2019

Report on operations and financial statements at 31 December 2019

Banco Desio

Gruppo Banco Desio

Contents

Directors and Officers

Board of Directors

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

** Members of the Executive Committee*
*** Director responsible for the Internal Control and Risk Management System*
**** Appointed on 28 March 2019*

Board of Statutory Auditors

Chairman	Giulia Pusterla
Acting Auditors	Rodolfo Anghileri Franco Fumagalli Romario Elena Negonda
Substitute Auditors	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.

The merger of the subsidiary Banca Popolare di Spoleto with Banco di Desio e della Brianza took legal effect on 1 July 2019, with accounting effect on 1 January 2019. The following documents have been prepared and shown in the sections "Key figures and ratios" and "Results of the period" of this report on operations in order to make it easier to compare the figures for the year with those of the previous year, to present the figures and ratios better and accompany them with comments on performance:

- pro-forma balance sheet figures at 31 December 2018 as though the merger and the related effects on the share capital and shareholders' equity had already been completed;
- pro-form income statement figures at 31 December 2018 as an aggregate among the two banks considering (a) the elimination of intercompany balances and (b) the inclusion of the economic effects linked to the purchase price allocation (PPA);
- non-financial data and information (number of branches, employees, etc.) considering the two banks together already with reference to the comparative year.

These balance sheet, income statement and other figures of the comparative period therefore differ from that contained in the Explanatory Notes, which contain the official final figures as approved by the Shareholders' Meeting of Banco di Desio e della Brianza in the "Financial Statements at 31 December 2018". For further details regarding the accounting recognition of the merger, please refer to the information contained in this Report on operations and in the Explanatory Notes.

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

On the basis of the analyses carried out by Banco Desio Group as part of the project for the implementation of IFRS 16 "Leases", taking into account the methodological choices made, on 1 January 2019, on first-time adoption of the accounting standard, a "Lease Liability" of Euro 60.0 million was recorded in the financial statements against a substantially similar increase in non-current assets (increased due to the balance of the related accruals and prepayments at 31 December 2018), from which no initial impact on equity emergerd. For further details about the changes introduced by the standard, please refer to the contents of the "Consolidated financial statements at 31 December 2019".

2 - Key figures and ratios

Balance sheet

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

[1] on the basis of Circular 262 the balance of this caption includes held to collect (HTC) debt securities measured at amortised cost, which in these key figures are shown under financial assets
[2] the balance of this item at 31 December 2019 includes the right of use ("RoU Assets") equal to Euro 50.7 million for operating lease contracts falling within the scope of application of IFRS 16 Leases, which came into effect on 1 January 2019
[3] the balance of this item at 31 December 2019 does not include the liability recognised in Due to customers for operating lease contracts falling within the scope of application of IFRS 16, which came into effect on 1 January 2019

Income statement [4]

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

[4] from the reclassified income statement

Key figures and ratios

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

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

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

Structure and productivity ratios

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

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

[5] *capital ratios at 31.12.2019 are calculated in application of the transitional provisions introduced by EU Regulation 2017/2395; the ratios calculated without application of these provisions are the following: Common Equity Tier1 13.8%; Tier 1 13.8%; Total capital ratio 14.6%.*

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

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

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 at 31 December 2019 consists of 257 branches, compared with 265 at the end of the previous year.

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

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

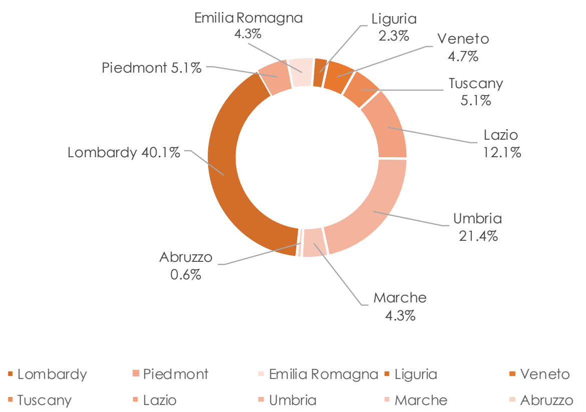
Banco Desio is present in Italy in 10 regions (Lombardy, Piedmont, Veneto, Emilia Romagna, Liguria, Umbria - as Banca Popolare di Spoleto - Lazio, Tuscany, Marche and Abruzzo).

The organisational model envisages:

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

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

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



4.2 - Significant events

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

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

The Merger completed the operational and business integration that has been in progress for some time between the Parent Company and BPS, making it possible to achieve important benefits in terms of cost and revenue synergies, simplification and overall rationalisation of the Banco Desio Group's organisational structure. The synergies resulting from the Merger make possible, among other things, to allocate additional resources to the commercial development of the Banco Desio Group and to further widening of the products and services offered to customers.

The Transaction also sets the scene for a redefinition of the Banco Desio Group's territorial strategy by rationalising the commercial network. The Merger is implemented in such a way as to safeguard the value and skills of all members of staff throughout the Group's territory, maintaining a second HQ in Spoleto that will provide services for the entire Banco Desio Group, while at the same time ensuring efficient reorganisation of the structures in line with the new entity deriving from the Merger.

As a result of the Merger, shareholders of the merged company are able to participate directly in the broader industrial and development project of the Banco Desio Group, while benefiting from the liquidity of Banco Desio shares.

In approving the Transaction, the Boards of Directors of the two banks decided on an Exchange Ratio of 1 Banco Desio ordinary share for every 5 BPS ordinary shares. The Merger was approved by the Extraordinary Shareholders' Meetings of the merged bank and of the Parent Company on 7 and 9 May 2019, subject to obtaining authorization from the Bank of Italy pursuant to arts. 56, 57 and 61 of the Consolidated Banking Act (CBA).

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

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

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

Please read the information provided in "Part G – Business combinations" of the Explanatory Notes for the accounting treatment adopted to represent the transaction that had no effect on the consolidated financial statements.

Directors and Officers

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

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

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

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

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

Inspection of the Banco Desio Group by the Bank of Italy

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

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

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

- standard contribution to the SRM of about Euro 4.4 million. The contribution was paid in June;
- the additional contribution requested by the Bank of Italy in May 2019, as required by Law 208/2015, for approximately Euro 1.6 million. The contribution was paid in June;
- contribution to the DGS of about Euro 4.7 million. The contribution was paid in December.

Sales of non-performing loan (NPL) portfolios

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

a) a nominal value of Euro 45.8 million on 28 June 2019 sold for Euro 2.1 million;

b) a nominal value of Euro 1.3 million on 27 September 2019 sold for Euro 0.8 million

c) a nominal value of Euro 13.2 million on 16 December 2019 sold for Euro 1.0 million

d) a nominal value of Euro 22.3 million on 27 December 2019 sold for Euro 8.9 million

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

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

Covered bond programme

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

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

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

Voluntary redundancy plan

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

5 - Legislative Decree 231/2001

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

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

6 - Human resources

6.1 – Management and breakdown of resources

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

- closure in the afternoon of cashier operations at 131 branches, with consequent professional conversion of the network resources concerned towards commercial and consultancy roles, in consideration of their various career paths, personal characteristics and growth potential;
- following the adoption of Consob Resolution 20307 of 15 February 2018 (the so-called "Intermediaries' Regulation"), implementation of a tutoring model which, with a particularly prudent approach, envisaged support activity starting from January 2019. This involved the autonomous network resources for European Securities and Markets Authority (ESMA) purposes in relation to colleagues who are qualified but not yet autonomous in providing advice to customers on financial investments;
- in order to follow up the Bank's plans to provide increasingly punctual service in specialised sectors, we proceeded to launch in-house, but also by identifying external professionals, the activities in the Leasing and Factoring Sectors, which in the past were "delegated" to external companies or not particularly developed (e.g. "without-recourse loans" in the Factoring sector).

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

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

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

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

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

As a result of what was described previously, at 31 December 2019, the Bank had 2,148 employees, 17 fewer (-0.8%) than at the end of the previous year (considering both the Bank and the merged company).

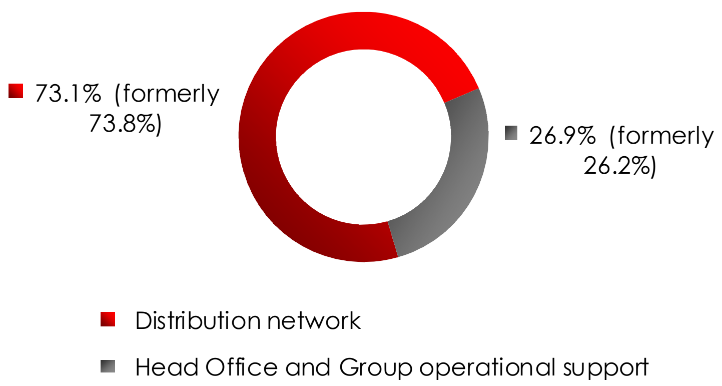
The following table provides a breakdown of employees by level at the end of 2019, compared with the previous year.

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

No. Employees	31.12.2019	%	31.12.2018	%	Change Amount	Change %
Managers	32	1.5%	30	1.4%	2	6.7%
3rd and 4th lev el middle managers	463	21.5%	452	20.9%	11	2.4%
1st and 2th lev el middle managers	572	26.6%	579	26.7%	-7	-1.2%
Other personnel	1,081	50.4%	1,104	51.0%	-23	-2.1%
Personale dipendente	**2,148**	**100.0%**	**2,165**	**100.0%**	**-17**	**-0.8%**

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

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



6.2 - Training

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

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

1. to enhance the qualitative elements, among which the intense planning of training contents which took on a distinctive connotation in the context of various initiatives, also carried out through innovative methodological tools, gradually introduced in order to make training more efficient and personalised;
2. to increase transversal skills, i.e. those not directly related to the person's specific role, with the launch of specific projects;

3. to intensify collaboration with the "academic world", seeing positive implications also in terms of talent attraction and, more generally, branding attraction;
4. to articulate pathways related to professional qualifications, in particular with regard to the provision of investment services (ESMA) and placement of insurance products (IVASS), optimizing personnel training investments and reducing their impact with programmes that can be integrated in accordance with the respective regulatory provisions in force.

Training activities were provided using various methods, with the aim of identifying - for each specific initiative - the solution deemed most effective, taking into consideration, if applicable, the criteria defined by the various reference regulatory contexts. This approach made it possible to create blended training courses, integrating classroom activities, modules distributed through e-learning and virtual classroom tools, such as webinars.

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

As regards the balance of the activities provided in 2019, the intense activity carried out during the second half of the year not only allowed to recover the decrease recorded in the first part of the year, especially attributable to the training on IVASS, but also to achieve a total of 120,800 man-hours provided (formerly 102,183), with a significant increase of 18.2% on the previous year. This corresponds to an average of 7.5 days per employee (formerly 6.3).

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

As regards classroom and webinar initiatives - always very important for the qualitative aspects of communication - professional skills were further enhanced through internal teaching activities (by a total of 53 resources belonging not only to Head Office Functions, but also to the Distribution Network). This helped foster cross-functional teaching to ensure a more structured and complete range of training courses in consideration of the Group's objectives.

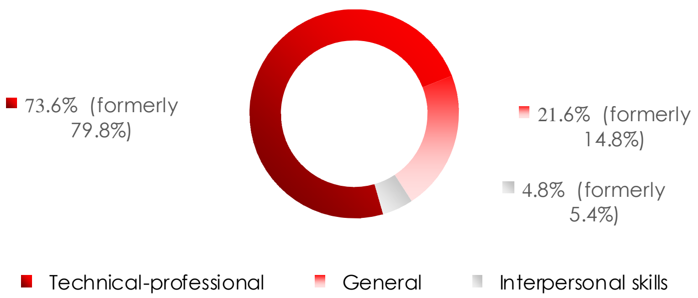
The training offer was also divided into programmes aimed at guaranteeing the development of technical knowledge and behavioural skills required by the various professional roles, in line with the objectives set out in the Group's Business Plan, as well as in relation to the specific objectives indicated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

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

- "General" training, which groups together the courses on cross-functional knowledge addressed to all professional families. The standard of professional skills required as a result of changes in the regulatory environment is guaranteed by the courses given in the field of compulsory training (which is included in this group);
- "Technical-professional" training, which includes initiatives aimed at building the technical skills needed to perform a specific role and at consolidating functional skills for the individual's professional profile;
- "Behavioural" training, aimed at developing interpersonal, managerial and organisational skills, which allow members of staff to apply their technical and professional knowledge in the best way possible.

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

Chart no. 3 - **TRAINING ACTIVITIES BY TYPE**



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

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

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

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

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

The "Technical-Professional" training accounted for 73.6% of total activities (formerly 79.8%), an increase compared with the total hours of the previous year.

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

- Credit & Loans and Sales & Marketing

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

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

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

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

Worth noting was also the planning and delivery of a training course on *Real estate loans to consumers*, in e-learning mode, initially intended for personnel directly involved and, subsequently, extended to all the professional roles of the Network according to the relevance of the contents treated (purchase procedures for real estate, mortgage disbursement, discipline of real estate mortgages to consumers, the role of policies in the mitigation of credit risks). This training course, together with that relating to the *AIRB rating system*, was also proposed to the personnel to be employed in credit operations within the "Professional reconversion" plan, structured by providing various levels of contents discussion (basic and advanced) in terms of *Creditworthiness assessment* and *Financial statements analysis*, depending on the level of technical-professional knowledge held by the resources involved.

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

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

- Finance and Insurance

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

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

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

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

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

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

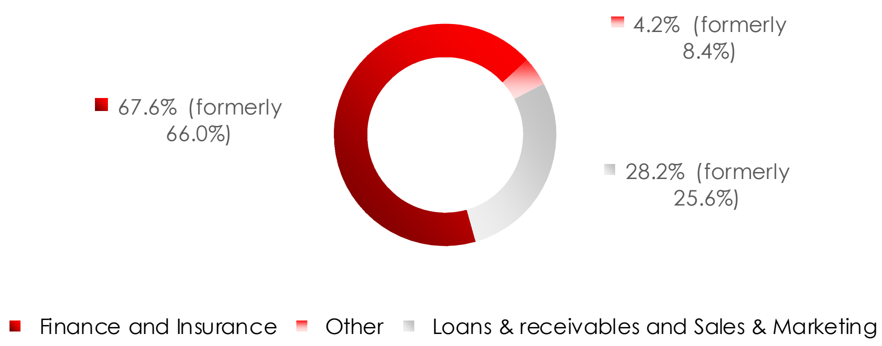
Lastly, it is worth mentioning the initiative addressed to some network resources with the aim of conveying new ways for the Bank to offer insurance solutions.

- "Other"

With specific reference to the initiatives belonging to this aggregation, worth noting are the classroom interventions provided by internal lecturers, based on the training needs that emerged from the network operations, relating to the "International" Area. In addition, worth mentioning is the training programme for approximately 180 resources who work as Customer Assistants. The programme will be offered continuously throughout 2020 so as to involve everyone concerned.

The following chart gives a breakdown by topic of the "Technical-Professional" training given during the year.

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



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

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

6.3 - Industrial relations

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

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

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

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

6.4 - Future activities

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

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

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

7 - Control activities

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

In exercising its management control and coordination function, 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 also on systems for risk management and for internal control in relation to the financial reporting process, are included in paragraphs 1 and 7 of the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

7.3 - Risk measurement and management

As regards to 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 funds under management

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

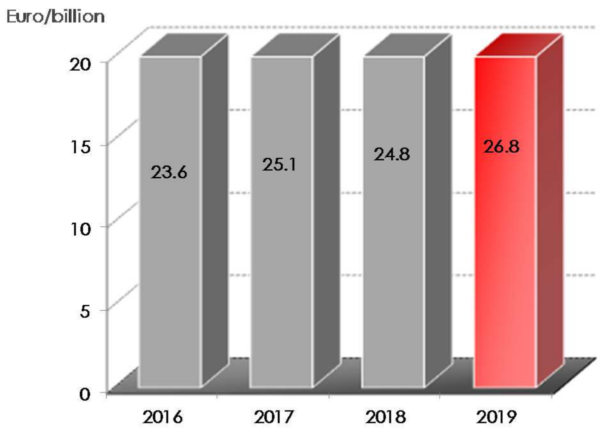
The composition and balances that make up this aggregate are shown in the following table.

Table no. 2 - **CUSTOMER DEPOSITS**

Amounts in thousands of Euro	31.12.2019	%	31.12.2018	%	change Amount	change %
Due to cusotmers	9,447,655	35.3%	9,253,258	37.4%	194,397	2.1%
Debt securities in issue	1,749,103	6.5%	1,426,213	5.8%	322,890	22.6%
Direct deposits	**11,196,758**	**41.8%**	**10,679,471**	**43.1%**	**517,287**	**4.8%**
Ordinary customer deposits	9,721,680	36.3%	8,952,340	36.1%	769,340	8.6%
Insistutional customer deposits	5,840,695	21.9%	5,140,371	20.8%	700,324	13.6%
Indirect deposits	**15,562,375**	**58.2%**	**14,092,711**	**56.9%**	**1,469,664**	**10.4%**
Total customer deposits	**26,759,133**	**100.0%**	**24,772,182**	**100.0%**	**1,986,951**	**8.0%**

The trend in total deposits since 2016 is shown in the following graph, which shows an average annual growth rate of 4.3%.

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



Direct deposits

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

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

Debt securities in issue relate to bonds issued and placed of some Euro 1.8 billion (including some Euro 0.1 billion 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 Euro 164 million;
- between 1 and 3 years Euro 471 million (of which Euro 130 million subordinated securities);
- between 3 and 5 years Euro 598 million;
- beyond 5 years Euro 504 million.

Indirect deposits

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

Deposits from institutional customers, equal to 13.6%, reached a total of around Euro 5.8 billion, an increase of around Euro 0.7 billion.

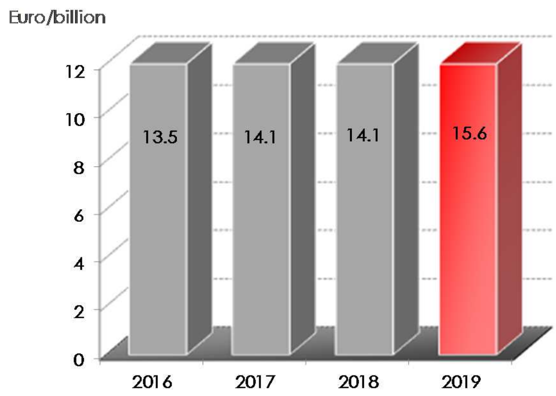
Table no. 3 - **INDIRECT DEPOSITS**

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

(1) *Insitutional customer deposits include securotys of the Bancassurance segment of ordinary customer for Euro 2.4 billion (Euro 2.1billion at 31.12.2018)*

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 2016.

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 following one 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 trend.

Chart no. 7 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2019**

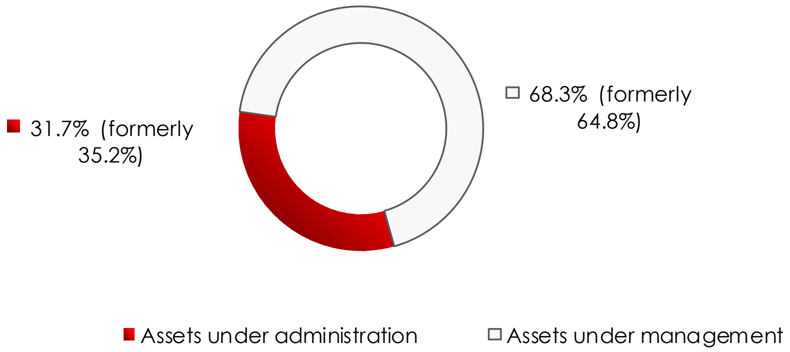
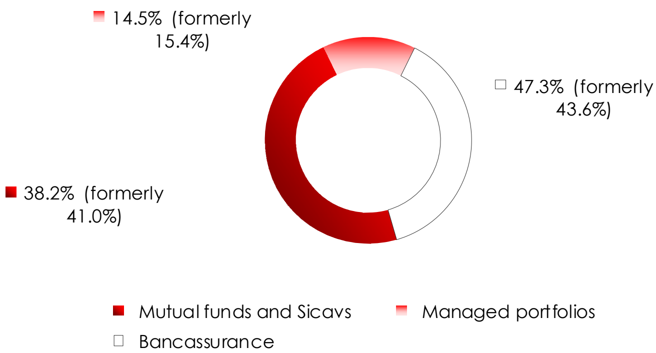


Chart no. 8 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2019**



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

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

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

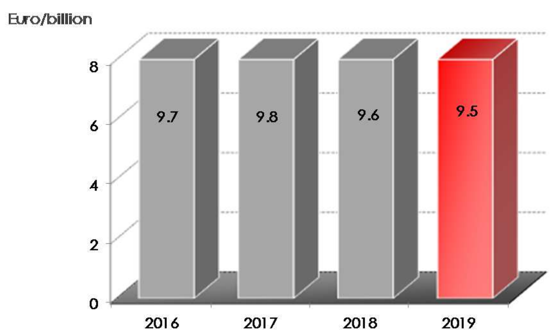
8.2 – Credit management: loans to customers

The value of ordinary customers loans at 31 December 2019 amounted to Euro 9.5 billion, slightly down on the previous year's balance (-0.5%), basically under the influence of sales of non –performing loans.

Performing loans to customers recorded a modest growth (+0.2%).

The following chart shows the trend in loans in the last four years, reflecting an average annual compound growth rate of -0.6%, attributable to the reduction of non-performing loans.

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	31.12.2019	%	31.12.2018	%	Change Amount	Change %
Current accounts	2,160,224	22.7%	2,241,339	23.4%	-81,115	-3.6%
Mortgages and other long-term loans	6,299,027	66.2%	6,191,306	64.7%	107,721	1.7%
Other	1,056,445	11.1%	1,129,885	11.7%	-73,440	-6.5%
Loans to customers	**9,515,696**	**100.0%**	**9,562,530**	**100.0%**	**-46,834**	**-0.5%**
- of which non-performing loans	*337,251*	*3.5%*	*398,753*	*4.2%*	*-61,502*	*-15.4%*
- of which performing loans	*9,178,445*	*96.5%*	*9,163,777*	*95.8%*	*14,668*	*0.2%*

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

Amounts in thousands of Euro	31.12.2019	%	31.12.2018	%	Change Amount	Change %
Households	2,952,883	31.0%	2,750,355	28.8%	202,528	7.4%
Non-finance cos, artisans and other fam. bus.	5,619,863	59.1%	5,966,522	62.4%	-346,659	-5.8%
Financial companies	818,129	8.6%	738,928	7.7%	79,201	10.7%
Private and other social institutions (1)	124,822	1.3%	106,726	1.1%	18,096	17.0%
Loans to customers	**9,515,696**	**100.0%**	**9,562,530**	**100.0%**	**-46,834**	**-0.5%**

(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 Euro 5.6 billion, down by 5.8%. This still represents the bulk (59.1%) of total lending to customers (62.4% in the comparative period).

The following chart shows the percentage breakdown of loans at the end of 2019, 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 31.12.2019, ANALYSED BY TYPE OF CUSTOMER**

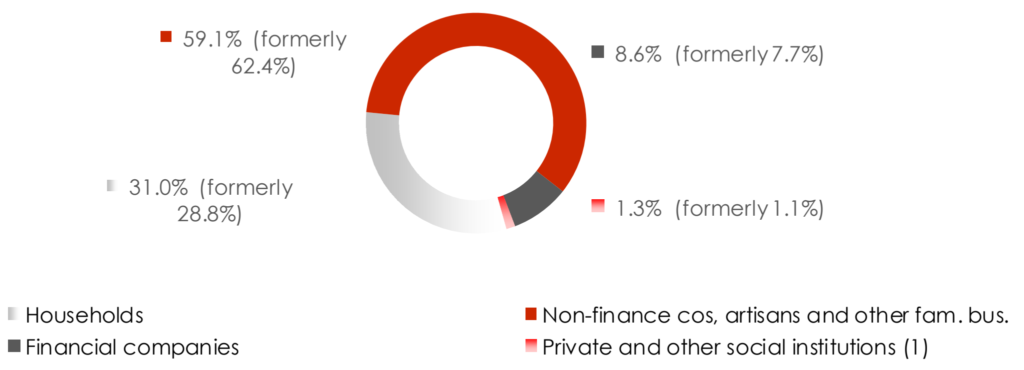
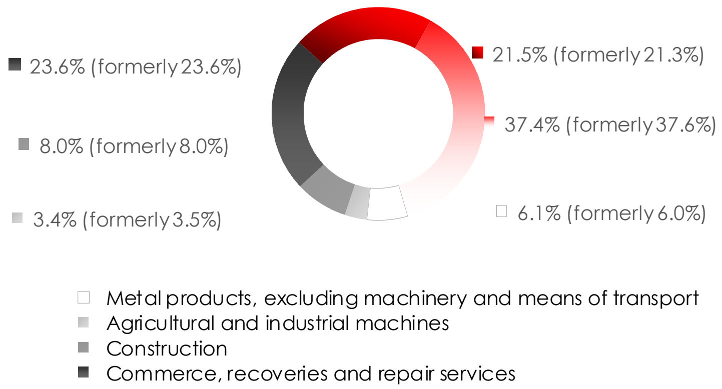


Chart no. 11 - **% BREAKDOWN OF LOANS TO CUSTOMERS AT 31.12.2019 REGARDING NON-FINANCIAL COMPANIES, ARTISANS AND FAMILY BUSINESSES**



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 53.1% (52.8% last year) of the total corresponding to some Euro 5.6 billion.

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

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

Number of customers [1]	**31.12.2019**	**31.12.2018**
First 10	1.16%	1.34%
First 20	1.97%	2.21%
First 30	2.68%	2.91%
First 50	3.88%	4.14%

[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, BNP Paribas and the SPV Two Worlds S.r.l., with a total nominal value (including guarantees given and commitments) of Euro 5.0 billion, equal to a total weighted amount of Euro 0.4 billion.

As a result of the sales of non-performing loans carried out during the year, the total amount of net non-performing loans consisting of doubtful loans, unlikely to pay loans and non-performing past due and/or overdrawn exposures came to Euro 337.3 million, net of adjustments for Euro 282.6 million, with a decrease of Euro 61.5 million compared with Euro 398.8 million at the end of 2018. In particular, net doubtful loans totalled Euro 119.4 million (formerly 121.8 million), unlikely to pay loans Euro 215.0 million (formerly 272.9 million) and non-performing past due and/or overdrawn exposures Euro 2.8 million (formerly Euro 4.0 million).

The following table summarises the gross and net indicators of credit risk, where due to the above mentioned sales of non-performing loans, there has been a reduction in the ratio of "gross non-performing loans/gross loans" to 6.3% and "net non-performing loans/net loans" to 3.5%.

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

% of gross loans	**31.12.2019**	**31.12.2018**
Gross non-performing loans to customers	6.30%	6.97%
of which:		
- gross doubtful loans	3.15%	3.02%
- unlikely to pay, gross	3.12%	3.90%
- non-performing past due and/or ov erdrawn exposures, gross	0.03%	0.05%

% of net loans	**31.12.2019**	**31.12.2018**
Net non-performing loans to customers	3.54%	4.17%
of which:		
- net doubtful loans	1.25%	1.27%
- unlikely to pay, net	2.26%	2.85%
- non-performing past due and/or ov erdrawn exposures, net	0.03%	0.04%

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 to the adoption of "IFRS 9 Financial Instruments".

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

% Coverage of non-performing and performing loans	**31.12.2019**	**31.12.2018**
% Cov erage of doubtful loans	61.44%	59.31%
% Cov erage of doubtful loans, gross of cancellations	63.11%	64.47%
% Total cov erage of non-performing loans	45.59%	42.26%
% Cov erage of non-performing loans, gross of cancellations	46.79%	45.69%
% Cov erage of performing loans	0.49%	0.54%

8.3 - The securities portfolio and interbank position

Securities portfolio

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

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

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

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

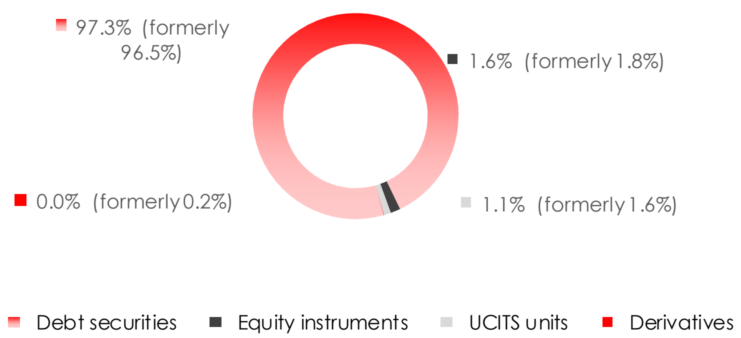
The Bank's Securities Portfolio at the end of the year amounted to approximately Euro 3.4 billion. The investment policy of the Held to Collect securities portfolios ("HTC" - "primary" investment portfolio for the support of net interest income and the collection of cash flows, with the possibility of selling only in case of need and according to the limits of the related Business Model) and Held to Collect and Sell ("HTCS" - "residual" portfolio where the securities are held for treasury needs) is still characterised by a significant exposure to Italian government securities despite the presence of significant equity investments in the primary market on a selected number of corporate issuers. The duration of the HTC Portfolio at the end of 2019 was limited and equal to 1.63, while the duration of the HTCS Portfolio was equal to 0.74, with the residual life of available-for-sale securities significantly shortened.

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

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

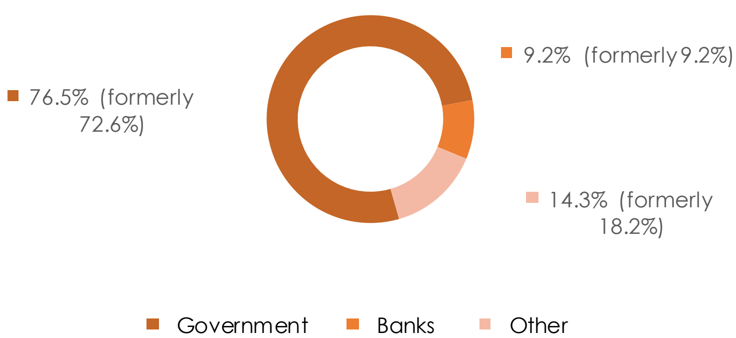
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (97.3%) of the investments still consist of debt securities.

