u>

The engagements assigned in 2018 with Board resolutions by Banco Desio to Deloitte & Touche S.p.A., as well as to the other entities belonging to the same network, are reported below.

1) Deloitte Consulting S.r.l. has been given the task of providing methodological support to the AIRB Pooled Project with fees agreed at 360,000 euros + VAT, split into 216,000 euros + VAT paid by Banco Desio e della Brianza and 144,000 euros + VAT paid by Banca Popolare di Spoleto.

2) Deloitte & Touche S.p.A. was given a task in the form of "negative assurance" relating to the performance of activities to obtain the certification pursuant to art. 7, paragraph 1, letter e) of the MEF Decree of 3 August 2016 "Regulations for the guarantee on securitisation of non-performing loans" ("GACS"). The fee for this work was 40,000 euros + VAT, of which 21,960 euros + VAT paid by Banco Desio and 18,040 euros + VAT paid by Banca Popolare di Spoleto.

3) Deloitte & Touche S.p.A. was given the task of issuing a comfort letter in connection with the performance of activities to obtain the certification for the "Offering Circular" of the 3.0 billion euros Euro Medium Term Notes issue programme for institutional investors outside the United States of America, Australia, Canada and Japan. The fee for the new bond programme was 40,000 euros + VAT while the fee for the renewal of the programme or for each issue within the programme amounted to 30,000 euros + VAT.

4) Deloitte Consulting S.r.l. was given the task of providing professional services in connection with the AIRB and IFRS 9 methodological support, modifying the previous agreement as per point 1). The offer amounted to 400,000 euros + VAT, divided into the AIRB (300,000 euros + VAT) and IFRS 9 (100,000 euros + VAT) components, split between 242,700 euros + VAT paid by Banco Desio e della Brianza and 157,300 euros + VAT paid by Banca Popolare di Spoleto.

5) Deloitte & Touche S.p.A. was given the assignment for methodological assistance in the performance of benchmarking activities and gap analysis of best practices on ESG policy and recognition of the current portfolio of corporate customers (large and SMEs) with respect to a panel of comparable companies in the Italian financial sector. The fee for professional services was 56,000 euros + VAT, divided into 28,000 euros + VAT for Banco di Desio e della Brianza and 28,000 euros + VAT for Banca Popolare di Spoleto.

Pursuant to art. 19, paragraph 1, letter e) of Legislative Decree 39/2010, we carried out the activities needed to verify the Auditors' independence, also in the light of articles 10-bis, 10-ter, 10-quater and 17 of Legislative Decree 39/2010, as well as art. 6 of EU Regulation 537/2014.

We also assessed the adequacy of non-audit services provided in the light of the criteria laid down in EU Regulation 537/2014, as required by art. 5 of the Regulation.

No critical aspects emerged during the year with reference to the Auditors' independence; in this regard, note that, having seen the Transparency Report prepared by the Auditors, we obtained their Annual Independence Confirmation, dated 5 March 2019, pursuant to the art. 6, paragraph 2, letter a) of EU Regulation 537/2014. The fees for any non-audit services provided to the Group by the Deloitte network were also confirmed.

Opinions issued by the Board of Statutory Auditors

During 2018, we issued opinions, also in accordance with the law and regulations, adopted during specific collegial meetings, namely:

- on 7 March 2018, we issued a favourable opinion on the "Annual Report on the Remuneration Policies of the Banco Desio Group";
- on 19 February 2018 we expressed our favourable opinion on the "Audit Plan" for 2018 prepared by the Internal Audit Department;
- on 11 April 2018, we expressed our opinion, at the request of the Bank of Italy, in favour of the report prepared by the Internal Audit Department on the "Outsourcing of Important Operational Functions (IOF)";

- on 25 June 2018 we expressed our opinion in favour of the document entitled "ICAAP Report on the internal capital adequacy assessment process and of the liquidity risk governance and management system (ILAAP) at 31 December 2017";
- on 1 August 2018 we expressed our opinion in favour of updating the Coordination Regulation of Controls and Information Flows of the Parent Company;
- on 22 November 2018 we expressed our favourable opinion on the Business Continuity Plan.

