Gruppo Banco Desio

PRESS RELEASE

CONSOLIDATED RESULTS AT 31 MARCH 2018

The Board of Directors of Banco di Desio e della Brianza S.p.A. has approved this "Consolidated Quarterly Report at 31 March 2018 – Press Release"

- ✓ **CONSOLIDATED NET PROFIT (pertaining to the Parent Company) of Euro 9.5 million (Euro 8.6 million at 31 March 2017) INCREASING OF 9.8% conditioned by the sharp compression of interest income due to the expansive monetary policy**

- ✓ **HIGH LEVELS OF COVERAGE of both non-performing and performing loans[1]**
  Coverage ratio[2] of doubtful loans at 64.2% and gross of write-offs at 67.4% (57.2% and 61.1% at 31.12.2017)
  Coverage ratio[2] of total non-performing loans at 54.4% and gross of write-offs at 57.5% (formerly 49.0% and 52.4%)
  Coverage of performing loans at 0.59% (comparative 0.45%)

- ✓ **HIGH AND STABLE CAPITAL ADEQUACY WITH AN AMPLE MARGIN OVER AND ABOVE WITH THE MINIMUM CET1 REQUIREMENT**

Capital ratios	Reported at 31.03.2018[3]			2018[4] SREP [B]	SREP Buffer [A] – [B]
	Banco Desio Brianza	Banca Popolare di Spoleto	Banco Desio Group [A]		
CET 1	17.40%	10.12%	11.65%	6.625%	+ 5.02%
TIER 1	17.45%	10.12%	11.77%	8.225%	+ 3.54%
Total Capital Ratio	19.92%	10.83%	13.50%	10.375%	+ 3.13%

***Group shareholders' equity* Euro 872.1 million (previously Euro 927.1 million) which includes the negative effect of FTA of IFRS 9 for Euro 54.4 million, which reflects the introduction of scenarios for the sale of NPLs in line with the sales programme already announced by the Group for a gross value of Euro 1.1 billion.**

***Own funds* of Euro 1,074.9 million[5] (CET1 + AT1 Euro 936.8 million + T2 Euro 138.1 million) (formerly Euro 1,089.1 million)**

- ✓ **LOANS TO ORDINARY CUSTOMERS: Euro 9.7 billion (-1.5% since the end of the prior year)**
  "Gross doubtful loans/Gross loans" ratio of 11.03% (formerly 10.80%)
  "Net doubtful loans/Net loans" ratio of 4.33% (formerly 5.01%)

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[1] The increase in levels of coverage compared with 31 December 2017 reflects the impact of First-Time Adoption of IFRS 9 – Financial Instruments

[2] Also considering non-performing loans of the subsidiary Banca Popolare di Spoleto S.p.A., shown gross of write-downs.

[3] In application of the transitional provisions introduced by Regulation (EU) 2017/2395 of 12 December 2017 aimed at mitigating the impact of the introduction of IFRS 9 on Own Funds and Capital Ratios.

[4] Based on the Bank of Italy's instructions sent to the Parent Company, which contained the minimum capital requirements to be met at consolidated level following completion of the Supervisory Review and Evaluation Process (SREP): CET1 of 6.625%, binding - pursuant to art. 67-ter TUB - for 4.8% (minimum regulatory requirement of 4.5% and additional requirements of 0.3%) with the difference represented by the capital conservation buffer, Tier1 ratio of 8.225%, binding - pursuant to art. 67-ter TUB - for 6.4% (minimum regulatory requirement of 6.0% and additional requirements of 0.4%) with the difference represented by the capital conservation buffer, and Total Capital Ratio of 10.375%, binding - pursuant to art. 67-ter TUB - for 8.5% (minimum regulatory requirement of 8% and additional requirements of 0.5%) with the difference represented by the capital conservation buffer.

[5] After a pay-out of 40%.

"Gross non-performing loans/Gross loans" ratio of 15.21% (formerly 15.11%)
"Net non-performing loans/Net loans" ratio of 7.60% (formerly 8.35%)
The above figures do not yet reflect the expected benefits from deconsolidation of Banco Desio Group receivables for a gross value of Euro 1.0 billion through the implementation of the GACS transaction announced in March 2018.

- ✓ **TOTAL CUSTOMER DEPOSITS: Euro 25.2 billion (+0.2%), of which DIRECT DEPOSITS Euro 11.02 billion (+0.4%), with a ratio of Ordinary customer loans to Direct deposits of 88.1% (previously 89.8%) and INDIRECT DEPOSITS of Euro 14.2 billion (in line with the end of the prior year)**

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The Board of Directors of Banco di Desio e della Brianza S.p.A., which met on 10 May 2018, approved the "Consolidated quarterly report on operations at 31 March 2018 - Press release" (hereinafter "Report"), which has been prepared on a voluntary basis.