Chart no. 12 - **% BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2019 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the year, 76.5% relates to government securities, 9.2% 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 31.12.2019 BY TYPE OF ISSUER**



Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 31 December 2019 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

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

Amounts in thousands of Euro		31.12.2019		31.12.2018			
		Italy	Total	Italy	Spain	Portugal	Total
Financial assets available for trading	Nominal value		-	2,371	-	-	2,371
	Book value		-	1,521	-	-	1,521
Financial assets designated at fair value through other comprehensive income	Nominal value	505,000	505,000	240,000	-	-	240,000
	Book value	506,813	506,813	241,492	-	-	241,492
Financial assets measured at amortised cost	Nominal value	2,055,711	2,055,711	1,940,921	15,000	25,000	1,980,921
	Book value	2,069,131	2,069,131	1,950,485	15,260	27,451	1,993,196
Sovereign debt	**Nominal value**	**2,560,711**	**2,560,711**	**2,183,292**	**15,000**	**25,000**	**2,223,292**
	Book value	**2,575,944**	**2,575,944**	**2,193,498**	**15,260**	**27,451**	**2,236,209**

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

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

Net interbank position

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

8.4 - Shareholders' equity and capital adequacy

Shareholders' equity at 31 December 2019, including the result for the period, amounts to Euro 956.9 million, compared with Euro 914.5 million at the end of 2018. The positive change of Euro 42.4 million is due to the comprehensive income of the period amounting to Euro 45.2 million and to the effect of the merger of Euro 8.0 million, partly offset by the payment of 2018 dividend of Euro 11.1 million.

After a pay-out of 31.99% (based on the proposed allocation of net profit to be approved at the Shareholders' Meeting), capital for supervisory purposes, otherwise known as Own Funds, at 31 December 2019 amounts to Euro 1,036.7 million (CET 1 + AT1 Euro 984.0 million + T2 Euro 52.7 million). This is Euro 30.8 million higher than the amount reported at the end of the prior year, Euro 1,005.9 million.

At 31 December 2019, the Common Equity Tier 1 (CET1/Risk-weighted assets) was 13.4%. The Tier 1 ratio, consisting of total class 1 capital (T1)/Risk-weighted assets, came to 14.4%, while the Total capital ratio, consisting of total Own Funds/Risk-weighted assets, amounted to 15.2%.

The minimum capital required by law for 2019 for banks that belong to a banking group, including the capital conservation buffer of 2.5%, amounted to 7.0% for the Common Equity Tier 1 ratio, 8.5% for the Tier 1 ratio and 10.5% 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

	31.12.2019	
	Application of the transitional regime	Without application of the transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	982,896	
Common Equity Tier 1 - CET1 without application of the transitional provisions		*925,949*
Tier 1 capital	984,035	
Tier 1 capital without application of the transitional provisions		*927,088*
Total own funds	1,036,652	
Total own funds without application of the transitional provisions		*979,705*
RISK ASSETS		
Risk-weighted assets	6,816,665	
Risk-weighted assets without application of the transitional provisions		*6,733,233*
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	14.419%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional provisions		*13.752%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	14.436%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional provisions		*13.769%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	15.208%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional provisions		*14.550%*

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";
- costs for operating leases falling within the scope of IFRS 16 "Leases", which came into force on 1 January 2019, booked to item "20. Interest and similar expense" and to item "180. Net adjustments to property, plant and equipment", have been reclassified to item "160 b) Other administrative costs", where the charges incurred on these contracts were recorded in the prior period;
- provisions, expenses and revenues of an extraordinary nature or which are "one-off" are reclassified to "Extraordinary provisions for risks and charges, other provisions, expenses and revenues";
- 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 for the year is around Euro 44.9 million, up by 24.2% on the prior period figure of Euro 36.1 million, which was affected by the negative impact on the cost of credit linked to the sale of doubtful loans by means of a GACS.

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

	Captions *Amounts in thousands of Euro*	31.12.2019 actual	31.12.2018 pro-forma	Change Amount	%
10+20	Net interest income	197,726	198,334	-608	-0.3%
70	Dividends and similar income	1,096	3,196	-2,100	-65.7%
40+50	Net commission income	171,597	168,772	2,825	1.7%
80+90+100 +110	Net result of financial assets and liabilities	8,055	7,553	502	6.6%
200	Other operating income/expense	5,728	6,807	-1,079	-15.9%
	Operating income	**384,202**	**384,662**	**-460**	**-0.1%**
160 a	Payroll costs	-167,823	-168,379	556	-0.3%
160 b	Other administrative costs	-96,819	-90,295	-6,524	7.2%
180+190	Net adjustments to property, plant and equipment and intangible assets	-10,078	-10,390	312	-3.0%
	Operating costs	**-274,720**	**-269,064**	**-5,656**	**2.1%**
	Result of operations	**109,482**	**115,598**	**-6,116**	**-5.3%**
100a+130a	Cost of credit	-54,568	-76,975	22,407	-29.1%
130 b	Net adjustments to securities owned	3,420	-3,997	7,417	n.s.
140	Profit/losses from contractual changes without write-offs	-412	-69	-343	497.1%
170 a	Net provisions for risks and charges - commitments and guarantees given	-368	-418	50	-12.0%
170 b	Net provisions for risks and charges - other	433	-730	1,163	n.s.
	Dividends from equity investments in subsidiaries	5,740	5,766	-26	-0.5%
	Profit (loss) from continuing operations before tax	**63,727**	**39,175**	**24,552**	**62.7%**
270	Income taxes on continuing operations	-17,657	-3,458	-14,199	410.6%
	Profit (loss) from continuing operations after tax	**46,070**	**35,717**	**10,353**	**29.0%**
240	Net result of the measurement at fair value of property, plant and equipment and intangible assets	-627	0	-627	n.s.
	Provisions for risks and charges, other provisions, one-off expenses and revenue	-1,246	636	-1,882	n.s.
	Non-recurring result before tax	**-1,873**	**636**	**-2,509**	**n.s.**
	Income taxes from non-recurring items	689	-216	905	n.s.
	Non-recurring profit (loss) after tax	**-1,184**	**420**	**-1,604**	**n.s.**
300	**Net profit (loss) for the period**	**44,886**	**36,137**	**8,749**	**24.2%**

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

Table no. 6 - Reconciliation between the financial statements and the reclassified income statement

Caption		As per financial statement	Reclassifications									Reclassified income statement
Amounts in thousands of Euro		31.12.2019	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, one-off expenses and	Reclassifications IFRS16 - Leases	Income taxes	31.12.2019
10+20	Net interest income	202,865	-6,359							1,220		197,726
70	Dividends and similar income	6,836			-5,740							1,096
40+50	Net commission income	171,597										171,597
80+90+100+110	Net result of financial assets and liabilities	3,394						4,661				8,055
200	Other operating income/expense	37,201		-32,099			2,076		-1,450			5,728
	Operating income	**421,893**	**-6,359**	**-32,099**	**-5,740**	**0**	**2,076**	**4,661**	**-1,450**	**1,220**	**0**	**384,202**
160 a	Payroll costs	-168,515		0					692			-167,823
160 b	Other administrative costs	-119,289		32,099					2,004	-11,633		-96,819
180+190	Net adjustments to property, plant and equipment and intangible asset	-18,415	0				-2,076			10,413		-10,078
	Operating costs	**-306,219**	**0**	**32,099**			**-2,076**		**2,696**	**-1,220**	**0**	**-274,720**
	Result of operations	**115,674**	**-6,359**	**0**	**-5,740**	**0**	**0**	**4,661**	**1,246**	**0**	**0**	**109,482**
100a+130a	Cost of credit	-52,785	6,359			-3,321		-4,661	-160			-54,568
130 b	Net adjustments to securities owned	99				3,321						3,420
140	Profit/losses from contractual changes without write-offs	-412										-412
170 a	Net provisions for risks and charges - commitments and guarantees given	-368										-368
170 b	Net provisions for risks and charges - other	273							160			433
	Dividennds from equity investments in subsidiaries				5,740							5,740
	Profit (loss) from continuing operations before tax	**62,481**	**0**	**0**	**0**	**0**	**0**	**0**	**1,246**	**0**	**0**	**63,727**
270	Income taxes on continuing operations	-16,968									-689	-17,657
	Profit (loss) from continuing operations after tax	**45,513**	**0**	**0**	**0**	**0**	**0**	**0**	**1,246**	**0**	**-689**	**46,070**
240	Net result of the misurement of fair value of property, plant and equipment and intangible assets	-627										-627
	Provisions for risks and charges, other provisions, one-off expenses and revenue				0				-1,246			-1,246
	Non-recurring result before tax	**-627**	**0**	**0**	**0**	**0**	**0**	**0**	**-1,246**	**0**	**0**	**-1,873**
	Income taxes from non-recurring items										689	689
	Non-recurring profit (loss) after tax	**-627**	**0**	**0**	**0**	**0**	**0**	**0**	**-1,246**	**0**	**689**	**-1,184**
300	**Net profit (loss) for the period**	**44,886**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**44,886**

BANCO DESIO - RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME STATEMENT AT 31.12.2018

Captions		As per financial statements	Reclassifications								Reclassified income statement
			Interest adjustments	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, one-off expenses and revenue	Income taxes	
Amounts in thousands of Euro		**31.12.2018**									**31.12.2018**
10+20	Net interest income	204,500	-6,166								198,334
70	Dividends and similar income	8,962			-5,766						3,196
40+50	Net commission income	168,772	0								168,772
80+90+100+110	Net result of financial assets and liabilities	-17,212						24,405	360		7,553
190	Other operating income/expense	39,187		-34,277			1,897				6,807
	Operating income	**404,209**	**-6,166**	**-34,277**	**-5,766**	**0**	**1,897**	**24,405**	**360**	**0**	**384,662**
160 a	Payroll costs	-165,919		0					-2,460		-168,379
160 b	Other administrative costs	-126,036		34,277					1,464		-90,295
180+190	Net adjustments to property, plant and equipment and intangible asset	-8,493	0				-1,897				-10,390
	Operating costs	**-300,448**	**0**	**34,277**			**-1,897**		**-996**	**0**	**-269,064**
	Result of operations	**103,761**	**-6,166**	**0**	**-5,766**	**0**	**0**	**24,405**	**-636**	**0**	**115,598**
100a+130a	Cost of credit	-63,147	6,166			4,607		-24,405	-196		-76,975
130 b	Net adjustments to securities owned	610				-4,607					-3,997
170 a	Net provisions for risks and charges - commitments and guarantees given	-418									-418
170 b	Net provisions for risks and charges - other	-926							196		-730
	Dividends from equity investments in subsidiaries				5,766						5,766
	Profit (loss) from continuing operations before tax	**39,811**	**0**	**0**	**0**	**0**	**0**	**0**	**-636**	**0**	**39,175**
270	Income taxes on current operations	-3,674								216	-3,458
	Profit (loss) from continuing operations after tax	**36,137**	**0**	**0**	**0**	**0**	**0**	**0**	**-636**	**216**	**35,717**
	Provisions for risks and charges, other provisions, one-off expenses and revenue				0				636		636
	Non-recurring profit (loss) before tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**636**	**0**	**636**
	Income taxes from non-recurring items									-216	-216
	Non-recurring profit (loss) after tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**636**	**-216**	**420**
300	**Net profit (loss) for the period**	**36,137**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**36,137**

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

Operating income

Core revenues decreased by about Euro 0.5 million compared with the previous period (-0.1%), coming in at Euro 384.2 million. This is mainly due to the decrease in dividends for Euro 2.1 million, *other operating income/expense* for Euro 1.1 million (-15.9%) and *net interest income* which shows a negative change of Euro 0.6 million (-0.3%), partly offset by the positive contribution of *net commission income* for Euro 2.8 million (+1.7%) and by the *net result of financial assets and liabilities* for Euro 0.5 million.

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

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

Importi in migliaia di euro	31.12.2019	Incidenza %	31.12.2018	Incidenza %	Variazioni Valore	Variazioni %
Collection and payment serv ices	26,182	15.3%	26,096	15.5%	86	0.3%
Placement of securities	24,066	14.0%	22,078	13.1%	1,988	9.0%
Managed portfolios and order taking	12,750	7.4%	12,162	7.2%	588	4.8%
Distribution of insurance products	19,744	11.5%	17,908	10.6%	1,836	10.3%
Maintenance and management of current accounts	73,412	42.8%	73,780	43.7%	-368	-0.5%
Otheer commission	15,443	9.0%	16,748	9.9%	-1,305	-7.8%
Net commission income	**171,597**	**100.0%**	**168,772**	**100.0%**	**2,825**	**1.7%**

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

Operating costs

Operating costs, which include *payroll costs, other administrative expenses and net adjustments to property, plant and equipment and intangible assets* amounted to around Euro 274.7 million and have increased, with respect to the comparative period, by Euro 5.7 million (+2.1%).

In particular, other administrative expenses have increased by Euro 6.5 million (+7.2%). The balance includes Euro 8.6 million of the ex-ante gross ordinary contributions to the resolution fund ("Contribution SRM - Single Resolution Mechanism") and the fund for the protection of guaranteed deposits ("DGS contributions - Deposit Guarantee Scheme"), compared with Euro 8.2 million in the prior period. This balance also includes Euro 11.6 million of costs for operating leases falling within the scope of IFRS 16 - Leases, which came into force on 1 January 2019; these costs have been booked to item "20. Interest and similar expense" for Euro 1.2 million and to item "210. Net adjustments to property, plant and equipment" for Euro 10.4 million; in the prior period, the charges incurred on these contracts were recorded in item "190 b) Other administrative costs". Application of the new accounting standard involved recognising higher charges for Euro 0.6 million (before tax) during the year.

Payroll costs have slightly decreased by 0.3% on the prior period, whereas the balance of net adjustments to property, plant and equipment and intangible assets came to Euro 10.1 million (-3.0%).

Result of operations

The result of operations at 31 December 2019 therefore amounted to Euro 109.5 million, Euro 6.1 million down on the prior period (-5.3%).

Profit (loss) from operations after tax

The *result of operations* of Euro 109.5 million leads to a *net profit (loss) from operations after tax* of Euro 46.1 million, 29.0% up on the Euro 35.7 million in the comparative period, mainly because of:

- lower cost of credit (*net impairment adjustments to loans and advances from customers and gains (losses) on disposal or repurchase of loans*) of Euro 54.6 million, compared with Euro 77.0 million in the prior period, which was affected by the cost of credit linked to the sale of non-performing loans by means of a GACS;
- positive net adjustments to proprietary securities of Euro 3.4 million (negative for Euro 4.0 million in the comparative period);
- *net provisions for risks and charges,* positive for Euro 0.4 million (negative balance of Euro 0.7 million in the comparative period);
- income taxes on continuing operations of Euro 17.7 million (vs Euro 3.5 million).

Result of non-recurring items after tax

At 31 December 2019 the *result of non-recurring items after tax* was a loss of Euro 1.2 million. This item basically consists of:

- the revenue component of Euro 1.4 million relating to an insurance refund received;
- the Euro 2.0 million charge for the extraordinary contributions to the Single Resolution Mechanism (SRM) and the Deposit Guarantee Scheme (DGS),
- the Euro 0.7 million charge for incentives to staff with accrued pension requirements
- the net result of measuring works of art at fair value, which was negative for Euro 0.6 million,

net of the related positive tax effects of Euro 0.7 million.

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

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

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

Profit for the period

The total of the *profit from operations* and the *non-recurring profit*, leads to a net profit at 31 December 2019 of Euro 44.9 million (formerly Euro 36.1 million).

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 31.12.2018	%	Savings shares at 31.12.2018	%	Ordinary shares purchased	Savings shares purchased	Ordinary shares sold	Savings shares sold	Ordinary shares at 31.12.2019	% post merger with BPS	Savings shares at 31.12.2019	%
Stefano Lado *	Chairman	Owned	2,180,111	1.863	196,000	1.485	0	0	0	0	2,180,111	1.776	196,000	1.485
		Registered to spouse	6,500	0.006	0	0.000	0	0	0	0	6,500	0.005	0	0.000
		Owned via Vega Finanziaria SpA *	6,885,730	5.885	571,522	4.329	0	0	0	0	6,885,730	5.610	571,522	4.329
Tommaso Cartone	Deputy Chairman		27,500	0.024	0	0.000	0	0	0	0	27,500	0.022	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	0.064	0	0.000
		Bare ownership	5,500	0.005	0	0.000	0	0	0	0	5,500	0.004	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	0.012	0	0.000
Paolo Gavazzi	Director	Owned	638,453	0.546	15,004	0.114	0	0	0	0	638,453	0.520	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	4,000	0	0.000	16,000	0.121
Franco Fumagalli Romario	Acting Statutory Auditor		0	0.000	5,000	0.038	0	0	0	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	1,000	0	12,000	0.010	0	0.000

* Giulia and Pietro Lado have granted general power of attorney to their father Mr. Stefano Lado by which he holds a stake of 0.1379% of the ordinary shares (169,270) of the Bank as well as control of Vega Finanziaria S.p.A.; He also holds a stake of 0.1230% of the savings shares (16,250) of the Bank.

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 2019, 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 2019, 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 e Stefano Lado S.a.p.A. and it did not trade in treasury share or shares of its parent company, directly or through a trustee or other person.

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

9.4 – 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 31.12.2019**

Amounts in thousands of Euro	Assets	Liabilities	Guarantees/commitments	Income	Expenses
Parent Company					
Brianza Unione di Luigi Gav azzi e Stefano Lado S.a.p.A.	4,999	1,826	0	59	5
Subsidiaries					
FIDES S.p.A.	741,802	4,396	47	23,403	44
Desio OBG	0	0	0	6	0
Transactions by company	**746,801**	**6,222**	**47**	**23,468**	**49**
Breakdown of transactions by type					
Financial	746,642	6,222	0	21,176	49
Trade	4	0	47	1,920	0
Lease / management of assets	0	0	0	0	0
Supply of serv ices	0	0	0	148	0
Other	155	0	0	224	0
Transactions by type	**746,801**	**6,222**	**47**	**23,468**	**49**

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. 16 paragraph 4 of Consob's Market Regulations (adopted by Resolution 20249 of 28 December 2017 and subsequent amendments and additions), note 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, neither 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 31 May 2019, following its annual review, the international agency Fitch Ratings Ltd confirmed all of the ratings assigned to Banco di Desio e della Brianza S.p.A.

The updated ratings are the following:

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

9.6 – 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 the year are disclosed in Part H of the explanatory notes; worth noting in this regard is the merger by merger of Banca Popolare di Spoleto S.p.A. with Banco di Desio e della Brianza S.p.A. approved by the respective Boards of Directors on 20 December 2018, as well as by the respective Extraordinary Shareholders' Meetings of 7 and 9 May 2019, and implemented for legal purposes from 1 July 2019. This 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.

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

The Bank undertakes development with a view to continuous improvement in the customer relationship. Work on the development of "multi-channel" distribution continues in order to make banking services more easily accessible, in a simple and flexible way, also through strategic partnerships with leading operators that specialise in products and services dedicated to market/target segments (areas like consumer credit, bancassurance, payment services, with a view to pursuing widespread connectivity, mobility and advanced payment services).

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

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

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

The Bank has adhered to the opt-out provided by arts. 70, paragraph 8 and by art. 71, paragraph 1-bis of Consob Issuers' Regulation (adopted by Resolution 11971 of 14 May 1999 and subsequent amendments and additions), exercising its right to opt out of the obligation to publish the documents required by Attachment 3B of the 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 2019 have been prepared on a going concern basis, since there are no plausible reasons to believe the contrary for the foreseeable future. The capital and financial structure and operating performance of the business provide absolute confirmation of the foregoing.

In the paragraph on the macroeconomic scenario of the Consolidated Report on Operations, a description has been given of trends in the world economy and financial markets with the principal risks that they entail, while the controls over the Bank's operations and the various types of risk are explained in detail in Part E of the Notes – Information on risks and related hedging policy.

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

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

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

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

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

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 2019, which report a net profit for the year of Euro 44,886,464.14 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 2019 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 propose the following allocation of the net profit:

-	10% to be allocated to the legal reserve	Euro 4,488,646.00
-	10% to be allocated to the statutory reserve	Euro 4,488,646.00
-	to the shareholders:	
	Euro 0.1036 for each of the 122,745,289 ordinary shares	Euro 12,716,411.94
	Euro 0.1244 for each of the 13,202,000 savings shares	Euro 1,642,328.80
-	to the charity reserve	Euro 50,000.00
-	further allocation to the statutory reserve	Euro 21,500,431.40
Total net profit		**Euro 44,886,464.14**

Desio, 6 February 2020

The Board of Directors

Financial statements

For the comparative period, the official final figures as approved by the Board of Directors of Banco di Desio e della Brianza in the "Financial Statements at 31 December 2018" are reported; these, by their very nature, do not allow comparability on a consistent basis with those of the reference period which reflects the equity and economic effects of the merger of BPS with Banco Desio.

BALANCE SHEET

ASSETS

Assets	31.12.2019	31.12.2018	Change amount	%
10. Cash and cash equivalents	60,815,214	31,528,825	29,286,389	92.9%
20. Financial assets designated at fair value through profit or loss	44,062,263	56,773,826	(12,711,563)	-22.4%
a) Financial assets held for trading	5,806,212	5,660,472	145,740	2.6%
c) Other financial assets that are necessarily measured at fair value	38,256,051	51,113,354	(12,857,303)	-25.2%
30. Financial assets designated at fair value through other comprehensive income	559,621,284	283,371,961	276,249,323	97.5%
40. Financial assets measured at amortised cost	12,897,500,706	9,128,052,098	3,769,448,608	41.3%
a) Due from banks	914,804,742	943,527,855	(28,723,113)	-3.0%
b) Loans to customers	11,982,695,964	8,184,524,243	3,798,171,721	46.4%
60. Adjustment to financial assets with generic hedge (+/-)	623,670	-	623,670	
70. Equity investments	42,199,729	274,570,929	(232,371,200)	-84.6%
80. Property, plant and equipment	225,087,315	134,591,380	90,495,935	67.2%
90. Intangible assets	11,451,140	2,789,952	8,661,188	310.4%
of which:				
- goodwill	9,796,226	1,728,505	8,067,721	466.7%
100. Tax assets	199,850,674	117,971,379	81,879,295	69.4%
a) current	7,497,316	8,088,578	(591,262)	-7.3%
b) deferred	192,353,358	109,882,801	82,470,557	75.1%
120. Other assets	129,777,026	83,192,456	46,584,570	56.0%
Total assets	**14,170,989,021**	**10,112,842,806**	**4,058,146,215**	**40.1%**

Note: The caption "80. Property, plant and equipment" at 31 December 2019 includes the recognition of the right of use asset ("RoU Asset") for Euro 50,659 thousand against operating lease contracts falling within the scope of IFRS 16, which came into force on 1 January 2019.

LIABILITIES

Liabilities and shareholders' equity	31.12.2019	31.12.2018	Change amount	%
10. Financial liabilities measured at amortised cost	12,851,164,800	8,972,851,681	3,878,313,119	43.2%
a) Due to banks	1,603,208,032	1,669,096,626	(65,888,594)	-3.9%
b) Due to customers	9,498,853,577	5,964,900,951	3,533,952,626	59.2%
c) Debt securities in issue	1,749,103,191	1,338,854,104	410,249,087	30.6%
20. Financial liabilities held for trading	8,138,454	2,832,082	5,306,372	187.4%
40. Hedging deriv ativ es	2,156,682	2,055,449	101,233	4.9%
60. Tax liabilities	15,814,574	11,034,657	4,779,917	43.3%
b) deferred	15,814,574	11,034,657	4,779,917	43.3%
80. Other liabilities	282,977,588	170,768,278	112,209,310	65.7%
90. Prov ision for termination indemnities	25,240,366	17,511,297	7,729,069	44.1%
100. Prov isions for risks and charges	28,625,628	21,275,012	7,350,616	34.6%
a) commitments and guarantees giv en	2,733,503	589,489	2,144,014	363.7%
c) other prov isions for risks and charges	25,892,125	20,685,523	5,206,602	25.2%
110. Valuation reserv es	45,384,125	39,435,419	5,948,706	15.1%
140. Reserv es	779,762,662	760,273,322	19,489,340	2.6%
150. Share premium reserv e	16,145,088	16,145,088	-	0.0%
160. Share capital	70,692,590	67,705,040	2,987,550	4.4%
180. Net profit (loss) for the period (+/-)	44,886,464	30,955,481	13,930,983	45.0%
Total liabilities and shareholders' equity	**14,170,989,021**	**10,112,842,806**	**4,058,146,215**	**40.1%**

The caption "10.b) Due to customers" at 31 December 2019 includes Euro 51,199 thousand of liabilities for leasing recognised on lease contracts falling within the scope of application of IFRS 16, which came into effect on 1 January 2019.

INCOME STATEMENT

Captions		31.12.2019	31.12.2018	Change amount	%
10.	Interest and similar income	238,822,122	157,039,495	81,782,627	52.1%
	of which: interest income calculated using the effective interest method	153,983,144	94,890,527	59,092,617	62.3%
20.	Interest and similar expense	(35,956,801)	(32,533,644)	(3,423,157)	10.5%
30.	**Net interest income**	**202,865,321**	**124,505,851**	**78,359,470**	**62.9%**
40.	Commission income	180,965,497	117,554,997	63,410,500	53.9%
50.	Commission expense	(9,368,055)	(5,041,758)	(4,326,297)	85.8%
60.	**Net commission income**	**171,597,442**	**112,513,239**	**59,084,203**	**52.5%**
70.	Dividends and similar income	6,835,540	10,540,804	(3,705,264)	-35.2%
80.	Net trading income	2,813,855	620,031	2,193,824	353.8%
90.	Net hedging gains (losses)	(550,526)		(550,526)	n.s.
100.	Gains (losses) on disposal or repurchase of:	901,953	(1,947,107)	2,849,060	n.s.
	a) financial assets measured at amortised cost	(706,465)	(13,611,660)	12,905,195	-94.8%
	b) financial assets designated at fair value through other comprehensive income	1,764,909	11,976,436	(10,211,527)	-85.3%
	c) financial liabilities	(156,491)	(311,883)	155,392	-49.8%
110.	Net result of other financial assets and liabilities designated at fair value through profit or loss	228,545	(3,029,960)	3,258,505	n.s.
	b) other financial assets mandatorily measured at fair value	228,545	(3,029,960)	3,258,505	n.s.
120.	**Net interest and other banking income**	**384,692,130**	**243,202,858**	**141,489,272**	**58.2%**
130.	Net value adjustments/write-backs for credit risk relating to:	(52,685,927)	(38,039,748)	(14,646,179)	38.5%
	a) financial assets measured at amortised cost	(52,785,277)	(38,425,600)	(14,359,677)	37.4%
	b) financial assets designated at fair value through other comprehensive income	99,350	385,852	(286,502)	-74.3%
140.	Profit/losses from contractual changes without write-offs	(412,016)	(9,949)	(402,067)	n.s.
150.	**Net profit from financial activities**	**331,594,187**	**205,153,161**	**126,441,026**	**61.6%**
160.	Administrative costs:	(287,804,465)	(192,624,253)	(95,180,212)	49.4%
	a) payroll costs	(168,515,350)	(112,279,534)	(56,235,816)	50.1%
	b) other administrative costs	(119,289,115)	(80,344,719)	(38,944,396)	48.5%
170.	Net provisions for risks and charges	(94,851)	(1,238,770)	1,143,919	-92.3%
	a) commitments for guarantees given	(368,219)	(98,670)	(269,549)	273.2%
	b) other net provisions	273,368	(1,140,100)	1,413,468	n.s.
180.	Net adjustments to property, plant and equipment	(17,631,760)	(4,647,801)	(12,983,959)	279.4%
190.	Net adjustments to intangible assets	(783,348)	(985,978)	202,630	-20.6%
200.	Other operating charges/income	37,201,509	32,237,690	4,963,819	15.4%
210.	**Operating costs**	**(269,112,915)**	**(167,259,112)**	**(101,853,803)**	**60.9%**
230.	Net result of the measurement at fair value of property, plant and equipment and intangible assets	(627,002)		(627,002)	n.s.
260.	**Profit (loss) from current operations before tax**	**61,854,270**	**37,894,049**	**23,960,221**	**63.2%**
270.	Income taxes on current operations	(16,967,806)	(6,938,568)	(10,029,238)	144.5%
280.	**Profit (loss) from current operations after tax**	**44,886,464**	**30,955,481**	**13,930,983**	**45.0%**
300.	**Net profit (loss) for the period**	**44,886,464**	**30,955,481**	**13,930,983**	**45.0%**

Note that the balances at 31 December 2019 include Euro 1,220 thousand in the caption "20. Interest expense and similar charges" and Euro 10,413 thousand in caption "180 Net adjustments to property, plant and equipment" of operating lease charges falling within the scope of IFRS 16 "Leases" from 1 January 2019; in the comparative period the charges related to these contracts were shown in caption "160 b) Other administrative costs".

STATEMENT OF COMPREHENSIVE INCOME

	Captions	31.12.2019	31.12.2018
10.	**Net profit (loss) for the period**	**44,886,464**	**30,955,481**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Equity instruments designated at fair v alue through other comprehensiv e income	(272,541)	(84,987)
50.	Property, plant and equipment	160,835	-
70.	Defined-benefit pension plans	(483,580)	278,928
	Other elements of income, net of income taxes with reversal to income statement		
120.	Cash-flow hedges	(56,964)	(430,674)
140.	Financial assets (other than equities) designated at fair v alue through other comprehensiv e income	940,060	(4,113,815)
170.	**Total other elements of income (net of income taxes)**	**287,810**	**(4,350,548)**
180.	**Total comprehensive income (Captions 10+170)**	**45,174,274**	**26,604,933**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2019

	Balance at 31.12.2018	Changes in opening balances	Balance at 01.01.2019	Allocation of prior year results		Changes during the year								Shareholders' equity at 31.12.2019
							Transactions on shareholders' equity						Comprehensive income at 31.12.2019	
				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				2,987,550							63,827,550
b) other shares	6,865,040		6,865,040											6,865,040
Share premium reserv e	16,145,088		16,145,088											16,145,088
Reserv es:														
a) from profits	748,002,924	-	748,002,924	19,809,740		267,961								768,080,625
b) other	12,270,398		12,270,398			(588,361)								11,682,037
Valuation reserv es	39,435,419	-	39,435,419			5,660,896							287,810	45,384,125
Equity instruments	-		-											-
Treasury shares	-		-											-
Net profit (loss) for the perioc	30,955,481		30,955,481	(19,809,740)	(11,145,741)								44,886,464	44,886,464
Shareholders' equity	**914,514,350**	**-**	**914,514,350**	**-**	**(11,145,741)**	**5,340,496**	**2,987,550**	**-**	**-**	**-**	**-**	**-**	**45,174,274**	**956,870,929**

Note: "Changes in reserves" and "Issue of new shares" highlight the changes that occurred during the year as a result of the absorption of BPS by Banco Desio with legal and fiscal effect from 1 January 2019.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2018

	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						Comprehensive income at 31.12.2018	
				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 reserv e	16,145,088		16,145,088											16,145,088
Reserv es:														
a) from profits	742,327,148	(18,971,672)	723,355,476	24,697,048		(49,600)								748,002,924
b) other	12,270,398		12,270,398											12,270,398
Valuation reserv es	35,927,907	7,858,060	43,785,967										(4,350,548)	39,435,419
Equity instruments	-		-											-
Treasury shares	-		-											-
Net profit (loss) for the perioc	37,995,628		37,995,628	(24,697,048)	(13,298,580)								30,955,481	30,955,481
Shareholders' equity	**912,371,209**		**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 in order to recognise the effects on the balance sheet at 1 January 2018 of FTA of IFRS 9 "Financial instruments".