We also expressed our opinions in all those cases requested by the Board of Directors in the light of the provisions that require the Board of Statutory Auditors to be consulted before making certain decisions.

Furthermore, also taking into account our constant participation in the Control and Risks Committee, as well as the joint meetings held with it, we have also expressed our opinions for the aspects of our competence on:

- the GACS Project (Guarantee for Securitisation of NPLs) and the aspects related to its implementation;
- the AIRB Pooled Project, in terms of results achieved and organisational review of the consortium initiative;
- the "Sustainability Project", and in particular approval of the "CSR Guidelines", "CSR Development Plan" and "Banco Desio Group 2017 Sustainability Report - Non-financial statement in accordance with Legislative Decree 254/16";
- strategic developments in the ICT and security area;
- organisational changes and outsourcing of IOF;
- appointment of the Data Protection Officer (DPO); this figure was introduced by EU Regulation 2016/679;
- update of the Code of Ethics;
- update of the Corporate Bodies Information Flows Regulation;
- the Operational Plan for the management of NPLs together with an update of the disposal programme;
- setting-up the Banco Desio VAT Group;
- the change of "business model" for managing the proprietary securities portfolio;
- the plan to merge Banca Popolare di Spoleto with Banco Desio;
- reply to the Bank of Italy concerning its "Transparency" inspection at Banca Popolare di Spoleto.

<u>Frequency and number of meetings of the Board of Directors, Board Committees and Board of Statutory Auditors</u>

In order to acquire the information needed for the performance of our supervisory duties, we inform you and acknowledge that:

- we took part in the Shareholders' Meeting held on 27 March 2018;
- we took part in 18 meetings of the Board of Directors and 7 meetings of the Executive Committee held during 2018;
- we performed 63 collective and individual audits, of which 17 as 231 Supervisory Body and 9 at the branches;
- we took part in 19 meetings of the Control and Risk Committee, 10 of the Remuneration Committee, 8 of the Nominations Committee and 9 of the Committee for Transactions with Related Parties and Associated Persons.

For the sake of completeness, we hereby inform you that we presented a specific Report on the activity carried out by the Supervisory Body during 2018 to the Board of Directors at the board meeting on 7 February 2019. This is a new requirement, provided for the "Internal Regulation of the Board of Statutory Auditors" adopted by us in 2018.

Compliance with the principles of proper management

We examined and monitored, to the extent of our duties, compliance with the principles of proper management by attending meetings of the Board of Directors and numerous meetings with managers and heads of department.

We believe that the governance tools and processes adopted by the Bank constitute a valid defence to ensure compliance with the principles of proper management in operational practice. In particular, as regards the decision-making processes of the Board of Directors, we monitored to ensure that the transactions approved and implemented by the Directors were in accordance with the above rules and principles of economic rationality and not manifestly imprudent or reckless, in conflict of interest with the Bank, in contrast to the resolutions adopted by the Shareholders' Meeting, or such as to compromise the integrity of the Bank's assets.

Comments on the adequacy of the organisational structure

We examined and carefully monitored the main developments in the organisation and organisational methods and monitored the adequacy of the organisational structure with respect to the Bank's strategic objectives. We do not have particular comments to make. The organisational structure appears to be adequate in consideration of the corporate purpose, characteristics and size of the Bank.

Adequacy of the Internal Control and Risk Management System

The Bank has adopted a system of internal controls and risk management aimed at continuously identifying, measuring, managing and monitoring the risks to which it is or could be exposed, in order to ensure that efficiency and effectiveness of business processes are achieved through constant monitoring of the processes carried out in compliance with the provisions of the law and supervision regarding internal controls.

In this context, the Board of Directors defines the nature and level of risk compatible with the strategic objectives of the issuer, including in its assessments all the risks that may be relevant from the point of view of the Bank's medium-long term sustainability.