This Report has also been prepared in order to determine the result for the period, so that own funds and prudential coefficients can be calculated.

As regards the criteria for recognition and measurement, this Interim Report has been prepared, by applying the IAS/IFRS in force at the reference date as follows.

The amount in the tables and the schedules of the Report are expressed in thousands of Euro.

The Report is subject to a limited audit by Deloitte & Touche SpA in order to calculate the portion of the interim result to be included in own funds.

First-time application of IFRS 9 and IFRS 15

IFRS 9 "Financial instruments"

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

- definition of business models for the management of financial assets and the allocation of financial instruments held in individual portfolios,
- structuring of the model for calculating the expected loss on loans and other financial instruments held within the "held to collect" and "held to collect & sell" business models for performing exposures (stage 1 and stage 2),
- integration of analytical assessments being performed at 31 December 2017 on impaired financial assets (stage 3) for multi-scenario assumptions, in which "disposal scenarios" are also considered, in line with the declared business plan targets for which recovery of impaired assets is expected, also through their sale,

the balance sheet effects summarised in the table were recorded at 1 January 2018.

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

* Including the effect on minority interests for Euro 9.7 million

Overall, the effect of first-time adoption (FTA) of IFRS 9 on the Group shareholders' equity was therefore equal to Euro 54.4 million, while the effect on minority interests was Euro 9.7 million, for a total of 64.1 million.

IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenues from contracts with customers", replacing IAS 18 "Revenues" and IAS 11 "Construction Contracts" and related interpretations, also came into force on 1 January 2018.

The standard establishes a new model for revenue recognition, which will apply to all contracts with customers except for those that fall within the scope of other IAS/IFRS, such as leases, insurance contracts and financial instruments. The new model, in particular, provides for the recognition of revenue based on the so-called "5 steps": (1) identification of the contract with the customer, (2) identification of the performance obligations, (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligations in the contracts and (5) recognition of the revenue at the moment the performance obligation is fulfilled.

Based on our analyses, the main effect of FTA of IFRS 15 is to require more disclosures; in this regard, the most detailed disclosures required by the standard and by the Bank of Italy in its 5th update of Circular 262 "Bank financial statements: schedules and rules for preparation" will be provided in the 2018 financial statements.

Presentation of comparative figures

For the purpose of preparing this consolidated quarterly financial report, **the comparative figures for the balance sheet (at 31 December 2017) and income statement (at 31 March 2017) have been conventionally restated in the financial statement schedules required by the fifth update of Circular 262**, continuing to represent and measure the balance sheet and income statement figures determined in application of the accounting standards in force at the time (in particular IAS 39 "Financial instruments: recognition and measurement"). Consequently:

- the balance sheet figures at 31 December 2017 do not include the effects of FTA of IFRS 9 as summarised in the previous table;
- the income statement figures for the quarter in question reflect the application of IFRS 9 from 1 January 2018, the date of recognition of the effects of first-time adoption, and are therefore not directly comparable with the equivalent figures of the previous year.

Results of the period

Key figures and ratios

Table 1 – Balance sheet

Amounts in thousands of Euro	31.03.2018	31.12.2017	Change amount	Change %
Total assets	14,057,991	13,995,822	62,169	0.4%
Financial assets	2,320,403	2,281,149	39,254	1.7%
Due from banks [1]	1,374,478	1,218,060	156,418	12.8%
Loans to customers [1]	9,726,422	9,861,862	-135,440	-1.4%
Property, plant and equipment	179,459	180,566	-1,107	-0.6%
Intangible assets	17,774	17,946	-172	-1.0%
Due to banks	1,706,915	1,705,928	987	0.1%
Due to customers	9,350,321	9,272,337	77,984	0.8%
Debt securities in issue	1,670,104	1,708,320	-38,216	-2.2%
Shareholders' equity (including Net profit/loss for the period) [2]	872,116	927,056	-54,940	-5.9%
Own Funds	1,074,888	1,089,121	-14,233	-1.3%
Total indirect deposits	14,150,831	14,148,878	1,953	0.0%
of which: Indirect deposits from ordinary customers	*8,945,371*	*8,946,523*	*-1,152*	*0.0%*
of which: Indirect deposits from institutional customers	*5,205,460*	*5,202,355*	*3,105*	*0.1%*