CASH FLOW STATEMENT

	31.12.2019	31.12.2018
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**134,715,628**	**77,952,801**
- interest received (+)	230,788,367	150,475,103
- interest paid (-)	(34,694,999)	(34,685,124)
- dividends and similar income (+)	1,095,588	101,591
- net commission income (+/-)	171,597,441	112,513,239
- payroll costs (-)	(168,515,349)	(112,279,534)
- other costs (-)	(88,369,394)	(66,728,030)
- other revenues (+)	39,781,780	35,494,124
- taxation (-)	(16,967,806)	(6,938,568)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(102,646,744)**	**306,868,451**
- financial assets held for trading	2,533,593	9,321,994
- financial assets designated at fair value through profit and loss		
- other financial assets that are necessarily measured at fair value	12,135,351	(16,946,769)
- financial assets designated at fair value through other comprehensive income	(261,218,945)	890,801,481
- financial assets measured at amortised cost	116,086,107	(601,893,818)
- other assets	27,817,150	25,585,563
3. Cash generated (absorbed) by financial liabilities	**4,429,909**	**(377,791,599)**
- financial liabilities measured at amortised cost	(28,177,044)	(376,073,274)
- financial liabilities held for trading	1,821,563	(1,698,444)
- financial liabilities designated at fair value through profit and loss		
- other liabilities	30,785,390	(19,881)
Net cash generated/absorbed by operating activities (A)	**36,498,793**	**7,029,653**
B. INVESTING ACTIVITIES		
1. Cash generated by	**5,763,380**	**10,439,212**
- sale of equity investments		
- dividends collected on equity investments	5,739,951	10,439,212
- sale of property, plant and equipment	23,429	
- sale of intangible assets		
- sale of businesses		
2. Cash absorbed by	**(5,019,678)**	**(4,678,372)**
- purchase of equity investments		
- purchase of property, plant and equipment	(3,903,250)	(3,946,305)
- purchase of intangible assets	(1,116,428)	(732,067)
- purchase of businesses		
Net cash generated/absorbed by investing activities (B)	**743,702**	**5,760,840**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(11,145,741)	(13,298,580)
Net cash generated/absorbed by financing activities (C)	**(11,145,741)**	**(13,298,580)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**26,096,754**	**(508,087)**

Key
(+)generated
(-) absorbed

RECONCILIATION

	31.12.2019	31.12.2018
Cash and cash equivalents at beginning of period	**31,528,825**	**29,119,155**
Net increase (decrease) in cash and cash equiv alents	26,096,754	(508,087)
Cash and cash equiv alents: effect of changes in exchange rates	3,189,635	2,917,757
Cash and cash equivalents at end of period	**60,815,214**	**31,528,825**

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 2019 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 30 November 2018. 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 2019 for the classification, recognition, measurement and derecognition of financial assets and liabilities, as well as the methods for recognising revenues and costs, are different from those applied in preparing the financial statements at 31 December 2018. These changes derive essentially from the mandatory application, from 1 January 2019, of IFRS 16 "Leases", approved by the European Commission through EU Regulation no. 2017/1986 of 31 October 2017, which replaced IAS 17 "Leases", as well as interpretations IFRIC 4 "Determining whether an arrangement contains a Lease", SIC-15 "Operating Leases - Incentives" and SIC-27 "Evaluating the substance of transactions involving the legal form of a lease".

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

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

Section 3 – Subsequent events

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

Section 4 – Other aspects

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

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

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

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

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

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

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

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

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

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

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

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

The fair value of the artistic assets was established by means of specific appraisals carried out by a qualified, independent company. At separate level, as analysed in greater detail in "Section 8 – Property, plant and equipment" of "Part B – Information on the balance sheet" of the explanatory notes, this change involved the recognition of a pre-tax gain of Euro 240 thousand. This figure was allocated, net of deferred tax, to a specific valuation reserve in equity. In addition to this capital gain, net capital losses were recognized in the income statement for an amount of Euro 627 thousand before tax.

Application of IFRS 16 "Leases"

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

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

Accounting treatment of lease contracts according to IFRS 16

The standard provides a new definition of lease and introduces a criterion based on control (or "right of use") of an asset to distinguish leasing contracts from contracts for the provision of services, identifying as discriminants: the identification of the asset, the absence of the right to replace it, the right to obtain substantially all of the economic benefits deriving from use of the asset and the right to manage use of the asset underlying the contract.

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

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

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

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

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

The methodologies adopted by the Banco Desio Group

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

– the lease liabilities calculated as the current value of the residual payments due for the lease, discounted at the marginal lending rate at the date of FTA (IFRS 16.C8. a);

– the asset consisting of the right of use equal to the liability of the lease adjusted for any prepaid expenses or accrued liabilities relating to the lease recognised in the statement of financial position immediately before the FTA date (IFRS 16.C8.b.ii).

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

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

– contracts with an underlying asset value of less than or equal to Euro 5,000 at the FTA date ("low-value assets") were excluded;

– contracts with an overall lease term of less than or equal to 12 months ("short-term assets") were excluded;

– the initial direct costs of measuring the RoU Asset on the FTA date were excluded.

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

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

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

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

On the basis of the analyses carried out by the Banco Desio Group as part of the project for implementation of IFRS 16, taking into account the methodological choices made, on 1 January 2019, on first-time adoption of the accounting standard, a "Lease Liability" of Euro 60.0 million was recorded in the financial statements against a substantially similar increase in non-current assets (increased due to the balance of the related accruals and prepayments at 31 December 2018), from which no initial impact on equity arose.

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

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

The amendments will be mandatory from 1 January 2020, but Banco Desio opted for early application of the change from 1 January 2019.

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

Use of estimates and assumptions in preparing the financial statements

The preparation of the 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.

Accounting treatment of the extraordinary intragroup transaction in the financial statements

The merger of Banca Popolare di Spoleto S.p.A. with Banco di Desio e della Brianza S.p.A., of which extensive information has already been given, concerns entities controlled by a common shareholder ("business combination between entities under common control"), so it is excluded from the scope of "IFRS 3 - Business combinations". For the accounting treatment of the transaction, reference was therefore made to prevailing practice, in particular to the document "ASSIREVI preliminary guidelines on IFRS - OPI No. 2 (Revised) - Accounting treatment of mergers in the financial statements" with reference to mergers between parent companies and subsidiaries, essentially for the purpose of restructuring. For further details, please refer to the information provided in "Part G – Business combinations" of the notes.

Comparability of financial statements

For each account in the financial statements, the previous year's balance is also given: if the accounts are not comparable, the prior year figures have to be adjusted. However, in the case of business combinations (for example, the merger that took place during the year), the comparative figures for the previous year in the financial statements are those of the purchaser (the merging company) pursuant to IFRS 3.

Consequently, the values of the balance sheet, the income statement, the statement of comprehensive income and the cash flow statement at 31 December 2019 are not directly comparable with those of the previous year.

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

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

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

Following notification of the contributions by the competent authorities (Bank of Italy as the resolution authority and FITD as the deposit protection authority), the standard and special contributions paid 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.

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

Classification

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

The type of hedge used may be:

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

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

Recognition

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

The recognition of hedging transactions assumes:

– the involvement of counterparties outside the Banco Desio Group;

– a specific designation and identification of financial hedging and hedged instruments used for the transaction;

– definition of the risk management objectives being pursued, specifying the nature of the risk being hedged;

– passing the effectiveness test at the beginning of the hedging relationship and prospectively, with specific measurement procedures and frequency;

– preparation of formal documentation of the hedging relationship.

Measurement

A hedging transaction is defined as effective if the changes in fair value (or future cash flows) of the

hedging instrument offset the changes in the financial instrument being hedged within the 80%-125% limits laid down in IAS 39.

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

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

Recognition of items affecting the income statement – Fair value hedges

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

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

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

The gain or loss on the hedging instrument has 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 the Bank is exposed to variable returns, or holds rights to these returns, deriving from its relationship with them and at the same time has the capacity to affect these returns by exercising its power over these entities.

The companies in which the Bank 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, the Bank and one or more other parties share control, or for which decisions their key activities require unanimous consent of all the parties that share control.

Recognition

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

Measurement

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

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

Property, plant and equipment

Classification

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

Recognition

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

On first-time adoption of IAS/IFRS, we made use of the exemption provided by art. 16 of IFRS 1, opting to

assess property at fair value as the deemed cost at 1 January 2004. After that date, buildings have been valued at cost.

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

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

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

Measurement

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

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

- if the carrying amount of an asset is increased following re-determination of the value, the increase must be recognized in other components in the statement of comprehensive income and booked to equity in the revaluation reserve; on the other hand, if a decline in the value of an asset, previously recognized in the income statement, is recovered, the write-back has to be recognized as income;
- if the carrying amount of an asset is reduced following re-determination of its value, the decrease must be recognized in other components in the statement of comprehensive income as a revaluation excess, assuming that there is already a positive valuation reserve for this asset; otherwise, this decrease must be recorded in the income statement.

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

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

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

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

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

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

Intangible assets

Classification

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

Recognition

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

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

Measurement

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

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

Current and deferred taxation

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

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

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

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

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

Provision for termination indemnities

Measurement

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

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

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

Recognition of items affecting the income statement

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

Provisions for risks and charges

Provisions for risks and charges for commitments and guarantees given

The sub-item of provisions for risks and charges in question includes the credit risk provisions to cover commitments to disburse funds and guarantees issued that fall within the scope of application of the impairment rules under IFRS 9.

In these cases, in principle, we adopt the same methods of allocation between the three stages of credit risk and the same methods of calculation of expected loss with reference to financial assets measured at amortised cost or at fair value through other comprehensive income.

Other provisions for risks and charges

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

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

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

Recognition of items affecting the income statement

Provisions are charged to the income statement.

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

Financial liabilities measured at amortised cost

Classification

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

Recognition

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

Measurement

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

Derecognition

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

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

Financial liabilities held for trading

Recognition and classification

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

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

Measurement and recognition of items affecting the income statement

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

Derecognition

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

Currency transactions

Recognition

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

Measurement

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

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

Recognition of items affecting the income statement

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

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

Other information

Valuation reserves

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

Recognition of costs and revenues

Revenues are recognised:

– at a specific moment when the entity fulfils the obligation to transfer the promised asset or service to the customer, or

– over time, as the entity fulfils its obligation to transfer the promised asset or service to the customer.

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

– interest expense is recognised on a pro-rata basis at the contractual interest rate or, in the case of application of amortised cost, at the effective interest rate. Interest income (expense) also includes positive (negative) differentials or margins on financial derivatives accrued at the date of the financial statements:

  a) hedging assets and liabilities that generate interest;

  b) classified in the balance sheet in the trading book, but operationally linked to assets and/or liabilities measured at fair value (fair value option);

  c) operationally linked to assets and liabilities classified as held for trading and providing for the settlement of differentials or margins on several maturities.

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

– default interest, which may be provided by contract, is recognised in the income statement only when actually collected;

– dividends are recognised in the income statement when distribution has been approved;

– commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;

– revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (Level 1 and Level 2 of the fair value hierarchy).

If these values cannot easily be determined or have a reduced level of liquidity (Level 3), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;

- gains/losses from trading in financial instruments are recognised in the income statement on
- completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
- revenues from the sale of non-financial assets are recognised on completion of the sale, i.e. when the obligation towards the customer is fulfilled.

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

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

Finance leases

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

Securitisations

Exposures to the securitisation (in the form of junior securities or deferred purchase price) are allocated to Financial assets measured at fair value through profit or loss. However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control[1] 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.

[1] 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	Source portfolio	Destination portfolio	Date of reclassification	Reclassified book value	Interest income recorded during the year (before tax)
Debt securities	HTCS	HTC	01.10.2018	888,887	n.a.

With reference to the reclassified financial assets still recorded under assets at the reporting date, the "Reclassified book value" column shows the amount transferred from the HTCS to the HTC portfolio (originally Euro 898,391 thousand), including the cumulative OCI valuation reserve at 30 September 2018, negative for Euro 41,559 thousand (originally Euro 41,512 thousand, pre-tax), which was eliminated from shareholders' equity on the reclassification date in exchange for the fair value of the reclassified financial assets, which are then recognised as if they had always been valued at amortised cost.

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

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

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

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

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

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

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

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

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

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

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

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

In order to make the new investment management models immediately operational, the amendments to the internal regulations of the Banco Desio Group of the highest level were approved (e.g. the methodological framework of IFRS 9, Group risk management policies, operating policy limits, etc.) as a consequence, amendments were made to the Finance Department's internal regulations for managing the Group's proprietary securities and treasury portfolio.

The accounting effects of this operation, which only affect the balance sheet, took place on 1 October 2018 (the "reclassification date"), for which the conditions established by IFRS 9 in the case of a change in business models were satisfied (in terms of rarity of occurrence, decision taken by senior management following external or internal changes, materiality[2] for operations in general and the fact that they can be demonstrated to third parties).

The financial instruments involved in the change of business model from HTC&S to HTC are mainly represented by sovereign debt securities, as well as corporate bonds for a total nominal value of Euro 936 million for the Parent Company Banco Desio. The relative accumulated loss on the reclassification date of Euro 41.5 million (gross of the related tax effect), previously recognised in the other components of comprehensive income (valuation reserve), is eliminated from equity against the fair value of the same financial instruments, which are therefore recognised as if they had always been valued at amortised cost. In December 2019, the Finance Department, in collaboration with the Chief Risk Officer, concluded the annual analysis to verify the operating limits and thresholds of the proprietary securities portfolio, which took into account the changes made in the meantime to the Eurozone's monetary policy.

[2] 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.

This analysis was submitted to Banco Desio's Board of Directors on 12 December 201. After discussing the matter, the Board approved the proposal to update (in accordance with paragraph B4.1.2C of IFRS 9) the operating thresholds of the proprietary securities portfolio, with effect from 1 January 2020, in order to bring the composition of the individual portfolios into line as much as possible with their set objectives, making it easier to pursue them on an ongoing basis. Specifically:

- with reference to the FVTPL portfolio: increase in the daily stop-loss, while keeping the other periodic VAR and Stop Loss limits unchanged;
- with reference to the HTC&S portfolio: (a) increase in the maximum duration of the portfolio, (b) increase in the maximum residual life of the securities that can be held and (c) establishment of a maximum limit that can be invested in securities with a rating lower than investment grade, but still equal to or greater than BB- or Ba3;
- with reference to the HTC portfolio: (a) differentiation in the weighting of sales as the modified duration of the securities in portfolio decreases, without prejudice to the sales materiality threshold of 5% and (b) it is better to set the frequency threshold (i.e. the number of annual executions) at 12, regardless of the number of positions that make up the portfolio.

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

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

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

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

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

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

Fair value measurement with use of level 1 inputs

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

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

The fundamental elements are the following:

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

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

A.4.1 Levels of fair value 2 and 3: valuation techniques and inputs used

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

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

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

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

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

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

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

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

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

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

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

A.4.2 Process and sensitivity of valuations

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

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

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

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

A.4.3 Fair value hierarchy

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

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

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

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

A.4.4 Other information

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

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities designated at fair value	31.12.2019 L1	31.12.2019 L2	31.12.2019 L3	31.12.2018 L1	31.12.2018 L2	31.12.2018 L3
1. Financial assets designated at fair value through profit or loss	22,254	860	20,948	39,690	907	16,176
a) Financial assets held for trading	4,456	-	1,350	2,248	439	2,973
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	17,798	860	19,598	37,442	468	13,203
2. Financial assets designated at fair value through other comprehensive income	509,364	47,267	2,990	244,034	36,351	2,987
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	531,618	48,127	23,938	283,724	37,258	19,163
1. Financial liabilities held for trading	-	6,874	1,264	-	-	2,832
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	2,157	-	-	2,055	-
Total	-	9,031	1,264	-	2,055	2,832

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

Investments valued on the basis of unobservable inputs (Level 3) are a limited share of financial assets measured at fair value (3.97% at 31 December 2019).

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

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

	Financial assets designated at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily at fair value				
1. Opening	**16,176**	**2,973**	**-**	**13,203**	**2,987**	**-**	**-**	**-**
2. Increases	**9,679**	**1,350**	**-**	**8,329**	**2,573**	**-**	**-**	**-**
2.1. Purchases	7,767	-	-	7,767	17	-	-	-
2.2. Profits posted to:	1,407	1,350	-	57	437	-	-	-
2.2.1. Income statement	1,407	1,350	-	57	-	-	-	-
- of which: capital gains	1,407	1,350	-	57	-	-	-	-
2.2.2. Shareholders' equity	-	-	-	-	437	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other	505	-	-	505	2,119	-	-	-
3. Decreases	**4,907**	**2,973**	**-**	**1,934**	**2,570**	**-**	**-**	**-**
3.1. Sales	-	-	-	-	2,120	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3. Losses posted to:	4,810	2,973	-	1,837	450	-	-	-
3.3.1. Income statement	4,810	2,973	-	1,837	-	-	-	-
- of which: capital losses	4,810	2,973	-	1,837	-	-	-	-
3.3.2. Shareholders'	-	-	-	-	450	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	97	-	-	97	-	-	-	-
4. Closing balance	**20,948**	**1,350**	**-**	**19,598**	**2,990**	**-**	**-**	**-**

A.4.5.3 Annual changes in financial assets measured at fair value on a recurring basis (Level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Hedging derivatives
1. Opening balance	**2,832**	**-**	**-**
2. Increases	**1,264**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses posted to:	1,264	-	-
2.2.1. Income statement	1,264	-	-
- of which: capital losses	1,264	-	-
2.2.2. Shareholders' equity	-	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**2,832**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits posted to:	2,832	-	-
3.3.1. Income statement	2,832	-	-
- of which: capital gains	2,832	-	-
3.3.2. Shareholders' equity	-	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**1,264**	**-**	**-**

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2019				31/12/2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	12,897,501	2,082,039	6,438,674	4,727,371	9,128,052	1,638,186	3,935,469	3,397,910
2. Investment property	1,787			1,936	1,729			1,837
3. Non-current assets and disposal groups held for sale								
Total	**12,899,288**	**2,082,039**	**6,438,674**	**4,729,307**	**9,129,781**	**1,638,186**	**3,935,469**	**3,399,747**
1. Financial liabilities measured at amortised cost	12,851,165		1,736,955	11,116,599	8,972,852		1,329,907	7,642,516
2. Liabilities associated with assets held for sale								
Total	**12,851,165**	**-**	**1,736,955**	**11,116,599**	**8,972,852**	**-**	**1,329,907**	**7,642,516**

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

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - caption 10

1.1 Cash and cash equivalents: breakdown

	31.12.2019	31.12.2018
a) Cash	60,815	31,529
b) Demand deposits with central banks	-	-
Total	**60,815**	**31,529**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 69,217 thousand.

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

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	863	-	-	-	439	-
1.1 Structured securities	863	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	439	-
2. Equity instruments	2,192	-	-	2,207	-	-
3. Mutual funds	1,282	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**4,337**	**-**	**-**	**2,207**	**439**	**-**
B. Derivatives						
1. Financial derivatives	119	-	1,350	41	-	2,973
1.1 for trading	119	-	1,350	41	-	2,973
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**119**	**-**	**1,350**	**41**	**-**	**2,973**
Total (A+B)	**4,456**	**-**	**1,350**	**2,248**	**439**	**2,973**

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

Caption 20 "Financial assets held for trading" comprises:

a) cash assets held for trading;
b) positive value of derivatives held for trading.

The policy adopted for the categorisation of financial instruments within the three levels of the fair value hierarchy is disclosed in the previous section "A.4 Information on fair value" in Part A "Accounting policies" of the explanatory notes.

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

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

Captions/Amounts	31.12.2019	31.12.2018
A. Cash assets		
1. Debt securities	**863**	**439**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	439
d) Other financial companies	863	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**2,192**	**2,207**
a) Banks	-	-
b) Other financial companies	490	1,322
of which: insurance companies	-	-
c) Non-financial companies	1,702	885
d) Other issuers	-	-
3. Mutual funds	**1,282**	**-**
4. Loans	**-**	**-**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**4,337**	**2,646**
B. DERIVATIVES	**-**	**-**
a) Central counterparties	-	-
b) Other	1,469	3,014
Total (B)	**1,469**	**3,014**
Total (A+B)	**5,806**	**5,660**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 8,187 thousand.

2.5 Other financial assets mandatorily at fair value: breakdown

Captions/Amounts	Total 31.12.2019			Total 31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**860**	**1,440**	**-**	**468**	**1,460**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	860	1,440	-	468	1,460
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Mutual funds	**17,798**	**-**	**18,158**	**37,442**	**-**	**11,743**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**17,798**	**860**	**19,598**	**37,442**	**468**	**13,203**

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

This caption includes quotas of the private debt fund managed by Clessidra SGR subscribed following completion of a sale of non-performing loans to the fund; the fair value of the fund units is determined by applying the policies provided by the bank for this type of financial instrument.

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

	31.12.2019	31.12.2018
1. Equity instruments	**-**	**-**
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	**2,300**	**1,928**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	1,440	1,460
d) Other financial companies	860	468
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Mutual funds	**35,956**	**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	**38,256**	**51,113**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 52,002 thousand.

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

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

Captions/Amounts	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	509,364	-	-	244,034	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	509,364	-	-	244,034	-	-
2. Equity instruments	-	47,267	2,990	-	36,351	2,987
3. Loans	-	-	-	-	-	-
Total	**509,364**	**47,267**	**2,990**	**244,034**	**36,351**	**2,987**

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 pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 296,407 thousand.

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

Captions/Amounts	31.12.2019	31.12.2018
1. Debt securities	**509,364**	**244,034**
a) Central banks	-	-
b) Public administrations	506,813	241,492
c) Banks	2,551	2,542
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**50,257**	**39,338**
a) Banks	10,000	10,000
b) Other issuers:	40,257	29,338
- other financial companies	2,363	2,104
of which: insurance companies	-	-
- non-financial companies	37,894	27,234
- other	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**559,621**	**283,372**

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		509,364	509,364	-	-	(363)	-	-	-
Loans		-	-	-	-	-	-	-	-
Total	**31.12.2019**	**509,364**	**509,364**	**-**	**-**	**(363)**	**-**	**-**	**-**
Total	**31.12.2018**	**244,034**	**244,034**	**-**	**-**	**(462)**	**-**	**-**	**-**
of which: impaired financial assets acquired or originated		X	X	-	-	X	-	-	-

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

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

Type of transaction/Amounts	31.12.2019						31.12.2018					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. Due from central banks	**335,833**	**-**	**-**	**-**	**-**	**335,833**	**66,205**	**-**	**-**	**-**	**-**	**66,205**
1. Time deposits	-	-	-				-	-	-			
2. Reserve requirement	335,833	-	-				66,205	-	-			
3. Repurchase agreements	-	-	-				-	-	-			
4. Other	-	-	-				-	-	-			
B. Due from banks	**578,972**	**-**	**-**	**-**	**297,880**	**283,747**	**877,323**	**-**	**-**	**-**	**262,737**	**609,174**
1. Loans	283,747	-	-	-	-	283,747	609,174	-	-	-	-	609,174
1.1 Current accounts and demand deposits	43,568	-	-				441,018	-	-			
1.2. Time deposits	30,155	-	-				44,472	-	-			
1.3. Other loans:	210,024	-	-				123,684	-	-			
- Repurchase agreements	-	-	-				-	-	-			
- Loans for leases	-	-	-				-	-	-			
- Other	210,024	-	-				123,684	-	-			
2. Debt securities	295,225	-	-	-	297,880	-	268,149	-	-	-	262,737	-
2.1 Structured securities	3,920	-	-	-	3,920	-	3,885	-	-	-	3,687	-
2.2 Other debt securities	291,305	-	-	-	293,960	-	264,264	-	-	-	259,050	-
Total	**914,805**	**-**	**-**	**-**	**297,880**	**619,580**	**943,528**	**-**	**-**	**-**	**262,737**	**675,379**

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

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 555,365 thousand.

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

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

The balances of item "B. Due from banks" are shown net of adjustments deriving from the application of the models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments". Amounts due from central banks include the amount of the reserve requirement at the Bank of Italy. For the purpose of maintaining the average level of the reserve in line with the requirement, the amount thereof may fluctuate, even significantly, in relation to the contingent liquidity needs of the Bank.

The Bank's commitment to maintain the reserve requirement amounts to Euro 94.6 million at 31 December (Euro 92.6 million in December 2018). Amounts due from banks do not include loans and receivables classified as non-performing loans.

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

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

Type of transaction/Amounts	31.12.2019						31.12.2018					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
1. Loans	**9,178,445**	**337,251**	**10,510**	**-**	**5,754,613**	**4,107,791**	**5,950,262**	**213,412**	**4,552**	**-**	**3,348,852**	**2,722,531**
1.1. Current accounts	2,069,285	90,939	386				1,525,616	56,198	319			
1.2. Repurchase agreements	-	-	-				-	-	-			
1.3. Mortgage loans	5,898,078	227,514	9,994				3,404,394	139,195	4,196			
1.4. Credit cards, personal loans and assignments of one-fifth of salary	10,418	757	34				4,764	266	-			
1.5 Loans for leases	151,430	10,830	-				177,054	13,506	-			
1.6. Factoring	30,033	16	-				23,410	27	-			
1.7. Other loans	1,019,201	7,195	96				815,024	4,220	37			
2. Debt securities	**2,467,000**	**-**	**-**	**2,082,039**	**386,181**	**-**	**2,020,850**	**-**	**-**	**1,638,186**	**323,880**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	2,467,000	-	-	2,082,039	386,181	-	2,020,850	-	-	1,638,186	323,880	-
Total	**11,645,445**	**337,251**	**10,510**	**2,082,039**	**6,140,794**	**4,107,791**	**7,971,112**	**213,412**	**4,552**	**1,638,186**	**3,672,732**	**2,722,531**

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

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 12,016,700 thousand.

Gross loans amount to a total of Euro 9,843,472 thousand, of which Euro 9,223,665 thousand relate to performing loans and Euro 619,807 thousand to non-performing loans.

Total write-downs on the same loans amount to Euro 327,776 thousand, of which Euro 282,556 thousand relate to non-performing loans and Euro 45,220 thousand to performing loans.

As regards non-performing loans, additional details are provided in the section entitled "Information on risks and related hedging policy" to supplement the information already provided in the consolidated interim report on operations.

The table also includes the amounts of receivables sold which have not been derecognised, constituting eligible assets for the Covered Bond programme; at 31 December 2019, these receivables amounted to Euro 1,291,557 thousand.

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

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

Loans and receivables from companies belonging to the Banco Desio Group amount to Euro 741,533 thousand; they all relate to the subsidiary Fides S.p.A.

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

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

The fair value of non-current performing loans is measured using techniques that discount the cash flows expected after considering the related credit risk, while the carrying amount of non-performing and current performing loans is considered to be a reasonable approximation of fair value. Taking into account the current context of the credit market, with particular reference to non-performing loans, this fair value, determined taking into account multi-scenario assumptions that provide for the combination between internal management and so-called "disposal scenarios", may not represent the potential exit price because of a certain margin of uncertainty, which is in any case inherent in the various components making up the price considered by a potential third-party purchaser.

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows. The value of debt securities is shown net of adjustments deriving from the application of the new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments".

This portfolio includes Euro 240,033 thousand of senior notes issued by the "2Worlds s.r.l." SPV following the sale of doubtful loans through use of the "GACS" scheme in 2018.

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

Type of transaction/Amounts	31.12.2019			31.12.2018		
	First and second stage	Third stage	of which: impaired assets acquired or originated	First and second stage	Third stage	of which: impaired assets acquired or originated
1. Debt securities	**2,467,000**	**-**	**-**	**2,020,850**	**-**	**-**
a) Public administrations	2,069,131	-	-	1,690,764	-	-
b) Other financial companies	364,635	-	-	299,280	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	33,234	-	-	30,806	-	-
2. Loans to:	**9,178,445**	**337,251**	**10,510**	**5,950,262**	**213,412**	**4,552**
a) Public administrations	36,503	377	-	-	-	-
b) Other financial companies	861,335	4,481	-	616,019	2,346	-
of which: insurance companies	2,886	-	-	2,738	-	-
c) Non-financial companies	5,136,836	222,428	4,060	3,709,327	150,239	3,009
d) Households	3,143,771	109,965	6,450	1,624,916	60,827	1,543
Total	**11,645,445**	**337,251**	**10,510**	**7,971,112**	**213,412**	**4,552**

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

		Gross value				Total write-downs			Total partial write-offs
		First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities		2,754,759	2,754,759	9,567	-	2,091	10	-	-
Loans		8,822,004	-	1,021,457	619,808	21,915	23,521	282,557	12,155
Total	**31.12.2019**	**11,576,763**	**2,754,759**	**1,031,024**	**619,808**	**24,006**	**23,531**	**282,557**	**12,155**
Total	**31.12.2018**	**8,349,780**	**2,284,013**	**596,608**	**383,234**	**17,086**	**14,662**	**169,822**	**24,060**
of which: impaired financial assets acquired or originated		X	X	4,401	9,540	X	48	3,383	-

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

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

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

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

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

Section 6 - Adjustment to financial assets with generic (or "macro") hedges - caption 60

6.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets/Amounts	31.12.2019	31.12.2018
1. Positive adjustments	**624**	**-**
1.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets designated at fair value through other comprehensive income	-	-
1.2 total	624	-
2. Negative adjustments	**-**	**-**
2.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets designated at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**624**	**-**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 684 thousand.

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

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

Section 07 - 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
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 10.2 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 10.3 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.

a) Criterion to estimate the recoverable amount (impairment)

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

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

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

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

Cash flows

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

Discount rate

For the valuation of banks and financial intermediaries, reference is made to 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.

b) 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
Fides S.p.A.	DDM	2020 Budget extended to 2024 (*)	-0.64%	8.33%	1.50%	Net results	Tier1 8.85% (**)

(*) Considering the change in forecast cash flows, the 2020 budget approved by the Board of Directors on 6 February 2020, and the projection of results until 2024 by management.