This system is characterised by a complex structure that involves all company levels, with specific duties reserved for the Board of Directors, the Board of Statutory Auditors, the Director in charge of the control and risk management system - a liaison role between the Board of Directors and the other components of the system, the General Manager and the person in charge of internal controls, identified as the pro-tempore Manager of the Internal Audit Department. This Department reports directly to the Board of Directors, as do the Risk Management Department, the Compliance Office and the Anti-Money Laundering Office. The structure of the verification and reporting activities performed by the Internal Audit Department is consistent with the specific recommendations of the Corporate Governance Code, as well as with Supervisory Provisions. The Parent Company has been outsourced the functions of internal audit, risk management, compliance and anti-money laundering for BPS and Fides S.p.A.

The Board of Directors has set up a Control and Risk Committee, whose meetings are attended by the Board of Statutory Auditors: it is currently made up of 1 Non-executive director (the AISCI or Director in charge of the control and risk management system) and by 2 Independent directors, including the Chairman of the Committee. The Statutory Auditors and the Control and Risk Committee, within the ambit of their respective duties, and having regard to the provisions of Legislative Decree 39/2010, have the task of assessing the effectiveness and efficiency of the control services established by virtue of the resolutions of the Board of Directors. Furthermore, the participation of the Control and Risk Committee in the joint meetings of the Boards of Statutory Auditors with the Independent Auditors is now a consolidated practice, at least in the preparation of the annual and interim accounting reports.

The Annual Report on Corporate Governance and Ownership Structures describes the Guidelines of the Internal Control System and the management of Group risks in line with the statutory and regulatory provisions.

While maintaining the specific operational features of each type of company, all Group companies share risk measurement and management models defined in general terms by the Parent Company, also including socio-environmental risks (pursuant to Legislative Decree 254/2016) deriving from the company's activity, from the products and services offered and from supply and subcontracting chains.

The Parent Company outlines the reference model for integrated risk management and the internal control system as a central element of coordination between the control functions and between these and the corporate bodies, ensuring their implementation also at the Subsidiaries.

The Parent Company assesses the methods of centralising internal control functions/activities of the Subsidiaries, even partially, ensuring the presence of local supervisory and control figures.

In accordance with the provisions of the Bank of Italy contained in Circular 285 of 17 December 2013 (Title IV, Chapter 3 "The internal control system"), the Bank prepared the "Regulation for the Coordination of Controls and Information Flows of the Parent Company", which was last updated by a Board resolution of 6 September 2018, subject to the favourable opinion of the Board of Statutory Auditors, as stated above. The Regulation defines the duties and responsibilities of the Corporate Bodies and control functions of the Banco Desio Group (in particular, the procedures, moments of coordination, organisational reports and related links between the aforementioned company functions, as well as the duties and responsibilities of the control functions, the main controls carried out by each function, the information flows between the various functions). Bear in mind that, in the context of the Group's management and coordination activity, governed in an organic manner by the "Group Regulations" adopted in the past, the Parent Company exercises: a) strategic control over the evolution of the various areas of activity in which the Group operates and the possible risks to the portfolio of activities carried on; b) management control to ensure that conditions of economic, financial and equity balance are maintained both for the individual companies and for the Group as a whole; c) technical-operational control for assessing the various risk profiles brought to the Group by the individual subsidiaries.

In the context of its institutional role, the Board of Statutory Auditors is called upon by Bank of Italy Circular 285 of 17 December 2013 to monitor the adequacy and compliance with the requirements of the internal capital adequacy assessment (ICAAP) and liquidity risk governance and management system (ILAAP) and of the management and risk control system in general. During the course of specific meetings, we evaluated the functionality and adequacy of the process itself, as well as compliance with the requirements of the regulations, with the help of the Chief Risk Officer.