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

Table 2 – Income statement [3]

Amounts in thousands of Euro	31.03.2018	31.03.2017	Change amount	Change %
Operating income	100,611	103,610	-2,999	-2.9%
of which: Net interest income	*53,544*	*57,367*	*-3,823*	*-6.7%*
Operating costs	70,864	70,671	193	0.3%
Result of operations	29,747	32,939	-3,192	-9.7%
Profit (loss) from operations after tax	8,990	10,668	-1,678	-15.7%
Non-recurring profit (loss) after tax	589	-1,724	2,313	n.s.
Profit for the period [2]	9,487	8,644	843	9.8%

[2] pertaining to the Parent Company;

[3] from the Reclassified income statement.

Table 3 – Key figures and ratios

	31.03.2018	31.12.2017	Change amount
Capital/Total assets	6.2%	6.6%	-0.4%
Capital/Loans to customers	9.0%	9.4%	-0.4%
Capital/Due to customers	9.3%	10.0%	-0.7%
Capital/Debt securities in issue	52.2%	54.3%	-2.1%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) [4]	11.6%	11.5%	0.2%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) [4]	11.8%	11.6%	0.2%
Total Own Funds/Risk-weighted assets (Total capital ratio) [4]	13.5%	13.6%	-0.1%
Financial assets/Total assets	16.5%	16.3%	0.2%
Due from banks/Total assets	9.8%	8.7%	1.1%
Loans to customers/Total assets	69.2%	70.5%	-1.3%
Loans to customers/Direct customer deposits	88.3%	89.8%	-1.5%
Due to banks/Total assets	12.1%	12.2%	-0.1%
Due to customers/Total assets	66.5%	66.3%	0.2%
Debt securities in issue/Total assets	11.9%	12.2%	-0.3%
Direct customer deposits/Total assets	78.4%	78.5%	-0.1%
	31.03.2018	**31.03.2017**	**Change amount**
Cost/Income ratio	70.4%	68.2%	2.2%
Net interest income/Operating income	53.2%	55.4%	-2.2%
Result of operations/Operating income	29.6%	31.8%	-2.2%
Profit (loss) from operations after tax/Capital [5] - annualised [6]	4.2%	5.4%	-1.2%
ROE [5] - *annualised* [7] [8]	4.2%	5.1%	-0.9%
Profit (loss) from operations before tax/Total assets (ROA) - annualised [6]	0.4%	0.5%	-0.1%
	31.03.2018	**31.12.2017**	**Change amount**
Net doubtful loans/Loans to customers	4.3%	5.0%	-0.7%
Net non-performing loans/Loans to customers	7.6%	8.4%	-0.8%
% Coverage of doubtful loans [9]	64.2%	57.2%	7.0%
% Coverage of doubtful loans, gross of cancellations [9] [10]	67.4%	61.1%	6.3%
% Total coverage of non-performing loans [9] [10]	54.4%	49.0%	5.4%
% Coverage of non-performing loans, gross of cancellations [9] [10]	57.5%	52.4%	5.1%
% Coverage of performing loans [9]	0.59%	0.45%	0.14%

Table 4 – Structure and productivity ratios

	31.03.2018	31.12.2017	Change amount	%
Number of employees [11]	2,295	2,303	-8	-0.3%
Number of branches	265	265	0	0.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee [12]	4,231	4,233	-2	0.0%
Direct deposits from customers per employee [12]	4,794	4,714	80	1.7%
	31.03.2018	**31.03.2017**	**Change amount**	**%**
Operating income per employee [12] - annualised [6]	175	186	-11	-5.9%
Result of operations per employee [12] - annualised [6]	52	65	-13	-20.0%

[4] capital ratios at 31.03.2018 are calculated in application of the transitional arrangements introduced by EU Regulation 2017/2395; the ratios calculated without application of these arrangements are the following: Common Equity Tier1 10.8%; Tier 1 11.0%; Total capital ratio 12.6%.

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

[6] the amount reported at 31.03.2017 is the final figure at the end of 2017;

[7] the amount reported at 31.03.2017 is the final figure at the end of 2017; ROE recalculated at the end of 2017 taking into account the effects of FTA of IFRS 9 is equal to 5.4%.