(**) Overall Capital Requirement Tier 1 ratio assigned with the last SREP measure (previously 8.50% Common Equity Tier 1 to Risk Weighted Assets (RWA))

As a result of the impairment testing performed, no write-down 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.

c) Sensitivity analysis

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

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the 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)
Fides S.p.A.	55.66%	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 10.4 of the Banco Desio Group's consolidated financial statements.

7.5 Equity investments: changes during the year

	Total 31.12.2019	Total 31.12.2018
A. Opening balance	**274,571**	**274,571**
B. Increases	**-**	**-**
B.1 Purchases	-	-
- of which: business combinations	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**232,372**	**-**
C.1 Sales	232,372	-
- of which: business combinations	232,372	-
C.2 Write-downs	-	-
C.3 Impairment losses	-	-
C.4 Other changes	-	-
D. Closing balance	**42,200**	**274,571**
E. Total revaluations	**-**	**-**
F. Total write-downs	**-**	**-**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 42,200 thousand.

Caption "C. Decreases" includes the effect of merging the former subsidiary Banca Popolare di Spoleto, with legal effect from 1 July 2019.

LISTING OF EQUITY INVESTMENTS AND SIGNIFICANT EQUITY INVESTMENTS

List of investments in subsidiaries (Caption 100. Equity investments)

(amounts in Euro)

Equity investments	*Number of shares or quotas*	*% held*	*Nominal value % held*	*Book value*
Subsidiaries				
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				**42,199,729**

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

(amounts in Euro)

Equity investments	*Number of shares or quotas*	*% held*	*Nominal value % held*	*Book value*
Cedacri S.p.A.	1,270	10.072	1,270,000	37,267,032
Bank of Italy	400	0.133	10,000,000	10,000,000
Gepafin S.p.A.	*113,848*	*10.728*	*683,088*	*1,593,417*
Unione Fiduciaria	*15,050*	*1.394*	*82,775*	*485,212*
Baires Produzioni s.r.l.	-	-	-	*420,000*
Sviluppo Como - ComoNExt Spa	*150,000*	*1.542*	*150,000*	*150,000*
S.W.I.F.T. - Brussels	*17*	*0.016*	*2,125*	*38,226*
CBI S.C.P.A	*5,720*	*1,243*	*11,440*	*11,440*
Bancomat S.p.A.	*1,274*	*0.579*	*6,370*	*6,370*
Sia S.p.A.	*101,794*	*0.059*	*13,233*	*6,097*
Total				**49,977,794**

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

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

Assets/Amounts	31.12.2019	31.12.2018
1. Own assets	**172,641**	**132,862**
a) land	52,778	42,124
b) property	101,605	77,647
c) furniture	4,610	3,505
d) electronic systems	3,484	2,695
e) other	10,164	6,891
2. Rights of use acquired under lease	**50,659**	**-**
a) land	-	-
b) property	49,580	-
c) furniture	-	-
d) electronic systems	-	-
e) other	1,079	-
Total	**223,300**	**132,862**
of which: obtained through enforcement of the guarantees received	-	-

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 177,478 thousand.

Land and buildings are measured at the amount revalued as of 1 January 2004 on the first-time adoption of IFRS. Otherwise, all other tangible fixed assets are measured at cost.

The expected useful lives of the main asset categories are as follows:

- Buildings: 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.

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

8.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	31.12.19				31.12.18			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,787**	**-**	**-**	**1,936**	**1,729**	**-**	**-**	**1,837**
a) land	828	-	-	853	778	-	-	812
b) property	959	-	-	1,083	951	-	-	1,025
2. Rights of use acquired under lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) property	-	-	-	-	-	-	-	-
Total	**1,787**	**-**	**-**	**1,936**	**1,729**	**-**	**-**	**1,837**
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 1,814 thousand.

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	**42,124**	**103,345**	**30,033**	**18,068**	**37,783**	**231,353**
A.1 Total net write-downs	-	(25,698)	(26,528)	(15,373)	(30,892)	(98,491)
A.2 Net opening balance	**42,124**	**77,647**	**3,505**	**2,695**	**6,891**	**132,862**
B. Increases:	**10,654**	**88,305**	**2,580**	**2,529**	**6,611**	**110,679**
B.1 Purchases	10,654	28,167	2,272	2,528	5,897	49,518
- of which: business combinations	10,654	26,551	1,788	1,687	3,935	44,615
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increase in fair value booked to	-	-	240	-	-	240
a) shareholders' equity	-	-	240	-	-	240
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	-
B.7 Other changes	-	60,138	68	1	714	60,921
C. Decreases:	**-**	**14,767**	**1,475**	**1,740**	**2,259**	**20,241**
C.1 Sales	-	-	69	-	105	174
- of which: business combinations	-	-	-	-	-	-
C.2 Depreciation	-	12,931	779	1,740	2,154	17,604
C.3 Impairment write-downs booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value booked to	-	-	627	-	-	627
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	627	-	-	627
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property, plant and equipment	-	-	X	X	X	-
b) non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	1,836	-	-	-	1,836
D. Net closing balance	**52,778**	**151,185**	**4,610**	**3,484**	**11,243**	**223,300**
D.1 Net total write-downs	-	(42,729)	(35,162)	(26,311)	(45,486)	(154,688)
D.2 Gross closing balance	**52,778**	**198,914**	**39,772**	**29,795**	**56,729**	**377,988**
E. Measurement at cost	-	-	-	-	-	-

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

Caption "B.1 Purchases – of which: business combinations" includes the balances deriving from merger of the former subsidiary BPS, including the effects related to the purchase price allocation (PPA).

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

Captions "B.7 Other changes", "C.1 Sales" and "C.7 Other changes" include

- the effects of disposals and sales of property, plant and equipment during the year; in particular, caption "B.7 Other changes" includes the release of the accumulated depreciation on the assets sold and caption "C.7 Other changes" includes the release of the historical cost of the same assets. As a result of the aforementioned disposals, losses of Euro 20 thousand were recorded to the income statement under caption 200 "Other operating charges/income";
- the incremental effects of "Buildings" and "Other" derive from first-time adoption of IFRS 16 (recognition of the "RoU Asset" on 1 January 2019).

8.7 Investment property: changes during the year

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

8.9 Commitments to purchase property, plant and equipment

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

OWN PROPERTY (excluding property under finance lease)

Location of the property		surface area of office space (sqm)	Net carrying amount (in thousands of Euro)
ALBINO	Viale Libertà 23/25	332	644
ARCORE	Via Casati, 7	362	513
BAREGGIO	Via Falcone, 14	200	256
BESANA BRIANZA	Via Vittorio Emanuele, 1/3	625	766
BOLOGNA	Porta Santo Stefano, 3	1,223	8,324
BOLOGNA SANTA VIOLA	Via Della Ferriera, 4	200	932
BOVISIO MASCIAGO	Via Garibaldi, 8	382	390
BRESCIA	Via Verdi, 1	720	2,756
BRIOSCO	Via Trieste, 14	430	381
BRUGHERIO	Viale Lombardia, 216/218	425	1,177
BUSTO ARSIZIO	Via Volta, 1	456	938
CADORAGO	Via Mameli, 5	187	273
CANTU'	Via Manzoni, 41	1,749	2,045
CARATE BRIANZA	Via Azimonti, 2	773	897
CARUGATE	Via XX Settembre, 8	574	568
CARUGO	Via Cavour, 2	252	350
CASTELLANZA	Corso Matteotti, 18	337	386
CESANO MADERNO	Corso Roma, 15	692	807
CHIAVARI	Piazza Matteotti	68	947
CINISELLO BALSAMO	Via Frova, 1	729	840
CINISELLO BALSAMO	Piazza Gramsci	26	14
COLOGNO MONZESE	Via Cavallotti, 10	128	44
COMO	Via Garibaldi, angolo Via Varese	548	2,155
CUSANO MILANINO	Viale Matteotti, 39	522	634
DESIO	Piazza Conciliazione, 1	1,694	1,924
DESIO	Via Rovagnati, 1	20,032	27,389
DESIO	Via Volta, 96	238	544
GARBAGNATE	Via Varese, 1	400	1,108
GIUSSANO	Via Addolorata, 5	728	857
LECCO	Via Volta, ang. Via Montello	615	1,595
LEGNANO	Corso Italia, 8	1,545	2,480
LISSONE	Via San Carlo, 23	583	1,228
MEDA	Via Indipendenza, 60	678	738
MILAN	Via della Posta, 8	1,912	7,448
MILAN	Via Foppa	223	745
MILAN	Via Menotti	825	2,765
MILAN	Via Moscova, 30/32	668	5,001
MILAN	Via Trau', 3	422	1,936
MILAN	Piazza De Angeli, 7/9	385	2,042
MISINTO	Piazza Mosca, 3	330	336
MODENA	Via Saragozza, 130	720	3,957
MONZA	Corso Milano, 47	453	807
MONZA	Via Rota, 66	330	502
MONZA	Piazza S. Paolo, 5	496	3,482

Location of the property		surface area of office space (sqm)	Net carrying amount (in thousands of Euro)
NOVA MILANESE	Piazza Marconi, 5	526	626
NOVATE MILANESE	Via Matteotti, 7	462	629
ORIGGIO	Largo Croce, 6	574	704
PADUA	Via Matteotti, 20	550	3,261
PALAZZOLO MILANESE	Via Monte Sabotino, 1	605	609
PIACENZA	Via Vittorio Veneto,67/a	486	1,332
REGGIO EMILIA	Via Terrachini, 1	713	2,460
RENATE	Piazza don Zanzi, 2	429	593
RHO	Via Martiri Libertà, 3	410	688
RUBIERA	Via Emilia Ovest, 7	310	1,292
SARONNO	Via Rimembranze, 42	530	708
SEGRATE	Via Cassanese, 200	170	271
SEREGNO	Via Trabattoni, 40	1,233	1,962
SESTO SAN GIOVANNI	Piazza Oldrini	377	724
SEVESO	Via Manzoni, 9	382	985
SOVICO	Via Frette, 10	673	987
TURIN	Via Filadelfia, 136	370	1,610
VAREDO	Via Umberto I°, 123	501	482
VEDUGGIO	Via Vittorio Veneto, 51	257	221
VERANO BRIANZA	Via Preda, 17	322	357
VERANO BRIANZA	Via Furlanelli, 3	790	648
VIGEVANO	Via Decembrio, 21	480	1,896
VIMERCATE	Via Milano, 6	338	880
AMELIA	Via Orvieto, 14	204	151
ASSISI	Piazza Santa Chiara, 19	464	685
BEVAGNA	Corso Matteotti, 36/38	103	144
CASCIA	Piazza G. Garibaldi, 1	372	195
CORCIANO	Via Gramsci	290	192
EMPOLI	Via Busoni, 83/97	578	1,500
FOLIGNO	Via Cesare Battisti, 2	2,280	1,778
NORCIA	Corso Sertorio, 5	259	274
PERUGIA	C.so Vannucci, 30	901	1,785
PERUGIA	Via delle Marche, 26	113	121
PERUGIA	Via Tagliapietra	518	478
PERUGIA	Via Settevalli, 175	521	1,430
ROME PRATI FISCALI	Via Val Maggia, 135	197	1,837
SCHEGGINO	Piazza del Mercato, 1	170	138
SPOLETO	Piazza Pianciani	8,423	19,126
SPOLETO	Via G. Marconi, 220	189	138
SPOLETO	Via Nursina, 1	815	945
SPOLETO	Viale Trento e Trieste	3,793	2,442
TERNI	Corso del Popolo, 45	1,895	2,621
TERNI	Via del Rivo, 104/F	180	190
TREVI	Piazza Garibaldi, 7	703	364

Sub total		**79,673**	**154,380**
Investment property			
MEDA parking space	Via Indipendenza, 60	15	6
MILAN	1st floor Via Trau', 3	205	1,013
MONZA	Via Manzoni, 37	397	684
FOLIGNO	Via Velino, 2	168	83
Sub total		**785**	**1,786**
Total		**80,458**	**156,166**

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

(amounts in Euro)

	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
LEGNANO, Corso Italia			176,676			176,676
SOVICO, Piazza E. Frette			62,703			62,703
Total	**10,170**	**985,736**	**7,834,637**	**1,491,970**	**68,702**	**10,391,215**

Section 9 - Intangible assets - caption 90

9.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2019		31.12.2018	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		**9,796**		**1,729**
A.2 Other intangible assets	**1,655**	**-**	**1,061**	**-**
A.2.1 Carried at cost	1,655	-	1,061	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	1,655	-	1,061	-
A.2.2 Carried at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**1,655**	**9,796**	**1,061**	**1,729**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 11,118 thousand.

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 31 December 2016.

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

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

a) Criterion to estimate the recoverable amount (impairment)

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

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

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

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

Cash flows

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

Discount rate

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

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

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

Terminal Value

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

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

b) Parameters used for impairment testing

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

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

(*) Considering the change in forecast cash flows, the 2020 budget approved by the Board of Directors on 6 February 2020, and the projection of results until 2024 by management.

(**) Overall Capital Requirement Tier 1 ratio assigned with the last SREP measure (previously 8.50% Common Equity Tier 1 to Risk Weighted Assets (RWA))

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

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

c) Sensitivity analysis

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

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

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

9.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		LIM	UNLIM	LIM	UNLIM	
A. Opening balance	**3,458**	**-**	**-**	**10,686**	**-**	**14,144**
A.1 Total net write-downs	(1,729)	-	-	(9,625)	-	(11,354)
A.2 Net opening balance	**1,729**	**-**	**-**	**1,061**	**-**	**2,790**
B. Increases	**8,067**	**-**	**-**	**1,377**	**-**	**9,444**
B.1 Purchases	8,067	-	-	1,377	-	9,444
- of which: business combinations	8,067	-	-	260	-	8,327
B.2 Increases in internally generated intangible	X	-	-	-	-	-
B.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	**-**	**-**	**-**	**783**	**-**	**783**
C.1 Sales	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Write-downs	-	-	-	783	-	783
- Amortisation	X	-	-	783	-	783
- 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	**9,796**	**-**	**-**	**1,655**	**-**	**11,451**
D.1 Total net write-downs	(2,144)	-	-	(17,218)	-	(19,362)
E. Gross closing balance	**11,940**	**-**	**-**	**18,873**	**-**	**30,813**
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

10.1 Deferred tax assets: breakdown

	IRES	IRAP	31.12.2019	31.12.2018
A) With contra-entry to the income statement:				
Tax losses				
Tax deductible goodwill	3,725	754	4,479	2,689
Write-down of loans to customers deductible on a straight-line basis	154,322	21,461	175,783	98,306
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994				
Statutory depreciation of property, plant and equipment	347		347	197
Provision for guarantees and commitments	752		752	162
Provisions for personnel costs	3,121	439	3,560	4,102
Provision for lawsuits	2,581	47	2,628	1,577
Provision for claw-backs	202	41	243	112
Provision for sundry charges	553		553	273
Tax provision for termination indemnities				289
Other general expenses deductible in the following year				
Other	796	505	1,301	390
Total A	**166,704**	**23,247**	**189,951**	**108,402**
B) With contra-entry to shareholders' equity:				
Cash-flow hedges	1,082	219	1,301	
Write-down of securities classified at FVOCI	1	5	6	7
Tax deductible goodwill	87	18	105	
Tax provision for termination indemnities	990		990	113
Other				1,361
Total B	**2,160**	**242**	**2,402**	**1,481**
Total (A+B)	**168,864**	**23,489**	**192,353**	**109,883**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 196,849 thousand.

Probability test on deferred tax assets

In relation to the deferred tax assets described above, it should be noted that they refer for Euro 150,876 thousand to taxes as per Law 214/2011, which made it certain that they would be recovered, thereby making the IAS 12 probability test automatically satisfied.

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

The additional deferred tax assets described above, which are outside the scope of Law 214/2011, have been recognised in view of the probability of their recovery, expecting there to be sufficient taxable income in the future to recover these assets. In particular, deferred tax assets have been analysed by type and by the timing of the reversal of the related temporary differences, considering the future profitability of the Bank and the taxable income forecast in the business plan from now until 2024, as discussed in greater detail in the section about the impairment tests on goodwill and equity investments. 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	31.12.2019	31.12.2018
A) With contra-entry to the income statement:				
Tax depreciation of buildings	6,686	871	7,557	7,559
Tax depreciation of property, plant and equipment		16	16	16
Tax amortisation of goodwill	476	96	572	571
Tax amortisation of deferred charges (software)				
Tax provision as per art. 106, paragraph 3				
PPA of loans and receivables	1,958	397	2,355	
PPA of depreciation and amortisation	846	168	1,014	
Other	719	21	740	443
	10,685	**1,569**	**12,254**	**8,589**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	526	106	632	606
Revaluation of securities classified at FVOCI	791	160	951	487
Revaluation of equity investments	376	1,523	1,899	1,353
Revaluation of artworks	66	13	79	
Total B	**1,759**	**1,802**	**3,561**	**2,446**
Total (A+B)	**12,444**	**3,371**	**15,815**	**11,035**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 16,709 thousand.

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

	31.12.2019	31.12.2018
1. Opening balance	**108,402**	**104,396**
2. Increases	**90,473**	**9,354**
2.1 Deferred tax assets recognised during the year	3,832	3,285
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	3,832	3,285
2.2 New taxes or increases in tax rates		
2.3 Other increases	86,641	6,069
of which: business combinations	*86,262*	
3. Decreases	**8,924**	**5,348**
3.1 Deferred tax assets cancelled in the year	8,633	5,348
a) reversals	8,633	5,348
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases	291	
a) Conversion to tax credits as per L. 214/2011		
b) Other	291	
of which: business combinations		
4. Closing balance	**189,951**	**108,402**

The deferred tax assets recognised during the year mainly comprised:

- Euro 3,342 thousand relating to non-deductible provisions to risks and charges and employee related provisions;
- Euro 168 thousand for non-deductible provisions for legal disputes and bankruptcy clawback actions.

Caption "2.3 Other increases" essentially refers to deferred tax assets of the former Banca Popolare di Spoleto S.p.A. (shown under "business combinations").

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

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

	31.12.2019	31.12.2018
1. Opening balance	**93,716**	**93,716**
2. Increases	**57,160**	
of which: business combinations	57,160	
3. Decreases		
3.1 Reversals		
3.2 Conversion to tax credits		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other decreases		
of which: business combinations		
4. Closing balance	**150,876**	**93,716**

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

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

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

	31.12.2019	31.12.2018
1. Opening balance	**8,589**	**8,965**
2. Increases	**5,111**	**281**
2.1 Deferred tax liabilities recognised during the year	8	
a) relating to prior years		
b) due to changes in accounting policies		
c) other	8	
2.2 New taxes or increases in tax rates		
2.3 Other increases	5,103	281
of which; business combinations	*876*	
3. Decreases	**1,447**	**657**
3.1 Deferred tax liabilities cancelled during the year	1,156	
a) reversals	1,156	657
b) due to changes in accounting policies		
c) other	291	
3.2 Reduction in tax rates		
3.3 Other decreases		
of which; business combinations		
4. Closing balance	**12,253**	**8,589**

Caption "2.3 Other increases" mainly refers to the reclassification of deferred tax liabilities of Banca Popolare di Spoleto S.p.A. (shown under "business combinations").

Deferred tax liabilities cancelled during the year are mainly attributable:

- for Euro 847 thousand to the economic effects linked to the PPA (purchase price allocation) which emerged in the separate financial statements of Banco Desio as a result of the merger;
- for Euro 296 thousand to the share of capital gains realised on financial assets in 2015, 2016 and 2017, deductible on a straight-line basis over the following four years in accordance of art. 86.4 of TUIR (Consolidated Income Tax Act).

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

	31.12.2019	31.12.2018
1. Opening balance	**1,481**	**4,159**
2. Increases	**941**	**234**
2.1 Deferred tax assets recognised during the year	237	234
a) relating to prior years		
b) due to changes in accounting policies		
c) other	237	234
2.2 New taxes or increases in tax rates		
2.3 Other increases	704	
of which: business combinations	*704*	
3. Decreases	**20**	**2,912**
3.1 Deferred tax assets cancelled in the year	20	236
a) reversals	20	236
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
of which: business combinations		
4. Closing balance	**2,402**	**1,481**

Deferred tax assets recognised during the year are attributable to:

- for Euro 183 thousand to the actuarial measurement of the Provision for termination indemnities;
- for Euro 54 thousand to the change in the reserve for cash-flow hedges.

Caption "2.3 Other increases" refers to the deferred tax assets of the former Banca Popolare di Spoleto S.p.A. (shown under "business combinations").

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

	31.12.2019	31.12.2018
1. Opening balance	**2,446**	**3,378**
2. Increases	**1,507**	**1,784**
2.1 Deferred tax liabilities recognised during the year	936	334
a) relating to prior years		
b) due to changes in accounting policies		
c) other	936	334
2.2 New taxes or increases in tax rates		
2.3 Other increases	571	
of which: business combinations	*571*	1,450
3. Decreases	**391**	**2,716**
3.1 Deferred tax liabilities cancelled during the year	391	2,473
a) reversals	391	2,473
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		243
of which: business combinations		
4. Closing balance	**3,562**	**2,446**

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

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

Caption "2.3 Other increases" mainly refers to the deferred tax liabilities of the former Banca Popolare di Spoleto S.p.A. (shown under "business combinations").

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

10.7 Other information

Current tax assets

Captions	31.12.2019	31.12.2018
Ires	1,640	2,021
Irap	5,857	6,068
Total	**7,497**	**8,089**

Section 12 - Other assets – caption 120

12.1 Other assets: breakdown

	31.12.2019	31.12.2018
Tax credits		
- capital	10,521	7,088
- interest		
Amounts recoverable from the tax authorities for advances paid	26,276	20,807
Withholding tax credits		
Cheques negotiated to be cleared	19,490	12,038
Guarantee deposits		
Invoices issued to be collected	631	676
Debtors for securities and coupons to be collected by third parties		19
Printer consumables and stationery		
Items being processed and in transit with branches	20,810	12,841
Currency spreads on portfolio transactions	614	19
Investments of the supplementary fund for termination indemnities	170	180
Leasehold improvement expenditure	9,682	8,514
Accrued income and prepaid expenses	2,261	1,684
Other items	39,322	19,326
Total	**129,777**	**83,192**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 130,800 thousand.

The "Tax credits" caption mainly relates to:

- the reimbursement requested by Banco Desio in 2012 regarding the deductibility from Ires and of the Irap due on the payroll costs of employees and similar personnel. Decree Law 201/2011 provided for the deductibility of IRAP related to payroll costs for IRES purposes, from 2012, and established that this deduction could be claimed by requesting a reimbursement of higher taxes paid, also in previous tax years;
- for Euro 1,677 thousand, to the VAT credit of the Banco Desio Group;
- for Euro 1,127 thousand, to the credit linked to management of the reconstruction loans disbursed after the 2009 earthquake in Abruzzo.

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

- a receivable for virtual stamp duty of Euro 20,477 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 5,799 thousand, as per art. 2, para. 5, of Legislative Decree no. 133 of 30 November 2013.

The "Items being processed and in transit with branches" principally include cheques being processed, Euro 1,581 thousand; the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 1,864 thousand di euro, and the recovery of commissions on lines of credit made available to customers, Euro 8,276 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new year.

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

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

"Accrued income and prepaid expenses" include amounts that are not attributable to specific asset captions; this caption mainly relates to prepaid administrative costs.

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

- commissions and taxes awaiting collection for Euro 15,459 thousand;
- invoices to be issued for Euro 5,397 thousand;
- Euro 402 thousand due following currency transactions;
- Euro 155 thousand due from Fides for services provided.

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - caption 10

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

Type of transaction/Amounts	31.12.2019				31.12.2018			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**1,579,967**	X	X	X	**1,586,367**	X	X	X
2. Due to banks	**23,241**	X	X	X	**82,730**	X	X	X
2.1 Current accounts and demand deposits	10,948	X	X	X	29,960	X	X	X
2.2 Time deposits	3,444	X	X	X	34,062	X	X	X
2.3 Loans	8,849	X	X	X	18,708	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	8,849	X	X	X	18,708	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Finance lease payables	-	X	X	X	-	X	X	X
2.6 Other payables	-	X	X	X	-	X	X	X
Total	**1,603,208**	**-**	**-**	**1,603,208**	**1,669,097**	**-**	**-**	**1,669,097**

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

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 1,620,824 thousand.

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).

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

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

Type of transaction/Amounts	31.12.2019				31.12.2018			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	8,374,021	X	X	X	5,299,446	X	X	X
2. Time deposits	1,002,203	X	X	X	629,817	X	X	X
3. Loans	40,373	X	X	X	-	X	X	X
3.1 Repurchase agreements	-	X	X	X	-	X	X	X
3.2 Other	40,373	X	X	X	-	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Finance lease payables	51,199	X	X	X	-	X	X	X
6. Other payables	31,058	X	X	X	35,638	X	X	X
Total	**9,498,854**	**-**	**-**	**9,498,854**	**5,964,901**	**-**	**-**	**5,964,901**

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

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 9,253,258 thousand.

The main components of "Other payables" relate to: cashier's cheques for Euro 30,480 thousand and cheques for Euro 546 thousand. The heading "5. Finance lease payables" shows, in application of IFRS 16 in force from 1 January 2019, the lease liability, consisting of the current value of the payments which still have to be paid to the lessor at the reporting date.

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

Type of security/Amounts	31.12.2019				31.12.2018			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	1,734,567	-	1,736,955	-	1,330,336	-	1,329,907	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,734,567	-	1,736,955	-	1,330,336	-	1,329,907	-
2. other securities	14,536	-	-	14,537	8,518	-	-	8,518
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	14,536	-	-	14,537	8,518	-	-	8,518
Total	**1,749,103**	**-**	**1,736,955**	**14,537**	**1,338,854**	**-**	**1,329,907**	**8,518**

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

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 1,426,213 thousand.

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

The caption "A.1.2 Bonds: other" includes the Guaranteed Bank Bonds (GGB) issued for Euro 1,075 million.

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, with a short term maturity.

1.4 Details of subordinated payables/securities

Bonds	Issue date	Maturity date	Currency	Interest rate	31.12.2019	31.12.2018
ISIN code IT0005038085	28.08.2014	28.08.2019	EUR	FR	-	50,262
ISIN code IT0005070179	22.12.2014	22.12.2019	EUR	FR	-	49,935
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,938	79,939
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	50,067	50,069
Total					**130,005**	**230,205**

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	31.12.2019					31.12.2018				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	X	-	6,874	1,264	X	X	-	-	2,832	X
1.1 For trading	X	-	6,874	1,264	X	X	-	-	2,832	X
1.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**6,874**	**1,264**	**X**	**X**	**-**	**-**	**2,832**	**X**
Total (A+B)	**X**	**-**	**6,874**	**1,264**	**X**	**X**	**-**	**-**	**2,832**	**X**

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

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 6,047 thousand.

Section 4 - Hedging derivatives - caption 40

4.1 Hedging derivatives: breakdown by type and level

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

Key
NV = nominal value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 5,176 thousand.

Section 6 - Tax liabilities - caption 60

The breakdown and changes in the year of tax liabilities are disclosed in Section 13, Assets, together with information on deferred tax assets

Section 8 - Other liabilities - caption 80

8.1 Other liabilities: breakdown

	31.12.2019	31.12.2018
Due to tax authorities	573	155
Amounts payable to tax authorities on behalf of third parties	25,914	16,199
Social security contributions to be paid	6,488	3,222
Dividends due to shareholders	14	4
Suppliers	23,747	11,583
Amounts available to customers	14,859	10,262
Interest and dues to be credited	19	126
Payments against bill instructions	157	97
Early payments on loans not yet due	32	5
Items being processed and in transit with branches	25,603	13,396
Currency differences on portfolio transactions	104,980	59,354
Due to personnel	13,052	6,886
Sundry creditors	65,891	48,800
Provisions for guarantees given and commitments		
Accrued expenses and deferred income	1,649	679
Total	**282,978**	**170,768**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 268,427 thousand.

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

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

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

The amount of "Currency differences on portfolio transactions" is the result of the offset of illiquid liability positions against illiquid asset positions, in relation to various types of transactions in connection with the accounts of customers and of correspondent banks.

"Due to personnel" includes the payable relating to early retirement incentives of Euro 11,238 thousand and the amount due for holiday pay of Euro 1,813 thousand.

The main items included under caption "Sundry creditors" refer to: bank transfers being processed of Euro 58,019 thousand, the amounts collected to be attributed to loans for Euro 2,569 thousand, sundry creditors arising from currency trading of Euro 510 thousand and creditors for bills paid of Euro 612 thousand.

Section 9 - Provision for termination indemnities - caption 90

9.1 Provision for termination indemnities: changes during the year

	31.12.2019	31.12.2018
A. Opening balance	**17,511**	**20,019**
B. Increases	**8,385**	**166**
B.1 Provision for the year	208	166
B.2 Other changes	8,177	-
C. Decreases	**(656)**	**(2,674)**
C.1 Payments made	(656)	(2,289)
C.2 Other changes	-	(385)
D. Closing balance	**25,240**	**17,511**
Total	**25,240**	**17,511**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 24,957 thousand.

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 Euro 10,827 thousand, 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 Euro 22,995 thousand.

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 stated 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 the first of the pension requirements valid for compulsory social security insurance reached;
- 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 0.31%
- annual inflation rate 1.00%
- total annual income growth rate 2.50%
- termination indemnity annual growth rate 2.25%.

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

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

	Increase in parameter (+)	Decrease in parameter (-)
Annual discounting rate (+/- 0.25%)	24,823	25,670
Annual inflation rate (+/- 0.25%)	25,483	25,001
Annual turn over rate (+/- 2.00%)	24,996	25,529

Section 10 - Provisions for risks and charges - caption 100

10.1 Provisions for risks and charges: breakdown

Captions/Amounts	Total 31.12.2019	Total 31.12.2018
1. Credit risk provisions relating to commitments and financial guarantees given	2,734	589
2. Provisions for other commitments and other guarantees given		-
3. Pensions and similar commitments	-	-
4. Other provisions for risks and charges	25,892	20,686
4.1 legal and tax disputes	10,119	6,070
4.2 personnel expenses	11,851	13,050
4.3 other	3,922	1,566
Total	**28,626**	**21,275**

The pro-forma balance of the comparative period, calculated as though the merger had already been completed, would have been Euro 36,289 thousand.

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".

Charges for "legal disputes" include provisions made in the year for expected losses of Euro 9,385 thousand, arising from legal disputes and of Euro 734 thousand from bankruptcy clawback actions.