In line with the provisions of Bank of Italy Circular 285 of 17 December 2013 (Title IV, Chapter 3 "The internal control system") we acknowledge the updating of the document that outlines the Risk Appetite Framework (RAF) which defines - in line with the business model and the strategic plan - risk appetite, tolerance thresholds, risk limits and the reference policies necessary to define and mitigate them.

The management and risk control system also contemplates the aforementioned "Organisational Model 231", adopted pursuant to Legislative Decree 231/2001, aimed at preventing the commission of crimes that could involve a liability for the Bank.

On the basis of the information acquired, we acknowledge the assessment of the adequacy and effectiveness of the internal control and risk management system with respect to the characteristics of the Bank and the risk profile assumed, expressed by the Board of Directors in the Annual Report on Corporate Governance and the Ownership Structure.

Internal system for the reporting of violations

Since 1 January 2016, the Banco Desio Group established a confidential internal system for reporting violations ("whistleblowing"), governed by a specific Regulation, with the aim of preventing prejudicial effects arising from irregularities relating to compliance with external regulations and to promote the constant development of a culture of legality.

Matters can be reported by Group personnel or similar individuals.

The Head of the System draws up an annual summary report on the correct functioning of the system, which is brought to the attention of the Board of Directors of the company in question.

During 2018, it was necessary to update the Regulation following the introduction of Law 179 of 30 November 2017, with its provisions for the protection of those who report crimes or irregularities that they become aware of in the context of a public or private employment relationship.

This involved a reorganisation and further segmentation of the internal reporting channels. In addition to a generic channel, known as "general whistleblowing", concerning banking activities[5], which was already in place, a specific anti-money laundering channel was introduced, known as "anti-money laundering whistleblowing", as well as one for "231" reports, known as "Supervisory Body whistleblowing"; the latter reports refer exclusively to violations of the OM as per Legislative Decree 231/2001 and do not replace the existing methods and channels for the transmission to the SB of the usual mandatory reports and information. The Chief Auditing Officer, as the Person in charge of the internal reporting system for violations, receives and evaluates all general whistleblowing reports, except for those referring to himself and the Corporate Bodies (Board of Directors and Board of Statutory Auditors, as well as Supervisory Body). He also receives and evaluates anti-money laundering reports, involving the Anti-money laundering manager, except for those relating to himself and to the Corporate Bodies listed above. At the end of the assessment phase, the System Manager immediately transmits an information flow on the report and the outcome of the assessment to the Chairman of the Board of Directors. The Chairman of the Supervisory Body of the Parent Company receives whistleblowing reports from the Supervisory Body and assesses them together with the members of the SB.

In the event of reports relating to the Subsidiaries, the activities pertaining to the Parent Company's Corporate Bodies remain, with the Corporate Bodies of the Subsidiaries getting involved to the extent of their duties or for any collaboration.

The process of managing reports includes specific reporting methods and channels which ensure that the persons in charge of receiving, examining and evaluating the reports are not hierarchically or functionally subordinated to the person being reported on, nor that they themselves are the alleged perpetrators of violations or might have a potential interest in the report such as to compromise their impartiality and independence of judgement. The channels have been defined in such a way as to avoid reports being sent to persons who could end up in situations of conflict of interest with respect to the whistleblower, the person being reported on or anyone else involved in the report. The internal system for reporting violations in any case guarantees the confidentiality and protection of the personal data of the person making the report and of the person being reported on.

During 2018, as in 2017, no reports were received through the internal whistleblowing system.

Code of Ethics

It should be remembered that during 2017 the Code of Ethics was separated from the OM 231 due to the fact that the rules of conduct contained in the Model, while being consistent with those of the Code of Ethics, have a different scope for its intended purposes and to a certain extent it is more limited than the Code of Ethics.

On 28 June 2018, the Board approved the update to the Code of Ethics, characterised by the inclusion of the Guidelines on Corporate Social Responsibility (CRS), particularly as regards:

- relations with the territory;

- human rights and personnel issues, as well as diversity and equal opportunities;

[5] Banking activities also include the "intermediaries" and "issuers" governed by Consob regulations (MIFID, MAR).