[8] the annualised ROE at 31.03.2018 does not take into consideration the annualisation of the Net non-recurring operating profit;

[9] the coverage ratios of non-performing and performing loans at 31.03.2018 reflect the impact of IFRS 9

[10] also considering non-performing loans of the subsidiary Banca Popolare di Spoleto S.p.A., reported gross of write-downs;

[11] number of employees at the reference date

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

Consolidated income statement

The *net profit pertaining to the Parent Company* at 31 March 2018 amounted to around Euro 9.5 million, up 9.8% compared with the profit for the comparative period of Euro 8.6 million, benefiting from non-recurring revenues due to the adjustment of liabilities recorded for the current redundancy plan, compared with the prior period, which included non-recurring costs attributable to adjustments of certain investments included in financial assets available for sale (in application of IAS 39 which was in force at the time).

Table 5 – Reclassified consolidated income statement

Captions				Change	
	Amounts in thousands of Euro	31.03.2018	31.03.2017	Amount	%
10+20	Net interest income	53,544	57,367	-3,823	-6.7%
70	Dividends and similar income	458	460	-2	-0.4%
40+50	Net commission income	38,608	38,684	-76	-0.2%
80+90+100+110	Net results on financial assets and liabilities	4,560	3,807	753	19.8%
230	Other operating income/expense	3,441	3,292	149	4.5%
	Operating income	**100,611**	**103,610**	**-2,999**	**-2.9%**
190 a	Payroll costs	-44,057	-44,397	340	-0.8%
190 b	Other administrative costs	-23,938	-23,235	-703	3.0%
210+220	Net adjustments to property, plant and equipment and intangible assets	-2,869	-3,039	170	-5.6%
	Operating costs	**-70,864**	**-70,671**	**-193**	**0.3%**
	Result of operations	**29,747**	**32,939**	**-3,192**	**-9.7%**
130a+100a	Cost of credit	-14,995	-14,744	-251	1.7%
130 b	Net impairment adjustments for credit risk of financial assets at fair value through other comprehensive income	7	-927	934	n.s.
200 a	Net provisions for risks and charges - commitments and guarantees given	49	-82	131	n.s.
200 b	Net provisions for risks and charges - other	-2,212	-799	-1,413	176.8%
	Profit (loss) from operations before tax	**12,596**	**16,387**	**-3,791**	**-23.1%**
300	Income taxes on current operations	-3,606	-5,719	2,113	-36.9%
	Profit (loss) from operations after tax	**8,990**	**10,668**	**-1,678**	**-15.7%**
	Net provisions for risks and charges - commitments and guarantees given	880	-1,832	2,712	n.s.
	Non-recurring result before tax	**880**	**-1,832**	**2,712**	**n.s.**
	Income taxes from non-recurring items	-291	108	-399	n.s.
	Non-recurring result after tax	**589**	**-1,724**	**2,313**	**n.s.**
330	**Net profit (loss) for the period**	**9,579**	**8,944**	**635**	**7.1%**
340	Minority interests	-92	-300	208	-69.3%
350	**Profit (Loss) for the period pertaining to the Parent Company**	**9,487**	**8,644**	**843**	**9.8%**

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

"Net interest income" at 31 March 2018 is shown net of the release of the time value component of impaired financial assets, equal to Euro 2,378 thousand, reclassified under "Cost of credit"; in the comparative period, the release of this component, included in "Cost of credit", amounted to Euro 6,799 thousand.

The main cost and revenue items in the reclassified income statement are analysed below, with comments, where necessary, on situations where it is not possible to make a straight comparison because the accounting treatment is inconsistent.

Operating income

Core revenues decreased by about Euro 3 million with respect to the comparative period (-2.9%), amounting to Euro 100.6 million. This reflects the trend in net interest income which, given the current economic-financial conditions marked by the extreme compression of interest income due to the current expansionary monetary policy, shows a decline of Euro 3.8 million (-6.7%). Net interest income is shown net of the release of the time value component of impaired financial assets (calculated on the basis of the original effective interest rate), reclassified in the cost of credit for Euro 2.4 million.

The contribution of the *net results on financial assets and liabilities* was positive, amounting to Euro 4.6 million (formerly Euro 3.8 million); the item includes capital losses on mutual funds that have to be measured at fair value for Euro 1.1 million (in the comparative period, the positive valuation effect of Euro 2.8 million was recognised in other comprehensive income in accordance with IAS 39).

Other operating income/expense amount to Euro 3.4 million (+4.5%). The contribution of net commission income, Euro 38.6 million, and that of dividends, Euro 0.5 million, was substantially in line with the comparative period.

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 70.9 million and have increased, with respect to the comparative period, by Euro 0.2 million (+0.3%).