"Personnel expenses" mainly include estimated liabilities regarding the bonus system, Euro 8,045 thousand and the long-service and additional holiday awards, Euro 3,636 thousand.

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 for risks and charges	Total
A. Opening balance	**589**	**20,686**	**21,275**
B. Increases	**2,145**	**23,806**	**25,951**
B.1 Provision for the year	368	10,477	10,845
B.2 Changes due to the passage of time		106	106
B.3 Changes due to changes in the discount rate			
B.4 Other changes	1,777	13,223	15,000
C. Decreases		**18,600**	**18,600**
C.1 Utilisations during the year		9,598	9,598
C.2 Changes due to changes in the discount rate			
C.3 Other changes	-	9,002	9,002
D. Closing balance	**2,734**	**25,892**	**28,626**

Caption "B.4 Other changes" of "Provisions for other commitments and other guarantees given" refers to the calculation of the expected loss defined by adopting "IFRS 9 Financial Instruments", 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 7,972 thousand,
- for other operational risks, including the provisions related to the indemnities to be paid to financial advisors, for Euro 1,919 thousand,
- charges for legal disputes and bankruptcy of Euro 586 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 duringthe 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 1,610 thousand, payments relating to the bonus fund, Euro 7,972 thousand, and to operational risks, Euro 169 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	98	27	-	125
2. Financial guarantees given	277	440	1,892	2,609
Total	**375**	**467**	**1,892**	**2,734**

10.5 Pensions and similar commitments - defined benefits

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

10.6 Provisions for risks and charges: other provisions

	31.12.2019	31.12.2018
Legal disputes	10,119	6,070
Other operating risks	3,922	1,566
Solidarity fund	-	5,318
Long-service bonuses and additional holidays	3,636	2,385
Other employee related provisions	8,215	5,347
Total	**25,892**	**20,686**

Section 11 - Redeemable shares - caption 120

Banco Desio does not have this type of shares.

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

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

	31.12.2019	31.12.2018
A. Share capital	70,693	67,705
A.1 Ordinary shares	63,828	60,840
A.2 Savings shares	6,865	6,865
A.3 Preference shares		
B. Treasury shares		
B.1 Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	70,693	67,705

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

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

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

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

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

Captions/Type	Ordinary	Other
A. Shares at the beginning of the year	**117,000,000**	**13,202,000**
- fully paid	117,000,000	13,202,000
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares in circulation: opening balance	**117,000,000**	**13,202,000**
B. Increases	**5,745,289**	
B.1 New issues		
- for payment		
- business combination	5,745,289	
- conversion of bonds		
- exercise of warrant		
- other		
- bonus issues		
- in favour of employees		
- in favour of directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Business sale transactions		
C.4 Other changes		
D. Shares in circulation: closing balance	**122,745,289**	**13,202,000**
D.1 Treasury shares (+)		
D.2 Shares at the end of the year		
- fully paid		
- not fully paid		

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.

	31.12.2019	Possible uses		Unrestricted portion	Uses in the last three years	
					Loss coverage	Other uses
Share capital	70,693					
Share premium reserve	16,145	A,B,C	(1)	16,145		
Legal reserve	98,312	A, B	(2)			
Statutory reserve	566,386	A,B,C		566,386		
Reserves for intercompany transactions	8,313	A, B	(3)			
Valuation reserves:						
- financial assets available for sale	27,017		(4)			
- property, plant and equipment	161					
- actuarial measurement of provision for termination indemnities	(3,505)		(4)			
- special revaluation laws	22,369	A,B	(5)			
- revaluation reserve Law 413/1991	697	A,B,C		697		
- exchange differences	-					
- cash-flow hedges	(1,355)		(4)			
IAS transition reserve	121,936		(6)			
Reserves for FTA IFRS 9	- 18,972		(6)			
Charity reserve	130		(7)			225
Other	3,657	A,B,C		3,657		
Total	**911,984**			**586,885**		**225**

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 envisaged in 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			31.12.2019
	First stage	Second stage	Third stage	
Commitments to disburse funds	**2,892,266**	**40,977**	**22,812**	**2,956,055**
a) Central banks	-	-	-	-
b) Public administrations	17,407	-	-	17,407
c) Banks	9,503	938	-	10,441
d) Other financial companies	101,479	3,592	6	105,077
e) Non-financial companies	2,576,489	30,593	22,062	2,629,144
f) Households	187,388	5,854	744	193,986
Financial guarantees given	**36,834**	**3,014**	**569**	**40,417**
a) Central banks	-	-	-	-
b) Public administrations	6	-	-	6
c) Banks	2,508	-	-	2,508
d) Other financial companies	276	-	-	276
e) Non-financial companies	30,231	2,325	528	33,084
f) Households	3,813	689	41	4,543

2. Other commitments and other guarantees given

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

3. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31/12/2019	31/12/2018
1. Financial assets designated at fair value through profit or loss	-	-
2. Financial assets designated at fair value through other comprehensive income	-	-
3. Financial assets measured at amortised cost	3,932,808	2,845,492
4. Property, plant and equipment	-	-
of which: tangible fixed assets that constitute inventories	-	-

Caption "3. Financial assets measured at amortised cost" includes loans transferred to the SPV Desio OBG Srl consisting of assets suitable for the issue of Covered Bonds (GBB) and the collateralised loans with the ECB through the A.Ba.Co. procedure.

4. Administration and trading on behalf of third parties

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

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

Technical forms		Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e)	Net amount
					Financial instruments (d)	Cash deposits posted as collateral (e)	31.12.2019	31.12.2018
1. Derivatives		9,031	-	9,031	6,290	1,470	1,271	(395)
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other transactions		-	-	-	-	-	-	-
Total	**31.12.2019**	**9,031**	**-**	**9,031**	**6,290**	**1,470**	**1,271**	
Total	**31.12.2018**	**2,055**	**-**	**2,055**	**-**	**2,450**		**(395)**

Table 6 shows the negative fair values (column (a) "Gross amount of financial liabilities" 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, were taken into account:

- 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	31.12.2019	31.12.2018
1. Financial assets designated at fair value through profit or loss:	**415**	**-**	**-**	**415**	**30**
1.1 Financial assets held for trading	4	-	-	4	30
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	411	-	-	411	-
2. Financial assets designated at fair value through other comprehensive income	**2,082**	**-**	**X**	**2,082**	**4,681**
3. Financial assets measured at amortised cost:	**13,040**	**216,877**	**X**	**229,917**	**148,087**
3.1 Due from banks	2,701	661	X	3,362	5,129
3.2 Loans to customers	10,339	216,216	X	226,555	142,958
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**8**	**8**	**1**
6. Financial liabilities	**X**	**X**	**X**	**6,400**	**4,240**
Total	**15,537**	**216,877**	**8**	**238,822**	**157,039**
of which: interest income on impaired financial assets	-	4,788	-	4,788	3,139
of which: interest income from finance leases	-	2,769	-	2,769	-

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances and the economic effects of the purchase price allocation (PPA), would be Euro 248,147 thousand.

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

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

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

The item includes interest paid on loans from the subsidiary Fides S.p.A. for a total of Euro 15,488 thousand.

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Captions	31.12.2019	31.12.2018
Interest income on financial assets in foreign currency	1,817	1,570

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 Euro 2,769 thousand (Euro 3,910 thousand last year); of this, Euro 2,590 thousand relates to index-linked contracts, of which Euro 160 thousand relates to leaseback agreements (in 2018 Euro 3,406 thousand related to index-linked contracts, of which Euro 217 thousand related to leaseback agreements).

Financial income of competence ofsubsequent years amounts to Euro 28,562 thousand, of which Euro 2,130 thousand relates to leaseback agreements (last year Euro 36,305 thousand and Euro 3,111 thousand, respectively).

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2019	31.12.2018
1. Financial liabilities measured at amortised cost	(17,220)	(17,165)	X	(34,385)	(29,184)
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(1,009)	X	X	(1,009)	(946)
1.3 Due to customers	(16,211)	X	X	(16,211)	(7,487)
1.4 Debt securities in issue	X	(17,165)	X	(17,165)	(20,751)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	(167)	(167)	(228)
5. Hedging derivatives	X	X	(1,121)	(1,121)	(892)
6. Financial assets	X	X	X	(284)	(2,230)
Total	**(17,220)**	**(17,165)**	**(1,288)**	**(35,957)**	**(32,534)**
of which: interest expense relating to lease payables	(1,220)	-	-	(1,220)	-

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances and the economic effects of the purchase price allocation (PPA), would be Euro 43,647 thousand.

The caption includes interest payable to Group companies of Euro 6 thousand.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

Captions	31.12.2019	31.12.2018
Interest expense on foreign currency financial liabilities	(785)	(472)

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	**31.12.2019**	**31.12.2018**
A. Positive differentials on hedging transactions:	32	-
B. Negative differentials on hedging transactions:	(1,153)	(892)
C. Balance (A-B)	**(1,121)**	**(892)**

Section 2 - Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2019	31.12.2018
a) guarantees given	2,618	1,913
b) credit derivatives	-	-
c) management, brokerage and consulting services:	67,795	46,284
1. trading in financial instruments	-	-
2. trading in foreign exchange	1,009	1,190
3. portfolio management	7,358	5,298
4. custody and administration of securities	1,519	1,226
5. custodian bank	-	-
6. placement of securities	24,066	15,821
7. order taking	5,392	4,307
8. advisory services	-	-
8.1. regarding investments	-	-
8.2. regarding financial structuring	-	-
9. distribution of third-party services	28,451	18,442
9.1. asset management	399	410
9.1.1. individual	399	410
9.1.2. collective	-	-
9.2. insurance products	19,744	14,568
9.3. other products	8,308	3,464
d) collection and payment services	29,232	18,564
e) servicing related to securitisation	45	-
f) services for factoring transactions	114	110
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	73,412	45,170
j) other services	7,749	5,514
Total	**180,965**	**117,555**

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances, would be Euro 177,802 thousand.

The commissions paid by the subsidiary Fides S.p.A. amount to Euro 1,912 thousand.

Commissions for "other services" include recoveries of expenses on customer collection and payments for Euro 2,168 thousand, fees for the Internet banking service of Euro 1,637 thousand and recoveries of expenses on mortgage instalments for Euro 1,482 thousand.

2.2 Fee and commission income: product and service distribution channels

Channels/Amounts	31.12.2019	31.12.2018
a) at own branches:	59,875	39,561
1. asset management	7,358	5,298
2. placement of securities	24,066	15,821
3. distribution of third-party services and products	28,451	18,442
b) doorstep banking:	-	-
1. asset management	-	-
2. placement of securities	-	-
3. distribution of third-party services and products	-	-
c) other distribution channels:	-	-
1. asset management	-	-
2. placement of securities	-	-
3. distribution of third-party services and products	-	-

2.3 Commission expense: breakdown

Services/Amounts	31.12.2019	31.12.2018
a) Guarantees received	(458)	(437)
b) credit derivatives	-	-
c) management and brokerage services:	(3,138)	(950)
1. trading in financial instruments	(94)	(45)
2. trading in foreign exchange	-	-
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 portfolios managed by third parties	-	-
4. custody and administration of securities	(1,335)	(843)
5. placement of financial instruments	-	(16)
6. offer of securities, financial products and services through financial promoters	(1,709)	(46)
d) collection and payment services	(3,050)	(2,035)
e) other services	(2,722)	(1,620)
Total	**(9,368)**	**(5,042)**

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances, would be Euro 9,030 thousand.

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

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2019		31.12.2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	82	0	102	0
B. Other financial assets that have to be measured at fair value	0	0	0	0
C. Financial assets valued at fair value through other comprehensive income	1,014	0	2,339	0
D. Equity investments	5,740	0	8,100	0
Total	**6,836**	**0**	**10,541**	**0**

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances, would be Euro 8,962 thousand.

In addition to the dividends received from subsidiaries, the table shows dividend income from non-controlling interests classified as "*Financial assets designated at fair value through other comprehensive income*" and dividends relating to equity instruments classified as "*Financial assets held for trading*".

Dividends collected on equity investments, as in caption "D. Equity investments", refer to Fides (Euro 5,766 thousand at the end of the previous year).

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	**139**	**908**	**(219)**	**(160)**	**668**
1.1 Debt securities	-	25	(22)	(2)	1
1.2 Equity instruments (other than banking investments)	128	756	(84)	(102)	698
1.3 Mutual funds	11	8	(113)	-	(94)
1.4 Loans	-	-	-	-	-
1.5 Other	-	119	-	(56)	63
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**3,213**
4. Derivatives	**375**	**3,221**	**(971)**	**(3,662)**	**(1,067)**
4.1 Financial derivatives:	375	3,221	(971)	(3,662)	(1,067)
- On debt securities and interest rates	289	1,447	(956)	(1,589)	(809)
- On equities and equity indices	86	1,771	(15)	(2,073)	(231)
- On currency and gold	X	X	X	X	(30)
- Other	-	3	-	-	3
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**514**	**4,129**	**(1,190)**	**(3,822)**	**2,814**

The captions "1. Financial assets held for trading" and "4. Derivatives" include income from financial assets held for trading, with the exception of derivatives used to hedge financial instruments for which the fair value option was adopted and for which the measurement results are shown in the table "Net change in value of financial assets and liabilities designated at fair value".

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

The caption includes net hedging gains (losses). The various sub-captions indicate income components arising from the measurement process for hedged assets and liabilities – bonds issued by the Bank – as well as from the related hedging derivatives.

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances, would be positive for Euro 58 thousand.

Section 6 - Gains (losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	31.12.2019			31.12.2018		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	8,374	(9,081)	(707)	3,893	(17,505)	(13,612)
1.1 Due from banks	148	-	148	-	-	-
1.2 Loans to customers	8,226	(9,081)	(855)	3,893	(17,505)	(13,612)
2. Financial assets designated at fair value through other comprehensive income	2,037	(272)	1,765	13,307	(1,331)	11,976
2.1 Debt securities	2,037	(272)	1,765	13,307	(1,331)	11,976
2.2 Loans	-	-	-	-	-	-
Total assets	**10,411**	**(9,353)**	**1,058**	**17,200**	**(18,836)**	**(1,636)**
Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	28	(184)	(156)	83	(395)	(312)
Total liabilities	**28**	**(184)**	**(156)**	**83**	**(395)**	**(312)**

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances, would be negative for Euro 14,737 thousand.

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

The caption "1.2. Loans to customers" also includes the net gain (loss) on disposal of doubtful loans.

The caption "2. Financial assets designated at fair value through other comprehensive income" includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect.

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

Section 7 - Net result of other 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	**379**	**1,835**	**(1,985)**	**-**	**229**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 Mutual funds	379	1,835	(1,985)	-	229
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**379**	**1,835**	**(1,985)**	**-**	**229**

This item consists of the result of financial instruments which, with the introduction of "IFRS 9 - Financial Instruments" from 1 January 2018, must be valued at fair value through profit or loss, even if they are not held for trading, as they fail to pass the SPPI test foreseen in the new standard. This item is made up mainly of mutual funds, which by their very nature do not have characteristics compatible with passing the test.

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

Section 8 - Adjustments for credit risk - caption 130

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

Transactions/Income components	Write-downs (1)			Write-backs (2)		31.12.2019	31.12.2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Due from banks	**-**	**-**	**-**	**788**	**-**	**788**	**(1,028)**
- loans	-	-	-	248	-	248	(359)
- debt securities	-	-	-	540	-	540	(669)
of which: non-performing loans acquired or originated	-	-	-	-	-	-	-
B. Loans to customers	**-**	**(5,396)**	**(79,017)**	**6,516**	**24,324**	**(53,573)**	**(37,398)**
- loans	-	(5,396)	(79,017)	3,735	24,324	(56,354)	(34,080)
- debt securities	-	-	-	2,781	-	2,781	(3,318)
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
Total	**-**	**(5,396)**	**(79,017)**	**7,304**	**24,324**	**(52,785)**	**(38,426)**

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances and the economic effects of the purchase price allocation (PPA), would be Euro 63,147 thousand.

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

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

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

- doubtful loans Euro 39,837 thousand
- "unlikely to pay" loans Euro 38,869 thousand
- past due loans Euro 311 thousand

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

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

- doubtful loans amortised in previous years and with actual recoveries higher than expected for Euro 900 thousand
- collections of loans previously written down for Euro 12,005 thousand
- write-backs for Euro 11,418 thousand.

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

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)		31.12.2019	31.12.2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Debt securities	(363)	-	-	462	-	99	386
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
Of which: impaired financial assets acquired or originated	-	-	-	-	-	-	-
Total	**(363)**	**-**	**-**	**462**	**-**	**99**	**386**

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances, would be positive for Euro 610 thousand.

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

Section 10 - Administrative costs - caption 160

10.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2019	31.12.2018
1) Employees	(165,014)	(105,061)
a) wages and salaries	(111,183)	(73,534)
b) social security charges	(29,519)	(19,249)
c) termination indemnities	-	-
d) pension expenses	-	-
e) provision for termination indemnities	(329)	(246)
f) provision for post-retirement benefits and similar commitments:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(10,827)	(7,481)
- defined contribution	(10,827)	(7,481)
- defined benefit	-	-
h) equity-based payments	-	-
i) other personnel benefits	(13,156)	(4,551)
2) Other active employees	(470)	(346)
3) Directors and auditors	(3,248)	(2,669)
4) Retired personnel	-	-
5) Recovery of cost of employees seconded to other companies	255	623
6) Reimbursement of cost of third-party employees seconded to the Company	(38)	(4,827)
Total	**(168,515)**	**(112,280)**

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances, would be Euro 165,919 thousand.

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 10.4 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

	31.12.2019	31.12.2018
1) Employees	**2,156**	**1,355**
a) managers	32	25
b) middle managers	1,037	747
c) other employees	1,087	583
2) Other personnel	**6**	**3**

10.4 Other personnel benefits

	31.12.2019	**31.12.2018**
Provision for sundry charges	(6,610)	(3,718)
Contributions to healthcare fund	(2,076)	(1,358)
Training and instruction costs	(1,260)	(344)
Rent expense of property used by employees	(299)	(223)
Redundancy incentives	(692)	2,313
Other	(2,219)	(1,221)
Total	**(13,156)**	**(4,551)**

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

10.5 Other administrative costs: breakdown

	31.12.2019	31.12.2018
Indirect taxes and duties:		
- Stamp duty	(28,055)	(17,957)
- Other	(4,099)	(3,960)
Other costs:		
- IT expenses	(21,313)	(10,897)
- Lease of property and other assets	(1,470)	(7,912)
- Maintenance of buildings, furniture and equipment	(7,554)	(4,457)
- Post office and telegraph	(2,204)	(1,376)
- Telephone and data transmission	(6,969)	(3,810)
- Electricity, heating, water	(4,008)	(2,630)
- Cleaning services	(1,336)	(848)
- Printed matter, stationery and consumables	(1,100)	(459)
- Transport costs	(1,108)	(642)
- Surveillance and security	(2,033)	(1,133)
- Advertising	(2,766)	(1,513)
- Information and surveys	(1,581)	(1,106)
- Insurance premiums	(1,002)	(652)
- Legal fees	(3,221)	(4,018)
- Professional consulting fees	(10,351)	(6,116)
- Various contributions and donations	(286)	(76)
- Sundry expenses	(18,833)	(10,783)
Total	**(119,289)**	**(80,345)**

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances, would be Euro 126,036 thousand.

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

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

Euro 4,682 thousand for the contribution to the Deposit Guarantee Scheme (DGS) for the year. "Lease of property and other assets" in the comparative period included the costs incurred on lease contracts which, from 1 January 2019, fall within the scope of IFRS 16 "Leases", with consequent recognition of the charges incurred during the period in item "20. Interest expense and similar charges" for Euro 1,220 thousand and item 180 "Net adjustments to property, plant and equipment" for Euro 10,413 thousand.

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

Type of services	Party which provided the service	Fees (in thousands of euro)
Audit	Deloitte & Touche S.p.A.	**408**
Attestation services	Deloitte & Touche S.p.A.	**117**
Other services:		
Risk Management and IFRS 9 Methodological Support	Deloitte Consulting S.r.l.	**304**
Risk Management Methodological Support	Deloitte Risk Advisory S.r.l.	**205**
CSR methodological support	Deloitte & Touche S.p.A.	**88**
Benchmarking of IT outsourcing contracts	Deloitte Consulting S.r.l.	**35**
Total		**1,157**

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 credit risk relating to commitments to disburse funds or financial guarantees given: breakdown

	Provision	Utilisations	31.12.2019	31.12.2018
Commitments for guarantees given	(1,814)	1,446	(368)	(99)
charges for legal disputes	(2,078)	2,836	758	(683)
Other	(485)		(485)	(457)
Total	**(4,377)**	**4,282**	**(95)**	**(1,239)**

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances and the economic effects linked to the purchase price allocation (PPA), would be negative for Euro 1,344 thousand.

The item "Commitments for guarantees given" represents the net provision for risks determined by applying the models for calculating the expected loss in accordance with "IFRS 9 Financial Instruments".

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 For business purposes	(17,604)	-	-	(17,604)
- Owned	(7,191)	-	-	(7,191)
- Rights of use acquired under lease	(10,413)	-	-	(10,413)
A.2 Investment property	(28)	-	-	(28)
- Owned	(28)	-	-	(28)
- Rights of use acquired under lease	-	-	-	-
A.3 Other	X	-	-	-
Total	**(17,632)**	**-**	**-**	**(17,632)**

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

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

Details, by asset category, of the impact on the income statement of adjustments to property, plant and equipment are shown in caption "C.2 Depreciation" of the table "9.5 and 9.6 Changes in the year" of Section 9, Assets.

Section 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)
A. Intangible assets				
A.1 Owned	(783)	-	-	(783)
- Generated internally	-	-	-	-
- Other	(783)	-	-	(783)
A.2 Rights of use acquired under lease	-	-	-	-
Total	**(783)**	**-**	**-**	**(783)**

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

	31.12.2019	31.12.2018
Amortisation of leasehold improvements	(2,076)	(1,041)
Losses on disposal of property, plant and equipment	(24)	
Charges on non-banking services	(836)	(371)
Total	**(2,936)**	**(1,412)**

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

14.2 Other operating income: breakdown

	31.12.2019	31.12.2018
Recovery of taxes from third parties	29,299	19,668
Recharge of costs of current accounts and deposits	4,342	4,234
Rental and leasing income	102	70
Other expense recoveries	3,641	3,294
Gains on disposal of property, plant and equipment	4	4
Other	2,750	6,380
Total	**40,138**	**33,650**

The "pro-forma" figure of the comparative period, made up as an aggregate between Banco Desio and the merged company BPS, taking into account the elimination of intra-group balances, would be Euro 39,187 thousand.

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

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

"Other expense recoveries" include, in particular, legal expenses relating to various doubtful loans of Euro 933 thousand, the recovery of investigation costs relating to various loans of Euro 1,929 thousand, recovery of costs of appraisals in connection with mortgage loans of Euro 177 thousand and the recovery of sundry expenses relating to lease applications of Euro 238 thousand.

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

Section 16 - Net gains (losses) arising from the fair value measurement of property, plant and equipment and intangible assets - caption 230

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

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

This item includes the negative revaluation of works of art following the change in the accounting method for the recognition and measurement of valuable artworks (governed by IAS 16 "Property, plant and equipment"). The change in question involved moving from the cost model to the revaluation model, i.e. recalculating the value at the next valuation date following initial recognition of artworks in order to bring their carrying amount into line with their current market values.

As required by the standard, the positive revaluation of this category of assets, equal to Euro 240 thousand before tax, was allocated, net of deferred tax, to a specific valuation reserve in equity.

Section 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 10 – Intangible assets", Assets.

Section 19 - Income taxes on current operations - caption 270

19.1 Income taxes on current operations: breakdown

Income items/Amounts	Total 31.12.2019	Total 31.12.2018
1. Current taxes (-)	(13,488)	(5,542)
2. Change in prior period income taxes (+/-)	174	10
3. Reduction in current taxes (+)	-	-
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(4,802)	(2,064)
5. Change in deferred tax liabilities (+/-)	1,148	657
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	(16,968)	(6,939)

Caption "2. Change in prior period income taxes" refers mainly to the recalculation, carried out for the purpose of the tax return, of current IRAP accrued to 31/12/2016, in relation to loans sold in 2016, for which adjustments and write-backs recorded in the income statement from 2008 to 2012 were not recognised for IRAP purposes at the time of their inclusion.

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

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

19.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	61,854		61,854	
Costs not deductible for IRAP purposes			27,387	
Revenue not taxable for IRAP purposes			(12,488)	
Sub total	61,854		76,753	
Theoretical tax charge 27.5% IRES - 5.57% IRAP		**(17,010)**		**(4,275)**
Temporary differences taxable in subsequent years	(28)		-	
Temporary differences deductible in subsequent years	12,154		8,782	
Reversal of prior year temporary differences	(24,140)		(15,058)	
Differences that will not reverse in subsequent years	(10,875)		(20,702)	
Taxable income	38,965		49,775	
Current taxes for the year 27.5% IRES - 5.57% IRAP		**(10,716)**		**(2,772)**

The effective total tax charge of Euro 13,487 thousand 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 Euro 11,185 thousand;
- the tax exemption on use of these provisions included under "Reversal of prior year temporary differences", amounting to Euro 19,271 thousand;
- 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 Euro 5,816 thousand;

the ACE (Aid for Economic Growth) benefit, reintroduced by the Budget Law 2020, equal to Euro 4,577 thousand, included in "Differences that will not reverse in subsequent years".

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.

22.2 Other information

There is no other information to be disclosed.

PART D – COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME

Captions		31/12/2019	31/12/2018
10.	**Net profit (loss) for the period**	**44,886**	**30,955**
	Other elements of income, without reversal to income statement		
20.	**Equity instruments designated at fair value through other comprehensive income:**	**(273)**	**(90)**
	a) change in fair value	(270)	(90)
	b) transfers to other components of shareholders' equity	(3)	0
50.	**Property, plant and equipment**	**240**	**-**
70.	**Defined-benefit pension plans**	**(667)**	**385**
100.	**Taxes on other elements of income without reversal to profit or loss**	**104**	**(101)**
	Other elements of income, with reversal to income statement		
130.	**Cash-flow hedges:**	**(85)**	**(644)**
	a) changes in fair value	(85)	(644)
150.	**Financial assets (other than equities) designated at fair value through other comprehensive income:**	**1,405**	**(6,146)**
	a) changes in fair value	1,504	1,010
	b) reversal to income statement	(99)	(4,474)
	- adjustments for credit risk	(99)	(386)
	- gains/losses on disposal	-	(4,088)
	c) other changes		(2,682)
180.	**Taxes on other elements of income with reversal to profit or loss**	**(436)**	**2,246**
190.	**Total other elements of income**	**288**	**(4,350)**
200.	**Total comprehensive income (Captions 10+190)**	**45,174**	**26,605**

PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

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

The system's guidelines have been set out in specific internal regulations. The operational instructions and detailed information regarding the controls in place, at various levels, over business processes are included in specific "Consolidated Texts" by function and Internal Procedures.

The organisational model adopted by the Group envisages that the Risk Management function (Chief Risk Officer) reports directly to the Board of directors and participates in the risk management process designed to identify, measure, assess, monitor, prevent, mitigate and communicate the risks assumed or which could be assumed in the conduct of business. This function also covers the subsidiaries, in accordance with the provisions of the relevant Service Agreements.

The Board of Directors approves, at least once a year, the Group's "Risk Appetite Framework (RAF)" and the "Policy for risk management", which define risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. Within the context of these documents, specific risk indicators with related attention thresholds are provided at the level of individual legal entity, identifying the competent functions for the specific control mechanisms and providing dedicated information flows. The internal control process over capital adequacy (ICAAP) also forms part of the risk management system and of the liquidity risk governance and management system (ILAAP).

SECTION 1 – CREDIT RISK

Qualitative information

1. *General aspects*

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

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

Commercial policy is mainly pursued through the Bank's branch network based on credit policies geared to supporting local economies. Particular attention is paid to maintaining relationships established with customers and their development in the geographic areas where the Bank has traditionally been present and in new markets with the aim of acquiring new market shares and facilitate growth in business volumes. The Bank also operates under agreements with the Italian Banking Association and with trade and business associations, signing conventions aimed at providing support to corporate borrowers while carefully monitoring asset quality.

2. *Credit risk management policies*

2.1. Organisational aspects

Factors that generate credit risk involve the possibility that an unexpected change in the creditworthiness of a counterparty in respect of which there is an exposure, might generate a corresponding unexpected change in the market value of the credit position. It follows that not only the possibility of a counterparty's insolvency, but also a simple deterioration of its creditworthiness has to be considered a manifestation of credit risk.

The Bank's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Board of Directors has exclusive power to lay down guidelines that have an impact on the running of the Group's affairs and, in this context, to make decisions on strategic lines and operations, business and financial plans as well as those relating - again at the level of strategic supervision - to the Internal Control and Risk Management System in compliance with the Capital Requirements in force at the time. In line with the provisions of Bank of Italy circular 285/2013, the Bank has granted to the Chief Risk Officer the activities of verification and supervision of the monitoring and debt collection activities carried out by the competent company departments, providing for the right to intervene, where necessary, with regard to the classification of anomalous credit and provisional accruals and postings.

2.2 Systems for managing, measuring and monitoring credit risk

Systems for managing, measuring and monitoring credit risk are developed in an organisational context that involves the whole cycle of the credit process, from initial inquiry and periodic review to final withdrawal and recovery.

During the fact finding stages of the lending process, the Bank performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer’s financial standing from what is known of the customer and of the customer's economic environment.

During the process of granting credit, the Bank operates according to guidelines based on risk diversification among various customers operating in different industries and market sectors and on the appropriateness of the credit facility depending on the independent creditworthiness of the borrower, the technical form and the collateral that could be acquired.

The analysis and monitoring of risk associated with the lending process is performed with the support of specific operating procedures. The aim of a prompt monitoring system is to identify, as soon as possible, signs of deterioration of exposures in order to intervene with effective corrective measures. To this end, credit exposures are monitored by means of an analysis of relationship trends and by central oversight of risk by means of dedicated procedures. This review facilitates the identification of customers with anomalies in the conduct of their relationship as opposed to those with a regular trend.

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

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

For the purpose of calculating the capital requirement for credit risk, the Bank follows the rules laid down in the regulations for the standardised approach, resorting, for certain counterparties, to the use of ratings provided by authorised, external ECAIs.