- the culture of legality;
- environmental responsibility;
- sustainable investments;
- relations with public institutions.

Furthermore, a channel dedicated to reporting violations of the Code of Ethics was identified, as mentioned above, with respect to that of the whistleblowing system. Certain key elements are considerably different (rejection of anonymity, protection of the whistleblower, etc.). This channel is monitored by the Human Resources Department.

Adequacy of the administrative and accounting system

To the extent of our duties, we examined and monitored the adequacy and functioning of the administrative and accounting systems and its reliability in the correct representation of management events, by obtaining information from the heads of the respective functions, Independent Auditors, by examining documents; we do not have particular comments to make.

The accounting system makes use of outsourcing for the IT system assigned to Cedacri S.p.A.

With reference to the accounting information contained in the financial statements at 31 December 2018, we acknowledge that on 7 February 2019 the Financial Reporting Manager issued his certification pursuant to art. 81-ter of the current Consob Regulation 11971 of 14 May 1999 without any observations. During his periodic meetings with the Board of Statutory Auditors to exchange information and carry out supervision in accordance with art. 19 of Legislative Decree 39/2010, the Financial Reporting Officer did not report any significant weaknesses in the operational and control processes, which, due to their importance, could affect his opinion on the adequacy and effective application of the administrative-accounting procedures safeguarding a fair view of operations, in accordance with current international financial reporting standards. To conclude his control activities, the Financial Reporting Officer expressed an opinion on the adequacy and effective application of the administrative and accounting procedures that govern the preparation of the financial statements.

We are in a position to state that the Bank's administrative accounting system is reliable and adequate to give a fair view of operations.

Instructions given to subsidiaries (art. 114, second paragraph, Legislative Decree 58/98)

The relations maintained by the Parent Company with the Subsidiaries have always been explained at Parent Company Board meetings. Where necessary, we have obtained exhaustive answers to requests for further information. The planning, coordination and control system implemented by the Bank in the performance of its functions of policy and strategic leadership of the entire Group, in accordance with art. 61 of the CBA and art. 2497 of the Italian Civil Code is appropriate and functional.

The Board of Statutory Auditors has taken note of the instructions given by the Parent Company to the Subsidiaries pursuant to art. 114, paragraph 2, of the CFA, considering them adequate to fulfil the legal disclosure requirements. In this regard, it should be pointed out that the Parent Company regulates the information flows sent in by the subsidiaries through specific procedures.

Relations with the Independent Auditors, Deloitte & Touche S.p.A., and any observations

During 2018, we met periodically with the Independent Auditors in compliance with the provisions of art. 150, paragraph 3, of Legislative Decree 58/1998 to exchange information. The Auditors did not highlight any situations considered reprehensible or irregularities that would need reporting under art. 155, paragraph 2, of Legislative Decree 58/1998 and art. 19, paragraph 3, of Legislative Decree 39/2010.

Relations with the corresponding bodies of the subsidiaries

As part of our coordination of control activities, we exchanged information with the Boards of Statutory Auditors of the subsidiaries. We also attended several joint meetings with them, without receiving evidence of significant events to be reported in this Report.

Code of Conduct for Listed Companies

With regard to the corporate governance rules, the Bank has been complying with the current Code of Conduct for Listed Companies of Borsa Italiana S.p.A. since 1999, as reported in the Annual Report on Corporate Governance and Ownership Structure, made available on the Bank's website and drawn up pursuant to art. 123-bis of Legislative Decree 58/1998 and subsequent amendments and additions; this Annual Report on Corporate Governance and Ownership Structure illustrates the methods and types of behaviour with which the principles and application criteria of the Borsa Italiana Code of Conduct were applied in practice, as well as any failed or partial adoption or application of some of the recommendations of the Code of Conduct, explaining the reasons for it.