In particular, *other administrative expenses* increased by Euro 0.7 million (+3.0%). Note that the balance includes Euro 3.8 million of the estimated *ex-ante* gross ordinary contributions to the Single Resolution Mechanism (SRM) versus Euro 4.1 million in the comparative period.

Payroll costs have decreased by 0.8% on the prior period, whereas the balance of *net adjustments to property, plant and equipment and intangible assets* came to Euro 2.9 million (-5.6%).

Result of operations

The *result of operations* at 31 March 2018, therefore came to Euro 29.7 million, a decrease of Euro 3.2 million compared with the prior year (-9.7%).

Net profit (loss) from operations after tax

The *result of operations* leads to a *net profit (loss) from operations after tax* of Euro 9.0 million, 15.7% down compared with Euro 10.7 million in the comparative period, considering:

- the *cost of credit* (*net impairment adjustments to financial assets measured at amortized cost* plus *gains (losses) on disposal or repurchase of loans*) of about Euro 15.0 million, affected by the application of the new models for the determination of the expected credit loss adopted by the Group in application of IFRS 9 starting from 1 January 2018, and therefore not fully comparable with the figure of Euro 14.7 million in the first quarter of the previous period;
- *net provisions for risks and charges* of Euro 2.2 million (formerly Euro 0.8 million);
- income taxes on current operations of Euro 3.6 million (formerly Euro 5.7 million).

Non-recurring profit (loss) after tax

At 31 March 2018 there was a *non-recurring profit after tax* of Euro 0.6 million. This caption essentially consists of the revenue component of Euro 0.9 million relating to the adjustment of liabilities for the redundancy plan recognised at the end of 2016, reclassified from payroll costs, with the related negative tax effect of Euro 0.3 million.

The *loss* of the comparative period of Euro 1.7 million mainly included the adjustment (net of any uses) recognised on a non-controlling interest in a bank acquired under a commitment assumed as part of a broader commercial agreement in relation to the disposal of an investment held in the non-life insurance sector, and the related positive tax effect of Euro 0.1 million.

Profit for the period pertaining to the Parent Company

The sum of the *profit (loss) from operations after tax* and *non-recurring profit (loss) after tax*, considering the *net profit (loss) for the period pertaining to minority interests*, leads to a *profit for the period pertaining to the Parent Company* at 31 March 2018 of Euro 9.5 million.

Consolidated financial position

Deposits

Total customer funds under management at 31 March 2018 amounted to Euro 25.2 billion, representing a slight increase with respect to the 2017 year end balance (+0.2%), mainly attributable to direct deposits.

Direct deposits at 31 March 2018 came to Euro 11.02 billion, up 0.4% on the previous year's figure, because of the increase in amounts due to customers (+0.8%) partially offset by the reduction in debt securities in issue (-2.2%).

Overall, *indirect deposits* as at 31 March 2018, totalled Euro 14.2 billion, substantially in line with the balance at the end of the previous year. The balance of ordinary customer deposits stood at about Euro 8.9 billion, with a slight increase in assets under management (+0.7%), offset by a slight decrease in assets under administration (-1.4%). Lastly, deposits from institutional customers amount to Euro 5.2 billion, also in line with the balance at the end of the previous year.

The following tables show the trend in deposits during the reporting period and the breakdown of indirect deposits.

Table 6 – Customer deposits

					Change	
Amounts in thousands of Euro	**31.03.2018**	**%**	**31.12.2017**	**%**	**Amount**	**%**
Due to customers	9,350,321	37.2%	9,272,337	36.9%	77,984	0.8%
Debt securities in issue	1,670,104	6.6%	1,708,320	6.8%	-38,216	-2.2%
Direct deposits	**11,020,425**	**43.8%**	**10,980,657**	**43.7%**	**39,768**	**0.4%**
Ordinary customer deposits	8,945,371	35.5%	8,946,523	35.7%	-1,152	0.0%
Institutional customer deposits	5,205,460	20.7%	5,202,355	20.7%	3,105	0.1%
Indirect deposits	**14,150,831**	**56.2%**	**14,148,878**	**56.3%**	**1,953**	**0.0%**
Total customer deposits	**25,171,256**	**100.0%**	**25,129,535**	**100.0%**	**41,721**	**0.2%**