2.3 Methods of measuring expected losses

The general approach defined by IFRS 9 to estimate the impairment is based on a process aimed at highlighting the deterioration of the credit quality of a financial instrument at the reporting date compared with the date of initial recognition. The regulatory indications regarding the assignment of credits to the various "stages" envisaged by the Standard (a process known as "staging" or "stage allocation") do in fact identify significant changes in credit risk by referring to the change in creditworthiness with respect to the initial recognition of the counterparty, the expected life of the financial asset and other forward-looking information that may affect credit risk.

In accordance with IFRS 9, performing loans are broken down into two different categories:

Stage 1: this bucket includes assets that have not suffered a significant deterioration in credit risk. This stage provides for the calculation of the expected loss at one year on a collective basis;

Stage 2: this bucket classifies assets that show a significant deterioration in credit quality between the reporting date and the date of initial recognition. For this bucket the expected loss must be calculated from a lifetime perspective, i.e. over the entire duration of the instrument, on a collective basis.

2.4 Credit risk mitigation techniques

As part of the process leading up to the provision of credit, whenever possible, the Group acquires real and/or personal guarantees in order to mitigate risk, even if the requirements appear to be satisfied.

For all loans, the main type of real guarantee is the mortgage, primarily related to the technical form of mortgage loans (particularly on residential properties). To a lesser extent, but still for significant amounts, there are also pledges on securities and/or cash, as well as certain types of public guarantee, such as the guarantees and counter-guarantees issued by the Guarantee Fund for SMEs pursuant to Law 662/96.

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

3. Non-performing loans

3.1 Management strategies and policies

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

- Doubtful loans: exposure to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations, regardless of the loss forecasts made by the intermediary.

- Unlikely to pay: exposures for which the intermediary considers full compliance by the debtor unlikely without recourse to actions such as collection of guarantees, regardless of the presence of amounts due and/or overdrawn.
- Past due and/or overdrawn non-performing exposures: exposures, other than those classified as doubtful or unlikely to pay, with amounts that are past due and/or overdrawn continuously for more than 90 days.

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

The Bank has introduced a policy that lays down the criteria for making adjustments that establish the minimum percentages to be applied in determining expected losses, depending on the type of impaired loan, the original technical form and the type of collateral. The management of non-performing exposures is delegated to a specific organisational unit, the NPL Department, responsible for identifying strategies for maximising recovery on individual positions and defining the adjustments to be applied to them. The only "non-performing past due/overdue" exposures subject to a collective write-down and with a high probability of reclassification between "performing" exposures are managed by the function delegated to credit performance monitoring, which eventually proceeds to classify among the "unlikely to pay" loans, transferring their management to the NPL Department.

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

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

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

In execution of its capital management strategy, the bank completed a programme of sales of NPLs, particularly significant in recent years, with reference to loans classified as "doubtful" and loans classified as "unlikely-to-pay" (UTP). These sales brought the NPL ratio (ratio of gross non-performing loans/gross loans) to one of the lowest levels on the Italian banking scene. In line with the NPL ratio containment policy, there are plans for initiatives that will allow further improvement in this indicator.

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

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

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

As business counterparties represent about 75% of the flows, in terms of volume, the focus is more on reducing transfers to UTP for this type of loan.

The methods and operational tools used by the Bank, through which the positions that present credit anomalies and critical factors are identified and managed, are regulated and formalised in the internal documentation. In particular, monitoring is strongly focused on analysing the performance of the individual risk positions intercepted through periodic and spot checks, based on the systematic reports produced by the internal IT procedure (Credit Quality Manager) and highlighted by the Monitoring Dashboard. In addition to photographing and periodically monitoring the trend in anomalies, this tool provides an assessment of the individual branches for the purposes of control and eventual intervention, giving each one a ranking based on various risk indicators.

This reporting tool, which is also used to provide support for senior management and the Network, makes it possible to interpret, process and age the data coming from various certified sources, in order to detect the credit quality of the Bank, of the Territorial Areas and of the Branches.

3.2 Write-offs

Non-performing exposures for which there is no possibility of recovery (either total or partial) are subject to cancellation from the accounting records ("write-offs") in accordance with the policies in force from time to time, subject to approval by the Group's Board of Directors. Among the strategies identified for the containment of non-performing loans, a distinction between the "going" and "gone concern" approach was envisaged for unlikely to pay loans, thereby allowing for the assessment of single-name assignments for those loans managed with a view to liquidation or total repayment ("gone concern").

As regards the indicators used to assess recovery expectations, the Group has adopted specific analytical assessment policies for non-performing loans which provide for specific percentages of adjustment, distinguishing the presence and type of underlying guarantees (secured or unsecured), the submission of customers to a specific procedure (agreed in advance, settlement liquidators, agreed upon in continuity, crisis due to over-indebtedness, as per art. 67 or art. 182 of the Bankruptcy Law).

3.3 Impaired financial assets acquired or originated

As indicated in "IFRS 9 – Financial Instruments", in some cases, a financial asset is considered non-performing at the time of initial recognition as the credit risk is very high and, in the case of purchase, is purchased at a significant discount (compared with the initial value). In the event that the financial assets in question, based on the application of classification drivers (i.e. SPPI test and business model), are classified among assets valued at amortised cost or at fair value through other comprehensive income, they qualify as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to a specific treatment.

Adjustments equal to the lifetime expected credit loss (ECL) are recorded against them, from the date of initial recognition and throughout their life. In light of the above, POCI financial assets are initially registered in stage 3, without prejudice to the possibility of being subsequently transferred to performing loans, in which case a lifetime ECL (stage 2) will continue to be recorded. A "POCI" therefore qualifies as such in the reporting processes and in the calculation of the expected loss.

4. Financial assets subject to commercial renegotiations and exposures subject to forbearance

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

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

If considered opportune, the branches have the right to review the conditions applied to customer exposures, even when there are no signs of financial difficulty, within the limits of their current decision-making autonomy.

In this case, the exposure does not fall into the category of forborne exposures.

Quantitative information

A. Credit quality

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

A.1.1 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		119,391	215,043	2,817	109,797	12,450,452	12,897,500
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	509,364	509,364
3. Financial assets designated at fair value		-	-	-	-	-	-
4. Other financial assets that have to be measured at fair value		-	-	-	-	2,300	2,300
5. Financial assets being sold		-	-	-	-	-	-
Total	**31.12.2019**	**119,391**	**215,043**	**2,817**	**109,797**	**12,962,116**	**13,409,164**
Total	**31.12.2018**	**64,625**	**147,701**	**1,086**	**63,481**	**9,097,121**	**9,374,014**

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		619,808	(282,557)	337,251	12,155	12,607,786	(47,537)	12,560,249	12,897,500
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	509,727	(363)	509,364	509,364
3. Financial assets designated at fair value		-	-	-	-	X	X	-	-
4. Other financial assets that have to be measured at fair value		-	-	-	-	X	X	2,300	2,300
5. Financial assets being sold		-	-	-	-	-	-	-	-
Total	**31.12.2019**	**619,808**	**(282,557)**	**337,251**	**12,155**	**13,117,513**	**(47,900)**	**13,071,913**	**13,409,164**
Total	**31.12.2018**	**383,234**	**(169,822)**	**213,412**	**24,060**	**9,190,422**	**(31,748)**	**9,160,602**	**9,374,014**

Portfolio/Quality		Assets with an obviously poor credit quality		Other assets
		Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading		-	3	2,332
2. Hedging derivatives		-	-	-
Total	**31.12.2019**	**-**	**-**	**2,332**
Total	**31.12.2018**	**-**	**3**	**3,451**

A.1.3 Distribution of financial assets by past due bands (book values) (FINREP: tab. 7.1) (IFRS 7 par B8I)

Portfolios/Stages of risk		First stage			Second stage			Third stage		
		From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days
1. Financial assets measured at amortised cost		38,973	-	-	49,249	19,521	2,054	13,925	26,217	227,937
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-
3. Financial assets being sold		-	-	-	-	-	-	-	-	-
Total	**31.12.2019**	**38,973**	**-**	**-**	**49,249**	**19,521**	**2,054**	**13,925**	**26,217**	**227,937**
Total	**31.12.2018**	**27,668**	**-**	**-**	**24,761**	**10,153**	**899**	**8,272**	**23,172**	**122,301**

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
Total opening adjustments	**17,086**	**462**	**-**	**17,548**	**14,662**	**-**	**-**	**14,662**
Increases in financial assets acquired or originated	11,741	-	-	11,741	11,699		-	11,699
Cancellations other than write-offs	(827)	-	-	(827)	(723)		-	(723)
Net adjustments/write-backs for credit risk (+/-)	(4,181)	(99)	-	(4,280)	(5,244)		-	(5,244)
Contractual changes without write-offs	-	-	-	-	-		-	-
Changes in the method of making estimates	-	-	-	-	-		-	-
Write-offs not booked directly to the income statement		-	-	-	-		-	-
Other changes	187	-	-	187	3,137		-	-
Total closing adjustments	**24,006**	**363**	**-**	**24,369**	**23,531**		**-**	**23,531**
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	Financial assets being sold	of which: individual write-downs	of which: collective write-downs		First stage	Second stage	Third stage	
Total opening adjustments	**169,822**	**-**	**-**	**169,822**	**-**	**1,312**	**166**	**82**	**341**	**202,621**
Increases in financial assets acquired or originated	122,063	-	-	122,063	-	2,507	195	900	696	147,294
Cancellations other than write-offs	(811)	-	-	(811)	-	-				(2,361)
Net adjustments/write-backs for credit risk (+/-)	59,273	-	-	59,273	-	(435)	14	(515)	855	50,103
Contractual changes without write-offs	-	-	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-	-	-
Write-offs not booked directly to the income statement	(14,918)	-	-	(14,918)	-	-	-	-	-	(14,918)
Other changes	(52,872)	-	-	(52,872)	-	-	-	-	-	(52,685)
Total closing adjustments	**282,557**	**-**	**-**	**282,557**	**-**	**3,384**	**375**	**467**	**1,892**	**333,191**
Recoveries of financial assets subject to write-off	900	-	-	900	-	-	-	-	-	900
Write-offs booked directly to the income statement	-	-	-	-	-	-	-	-	-	-

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		411,356	336,253	58,636	28,075	46,267	2,814
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	-	-
3. Financial assets being sold		-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued		42,954	31,431	790	1,733	8,699	206
Total	**31.12.2019**	**454,310**	**367,684**	**59,426**	**29,808**	**54,966**	**3,020**
Total	**31.12.2018**	**184,349**	**261,049**	**53,401**	**9,237**	**55,791**	**1,636**

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	919,301	504	918,797	-
- of which: exposures subject to forbearance	X	-	-	-	-
Total (A)	**-**	**919,301**	**504**	**918,797**	**-**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	21,561	3	21,558	-
Total (B)	**-**	**21,561**	**3**	**21,558**	**-**
Total (A+B)	**-**	**940,862**	**507**	**940,355**	**-**

"Cash exposures" include all on-balance sheet financial assets due from banks, regardless of the portfolio they are allocated to for accounting purpose.

"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	309,649	X	190,258	119,391	12,155
- of which: exposures subject to forbearance	*50,583*	*X*	*26,636*	*23,947*	-
b) Unlikely to pay	306,940	X	91,897	215,043	-
- of which: exposures subject to forbearance	*150,588*	*X*	*36,283*	*114,305*	-
c) Past due non-performing loans	3,218	X	401	2,817	-
- of which: exposures subject to forbearance	*324*	*X*	*43*	*281*	-
d) Past due performing loans	X	112,795	2,999	109,796	-
- of which: exposures subject to forbearance	*X*	*16,938*	*724*	*16,214*	-
e) Other performing exposures	X	12,088,580	44,396	12,044,184	-
- of which: exposures subject to forbearance	*X*	*109,739*	*2,839*	*106,900*	-
Total (A)	**619,807**	**12,201,375**	**329,951**	**12,491,231**	**12,155**
B. Off-balance sheet exposures					
a) Non-performing	26,516	X	1,892	24,624	-
b) Performing	X	3,198,030	839	3,197,191	-
Total (B)	**26,516**	**3,198,030**	**2,731**	**3,221,815**	**-**
Total (A+B)	**646,323**	**15,399,405**	**332,682**	**15,713,046**	**12,155**

"Cash exposures" include all on-balance sheet financial assets due from customers, regardless of the portfolio they are allocated to for accounting purposes.

"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 non-performing loans

There are no such credit exposures at the reporting date.

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

There are no such credit exposures at the reporting date.

A.1.9 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	**170,419**	**211,562**	**1,253**
- of which: exposure sold but not derecognised	-	3,021	-
B. Increases	**242,322**	**329,733**	**27,060**
B.1 transfers from performing exposures	206	115,758	22,971
B.2 transfers from impaired financial assets acquired or originated	-	538	24
B.3 transfers from other categories of doubtful exposures	108,637	10,660	688
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	133,479	202,777	3,377
C. Decreases	**103,092**	**234,355**	**25,095**
C.1 transfers to performing exposures	304	41,010	10,612
C.2 write-offs	14,415	503	-
C.3 collections	28,945	72,902	3,821
C.4 proceeds from disposal	14,711	6,778	-
C.5 losses on disposal	44,717	3,839	-
C.6 transfers to other categories of doubtful exposures	-	109,323	10,662
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposure	**309,649**	**306,940**	**3,218**
- of which: exposure sold but not derecognised	-	7,629	-

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	**122,178**	**72,398**
- of which: exposure sold but not derecognised	1,259	6,673
B. Increases	**144,622**	**169,517**
B.1 transfers from performing positions not subject to forbearance	3,567	40,339
B.2 transfers from performing positions subject to forbearance	27,126	X
B.3 transfer from exposures subject to forbearance	X	27,327
B.4 transfers from non-performing positions not subject to forbearance	4,592	1,284
B.5 Other increases	109,337	100,567
C. Decreases	**65,305**	**115,238**
C.1 transfers to performing positions not subject to forbearance	X	36,126
C.2 transfers to performing positions subject to forbearance	27,327	X
C.3 transfers to exposures subject to forbearance on non-performing positions	X	27,126
C.4 write-off	626	X
C.5 collections	35,272	51,753
C.6 proceeds from disposal	485	233
C.7 losses on disposal	1,595	-
C.8 other decreases	-	-
D. Closing gross exposure	**201,495**	**126,677**
- of which: exposure sold but not derecognised	3,348	15,445

A.1.10 Non-performing on-balance sheet credit exposures to banks: changes in total adjustments

There are none 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	**105,794**	**9,319**	**63,861**	**25,894**	**167**	**103**
- of which: exposure sold but not derecognised	-	-	484	160	-	-
B. Increases	**169,331**	**26,560**	**92,508**	**33,420**	**1,281**	**101**
B.1 write-downs of impaired assets acquired or originated	-	X	-	X	-	X
B.2 other write-downs	49,683	4,669	41,876	12,815	320	36
B.3 losses on disposal	8,146	772	588	-	-	-
B.4 transfers from other categories of non-performing exposures	39,257	10,535	207	-	522	-
B.5 contractual changes without write-offs	-	-	-	-	-	-
B.6 other increases	72,245	10,584	49,837	20,605	439	65
C. Decreases	**84,867**	**9,243**	**64,472**	**23,031**	**1,047**	**161**
C.1 measurement write-backs	5,310	284	13,758	10,095	633	71
C.2 write-backs on collection	7,185	2,511	5,631	2,401	89	6
C.3 gains on disposal	5,094	495	492	-	-	-
C.4 write-off	14,415	5,953	503	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	39,662	10,535	325	-
C.6 contractual changes without write-offs	-	-	-	-	-	-
C.7 other decreases	52,863	-	4,426	-	-	84
D. Total closing adjustments	**190,258**	**26,636**	**91,897**	**36,283**	**401**	**43**
- of which: exposure sold but not derecognised	-	-	1,165	551	-	-

A.2 Distribution of financial assets, commitments to disburse funds and financial guarantees given for external and internal rating classes

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	**13,514**	**679,167**	**3,356,520**	**613,705**	**58,306**	**24,560**	**8,481,820**	**13,227,592**
- First stage	13,514	660,229	3,306,888	525,656	42,086	18,794	7,009,594	11,576,761
- Second stage	-	18,938	49,004	84,258	16,022	5,591	857,211	1,031,024
- Third stage	-	-	628	3,791	198	175	615,015	619,807
B. Financial assets designated at fair value through other comprehensive income	**2,552**	**-**	**507,176**	**-**	**-**	**-**	**-**	**509,728**
- First stage	2,552	-	507,176	-	-	-	-	509,728
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
C. Financial assets being sold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B+C)	**16,066**	**679,167**	**3,863,696**	**613,705**	**58,306**	**24,560**	**8,481,820**	**13,737,320**
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	13,942	13,942
D. Commitments to disburse funds and financial guarantees issued								
- First stage	2,600	346,215	383,480	146,326	7,307	7,523	2,035,649	2,929,100
- Second stage	-	3,023	4,661	6,593	1,425	-	28,290	43,992
- Third stage	-	-	-	466	-	-	22,916	23,382
Total (D)	**2,600**	**349,238**	**388,141**	**153,385**	**8,732**	**7,523**	**2,086,855**	**2,996,474**
Total (A+B+C+D)	**18,666**	**1,028,405**	**4,251,837**	**767,090**	**67,038**	**32,083**	**10,568,675**	**16,733,794**

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 or less	C12 or less

A.2.2 Distribution of financial assets, commitments to disburse funds and financial guarantees given for internal rating classes

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

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed on- and off-balance sheet credit exposures to banks

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

B Distribution and concentration of credit exposures

B.1 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		-	-	2,084	9,765	-	-
- of which: exposures subject to forbearance		-	-	-	46	-	-
A.2 Unlikely to pay		377	282	2,396	1,008	-	-
- of which: exposures subject to forbearance		-	-	1,711	700	-	-
A.3 Past due non-performing loans		-	-	1	-	-	-
- of which: exposures subject to forbearance		-	-	-	-	-	-
A.4 Performing loans		2,612,447	1,855	1,227,693	1,487	-	-
- of which: exposures subject to forbearance		-	-	1,942	69	-	-
Total A		**2,612,824**	**2,137**	**1,232,174**	**12,260**	**-**	**-**
B. Off-balance sheet exposures							
B.1 Non-performing loans		-	-	6	-	-	-
B.2 Performing loans		17,448	-	107,929	13	-	-
Total B		**17,448**	**-**	**107,935**	**13**	**-**	**-**
Total (A+B)	**31.12.2019**	**2,630,272**	**2,137**	**1,340,109**	**12,273**	**-**	**-**
Total (A+B)	**31.12.2018**	**1,932,257**	**3,206**	**964,437**	**10,932**	**-**	**-**

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		82,823	144,545	34,484	35,948
- of which: exposures subject to forbearance		16,233	20,286	7,714	6,304
A.2 Unlikely to pay		137,988	68,359	74,282	22,248
- of which: exposures subject to forbearance		72,097	24,733	40,496	10,850
A.3 Past due non-performing loans		1,616	221	1,200	180
- of which: exposures subject to forbearance		152	23	129	20
A.4 Performing loans		5,170,069	35,464	3,143,771	8,589
- of which: exposures subject to forbearance		76,073	3,072	45,099	422
Total A		**5,392,496**	**248,589**	**3,253,737**	**66,965**
B. Off-balance sheet exposures					
B.1 Non-performing loans		23,767	1,844	851	48
B.2 Performing loans		2,855,033	717	216,781	109
Total B		**2,878,800**	**2,561**	**217,632**	**157**
Total (A+B)	**31.12.2019**	**8,271,296**	**251,150**	**3,471,369**	**67,122**
Total (A+B)	**31.12.2018**	**5,950,633**	**156,553**	**1,808,196**	**29,930**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers
p.1

Exposures/Geographical areas	Italy		Other European countries		America
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure
A. Cash exposures					
A.1 Doubtful loans	119,345	190,203	46	55	-
A.2 Unlikely to pay	214,487	91,821	556	76	-
A.3 Past due non-performing loans	2,816	401	1	-	-
A.4 Performing loans	12,039,318	47,223	93,533	153	20,825
Total (A)	**12,375,966**	**329,648**	**94,136**	**284**	**20,825**
B. Off-balance sheet exposures					
B.1 Non-performing loans	24,625	1,892	-	-	-
B.2 Performing loans	3,194,013	839	2,946	-	223
Total (B)	**3,218,638**	**2,731**	**2,946**	**-**	**223**
Total (A+B) 31.12.2019	**15,594,604**	**332,379**	**97,082**	**284**	**21,048**
Total (A+B) 31.12.2018	**10,472,470**	**200,373**	**136,446**	**204**	**46,167**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers p.2

Exposures/Geographical areas	America	Asia		Rest of the world	
	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures					
A.1 Doubtful loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Past due non-performing loans	-	-	-	-	-
A.4 Performing loans	17	201	1	103	1
Total (A)	**17**	**201**	**1**	**103**	**1**
B. Off-balance sheet exposures					
B.1 Non-performing loans	-	-	-	-	-
B.2 Performing loans	-	4	-	4	-
Total (B)	**-**	**4**	**-**	**4**	**-**
Total (A+B) 31.12.2019	**17**	**205**	**1**	**107**	**1**
Total (A+B) 31.12.2018	**42**	**394**	**1**	**46**	**1**

B.3 Territorial distribution of on- and off-balance sheet credit exposures to banks p.1

Exposures/Geographical areas	Italy		Other European countries		America
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure
A. Cash exposures					
A.1 Doubtful loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Past due non-performing loans	-	-	-	-	-
A.4 Performing loans	817,576	446	96,028	55	1,099
Total (A)	**817,576**	**446**	**96,028**	**55**	**1,099**
B. Off-balance sheet exposures					
B.1 Non-performing loans	-	-	-	-	-
B.2 Performing loans	11,545	1	5,969	2	-
Total (B)	**11,545**	**1**	**5,969**	**2**	**-**
Total (A+B) 31.12.2019	**829,121**	**447**	**101,997**	**57**	**1,099**
Total (A+B) 31.12.2018	**872,981**	**1,062**	**108,938**	**130**	**813**

B.3 Territorial distribution of on- and off-balance sheet credit exposures to banks p.2

Exposures/Geographical areas	America	Asia		Rest of the world	
	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures					
A.1 Doubtful loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Past due non-performing loans	-	-	-	-	-
A.4 Performing loans	1	759	1	3,335	1
Total (A)	**1**	**759**	**1**	**3,335**	**1**
B. Off-balance sheet exposures					
B.1 Non-performing loans	-	-	-	-	-
B.2 Performing loans	-	3,500	-	500	-
Total (B)	**-**	**3,500**	**-**	**500**	**-**
Total (A+B) 31.12.2019	**1**	**4,259**	**1**	**3,835**	**1**
Total (A+B) 31.12.2018	**2**	**3,383**	**2**	**3,770**	**2**

B.4 Large exposures

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

Description	Amount (book value)	Amount (weighted amount)	Number
Large exposures	4,972,137	442,949	6

The six 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, BNP Paribas and the SPV Two Worlds S.r.l.

C. Securitisation transactions

<u>Qualitative information</u>

In accordance with its capital management strategy, the Bank has carried out a securitisation that makes use of the Italian State guarantee on the securitisation of doubtful loans on senior securities pursuant to Decree Law 18/2016 ("GACS") aimed at deconsolidating Banco Desio Group loans for a gross value of Euro 1.0 billion (the "Transaction").

The Transaction was structured in order to carry out the significant transfer of the credit risk associated with the securitised loans ("SRT") pursuant to art. 243 et seq. of Regulation (EU) no. 575/2013; the NPL portfolio sold on 12 June 2018 to "2Worlds s.r.l." (the special purpose vehicle or "SPV" set up specifically for this purpose) consists of mortgage or unsecured loan contracts granted by Banco di Desio e della Brianza and by Banca Popolare di Spoleto in favour of secured customers, i.e. with relationships guaranteed by mortgages, and unsecured customers, i.e. with relationships that do not have any collateral.

On 25 June 2018, the SPV issued the following types of asset-backed securities (ABS):

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

On 11 July 2018, the Banco Desio Group accepted the final binding agreement for the sale of 95% of the mezzanine and junior securities, which was finalised on 23 July 2018 by settling the transaction, which in turn permitted deconsolidation (or "derecognition") of the NPLs concerned.

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

Quantitative information

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

TYPE OF SECURITISED ASSETS/ EXPOSURES	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
A. Fully derecognised	240,209	177	859		1	
- financial assets measured at amortised cost	*240,209*	*177*				
B. Partially derecognised						
C. Not derecognised						

The exposure shown in the financial statements represents:

- the value of the senior security at amortised cost (including upfront costs incurred and accrued interest accrued and net of the expected credit loss - ECL);
- the fair value of the mezzanine and junior notes held, recognised as financial assets mandatorily measured at fair value.

E. Asset disposals

A. Financial assets sold and not fully derecognised

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;
- Desio OBG S.r.l. (Vehicle or SPV), as a special purpose vehicle for the sale of eligible assets by Banco Desio, 60% owned by the Parent Company;
- BNP Paribas, as the counterparty in the swap taken out to hedge the potential risk generated by the mismatch between the fixed rate on the covered bond and the mix of rates on the portfolio.

More specifically, the "Covered Bond - Desio OBG" programme envisaged:

1. non-revolving sales without recourse of a residential mortgage loan portfolio;
2. disbursement of a subordinated loan to the SPV by Banco Desio;
3. issuance by Banco di Desio e della Brianza of covered bonds for institutional investors for Euro 575 million (issued in 2017) and Euro 500 million (issued in 2019) with a maturity of 7 years.

4. a liability swap on the covered bonds issued taken out by the SPV for a notional amount of Euro 300 million (for the 2017 issue) and for a notional amount of Euro 200 million (for the 2019 issue) with BNP Paribas as counterparty;
5. a back-swap taken out by Banco di Desio e della Brianza for the same notional amount with the same counterparty, as a mirror-image of the previous one.

The main characteristics of the transaction are summarised below:

a) *SPV name:* Desio OBG S.r.l.
b) *Type of underlying loans:* Residential mortgage loans;
c) *Value of the loans sold:* total of Euro 1,588 million;
d) *Amount of subordinated loan:* total of Euro 1,488 million;
e) *Nominal value of the covered bonds issued:* Euro 1,075 million;
f) *Interest rate on covered bonds issued:* fixed rate of 0.875% (2017 issue) and 0.375% (2019 issue).

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

C. Financial assets sold and fully derecognised

Qualitative information

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

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

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

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

Quantitative information

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

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

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

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

F. Credit risk measurement models

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

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

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

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

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

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

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

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

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

Quantitative information

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Euro

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
A. Cash assets	**863**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	863	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	863	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	119	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	119	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	153,160	2,363	2,056	-	-	-	-
+ Short positions	-	138,844	2,538	2,414	2,653	4,263	7,598	-

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Other currencies

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
A. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	137,927	2,398	2,092	-	-	-	-
+ Short positions	-	137,116	2,398	2,092	-	-	-	-

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

Type of operation/equity index	Listed			Unlisted
	Italy	United States	Other	
A. Equity instruments				
long positions	1,959		233	
short positions				
B. Unsettled transactions in equity securities				
long positions				
short positions				
C. Other equity security derivatives				
long positions	118		1	
short positions	2,597		1,870	
D. Equity index derivatives				
long positions				
short positions				

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

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

2.2 Interest rate risk and price risk – Banking book

Qualitative information

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

The measurement of interest rate risk is performed by the risk management function. This activity is carried out for the Group's banks, which covers almost all of the banking book. The whole of the Group's business associated with the transformation of maturities of assets and liabilities, portfolio securities, treasury operations and the respective hedging derivatives are monitored with Asset and Liability Management (ALM) methods using ERMAS5.

The static analysis currently performed allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income. In this context, the results of the banking book for financial statement purposes are also presented, excluding analysis of financial instruments in the trading portfolio for supervisory purposes.

The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of Gap Analysis. The changes in the economic value of assets and liabilities are analysed by applying Duration Gap and Sensitivity Analysis approaches.

The analyses are carried out also considering non-parallel shifts in the yield curve and the application of behavioural models for demand items. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

Quantitative information

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

Euro

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**2,196,078**	**5,983,031**	**1,264,697**	**570,694**	**1,898,499**	**810,525**	**606,826**	**-**
1.1 Debt securities	-	808,814	949,746	308,441	977,661	216,435	10,240	-
- with early redemption option	-	267,020	-	5,591	10,177	23,787	-	-
- other	-	541,794	949,746	302,850	967,484	192,648	10,240	-
1.2 Loans to banks	239,834	335,833	-	-	-	-	135	-
1.3 Loans to customers	1,956,244	4,838,384	314,951	262,253	920,838	594,090	596,451	-
- current accounts	1,604,193	517,318	1,842	2,538	31,981	2,484	-	-
- other loans	352,051	4,321,066	313,109	259,715	888,857	591,606	596,451	-
- with early redemption option	93,378	3,549,211	243,244	253,505	870,049	590,413	596,062	-
- other	258,673	771,855	69,866	6,211	18,807	1,193	389	-
2. Cash liabilities	**7,760,460**	**1,274,780**	**1,064,986**	**241,057**	**1,867,152**	**524,669**	**16,458**	**-**
2.1 Due to customers	7,739,924	1,047,303	223,988	196,264	152,446	24,311	16,458	-
- current accounts	7,605,523	601,118	-	-	0	-	-	-
- other payables	134,401	446,185	223,988	196,264	152,446	24,311	16,458	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	134,401	446,185	223,988	196,264	152,446	24,311	16,458	-
2.2 Due to banks	19,796	-	789,984	-	789,984	-	-	-
- current accounts	10,947	-	-	-	-	-	-	-
- other payables	8,849	-	789,984	-	789,984	-	-	-
2.3 Debt securities	740	227,477	51,014	44,793	924,722	500,358	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	740	227,477	51,014	44,793	924,722	500,358	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	43	-	-	18	-	-	-
+ Short positions	-	44	-	-	18	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	130,000	-	-	-	-	-	-
+ Short positions	-	-	-	-	130,000	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	64,859	-	-	-	-	-	-	-
+ Short positions	64,859	-	-	-	-	-	-	-

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

OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**14,621**	**59,886**	**3,711**	**26**	**208**	**259**	**104**	**-**
1.1 Debt securities	-	-	2,551	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	2,551	-	-	-	-	-
1.2 Loans to banks	13,624	30,155	-	-	-	-	-	-
1.3 Loans to customers	997	29,731	1,160	26	208	259	104	-
- current accounts	476	-	-	-	-	-	-	-
- other loans	521	29,731	1,160	26	208	259	104	-
- with early redemption option	-	-	26	26	208	259	104	-
- other	521	29,731	1,134	-	-	-	-	-
2. Cash liabilities	**59,786**	**13,131**	**2,869**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	59,786	9,687	2,869	-	-	-	-	-
- current accounts	59,786	9,687	2,869	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	3,444	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	-	3,444	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

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

The Group's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value of own funds.