Within the framework recommended by the Code of Conduct, on 18 February 2019 the Board of Statutory Auditors checked that the Board meeting of 7 February 2019 had used correct criteria for assessing the directors' independence.

The Board of Statutory Auditors at its meeting of 6 February 2019 checked that each of its members met the independence requirements.

Self-assessment of the Board of Statutory Auditors

In compliance with the provisions of the Bank of Italy Circular 285/2013, the body with the control function is also required to perform a self-assessment on its composition and functioning, based on criteria and methods that are consistent with its own characteristics. We therefore carried out our self-assessment with reference to 2018, drawing up the specific report.

The self-assessment concluded with a fully positive opinion with reference to both the Board of Statutory Auditors and the Board of Directors, including its Committees. The Statutory Auditors proposed new topics to be addressed during the training sessions to be organised in 2019.

In any case, all of the aspects outlined in the self-assessment will continue to be monitored in relation to changes in the regulatory context of the financial sector and/or the operational scope of the Banco Desio Group.

Corporate Governance and Organisation

During 2018, there were no significant changes in the overall corporate governance structure of Banco Desio and the Group. At 1 February 2019, the General Manager of Banco Desio was appointed Chief Executive Officer of BPS, in consideration of the project for BPS to be merged with Banco Desio approved by the respective Boards of Directors on 11 December 2018; also to allow efficient monitoring of the preparatory activities for the completion of the project and harmonisation of the two legal entities.

Complete information on these arrangements is provided in the Annual Report on Corporate Governance and Ownership Structure, which we have reviewed carefully.

The rules on corporate information are laid down in the Corporate Information Regulation, which contains, among other things, the procedures for calling meetings of the Board of Directors and its Committees, for making the documentation available on the items on the agenda and related confidentiality restrictions, as well as the regulation of the register of people in the group who have access to privileged information prior to its circulation.

Remuneration and incentive policies

During 2018, we verified, with positive results, the methods used to ensure that the Bank's remuneration policies comply with the regulatory environment in 2018, making use of the results of the checks carried out by the internal control functions within their respective scope of competence.

We have examined, without comment, the Annual Report on Group Remuneration and Incentive Policies, approved by the Board of Directors Meeting of 8 February 2018 and prepared in accordance with the

Supervisory Provisions of the Bank of Italy with regard to policies and practices of remuneration and incentive in banks and banking groups issued on 18 November 2014.

The report explains the Group's remuneration policies and procedures for 2018, as well as the application of the policies approved the previous year during 2017.

Non-financial statement (Sustainability Report)

In the context of the functions attributed to us by the law, we monitored compliance with the law regarding the preparation of the consolidated non-financial statement required by Legislative Decree 254/2016, which was approved by the Board of Directors of the Bank on 28 February 2019 as a separate document with respect to the report on operations accompanying the consolidated financial statements at the same date, namely 31 December 2018. Previously, during the meeting of the Board of Statutory Auditors of 25 February 2019 which was attended by the Financial Reporting Manager and the Independent Auditors, we received and discussed the draft of the *Consolidated non-financial statement in accordance with Legislative Decree 254/2016 - 2018 Sustainability Report.*

In 2017 (and up to the year 2020), Banco di Desio e della Brianza S.p.A. granted to the independent auditors Deloitte & Touche S.p.A. the assignment provided for by article 3, paragraph 10, of Legislative Decree 254/2016 and article 5 of CONSOB Regulation implementing the Decree (adopted with Resolution 20267 of 18 January 2018). On 5 March 2019, Deloitte & Touche S.p.A. issued a report that expresses their opinion of compliance (based on a "limited assurance engagement") pursuant to articles 3 and 4 of the Decree on the basis of the work carried out according to the criteria indicated by the "International Standard on Assurance Engagements 3000 Revised - Assurance Engagements other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised); the Board has no remarks to make in relation to the consolidated non-financial statement entitled "2018 Sustainability Report of the Banco Desio Group" which, in light of the rules of common law regarding the competence of the shareholders' meeting (art. 2364, paragraph 1, no. 5, of the Italian Civil Code), it is not subject to approval by the Shareholders' Meeting.