Table 7 – Indirect deposits from customers

					Change	
Amounts in thousands of Euro	**31.03.2018**	**%**	**31.12.2017**	**%**	**Amount**	**%**
Assets under administration (1)	**3,172,168**	**22.4%**	**3,216,089**	**22.7%**	**-43,921**	**-1.4%**
Assets under management	**5,773,203**	**40.8%**	**5,730,434**	**40.5%**	**42,769**	**0.7%**
of which: Mutual funds and Sicavs	*2,473,206*	*17.5%*	*2,405,696*	*17.0%*	*67,510*	*2.8%*
Managed portfolios	*949,580*	*6.7%*	*967,212*	*6.8%*	*-17,632*	*-1.8%*
Bancassurance	*2,350,417*	*16.6%*	*2,357,526*	*16.7%*	*-7,109*	*-0.3%*
Ordinary customer deposits (1)	**8,945,371**	**63.2%**	**8,946,523**	**63.2%**	**-1,152**	**0.0%**
Institutional customer deposits (2)	**5,205,460**	**36.8%**	**5,202,355**	**36.8%**	**3,105**	**0.1%**
Indirect deposits (1) (2)	**14,150,831**	**100.0%**	**14,148,878**	**100.0%**	**1,953**	**0.0%**

(1) the totals at 31.03.2018 are stated net of bonds issued by the Parent Company and placed with the customers of Banca Popolare di Spoleto S.p.A. totalling Euro 37.6 million (Euro 43.0 million at 31.12.2017);

(2) institutional customer deposits at 31.03.2018 include securities of the Bancassurance segment of ordinary customers of the Parent Company and of Banca Popolare di Spoleto S.p.A. for Euro 2.2 billion (Euro 2.1billion at 31.12.2017).

Loans and coverage

Loans to customers at 31 March 2018 total Euro 9.7 billion (-1.4% since the end of 2017), mainly related to *loans to ordinary customers* (-1.5% compared with the comparative period).

The main indicators relating to the levels of coverage of impaired and performing loans are reported below, showing an increase in the levels of coverage compared with 31 December 2017 and which also reflect the impact of FTA of IFRS 9 including, in particular, the application of: (a) the new model of impairment based on the concept of expected loss, (b) the new rules for the transfer of exposures between the various classification stages (stage 1 and 2), and (c) disposal scenarios for the measurement of impaired positions (stage 3).

Table 8 – Credit quality at 31 March 2018

	31.03.2018					
Amounts in thousands of Euro	**Gross exposure**	**% of total loans and receivables**	**Write-downs**	**Coverage ratio**	**Net exposure**	**% of total loans and receivables**
Doubtful loans	1,175,659	11.0%	(754,588)	64.2%	421,071	4.3%
Unlikely to pay	437,379	4.1%	(126,898)	29.0%	310,481	3.2%
Past due non-performing loans	8,394	0.1%	(1,075)	12.8%	7,319	0.1%
Total non-performing loans	**1,621,432**	**15.2%**	**(882,561)**	**54.4%**	**738,871**	**7.6%**
Exposures in stage 1	7,860,842	73.7%	(24,013)	0.3%	7,836,829	80.6%
Exposures in stage 2	1,180,266	11.1%	(29,544)	2.5%	1,150,722	11.8%
Performing exposures	**9,041,108**	**84.8%**	**(53,557)**	**0.59%**	**8,987,551**	**92.4%**
Total loans to customers	**10,662,540**	**100.0%**	**(936,118)**	**8.8%**	**9,726,422**	**100.0%**

Note: on the basis of the latest version of Circular 262 - 5th update, the balance of caption "40.b) Financial assets measured at amortised cost - Loans to customers" in the financial statements includes the Held to collect (HTC) debt securities measured at amortised cost; these securities are not shown in this table because they are classified as financial assets to improve comparability with prior-year balance.

Table 8-bis – Credit quality at 31 December 2017

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

Securities portfolio and the net interbank position

At 31 March 2018, total *financial assets* amounted to Euro 2.3 billion, with an increase on the end of 2017 (+1.7%). With reference to the issuers of securities, the total portfolio at 31 March 2018 relates for 77.2% to government securities, 10.3% to securities issued by banks and the remainder to other issuers.

The following table gives information on sovereign risk, i.e. on the bonds issued by central and local governments and government agencies, as well as loans granted to them.