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date has, however, some peculiarities arising from the current market environment, which sees an increase in demand and short-term deposits; this has led to a physiological decrease in the average duration of liabilities, whereas assets have not undergone any substantial changes in terms of average duration.

The following table shows the results of the impact on the interest margin - from a static perspective and in the absence of behavioural models for demand items - of the analyses carried out at 31 December 2019, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 31.12.2019

	+100 bps	***-100 bps***
% of the expected margin	-3.45%	-24.83%
% of net interest and other banking income	-1.86%	-13.36%
% of the result of the year	-10.65%	-76.70%
% of shareholders' equity	-0.50%	-3.60%

With regard to economic value, the estimated impact of the change with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, showed a risk exposure at 31 December 2019 at levels that do not result in significant impacts on total capital.

The following table shows the changes in the economic value analysed by applying deterministic approaches with parallel shifts in the yield curve.

Risk ratios: parallel shifts in the yield curve at 31.12.2019.

	+100 bps	***-100 bps***
% of the economic value	*-14.32%*	*5.23%*

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 exposure to exchange risk is marginal. Forex operations are managed by the Finance Department.

Exchange rate risk is managed through operating limits, both by currency areas and by concentration on each currency. In addition, daily and yearly stop-loss operating limits have been set.

B. Hedging of exchange risk

The 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	Franc	Yen	Other currencies
A. Financial assets	**60,372**	**5,133**	**4,716**	**3,546**	**5,974**
A.1 Debt securities					2,551
A.2 Equity instruments	772				155
A.3 Loans to banks	33,636	3,753	3,189	34	3,166
A.4 Loans to customers	25,964	1,380	1,527	3,512	102
A.5 Other financial assets					
B. Other assets	**289**	**229**	**150**	**48**	**173**
C. Financial liabilities	**59,297**	**5,216**	**4,497**	**3,550**	**3,226**
C.1 Due to banks				3,444	
C.2 Due to customers	59,297	5,216	4,497	106	3,226
C.3 Debt securities					
C.4 Other financial liabilities					
D. Other liabilities	**1,151**		**219**		
E. Financial derivatives					
- Options					
+ Long positions					
+ Short positions					
- Other derivatives					
+ Long positions	136,742	534	1,350	45	3,745
+ Short positions	136,012	471	1,359	45	3,720
Total assets	**197,403**	**5,896**	**6,216**	**3,639**	**9,892**
Total liabilities	**196,460**	**5,687**	**6,075**	**3,595**	**6,946**
Net balance (+/-)	**943**	**209**	**141**	**44**	**2,946**

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

The 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 31/12/2019				Total 31/12/2018			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
	Central counterparties	With netting arrangements	Without netting arrangements	Organised markets	Central counterparties	With compensation arrangements	Without compensation arrangements	Organised markets
1. Debt securities and interest rates	-	-	15,227	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	15,227	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	119	-	-	-	41	-
a) Options	-	-	119	-	-	-	41	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	279,939	-	-	-	973,037	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	279,939	-	-	-	973,037	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**295,285**	**-**	**-**	**-**	**973,078**	**-**

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

Type of derivatives	31.12.2019				31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counter parties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With compensation arrangements	Without compensation arrangements	
1. Positive fair value								
a) Options	-	-	119	-	-	-	41	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	1,350	-	-	-	5,805	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**1,469**	**-**	**-**	**-**	**5,846**	**-**
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	6,874	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	1,264	-	-	-	2,832	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**8,138**	**-**	**-**	**-**	**2,832**	**-**

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	15,227	-	-
- positive fair value	X	-	-	-
- negative fair value	X	6,874	-	-
2) Equities and equity indices				
- notional value	X	-	2	117
- positive fair value	X	-	2	117
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	140,257	124,709	14,973
- positive fair value	X	1,174	6	170
- negative fair value	X	163	1,059	42
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of 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		713	2,653	11,861	15,227
A.2 Financial derivatives linked to equities and stock indices		-	119	-	119
A.3 Financial derivatives linked to		279,939	-	-	279,939
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	**31.12.2019**	**280,652**	**2,772**	**11,861**	**295,285**
Total	**31.12.2018**	**970,417**	**2,661**	**-**	**973,078**

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, are use derivatives represented by unlisted securities - interest rate swaps - but only to hedge interest rate risk.

E. Hedged items

To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges.

For hedging, we use derivatives represented by unlisted securities - interest rate swaps - but only to hedge interest rate risk.

Banco Desio has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (IAS). The method used for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

Quantitative information

A. Hedging financial derivatives

A.1 Hedging financial derivatives: period-end notional values

Underlying assets/Type of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With compensation arrangements	Without compensation arrangements	
1. Debt securities and interest rates	-	-	130,000	-	-	-	130,000	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	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 amount used to determine hedge effectiveness	
	31.12.2019				31.12.2018					
	Over the counter			Organised markets	Over the counter			Organised markets	31.12.2019	31.12.2018
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		With netting arrangements	Without netting arrangements			With compensation arrangements	Without compensation arrangements			
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	-	-	2,157	-	-	-	2,055	-	2,157	2,055
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**2,157**	**-**	**-**	**-**	**2,055**	**-**	**2,157**	**2,055**

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	2,157	-	-
2) Equities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of 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	**31.12.2019**	**-**	**130,000**	**-**	**130,000**
Total	**31.12.2018**	**-**	**130,000**	**-**	**130,000**

3.3 Other information on trading and hedging instruments

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other parties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	145,227	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	9,031	-	-
2) Equities and equity indices				
- notional value	-	-	2	117
- net positive fair value	-	-	2	117
- net negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	140,257	124,709	14,973
- net positive fair value	-	1,174	6	170
- net negative fair value	-	163	1,059	42
4) Commodities				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchase of protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
2) Sale of protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

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 verifying the Group's ability to meet liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market.

The monitoring of and periodic reporting on liquidity risk is carried out by the Risk Management Office in compliance with the threshold of tolerance for this kind of risk as determined by the Policy for the management of liquidity risk. Treasury activities consist of procuring and allocating available liquidity through the interbank market, open market operations and transactions in repurchase agreements and derivatives.

The management of operational liquidity has the objective of ensuring the Group is capable of meeting expected and unexpected payment commitments in the context of the "normal course of business" (going concern) over a short term time horizon that does not exceed 3 months. The scope of reference of the daily report on operating liquidity refers to items with a high level of volatility and a considerable impact on the monetary base. The monitoring and control of operating limits is carried out through the acquisition of information resulting from collection and payment transactions, management of accounts for services and trading in the financial instruments held in proprietary portfolios.

The counterbalancing capacity model allows us to integrate the report with all of the free assets that can readily be used, both to be eligible for refinancing with the ECB and to be sold. Next to the application of haircuts determined by the ECB for eligible securities, appropriate discount factors are prepared (divided by type of security, rating and currency), also for all securities not eligible, but still considered marketable if appropriately positioned in time buckets.

Further support for the management of liquidity risk is derived from the monitoring of structural liquidity with the primary objective of maintaining an adequate dynamic relationship between assets and liabilities in the medium to long term.

Operations are measured using Asset and Liability Management (ALM) methods through the ERMAS5 application: by developing all of the cash flows generated by operations, it allows us to evaluate and manage in the various time periods any liquidity requirement that the Bank may encounter due to imbalances between inflows and outflows.

The analysis of the overall structural liquidity is developed on a monthly basis using the technique, i.e. showing imbalances by date of liquidation of capital flows over a set time horizon.

In order to evaluate the impact of the negative events on the risk exposure, stress tests are performed at consolidation level. In particular, the events considered are:

- outflow from overdrafts repayable on demand considered non core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) and "on demand" due to the increase in impaired loans;
- decrease in value of the owned securities portfolio (Held to collect and sell "HTCS" and Held to collect "HTC");
- repurchase of issued Bonds;
- use of available facilities for revocable lines of credit (call risk).

On completion of the analysis, three types of scenarios are created:

1. Idiosyncratic, defined as a loss of confidence by the Group's market;
2. Market, defined as a loss arising from exogenous events and from the impact of a general economic downturn;
3. Combined, being a combination of scenarios 1 and 2.

The time horizon for the simulation of all scenarios is 1 month, a period in which the Group would have to cope with the crisis before commencing structural interventions.

Particular attention is paid to funding policy, which is coordinated by the Finance Department by organising bond issues on the retail market and on the Euromarket. The financing strategies adopted by the Group are focused on a subdivision of funding sources, with a preference for retail as opposed to wholesale customers, as well as on a significant number of counterparties and thus ensuring an adequate diversification of the residual maturities of liabilities.

Quantitative information

1. Distribution of financial assets and liabilities by residual contractual duration

Euro

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
A. Cash assets	**2,427,817**	**30,491**	**175,040**	**163,058**	**1,025,619**	**550,964**	**1,239,951**	**4,568,773**	**3,024,287**	**335,833**
A.1 Government securities	219	-	946	-	71,143	54,132	519,183	1,615,921	309,790	-
A.2 Other debt securities	62	-	-	204	63,242	15,951	15,703	299,550	301,470	-
A.3 Mutual funds	36,466	-	-	-	-	-	-	-	-	-
A.4 Loans	2,391,070	30,491	174,094	162,854	891,234	480,881	705,065	2,653,302	2,413,027	335,833
- Banks	240,015	-	-	-	-	-	-	-	135	335,833
- Customers	2,151,055	30,491	174,094	162,854	891,234	480,881	705,065	2,653,302	2,412,892	-
B. Cash liabilities	**8,383,700**	**28,726**	**46,031**	**91,278**	**368,218**	**1,058,542**	**276,136**	**2,021,986**	**543,355**	**-**
B.1 Deposits and current accounts	8,342,575	27,237	45,454	90,867	283,048	221,350	191,309	114,791	-	-
- Banks	10,947	-	-	-	-	-	-	-	-	-
- Customers	8,331,628	27,237	45,454	90,867	283,048	221,350	191,309	114,791	-	-
B.2 Debt securities	731	1,489	577	394	84,798	28,395	73,562	1,068,955	502,595	-
B.3 Other liabilities	40,394	-	-	17	372	808,797	11,265	838,240	40,760	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	3,034	1,330	130,358	3,229	2,363	2,056	43	-	-
- Short positions	-	3,895	1,299	130,295	3,223	2,361	2,054	137	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	6,874	-	-	99	151	241	489	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	12,663	-	-	-	1,562	186	651	15,101	34,695	-
- Short positions	64,859	-	-	-	-	-	-	-	-	-
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
A. Cash assets	**15,401**	**1,696**	**35,697**	**8,150**	**14,493**	**3,743**	**32**	**209**	**380**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	2,563	-	-	13	-
A.3 Mutual funds	772	-	-	-	-	-	-	-	-	-
A.4 Loans	14,629	1,696	35,697	8,150	14,493	1,180	32	209	367	-
- Banks	13,634	-	30,201	-	-	-	-	-	-	-
- Customers	995	1,696	5,496	8,150	14,493	1,180	32	209	367	-
B. Cash liabilities	**59,786**	**3,445**	**9,691**	**-**	**-**	**2,894**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	59,786	3,445	9,691	-	-	2,894	-	-	-	-
- Banks	-	3,445	-	-	-	-	-	-	-	-
- Customers	59,786	-	9,691	-	-	2,894	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	3,913	1,328	129,447	3,240	2,398	2,092	-	-	-
- Short positions	-	3,075	1,355	129,447	3,240	2,398	2,092	-	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

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 Group uses the above definition of operational risk within the operational risk management model that has been approved and embodied within corporate policy.

In this regard, a specific operational risk management macro-process (ORM framework) has been designed that consists of the following phases:

- Identification: recognition, collection and classification of information relating to operational risks;
- Measurement: economic measurement of operational risks linked to the Bank's operations;
- Monitoring and reporting: collection and structured organisation of the results in order to monitor the evolution of operational risk exposure;
- Mitigation and control: risk transfer and improvement of business processes.

To support the operational risk management model, the following processes have been formalised:

- Loss Data Collection – structured process for gathering data on operational losses arising within the Group;
- Risk Self-Assessment – structured process for the measurement of operational risks designed to have complete vision of risk events in terms of the potential impact and the worst case impact.

The Risk Management function applied company regulations to structure an adequate monitoring and reporting system for operational risk (including IT Risk) by integrating it with the dictates of the supervisory regulations about the provisions regarding coordination between control functions. With respect to the detrimental events gathered in the Corporate Database of Operational Losses (DBPOA), a reporting system was implemented that is capable of providing information concerning the events in question: number of events, gross amount of losses and any recoveries.

In compliance with Bank of Italy regulations, the Group adopted:

- Security Policy;
- Procedure for Accident Management;
- IT Risk Assessment methodology.

As regards the management of risks impacting business continuity, a Business continuity plan has been prepared: measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), a Business Continuity site was prepared and maintained in Bologna, as an alternative to that for normal business operations, to be used in the event of an emergency and for testing purposes. The measures adopted for business continuity management and for the oversight of the IT provider were updated.

For risk management of criminal offences pursuant to Legislative Decree 231/2001 "Regulation of the administrative liability of legal entities, companies and associations with or without legal personality", Group companies have adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned to specific internal bodies.

As regards legal risk, the various corporate functions operate with standard contracts that have previously been vetted by the appropriate business structure. Accordingly, it should be noted that most of the ongoing legal disputes at the year-end relate to disputes concerning compensation for damages, alleged usury, compound interest charges and early repayment.

Risk related to outstanding legal disputes

The Banco Desio e della Brianza Group, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions. The following table summarises the outstanding disputes at the end of the period, together with the related provisions:

	Number	**Claim**	**Provisions**
Claw-back suits	15	€ 11.817 million	€ 0.734 million
Other lawsuits	566	€ 73.480 million	€ 9.047 million

The principal disputes (claims in excess of Euro 1 million) are described below:

- Claim of Euro 12.569 million. Following the rejection of the Preventive Technical Assessment established in March 2018, the plaintiff initiated a judgement of merit at the Court of Monza (first hearing on 28 March 2019) to request the return of the amounts made available (transfers and requests for bank drafts), according to the plaintiff, based on false signatures and consequently stolen from the plaintiff's assets for the total of Euro 12,569,843. As things stand at present, the Bank's legal advisor thought that the risk of losing the case was remote, also considering the outcome of the Preventive Technical Assessment. The Judge ordered an expert appraisal by a graphologist and the case was adjourned at 31.01.2020 2018 for the swearing in of the court appointed expert witness;
- Claim of Euro 7.310 million. With a writ notified in 2013, the Receivership summoned our former subsidiary BPS together with Banca delle Marche and Monte dei Paschi di Siena before the Court of Perugia to hear ascertained and declared invalid and/or ineffective and/or unenforceable as the receiver of the sale of the loan and, therefore, to hear them condemned, jointly and severally, to pay the sum. The application seems totally unfounded as confirmed by the counsel that we appointed to appear in court. On 2 December 2009 (about three years before the declaration of bankruptcy with judgement on 21 March 2013), the Bank, together with the two other banks, granted a line of credit to the bankrupt company, usable in the technical form of an advance on contracts to public entities and/or the public administration, for an amount of Euro 1 million for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. The Judge rejected all of the preliminary enquiries proposed by the Receivership and scheduled the hearing for 5 February 2020 for clarification of the conclusions without carrying out any investigation work. The case is being decided;
- Claim of Euro 3.6 million. The receivership cited Banca Popolare di Spoleto before the Court of Perugia - Section specialized in business matters (first hearing set for 4 November 2019) asking for verification of whether under art. 2377 of the Italian Civil Code the resolution of the shareholders' meeting of Banca Popolare di Spoleto S.p.A. of 7 May 2019 which approved the project for the merger of Banca Popolare di Spoleto with Banco di Desio e della Brianza S.p.A. can be cancelled for lack of information and incongruity on the determination of the exchange ratio between the shares of the two Banks; the Court condemned Banca Popolare di Spoleto to reimburse the Bankruptcy for the presumed damages that it caused as a consequence of the incongruity of the exchange ratio; damages quantified by the counterparty at Euro 3,600,000 or a higher or lower sum that may be decided by the Court. Without prejudice to the fact that, under art. 2504 *quater* of the Italian Civil Code, since the merger deed was registered, the validity of the merger deed could no longer be questioned, the case returned to Court, which reiterated the fairness of the exchange ratio established for the transaction. The proceedings are currently suspended: after the filing of the statements provided by the Code of Procedure (deadline 4 February 2020), the Judge will decide on whether to admit the means of investigation that the parties may request;

- Claim of Euro 3.052 million. The plaintiff has filed suit concerning a loss of capital deriving from operations in financial instruments deemed inconsistent with the risk profile thereof. The Bank appeared before the court to request that the claims be dismissed, given that the contractual documentation had been signed and that the operations appeared to be consistent with the risk profile. The case is at the preliminary stage with the completion of an expert appraisal for the accounting verification of all purchase and sale orders. After the deposition of the expert appraisal, the Judge postponed the case to the hearing of 30 January 2020 to hear the witnesses;
- Claim of Euro 3.0 million. The receivership summoned Banca Popolare di Spoleto to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, given that by acting in this way it allowed the counterparty to remain on the market and delay the declaration of bankruptcy. The Court of Terni rejected the plaintiff's claim, which was challenged before the Court of Appeal of Perugia. The Court of Appeal upheld the first-instance decision. On 8 March 2018, notice was served of the appeal to the Supreme Court. The Bank is therefore waiting for the hearing to be scheduled;
- Claim of Euro 2.504 million. The plaintiff initiated a suit at the Court of Monza to request the return of the amounts made available (bank transfers and requests for banker's cheques), according to the plaintiff, based on false signatures and consequently stolen from the plaintiff's assets for the total of Euro 2,504,080 in addition to a request for damages on an equitable basis. The Bank appeared before the court to request that the claim be dismissed, also in consideration of the results of the internal expert's investigations. The case is under investigation and the hearing for the admission of evidence has been scheduled for 1 June 2020;
- Claim of Euro 2.305 million. The receivership summoned Banca Popolare di Spoleto before the Court of Perugia seeking an order, jointly with the directors of the bankrupt company and a subsidiary, to pay the amount of (a) Euro 1.9 million as penalty for the corporate and accounting crimes perpetrated by former officers and (b) Euro 0.4 million for alleged abusive lending by granting a mortgage for the same amount. The inclusion of the Bank in point a) appears to be an error, as the brief does not contain anything that involves the Bank in the acts for which the other defendants (former directors) are called upon to pay the above amount; moreover, the question made to the Bank would seem in any case to be unfounded, as there seems to be no causal link between the loan and the instrumental use that the company made of it while it was operating; and, in any case, there is no evidence of a state of economic difficulty to justify the action in question. The Judge scheduled the hearing for 22 February 2018 for the assignment of the expert appraisal and for the performance of the witness testimony, which did not, however, refer to circumstances related to the Bank's activities. Following completion of the expert appraisal, at the hearing on 23 January 2020 the case was assumed for a decision;
- Claim of Euro 2.0 million. By writ of summons, the counterparty brought legal proceedings against the Bank to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered the Bank to return an amount that was lower than the claim. The counterparty lodged an appeal. The Bank paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree. The Supreme Court has not yet set the date for the hearing;

- Claim of Euro 1.933 million. The receivership summoned Banca Popolare di Spoleto to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, so the Bank's operations allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank appeared in court to defend itself, arguing that the credit lines granted were very low (maximum Euro 60 thousand), so lacking any causal link for the allegation of abusive concession of credit. The investigation authorised by the Judge did not address conduct attributable to the Bank. With a judgement of 15 December 2017, the Court of Terni rejected the request filed against the defendant Banks, believing that the conduct of the credit institutions did not contribute to the bad management of the administrator. On 16 January 2018, an appeal against this judgement was served at the request of the receivership. The suit has been decided;
- Claim of Euro 1.526 million. By writ notified in 2015, the counterparty summoned Banco Desio and Banca Popolare di Spoleto before the Court of Prato to obtain reimbursement of the capital invested in a series of securities and, alternatively, the amount of the loss incurred during the course of the investment. The lawsuit was filed by contesting the request. An expert appraisal by a graphologist is in progress and an integration has been ordered at the hearing of 13 February 2020;
- Claim of Euro 1.395 million. A Cooperative Company has sued the Bank before the Court of Spoleto asking to ascertain the nullity, cancellation, termination, pre-contractual and contractual liability, the abuse of a dominant position or at least of economic dependence exercised by Banca Popolare di Spoleto S.p.A., under a contract for the provision of investment services and a contract for the purchase of shares for a total of 36,000 shares issued by Spoleto Credito e Servizi Soc. Coop. (SCS, former parent of Banca Popolare di Spoleto) for a total of Euro 1,395,365. The shares (partially pledged) were allegedly purchased by the customer through the mediation of the merged Bank, but with a bank transfer in 2001 directly to SCS. The disputed transaction is very old and the protective measures seem to be prescribed, despite the fact that the operations were used for a loan and a guarantee held with the merged bank which were subsequently extinguished. The first hearing is scheduled for 10 February 2020;
- Claim of Euro 1.103 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by the Bank and leased to the counterparty plus amounts paid into a current account. The receiver contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court, which has not yet set a date for the hearing. The receivership has served notice of an injunction for a sum of Euro 1,240,712 and the Bank has opposed the injunction, mainly by reason of the legitimacy of the request, including the stance that an appeal had been made to the Supreme Court. The Judge competent to decide on the opposition to the injunction, however, pending the outcome of the Supreme Court's decision, has ordered the Bank to pay a sum of Euro 1,219,537 million and, at the same time, has obliged the receivership not to take delivery of the sum, until the outcome of the decision by the court of third instance (Supreme Court) concerning the appeal lodged by the Bank against the Court of Appeal's decision. The Supreme Court has not yet set the date for the first hearing;
- Claim of Euro 1.136 million. One of the founding members of a cooperative, which is now in liquidation, has alleged that it had obtained, via the cooperative, various loans granted by other banks, upon the issue of guarantees by the cooperative. In July 2013, the founding member claims it had agreed with the cooperative to fully settle the loans obtained from the latter; as a consequence, the cooperative should have arranged for the member to be freed of its guarantee commitments that had been

assumed towards the other banks. This, according to the founding member, had not occurred, so he summoned all of the members of the Board of Directors before the Court of Perugia with effect from 23 May 2013 (including a former officer of Banca Popolare di Spoleto) and asked that they be convicted, jointly and severally among them and with the cooperative bank, to pay the sum of Euro 1.1 million as compensation for damages. Banca Popolare di Spoleto appealed by claiming its total lack of involvement in the claims made by the counterparty. The judgement was declared interrupted due to the subsequent opening of the compulsory administrative liquidation of the cooperative bank. The counterparty summarised the judgement, but subsequently passed away and the suit was declared interrupted at the hearing of 14 January 2020;

- Claim of Euro 1.0 million. In a preventive summons, the counterparty contends that the merged company Banca Popolare di Spoleto, by exploiting its bargaining power, refused to grant a mortgage loan requested by the company in 2011 of Euro 1 million for a building project in Frascati, demanding a different form of facility be taken out, namely, a mortgage current account, with an undertaking to convert the financing to a mortgage loan on completion of the project. According to the counterparty's defence, the failure to convert the facility to a mortgage loan, in breach of the alleged agreement, would have given rise to severe financial difficulties for the company. The case presented by the adversary, which is totally unfounded, appears to be somewhat pretentious. The case is under investigation and was postponed to 22 January 2020 for the examination of the expert appraisal currently in progress.

* * *

Action for damages against former corporate officers of Banca Popolare di Spoleto S.p.A.

For completeness, it should be noted that, under article 72, paragraph 5, of the CBA, after approval has been obtained from the Bank of Italy, the Extraordinary Commissioners of in charge of special administration of the former subsidiary Banca Popolare di Spoleto, at the end of their mandate, had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager. On 7 April 2016, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto resolved, among other things, confirmation of the action of responsibility already taken by the Extraordinary Commissioners and its extension against the former Statutory Auditors. It should be noted that this action contains a request for the defendants to be sentenced to pay damages of approximately Euro 30 million, broken down according to their respective responsibilities. The proceedings relating to admission of the evidence and the case brought against the former auditors have been combined. The Judge invited the parties to file a list of the documents that they asked to exhibit. The case is under investigation and has been postponed to 6 February 2020 for the admission of the means of investigation (possibly also on the expert appraisal).

Quantitative information

The number of detrimental events recorded by the Group at 31 December 2019 comes to 1,848. The result of the process of collecting adverse events is summarised in the table below:

Event type	% Events	% gross loss of total	% net loss of total	% Recoveries
INTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination), involving at least one member of the bank	0.16%	1.6%	1.1%	32.8%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	2.54%	14.2%	14.2%	4.5%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	0.38%	10.1%	10.2%	0.0%
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)	7.58%	35.3%	35.5%	0.0%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	0.65%	0.5%	0.5%	0.0%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.27%	0.1%	0.1%	0.0%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	88.42%	38.2%	38.4%	0.2%
TOTAL Banco Desio e della Brianza	**100.00%**	**100.00%**	**100.00%**	**1.23%**

The gross operating loss comes to Euro 3,521 thousand, for which provisions were made during the period of Euro 1,720 thousand; recoveries were recorded for Euro 43 thousand, so the net operating loss amounted to Euro 3,478 thousand.

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 2019, including net profit for the year and the effects of merging the former subsidiary BPS, increased to Euro 956.9 million compared with Euro 914.5 million at the end of 2018.

B. Quantitative information

B.1 Shareholders' equity: breakdown

Captions/Amounts	31/12/2019	31/12/2018
1. Share capital	70,693	67,705
2. Share premium reserve	16,145	16,145
3. Reserves	779,762	760,273
- revenue reserves	768,080	760,273
a) legal reserve	98,312	95,216
b) extraordinary reserve	566,386	549,722
d) other	103,382	115,335
- other	11,682	
6. Valuation reserves:	45,384	39,435
- Equity instruments designated at fair value through other comprehensive income	25,092	18,044
- Financial assets (other than equities) designated at fair value through other comprehensive income	1,925	984
- Property, plant and equipment	161	
- Cash-flow hedges	(1,355)	(1,298)
- Actuarial gains (losses) on defined-benefit pension plans	(3,505)	(1,191)
- Special revaluation laws	23,066	22,896
7. Net profit (loss) for the period	44,886	30,955
Total	**956,870**	**914,513**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amounts	31.12.2019		31.12.2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,925		984	
2. Equity instruments	25,448	356	18,129	85
3. Loans				
Total	**27,373**	**356**	**19,113**	**85**

B.3 Valuation reserves of financial assets designated at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Loans
1. Opening balance	**984**	**18,043**	
2. Positive changes	**1,682**	**7,322**	
2.1 Fair value increases	1,682		
2.2 Write-downs for credit risk			
2.3 Reversal of negative reserves on disposal to profit or loss			
2.4 Transfers to other components of shareholders' equity (equity instruments)			
2.5 Other changes		7,322	
3. Negative changes	**-741**	**-273**	
3.1 Fair value decreases			
3.2 Write-backs for credit risk	-65		
3.3 Reversal to income statement from positive reserve: from disposals	-676		
2.4 Transfers to other components of shareholders' equity (equity instruments)		-3	
3.4 Other changes		-270	
4. Closing balance	**1,925**	**25,092**	

B.4 Valuation reserves related to defined-benefit pension plans: changes of the year

Valuation reserves related to defined-benefit pension plans generated a positive effect of Euro 484 thousand (net of the related tax effect of Euro 183 thousand) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.

Section 2 – Own funds and capital adequacy ratios

As required by the 6th update of Circular 262 "Bank financial statements: schedules and rules for preparation", reference should be made to the contents of the public disclosure ("Third Pillar") provided by the Bank at consolidated level.

PART G – BUSINESS COMBINATIONS

Section 1 – Transactions carried out during the year

As already mentioned, on 1 July 2019 the merger of the former subsidiary Banca Popolare di Spoleto S.p.A. with the parent company Banco di Desio e della Brianza S.p.A. took legal effect; this is a business combination between companies under common control as they both belong to the Banco Desio Group and therefore excluded from the scope of IFRS 3 – Business combinations.

The economic substance of the transaction is of on fundamental importance in choosing the right accounting treatment for the Merger. The Merger can be substantially considered a corporate reorganisation of companies belonging to the same group that does not determine the transfer of control of the merged company (Banca Popolare di Spoleto) and that does not have a significant influence on the cash flows of the companies involved in the Merger.

For this reason, the most appropriate accounting policy for this transaction appears to be the "continuity of book values" principle. According to this principle, the net assets of the merged company (Banca Popolare di Spoleto) have to be assumed by the merging company (Banco Desio), emphasising the pre-existing control that Banco Desio had over Banca Popolare di Spoleto, as well as the acquisition values expressed by the latter in the Banco Desio Group's consolidated financial statements (in compliance with the document "Preliminary ASSIREVI Guidelines with regard to IFRS - OPI No. 2 (Revised) - Accounting treatment of mergers in the financial statements" with reference to holding company-subsidiary mergers with the nature of a restructuring.

Consequently, as a result of the Merger, as of 1 January 2019, the balance sheet figures of the former subsidiary Banca Popolare di Spoleto were recognised in the separate financial statements of Banco Desio, just as they were shown in the consolidated financial statements at 31 December 2018, also taking into account the residual values of the purchase price allocation (PPA) which had been defined on 1 August 2014 when assessing and initially recognising the assets acquired and liabilities assumed by Banca Popolare di Spoleto at their respective fair value (acquisition method) in application of IFRS 3. The merger therefore had no effect on the consolidated financial statements.

Section 2 – Transactions carried out after the end of the year

No business combinations were carried out after year-end.

Section 3 – Retrospective adjustments

No retrospective adjustments were made during the year.

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 key management personnel, please refer to the "Report on the Group's Remuneration Policies" at 31 December 2019 prepared in accordance with art. 123-ter CFA, published on the website www.bancodesio.it.

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 2019. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents/Related Parties" section.

Given that, pursuant to art. 5 of Consob Regulation 17221/2010 and art. 154-ter of the CFA, periodic information has to be provided:

a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation[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

there were no transactions worthy of note during the period other than the approval of the merger of Banca Popolare di Spoleto S.p.A. (the "Merged company") with Banco di Desio e della Brianza S.p.A. (the "Parent Company") by the Extraordinary Shareholders' Meetings on 7 and 9 May 2019, respectively, subject to authorization from the Bank of Italy pursuant to arts. 56, 57 and 61 of the CBA.