Diversity policies

We acknowledge that the Report on Corporate Governance and Ownership Structure, pursuant to art. 123 bis, paragraph 2, letter d bis) of the CFA, added by art. 10 of Legislative Decree 254/2016, contains the information requested about the diversity policies applied by the Banco Desio Group in relation to the composition of the administrative, management and control bodies as regards aspects such as age, gender composition and training and professional path, as well as a description of the objectives, methods of implementation and results of these policies.

The practices adopted by the Banco Desio Group are consistent with the provisions of law on gender quotas (Law 120/2011), with the Supervisory Provisions on the composition of the Corporate Bodies, which provide for "an adequate degree of diversification in terms, among other things, of skills, experience, age, gender and international projection". This aspect is also the subject of analysis in the context of the self-assessment process, taking into account the operational and dimensional complexity of the Company.

As proposed by the Board of Statutory Auditors, these practices were formalised in a specific policy approved by the Board of Directors at the meeting of 28 February 2019, also in line with the instructions of the Italian Committee for Corporate Governance, taking into account the EBA/ESMA Guidelines in force since 30 June 2018.

Final assessment of supervisory activity and proposals under art. 153, paragraph 2, of Legislative Decree 58/98

The supervisory activity explained above did not reveal any omissions, reprehensible facts or irregularities worthy of mention. There is no reason for us to exercise the right to make proposals to the Shareholders' Meeting pursuant to art. 153, paragraph 2, of Legislative Decree 58/1998.

We can therefore confirm the adequacy:

– of the Governance System and related Internal Control and Risk Management System, the foundations of which are outlined in the Annual Report on Corporate Governance pursuant to art. 123-bis of the CFA;

– of the Internal control process over capital adequacy (ICAAP) and of the liquidity risk governance and management system (ILAAP), the development and updating of which is checked in accordance with the specific regulatory provisions;

– of the organisational monitoring and controls in line with the law and the regulatory provisions on Anti-Money Laundering;

– of the Information Flow Regulations regarding the Corporate Bodies and internal control functions and the attached Controls Coordination Document drawn up in accordance with the Supervisory Provisions concerning Corporate Governance and relating to Internal Control Systems, Information Systems and Business Continuity;

– of the control activities carried out by pertinent functions and, in particular, by the Internal Audit Department, by the Risk Management Department, by the Compliance and Anti-Money Laundering Offices and by the Financial Reporting Manager, also through periodic evaluation of the institutional reports;

– of procedures for management of the complaints received from Group customers, also with reference to those relating to investment services;

– of the activities carried out on questions of Privacy (Law 196/2003 as amended by Legislative Decree 101/2018 and by European Regulation 679/2016);

– of existing controls in matters of Safety at Work under Legislative Decree 81/2008;

– of the Regulation of the internal reporting system for violations pursuant to Bank of Italy Circular 285/2013 and Law 179/2017.

We can therefore conclude that through the work performed during the year we were able to ascertain:

- observance of the law and the Articles of Association;
- the adequacy of the administrative and accounting system;
- the adequacy of the organizational and internal control structure;
- the principles of proper administration;
- the implementation of the corporate governance rules;
- the adequacy of instructions given to subsidiaries;
- the adequacy of supervisory controls over related-party transactions;
- the preparation of financial statements in accordance with IAS-IFRS and the provisions of the Bank of Italy (Circular 262 of 22 December 2005 and subsequent updates), also in consideration of the specific communications sent on the subject by the Bank of Italy.

Financial statements at 31 December 2018

We examined the draft financial statements at 31 December 2018, made available to us under the terms of Article 2429 paragraph 1, of the Italian Civil Code, on which we report as follows.