Table 9 – Exposure in sovereign debt securities

Amounts in thousands of Euro		31.03.2018				31.12.2017				
		Italy	Spain	USA	Total	Italy	France	Spain	USA	Total
Financial assets designated at fair value through profit and loss	Nominal value	2,307	-	-	2,307	2,307	-	-	-	2,307
	Book value	1,605	-	-	1,605	1,533	-	-	-	1,533
Financial assets designated at fair value through other comprehensive income	Nominal value	1,193,709	-	16,232	1,209,941	1,216,147	-	-	8,338	1,224,485
	Book value	1,214,032	-	16,173	1,230,205	1,218,637	-	-	8,225	1,226,862
Financial assets measured at amortised cost	Nominal value	475,000	80,000	-	555,000	320,000	80,000	160,000	-	560,000
	Book value	477,124	81,920	-	559,044	321,699	79,917	162,050	-	563,666
Sovereign debt	**Nominal value**	**1,671,016**	**80,000**	**16,232**	**1,767,248**	**1,538,454**	**80,000**	**160,000**	**8,338**	**1,786,792**
	Book value	**1,692,761**	**81,920**	**16,173**	**1,790,854**	**1,541,869**	**79,917**	**162,050**	**8,225**	**1,792,061**

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

The *net interbank position* is negative for Euro 0.3 billion, compared with the position at the end of the previous year, which was also negative for Euro 0.5 billion.

Capital and capital adequacy ratios

Shareholders' equity pertaining to the Parent Company at 31 March 2018, including net profit for the period, amounts to Euro 872.1 million (Euro 927.1 million at 31 December 2017). The negative change of Euro 55.0 million is mainly attributable to the effects of FTA of IFRS 9 amounting to Euro 54.4 million.

Shareholders' equity calculated in accordance with the new regulatory provisions defined as Own Funds, with an expected pay out of 40%, amounts at 31 March 2018 to Euro 1,074.9 million (CET1 + ATI of Euro 936.8 million + T2 of Euro 138.1 million), compared with Euro 1,089.1 million at the end of the previous year.

On 25 January 2018, the Board of Directors of Banco Desio, taking account of a best estimate of the higher adjustments for expected losses on performing and non-performing loans on first-time application of the standard IFRS 9, resolved to join the transitional arrangements 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 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 arrangements.**

Table 10 – Own Funds and Ratios with and without application of the transitional regime

	31.03.2018	
	Application of the transitional regime	Without application of the transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	927,004	
Common Equity Tier 1 - CET1 without application of the transitional arrangements		*852,561*
Tier 1 capital	936,790	
Tier 1 capital without application of the transitional arrangements		*862,162*
Total own funds	1,074,888	
Total own funds without application of the transitional arrangements		*994,821*
RISK ASSETS		
Risk-weighted assets	7,960,230	
Risk-weighted assets without application of the transitional arrangements		*7,868,129*
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	11.645%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional arrangements		*10.836%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	11.768%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional arrangements		*10.958%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.503%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional arrangements		*12.644%*

At 31 March 2018, the Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 11.6% (11.5% at 31 December 2017). The Tier 1 ratio (T1/Risk-weighted assets) was 11.8% (11.6% at 31 December 2017), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 13.5% (13.6% at 31 December 2017).

These figures are again well above the Group's minimum requirements according to the Bank of Italy (SREP) provision which requires the Parent Company to comply with the following minimum capital requirements at a consolidated level:

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

Performance of consolidated companies[6]

Performance of the Parent Company Banco di Desio e della Brianza S.p.A.

The *Profit (loss) from operations after tax* at 31 March 2018 comes to Euro 14.8 million, an increase of 4.7% compared with the prior period when it came to Euro 14.2 million; worth noting, in particular, are the decrease of the *Result of operations* which amounts to 18.4 million (characterised by the lower contribution of *Net interest income of* € 2.4 million, only partly offset by the increase in net commission income of Euro 0.4 million and the decrease of *Other administrative costs* for Euro 0.8 million) compared with 20.7 million in the comparative period, *Dividends from equity investments in subsidiaries* for Euro 8.1 million (formerly Euro 6.6 million), the decline in *Cost of credit* which, also influenced by the new models for the determination of expected loss, stood at Euro 6.8 million (formerly Euro 7.9 million), an increase in *Net provisions for risks and charges* for Euro 2.0 million and lower *Income taxes on current operations* for Euro 1.5 million.
The *Net profit for the period* has been affected by non-recurring revenues attributable to the adjustment of liabilities recorded for the 2016 redundancy plan for a total of Euro 0.9 million and the related (negative) tax effect of Euro 0.3 million, compared with the comparative period which included non-recurring costs essentially due to the adjustment recorded on a minority bank shareholding for a total of Euro 1.8 million and the related (positive) tax effect of Euro 0.1 million.
Loans to customers decreased from Euro 6,251.5 million at the end of 2017 to Euro 6,199.8 million at the reference date, a decline of 0.8% or Euro 51.7 million, which is affected by the effects of FTA of IFRS 9, including, in particular, application of the new impairment models based on the concept of "expected loss".
Book *Shareholders' equity* at 31 March 2018, including net profit for the period, amounts to Euro 905.6 million, compared with Euro 912.4 million at the end of 2017. The negative change of Euro 6.8 million is due to FTA of IFRS 9 for Euro 11.1 million and the payment of the 2017 dividend for Euro 13.3 million, partially mitigated by total profitability for the period of Euro 17.6 million.
After the 40% pay-out, *Own funds* at 31 March 2018 amount to Euro 1,038.9 million, compared with Euro 1,037.0 million at the end of the previous year. In January 2018, the Bank resolved to apply the transitional provisions introduced by (EU) Regulation 2017/2395 of 12 December 2017 designed to mitigate the impact on own funds and capital ratios of introducing the standard, considering both the increase in adjustments for expected losses on performing and non-performing loans on FTA of IFRS 9 and the increase in expected losses on performing loans with respect to the date of FTA of the standard; the CET 1 ratio thus calculated at 31 March 2018 stood at 17.40% (or 17.10% without application of the transitional arrangements) compared with 17.12% at the end of 2017.