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

The merger plan in question is detailed in paragraph "Significant events" of the Report on Operations and in "Part G – Business combinations" of the notes where the accounting treatment is explained.

* * *

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.

---

[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)

In this context, there are no transactions outstanding at 31 December 2019 that present particular risk profiles compared with those considered part of the normal course of banking business and related financial activity or that present profiles of atypical/unusual features worthy of note.

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 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 172 million, of which Euro 170.1 million, relating to the securities portfolio.

It should be recalled that at the end of the previous year, a five-year unsecured "bullet" loan was entered into with this Company for a total of 5 million to replace a similar credit line at another bank which was about to expire. This transaction falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers, carried out at market conditions (also on the list of conditions in force for Related Parties according to the specific framework resolution) and included in ordinary credit and loans activity.

The service agreement has also been renewed with the same Company governing the reciprocal rights and obligations inherent to the accounting and reporting activities delegated to Banco di Desio e della Brianza 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 2019, in compliance with the above Procedure:

Counterparty	Nature of Transaction	Amounts/financial conditions (Euro)
Fides - Desio OBG	Joining the "VAT Group" for the three-year period 2019 - 2020 - 2021	Conditions detailed in the resolution
Fides	Joining the tax consolidation for the years 2018-2019-2020	Conditions detailed in the resolution
Fides	Review of economic conditions (effective 1 April 2019)	Conditions detailed in the resolution
Fides	Overdraft facility	Overall increase from Euro 530,000,000 to Euro 580,000,000
Fides	Overdraft facility	Overall increase from Euro 580,000,000 to Euro 785,000,000
BPS	Merger by incorporation with Banco di Desio e della Brianza S.p.A.	As indicated in the Merger Deed, stipulated on 29 May 2019, for accounting and tax purposes, the transactions of the merged company have been included in the financial statements of the Parent Company from 1 January 2019

Counterparty	Nature of Transaction	Amounts/financial conditions (Euro)
Fides	Amendment of the Service Agreement between Banco di Desio e della Brianza S.p.A. and Fides S.p.A.	2020 fee in favour of the Parent Company Euro 145,905.55 (not subject to VAT following the establishment of the VAT Group below)
Desio OBG Srl	Service Agreement between Banco di Desio e della Brianza SpA and Desio OBG Srl	Amount for 2020 in favour of the Parent Company Euro 6,971.07 (service not subject to VAT following the establishment of the VAT Group, as mentioned above)

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 2019 pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of the 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 37 positions existing at 31 December 2019 comes to some Euro 14.5 million and the related utilisations amount in total to some Euro 7.0 million.

As regards funding relationships held by Banco Desio directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2019 amounted to Euro 134.3 million in amounts due to customers (including approximately Euro 103.1 million in securities portfolios).

The above computation excludes transactions and balances with the parent company 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 31.12.2019 (in €/million)
Lending transactions:	
Amount granted	14.5
Amount drawn down	7.0
Funding transactions:	
C/c and d/r amount (a)	31.2
Amount of securities portfolios (b)	103.1
Total (a+b)	134.3

In accordance with Consob Resolution no. 15519 of 27 July 2006, it should be noted that the overall incidence of the balances shown in the previous paragraphs, in terms of equity, financial and economic results, is more or less insignificant.

PART M – INFORMATION ON LEASES

SECTION 1 - LESSEE

Qualitative information

As required by IFRS 16 "Leases", for the contracts that confer the right to control the use of an identified asset (see IFRS 16.B9 and paragraphs B13-B20) for a certain period of time, over the period of use, the Banco Desio Group has assessed whether both of the following requirements have been satisfied:

a) The right to obtain substantially all the economic benefits from use of the identified asset, as described in paragraphs B21-B23;

b) The right to direct the use of the identified asset, as described in paragraphs B24-B30.

Consequently, when a lease contract is identified and the asset is made available for use by the lessee, the Group recognised:

- a liability consisting of payments due for leases (i.e. Lease Liability). This liability is initially recognised at the present value of future payments due for the lease discounted at the interest rate implicit in the lease or, if this rate cannot easily be determined, at the lessee's incremental borrowing rate;
- an asset consisting of the right of use (i.e. RoU Asset). This asset is initially recognised as a sum of the lease liabilities, initial direct costs, payments made on the date or before the effective date of the contract, net of any lease incentives received, and dismantling costs.

The Banco Desio Group adopted some of the practical expedients and recognition exemptions provided for by IFRS 16 "Leases":

- contracts with an underlying asset value of less than or equal to Euro 5,000 at the FTA date ("low-value assets") were excluded;
- contracts with an overall lease term of less than or equal to 12 months ("short-term assets") were excluded;
- the initial direct costs of measuring the RoU Asset on the FTA date were excluded.

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

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

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

Quantitative information

During the first-time adoption of the standard, the following were recognised:

- an "RoU Asset" of Euro 59.2 million for properties and Euro 0.8 million for cars
- a "Lease Liability" for Euro 60.0 million, so there is no initial impact on equity.

Subsequently, during the year, charges of Euro 11,633 thousand were recorded in connection with lease contracts, of which Euro 1,220 thousand recognised under "Interest and similar expense" and Euro 10,413 thousand under "Net adjustments to property, plant and equipment" by way of depreciation of the right of use, with an increase of Euro 657 thousand compared with the costs that would have arisen in application of IAS 17.

In particular, the depreciation recognised in the income statement refers:

- for Euro 295 thousand to cars,
- for Euro 10,118 thousand to properties.

Overall costs for the year referring to lease contracts and not falling within the application of IFRS 16 (low-value assets and short-term assets) amount to Euro 1,470 thousand.

With reference to the "Lease liability" recognised at 31 December 2019, equal to Euro 51,199 thousand, a breakdown by residual maturity of the liabilities is shown below:

- Euro 9,666 thousand within 12 months;
- Euro 16,905 thousand from 1 to 3 years;
- Euro 11,745 thousand from 3 to 5 years;
- Euro 12,883 thousand over 5 years.

SECTION 2 - LESSOR

Qualitative information

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

Quantitative information

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

	31.12.2019				31.12.2018			
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	187,869	28,562	159,307	42,539	221,579	36,305	185,274	44,467
- of which leaseback agreements	13,609	2,530	11,079	3,605	16,761	3,111	13,650	3,743
Total	**187,869**	**28,562**	**159,307**	**42,539**	**221,579**	**36,305**	**185,274**	**44,467**

	31.12.2019			31.12.2018		
Falling due	Gross investment	Deferred profit	Net investment	Gross investment	Deferred profit	Net investment
- Within one year	2,873	51	2,822	7,018	110	6,908
- Between one and two years	9,373	384	8,989	7,601	247	7,354
- Between two and three years	20,602	1,654	18,948	13,720	821	12,899
- Between three and four years	7,557	709	6,848	25,278	2,683	22,595
- Between four and five years	9,051	676	8,375	7,584	968	6,616
- Beyond five years	138,413	25,088	113,325	160,378	31,476	128,902
Total	**187,869**	**28,562**	**159,307**	**221,579**	**36,305**	**185,274**

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

Total interest recognised as income in the year is included in the caption "Loans to customers – loans" and amounts to Euro 2,769 thousand (Euro 3,910 thousand last year); of this, Euro 2,590 thousand relates to index-linked contracts, of which Euro 160 thousand relates to leaseback agreements (in 2018 Euro 3,406 thousand related to index-linked contracts, of which Euro 217 thousand related to leaseback agreements).
Financial income pertaining to subsequent years amounts to Euro 28,562 thousand, of which Euro 2,530 thousand relates to leaseback agreements (last year Euro 36,305 thousand and Euro 3,111 thousand, respectively).

Certification pursuant to art. 154-bis of Legislative Decree 58/98

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/98

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 2019.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the financial statements at 31 December 2019 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.

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, 6 February 2020

Chairman	Financial Reporting Manager
Stefano Lado	Mauro Walter Colombo

Auditors' report

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

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 December 31, 2019, 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 December 31, 2019, 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 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.

Merger by incorporation of Banca Popolare di Spoleto S.p.A. with Banco di Desio e della Brianza S.p.A.	
Description of the key audit matter	As represented in Explanatory Notes *Part B - Information on the balance sheet, Part F - Information on shareholders' equity* and *Part G - Business combinations*, the merger of the subsidiary Banca Popolare di Spoleto S.p.A. with Banco di Desio e della Brianza S.p.A. took legal effect on July 1, 2019, following the approval of the merger plan and the decisions made during the Shareholders' Meetings held on May 7 and 11, 2019, respectively; the merger of Banca Popolare di Spoleto S.p.A. had accounting and fiscal effects in Banco di Desio e della Brianza S.p.A.'s financial statements from January 1, 2019. This merger, amid entities under common control, is excluded by the scope of IFRS 3 – Business combinations. Therefore, as reported in the explanatory notes, the balance sheet figures of the former subsidiary were recognized in the separate financial statements of the Bank as they were shown in the consolidated financial statements as at December 31, 2018. In consideration of the significance of this transaction and the related share capital increase due to the exchange ratio, we consider that the merger by incorporation of Banca Popolare di Spoleto S.p.A. with Banco di Desio e della Brianza S.p.A. 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, the following activities have been carried out: - reading of the minutes of the Board of Directors' meetings of Banco di Desio e della Brianza S.p.A. and of Banca Popolare di Spoleto S.p.A. that approved the merger plan; - reading and analysis of the merger plan approved by the Board of Directors of Banco di Desio e della Brianza S.p.A. and of Banca Popolare di Spoleto S.p.A. held on December 11, 2018; - reading of the minutes of the Shareholders' meetings of Banca Popolare di Spoleto S.p.A. and of Banco di Desio e della Brianza S.p.A. held on May 7 and 11, 2019, respectively; - reading of the correspondence exchanged with the supervisory bodies; - verification of the accuracy of the book entries of the share capital increase due to the defined exchange ratio; - analysis of the data migration process put in place by Banco di Desio e della Brianza S.p.A., in order to verify the completeness and the accuracy of migrated data and verification of the settlement of transitional accounts related to transactions connected to such migration. Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.

Deloitte.

Classification and valuation of non-performing loans to customers measured at amortised cost classified as doubtful loans and unlikely to pay	
Description of the key audit matter	As represented in Explanatory Notes *Part B – Information on the balance sheet* and *Part E – Information on risks and related hedging policy*, as at December 31, 2019, also following the merger by incorporation above mentioned, 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 Euro 620 million (Euro 383 million at the end of 2018), while allowances for impairment amount to Euro 283 million (Euro 170 million at the end of 2018); the coverage ratio increases from 44.3% to 45.6%. In particular, the above-mentioned non-performing loans are composed by net doubtful loans for Euro 119 million (gross value of Euro 310 million and coverage ratio equal to 61.6% compared to 62.1% at the end of 2018) and net unlikely to pay loans for Euro 215 million (gross value of Euro 307 million and coverage ratio equal to 30.0% compared to 30.2% at the end of 2018). 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 transfers among 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 recoverable amount, the expected collection period and collaterals, whereas in place, according to methodologies set out in Bank's credit policies for each category in which loans are classified. In consideration of the complexity of the estimation process held by the Bank, 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 non-performing 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 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 have 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

Deloitte.

and valuation, financial hypothesis and assumptions applied by the Bank;

- comparative analysis procedures, in historical series and for each class of non-performing loans, through the calculation of coverage indices and the comparison of such indices with the comparable information relating to previous periods and with data derived from market;
- analysis of the events occurred after the reference date of the balance sheet in order to make considerations regarding the evaluations that have been made.

Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.

Classification and valuation of performing loans to customers measured at amortised cost	
Description of the key audit matter	As represented in Explanatory Notes *Part B – Information on the balance sheet* and *Part E – Information on risks and related hedging policy*, as at December 31, 2019, also following the merger by incorporation above mentioned, performing loans to customers of Banco di Desio e della Brianza S.p.A. amount to a gross book value of Euro 9,224 million (Euro 5,977 million at the end of 2018), while allowances for impairment amount to Euro 45 million (Euro 27 million at the end of 2018); the coverage ratio remains stable and equal to 0.5%. 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;

Deloitte.

- examination of the evaluation models and the assumptions adopted by the Bank;
- verification, on a sample of performing loans, of their proper classification;
- comparative analysis procedures, in historical series, through the calculation of coverage indices and the comparison of such indices with the comparable information relating to previous periods and with data derived from the market;
- analysis of the events occurred after the reference date of the balance sheet in order to make considerations regarding the classification and evaluation that have been made.

Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.

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

Deloitte.

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.

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 April 26, 2012 as auditors of the Bank and the Group for the years from December 31, 2012 to 31 December 31, 2020.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Banco di Desio e della

Deloitte.

Brianza S.p.A. as at December 31, 2019, 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 December 31, 2019 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 December 31, 2019 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the 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
March 10, 2020

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 31/12/2019 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 called for 23 April 2020, to which this Report is addressed. The Shareholders' Meeting is therefore called to vote on renewal of the Board (and of the Board of Directors) with the procedures contained in art. 27 of the Articles of Association.

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, based on a reasoned proposal made by the Board of Statutory Auditors. This assignment will therefore expire with the separate and consolidated financial statements at 31 December 2020.

Based on current legislation, most recently amended by European Regulation 537/2014 ("European Regulation") and by Legislative Decree 135/2016, the audit mandate cannot be renewed again. A new audit assignment must be entrusted through a specific selection procedure to be carried out with the criteria and methods set out in art. 16 of the said European Regulation. The Board of Statutory Auditors, acting as the Internal Control and Audit Committee pursuant to art. 19 paragraph 2, letter a) of Legislative Decree 39/2010 ("Committee"), deemed it appropriate to bring forward the start of the selection procedure for the audit assignment for the period 2021-2029, in consideration of the prohibition provided by art. 5 of the European Regulation which, to protect the independence of auditors, requires that they refrain from providing certain types of services other than the audit of accounts already from the year immediately preceding the first year of audit (the so-called "cooling-in period"). In view of the above, it was deemed appropriate to foresee that the same Shareholders' Meeting called for 23 April 2020 will also be called upon to resolve on the choice of the new independent auditors of Banco di Desio e della Brianza S.p.A., as well as to approve the audit fee and related adjustment criteria, based on a specific recommendation of the Committee. In accordance with art. 16 of the European Regulation, since this is an audit assignment for a Public Interest Body as defined by art. 16 of Legislative Decree 39/2010, the proposal made by the Committee - which is submitted to you in a specific document to which reference should be made in full - provides for two possible alternatives for the assignment and explains why there is a preference for one of the two.

****

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 Code of Conduct for Listed Companies as well as 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' Meetings, 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;
- 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;

- -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;
- 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;
- verified compliance with the laws and regulations on the training process, the format and the financial statements for 2019, as well as compliance with the laws and regulations in force and consistency with the resolutions adopted by the Board of Directors;
- performed the supervisory activity in the various profiles required by art. 19 of Legislative Decree 39/2010 as an Internal Control and Audit Committee;
- received on 10 March 2020 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;
- received on 10 March 2020 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;
- 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 19 December 2019 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. We examined the content of the letter on 9 January 2020 and we found that the Recommendations were taken into account in the Report on Corporate Governance and Ownership Structures where an appropriate summary table has also been prepared in an annex. The Recommendations were also considered during the self-assessment. We also noted that on 31 January 2020 , the 2020 Corporate Governance Code was issued with substantial changes that follow four fundamental guidelines: sustainability, engagement, proportionality and simplification. The companies that adopt the Code will apply it from the first financial year that starts after 31 December 2020, informing the market in the Corporate Governance Report to be published during 2022;
- 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;
- 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.

****

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 16 meetings that we held in 2019.

We monitored the functioning and compliance with the Organisational Model adopted pursuant to Legislative Decree 231/2001 (OM 231) and reported every six months to the Board of Directors on the monitoring and verification activities performed and their results.

The SB received the requested six-monthly reports from all the Functions involved, which revealed the compliance and adequacy of the OM and no reports of its violation emerged. For reports from the whistleblowing system, please refer to the relevant paragraph.
During 2019, updating activities of the OM 231 continued following the regulatory and organisational changes. We met the Working Group dedicated to the revision of the OM 231 with whom we shared the planning activities, which also continue during 2020 in an increasingly systematic way, also by virtue of a more rational allocation of activities among the main functions involved (Internal Audit, Compliance, Organisation and Secretariat).

The latest 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 16 September 2020 (subject to the favourable opinion of the Supervisory Board).

For the sake of completeness, it should be noted that the latest crimes included in the specific list concern certain types of IT crimes (Law 133 of 18.11.2019) and tax offences (Law 157 of 19.12.2019).

****

We provide below the specific details required by Consob Communication 1025564 of 6 April 2001 and subsequent amendments.

More significant economic, financial and capital transactions

By participating in meetings of the Board of Directors, Executive Committee and Board Committees, we received adequate information about the activities and the major economic and financial transactions during 2019, 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:

Absorption of Banca Popolare di Spoleto S.p.A. by Banco di Desio e della Brianza S.p.A.

On 1 July 2019, the merger (the "Merger" or the "Transaction") of Banca Popolare di Spoleto S.p.A. (the "Merged Company") with Banco di Desio e della Brianza S.p.A. (the "Bank" or the "Parent Company") took effect in execution of the Merger Project and the respective Shareholders' Meeting resolutions approved on last 7 and 9 May 2019.

The Merger completed the operational and business integration that has been in progress for some time between the Parent Company and BPS, making it possible to achieve important benefits in terms of cost and revenue synergies, simplification and overall rationalisation of the Banco Desio Group's organisational structure. The synergies resulting from the Merger make it possible, among other things, to allocate additional resources to the commercial development of the Banco Desio Group, 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 Merger has been 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 headquarter in Spoleto that will provide services for the entire Banco Desio Group, while at the same time ensuring efficient reorganisation of the structures in line with the new entity deriving from the Merger.

As a result of the Merger, shareholders of the merged company are able to participate directly in the broader industrial and development project of the Banco Desio Group, while benefiting from the liquidity of the Bank's shares.

In approving the Merger project, the Boards of Directors of the two banks decided on an Exchange Ratio of 1 Banco Desio ordinary share for every 5 BPS ordinary shares. The Merger was approved by the Extraordinary Shareholders' Meetings of the merged bank and of the Parent Company on 7 and 9 May 2019, subject to obtaining authorization from the Bank of Italy pursuant to arts. 56, 57 and 61 of CBA.
To service the exchange, the Parent Company authorised a Capital Increase for a maximum nominal amount of Euro 2,987,819.64 by issuing up to a maximum of 5,745,807 ordinary shares, with regular rights, with an indication of the nominal value of Euro 0.52, to be assigned to the shareholders of the Merged company on the basis of the Exchange Ratio.

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

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

As explained in the notes to the separate financial statements at 31 December 2019, since it is a business combination between companies belonging to the same Banco Desio Group (business combination between entities under common control), it is excluded from the scope of application of IFRS 3 - Business combinations. So, for the accounting treatment, reference was made to prevailing practice and, in particular, to the "ASSIREVI preliminary guidelines on IFRS - OPI No. 2 (Revised) - Accounting treatment of mergers in the financial statements" document with reference to mergers between parent companies and subsidiaries essentially for the purpose of restructuring, since it did not have a significant influence on the cash flows of the companies involved in the Merger. As a consequence, all of the balance sheet figures of the Merged Company were recognised in the financial statements of the Parent Company, continuing the asset values expressed in the consolidated financial statements at 31 December 2018 and therefore without generating any impact on the consolidated financial statements.

Ratings

On 31 May 2019, following its annual review, Fitch Ratings Ltd. confirmed all the ratings awarded to the Bank. The updated ratings are the following:

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

Atypical and/or unusual transactions, intercompany or with related parties/associated persons

There were no atypical or unusual transactions during 2019.

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 Executive Committees and the Board of Directors.

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.
There were no transactions of this type during 2019 that are considered worthy of note, apart from the Merger explained above.

Inspection activities of the Supervisory Authorities

On 8 March 2019, the Bank of Italy began an inspection on the Banco Desio Group pursuant to articles 54 and 68 of the CBA. The inspection was completed on 12 June 2019. The Bank of Italy notified Banco Desio on 10 September 2019 that the outcome of the inspection was positive. The Board of Statutory Auditors constantly followed the inspection activities, meeting the inspectors on various occasions during the work; likewise, the Board of Statutory Auditors followed the answers given to the same report, which were finalised by Board resolution on 9 October 2019 (i.e. within the 30-day deadline). The Board of Statutory Auditors expressed a favourable opinion on the content of the answers to the extent of its sphere of competence.

Complaints as per ex art. 2408 of the Italian Civil Code

During 2019, we did not receive any complaints pursuant to art. 2408 of the Italian Civil Code.

Complaints

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 2019 (a total of 453, of which 17 relating to investment services) were duly examined by the Complaints Office, which carried out for the required formalities; of such complaints, 335 were rejected, 117 were accepted and was still under discussion as of 31 December 2019. In addition, the Bank of Italy sent 32 requests for information on the basis of complaints submitted to it by customers.

Reports of the Independent Auditors pursuant to law

On 10 March 2020, 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 2019, 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.

Rules for the selection of the independent auditors and for the assignment to them and to their network of tasks other than the independent audit

In consideration of the overall reform of the relevant legislation[4] (which requires, among other things, the definition of a "procedure for the selection of the independent auditors"), as well as the expiry of the current audit assignment conferred on Deloitte & Touche S.p.A. and the new legislation on independence (art. 5 of (EU) Regulation 537/2014) which also modified the so-called "cooling-in period" relating to the services prohibited to the audit firm, the Rules for the selection of the independent auditors and for the assignment to them and to their network of other assignments other than the independent audit were

[4] The key measures of this reform are recalled: (i) Regulation (EU) 537/2014 of 16 April 2014 relating to the legal review of the accounts of Public Interest Bodies (EIP), which is directly applicable in member states from 17 June 2016; (ii) the Directive (EU) 2014/56 of 16 April 2014, which is included in our legislation D.Lgs. 135/2016 (which amended the provisions of D.Lgs. 39/2010) effective August 5, 2016.

approved by the Board of Directors on 9 October 2019, with the favourable and binding opinion expressed by the Board of Statutory Auditors on 3 October 2019.

Other tasks assigned to the Independent Auditors and to other entities linked to them and related costs

The assignments conferred, after an assessment of independence by the Board of Statutory Auditors for non-audit services, pursuant to specific resolutions of the Board of Directors during 2019 by the Banco Desio Group to Deloitte & Touche S.p.A. as well as to the other entities belonging to the same network:

1) Deloitte & Touche S.p.A. was entrusted with the task of issuing a comfort letter relating to the renewal of the EMTN programme of Banco di Desio e della Brianza S.p.A., for which the fees were set at Euro 40,000 + VAT.
2) Deloitte & Touche S.p.A. was assigned the task of issuing a comfort letter relating to the issue of Euro 500 million within the Covered Bond Programme of Banco di Desio e della Brianza S.p.A., for which the fees were set at Euro 30,000 + VAT.
3) Deloitte & Touche S.p.A. was entrusted with providing methodological assistance for the development of activities for the definition of ESG policies and risks, as part of the integrated sustainability path in the strategic choices, for which the fees were set at Euro 80,000 + VAT .
4) Deloitte Consulting S.r.l. was assigned the task of providing methodological support for the assessment/definition of the contractual system relating to outsourced IT services, for the benchmarking activities of the IT and KPI services provided, for the assessment of the congruence of services and constraints provided by the contractual system, for which the fees were set at Euro 35,000 + VAT.
5) Deloitte Risk Advisory S.r.l. was assigned the task of providing methodological assistance in obtaining authorisation to use the AIRB internal systems for the management and measurement of credit risk and further methodological support activities in the areas of Recovery Plan, RAF, intraday liquidity management, formalisation of the funding plan process and contingency funding plan, stress test planning and risk management, resolution activities, strategic risk and formalisation of the capital plan, for which the fees were set at Euro 1,025,000 + VAT.

These tasks are subject to specific monitoring by the Board of Statutory Auditors, with the support of the Financial Reporting Manager, in accordance with the newly adopted Regulations. The first systematic report produced by the Function was examined by the Board on 27 January 2020 without any matters being raised.

Pursuant to art. 19, paragraph 1, letter e) of Legislative Decree 39/2010, we carried out the activities needed to verify and monitor the Auditors' independence, also in the light of articles 10, 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 10 March 2020, pursuant to the art. 6, paragraph 2, letter a) of EU Regulation 537/2014 and pursuant to paragraph 17 of the ISA Italia 260.

Relationship with the Independent Auditors and any comments

During 2019, 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.

Opinions issued by the Board of Statutory Auditors

During 2019, we issued opinions, also in accordance with the law and regulations, adopted during specific collegial meetings, namely:

- on 6 March 2019, we issued a favourable opinion on the "Annual Report on the Remuneration Policies of the Banco Desio Group";
- on 25 February 2019 we expressed our favourable opinion on the "Audit Plan" for 2019 prepared by the Internal Audit Department;
- on 25 March 2019, 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 15 April 2019 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 2018";
- on several occasions we have expressed our favourable opinion, to the extent of our sphere of competence, on the updating of the main internal company regulations (Governing Bodies Regulations, Flows Regulations, etc.).

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 following main topics addressed here:

- adjustments made to the Process Policies/Regulations relevant to the internal control and risk management system;
- application of the EU regulation on the protection of personal data (GDPR);
- approval of the ESG policies in the credit granting and investment decision-making processes, the sustainability governance policies and the 2020-22 Sustainability Plan of the Banco Desio Group;
- progress of projects on "Corporate Social Responsibility";
- update of the "materiality matrix" for the Non-Financial Statement (NFS);
- update on the performance of the NPL management plan and on the progress of the entry of loan positions among "Unlikely To Pay" (UTP) loans.

Frequency and number of meetings of the Board of Directors, Board Committees and Board of Statutory Auditors

In order to acquire the information needed for the performance of our supervisory duties, we inform you and acknowledge that we:

- attended the Shareholders' Meetings held on 28 March 2019 (Ordinary Shareholders' Meeting) and 9 May 2019 (Extraordinary Shareholders' Meeting);
- took part in 15 meetings of the Board of Directors and 13 meetings of the Executive Committee held during 2019;
- performed 63 collective and individual audits, of which 16 as 231 Supervisory Body and 9 at the branches;
- took part in 15 meetings of the Control and Risk Committee, 6 of the Remuneration Committee, 10 of the Nominations Committee and 5 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 2019 to the Board of Directors at the board meeting on 27 February 2020, as required by the "Internal Regulations of the Board of Statutory Auditors" (adopted by the Board 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.

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 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 ISC Officer) 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 Board resolution on 12 December 2019 as regards information flows. 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", 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 , 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 (except for those relating to the Supervisory Body itself) and assesses them together with the members of the Supervisory Body. 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 2019, the Chairman of the Supervisory Body did not receive any reports from the whistleblowing system as a result of which violations of the Model might have emerged after an investigation by the Supervisory Body.

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; 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.).

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 Financial Reporting Manager, 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 2019, we acknowledge that on 6 February 2020 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 regular procedures. To this end, the Management Control and Coordination Regulation of the Banco Desio Group was last updated on 12 December 2019.

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 (Fides and BPS up to the date of the Merger) . We also attended several joint meetings with them, without receiving evidence of significant events to be mentioned in this Report.

Code of Conduct for Listed Companies

In addition to what is indicated in the introduction to this Report 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, the Board of Statutory Auditors checked that the Board meeting had used correct criteria for assessing the directors' independence.

The Board of Statutory Auditors 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 2019, 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.
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 2019, there were no significant changes in the overall corporate governance structure of the Bank and the Group, apart from the Merger already mentioned in a specific paragraph.
Complete information on these arrangements is provided in the Annual Report on Corporate Governance and Ownership Structure, which we have reviewed carefully and to which reference is made in full as regards also the management of corporate information, conflicts of interest, etc.

Remuneration and incentive policies

During 2019, we verified, with positive results, the methods used to ensure that the Bank's remuneration policies complied 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 7 February 2019 and prepared in accordance with applicable rules with regard to policies and practices of remuneration and incentive in banks and banking groups.

The report explains the Group's remuneration policies and procedures for 2019, as well as the application during 2018 of the policies approved the previous year.

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 27 February 2020 as a separate document with respect to the report on operations accompanying the consolidated financial statements at the same date, namely 31 December 2019. Previously, during the meeting of the Board of Statutory Auditors on 24 February 2020, we were presented with a draft of the Consolidated non-financial statement in accordance with Legislative Decree 254/2016 - 2019 Sustainability Report by the Manager in charge of its preparation.

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 10 March 2020, 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 Legislative Decree 254/2016 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 "2019 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 (arts. 147-ter and 148 CFA), 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;
- the organisational and control structures in the field of Anti-Money Laundering, in line with the provisions of the law and the Supervisory regulations;
- 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;
- application of the principles of correct 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 2019

We examined the draft financial statements at 31 December 2019, made available to us under the terms of law, on which we report as follows.

The financial statements for the year ended 31 December 2019 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 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.

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.

*****

Consolidated financial statements at 31 December 2019

We have also examined the consolidated financial statements at 31 December 2019, 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:
- 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 10 March 2020 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.

This opinion is the result of all the activities carried out by the Board of Statutory Auditors during the three-year term of office, now expiring, an activity that we consider appropriate to summarise below, in accordance with the Rules of Conduct of the Board of Statutory Auditors of Listed Companies no. Q.1.6 issued by the National Council of Chartered Accountants and Accounting Experts:

Year	No. of meetings	(of which as SB)
2017	68	19
2018	63	17
2019	63	16

The overall duration of the meetings of the Board of Statutory Auditors in the three-year period was approximately 420 hours, in addition to participation in the meetings of the other Corporate Bodies.
We therefore recommend that you approve the financial statements at 31 December 2019 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;
- what is contained in the recommendations of the Supervisory Authorities;
- the dividend distribution policies approved by the Board of Directors;

we also express our opinion in favour of the proposal to allocate the net profit for the year of Euro 44,886,464.14 as follows:

10% to be allocated to the legal reserve Euro 4,488,646.00
10% to be allocated to the statutory reserve Euro 4,488,646.00

To the shareholders:

Euro 0.1036 for each of the 122,745,289 ordinary shares Euro 12,716,411.94

Euro 0.1244 for each of the 13,202,000 savings shares Euro 1,642,328.80

To the charity reserve Euro 50,000.00

further allocation to the statutory reserve Euro 21,500,431.40

Total Euro 44,886,464.14

At the end of our assignment, we would like to thank you for the trust you placed in us, as well as to thank the Bank's structures for their collaboration in the supervisory activity that we have carried out as part of our role.

Desio, 19 March 2020

The Statutory Auditors
Giulia Pusterla – Chairman
Rodolfo Anghileri
Franco Fumagalli Romario