The financial statements for the year ended 31 December 2018 have been prepared in compliance with IAS/IFRS, in force at the reference date, issued by the International Accounting Standards Board (IASB) with the related interpretations of the IFRS Interpretations Committee (formerly IFRIC) and endorsed by the

European Commission with the observance of the general preparation principles indicated in the explanatory notes; in particular, the financial statements and notes have been prepared in accordance with the rules laid down by the Bank of Italy in its Circular no. 262 of 22 December 2005 and subsequent updates as well as with IFRS. The accounting standards applied in preparing the financial statements at 31 December 2018 for the classification, recognition, measurement and derecognition of financial assets and liabilities, as well as the methods for recognising revenues and costs, are different from those applied in preparing the financial statements at 31 December 2017. These changes derive essentially from the mandatory application, from 1 January 2018, of the following international accounting standards:

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

The report on operations adequately comments on and illustrates the Bank's performance during the year and gives an outlook on operations. It also provides, among other things, the information required by art. 123-bis of the CFA on the ownership structure, with appropriate reference to the related Annual Report on Corporate Governance and Corporate Structure approved by the Board of Directors on 7 February 2019.

As mentioned previously, the independent auditors Deloitte & Touche S.p.A. expressed their professional opinion on the financial statements by issuing a report drawn up pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of EU Regulation 537/14, which does not contain any observations, exceptions or matters to be highlighted.

<u>Consolidated financial statements at 31 December 2018</u>

We have also examined the consolidated financial statements at 31 December 2018, as presented by the Directors. It has been prepared in accordance with the law and the report on operations helps to explain the performance of the Bank and its subsidiaries, as well as the structure of the Group, as required by art. 25 *et seq.* of Legislative Decree 127/91 and subsequent amendments.

The following subsidiaries are consolidated on a line-by-line basis:

- Banca Popolare di Spoleto S.p.A. held 81.67%;
- Fides S.p.A. held 100%;
- Desio OBG S.r.l. held 60%.

Preparation of the consolidated financial statements is the responsibility of the Board of Directors of the Bank, as required by art. 29 of Legislative Decree 127/91, as amended, and it is up to the Independent Auditors is to express an opinion on them, based on their audit. Deloitte & Touche S.p.A. issued a clean opinion on 5 March 2019 with no qualifications or matters to be highlighted.

Dear Shareholders,

We conclude this report on our control activities, giving a positive opinion on the Company's activities and organisation, on its internal control and risk management system and on its compliance with the law and Articles of Association.

We therefore recommend that you approve the financial statements at 31 December 2018 as submitted to you by the Board of Directors.

Taking into account that the dividend distribution proposal contained in the Report on Operations to the financial statements complies with:

- the provisions of art. 31 of the Articles of Association;
- the Recommendation of the European Central Bank dated 7 January 2019, which requires:
  - iii) the adoption of a dividend distribution policy that still makes it possible, after each distribution, for the bank to comply with its minimum capital requirements;
  - iv) for institutions like Banco Desio that on 31 December 2018 have already reached the fully loaded ratios required on full implementation of EU Regulation 575/2013, the distribution of dividends on an prudent basis, so as to continue to meet all of the minimum requirements, also in the event of poorer economic and financial conditions;
- the dividend distribution policies approved by the Board of Directors on 13 May 2014;

we also express our opinion in favour of the proposal to allocate the net profit of Euro 30,955,480.81 as follows:

- 10% to be allocated to the legal reserve	Euro	3,095,548.00
- 10% to be allocated to the statutory reserve	Euro	3,095,548.00
- to the shareholders:		
Euro 0.0839 for each of the 117,000,000 ordinary shares	Euro	9,816,300.00
Euro 0.1007 for each of the 13,202,000 savings shares	Euro	1,329,441.40
- to the charity reserve	Euro	50,000.00
- further allocation to the statutory reserve	Euro	13,568,643.41

Desio, 6 March 2019

The Statutory Auditors

Giulia Pusterla – Chairman

Rodolfo Anghileri

Franco Fumagalli Romario