Performance of the subsidiary Banca Popolare di Spoleto S.p.A.

At the reference date, the Parent Company Banco di Desio e della Brianza S.p.A. held an investment of 81.67%.
The *Profit (loss) from operations after tax* at 31 March 2018 comes to Euro 1.5 million, a decrease of 57.7% compared with the prior period when it came to Euro 3.6 million; worth noting, in particular, are the lower contribution from *Net interest income* of Euro 2.2 million and the increase in the *Cost of credit* which, influenced also by the new models for determining the expected loss, comes to Euro 7.6 million (formerly Euro 5.4 million) and lower *Income taxes on current operations* of Euro 1.3 million.
The *Net profit for the period* has then been affected by non-recurring items of marginal amount as in the comparative period.
Loans to customers decreased from Euro 3,535.6 million at the end of 2017 to Euro 3,455.8 million at the reference date, a decline of 2.3% or Euro 79.8 million, which is affected by the effects of FTA of IFRS 9, including, in particular, application of the new impairment models based on the concept of "expected loss".

[6] The comparative balance sheet (at 31 December 2017) and income statement figures (at 31 March 2017) have been conventionally restated in the financial statement schedules of the fifth update of Circular 262, continuing to represent and evaluate the balance sheet and income statement figures determined in application of the accounting standards in force at the time (in particular IAS 39 "Financial instruments: recognition and measurement"). Consequently:

- the balance sheet figures at 31 December 2017 do not include the effects of FTA of IFRS 9 as summarised in the previous table;
- the income statement figures for the quarter in question reflect the application of IFRS 9 from 1 January 2018, the date of recognition of the effects of first-time adoption, and are therefore not directly comparable with the equivalent figures of the previous year.

Book *shareholders' equity* at 31 March 2018, including net profit for the period, amounts to Euro 223.9 million, compared with Euro 273.5 million at the end of 2017. The negative change is substantially due to the FTA of IFRS 9 for Euro 49.6 million.
After the 40% pay-out, *Own Funds* at 31 March 2018 amount to Euro 277.2 million, compared with Euro 280.6 million at the end of the previous year. In January 2018, the Bank resolved to apply the transitional provisions introduced by (EU) Regulation 2017/2395 of 12 December 2017 designed to mitigate the impact on own funds and capital ratios of introducing the standard, considering both the increase in adjustments for expected losses on performing and non-performing loans on FTA of IFRS 9 and the increase in expected losses on performing loans with respect to the date of FTA of the standard; the CET 1 ratio thus calculated at 31 March 2018 stood at 10.12% (or 7.83% without application of the transitional arrangements) compared with 9.94% at the end of 2017.

Performance of the subsidiary Fides S.p.A.

At the reference date, the Parent Company Banco di Desio e della Brianza S.p.A. held an investment of 100%.
The *Profit (loss) from operations after tax* at 31 March 2018 comes to Euro 1.8 million, an increase of 15.0% compared with the prior period; *operating income* amounted to Euro 4.2 million, up by Euro 0.1 million compared with the period to 31 March 2017, while operating costs totalled Euro 1.7 million (comparative Euro 1.5 million), and the *results of operations* amounted to Euro 2.5 million (comparative Euro 2.6 million). The *Cost of credit* which, also influenced by the new models for the determination of the expected loss, is essentially equal to zero (formerly Euro 0.1 million), and *taxes* for Euro 0.8 million (formerly Euro 0.7 million) lead to the result for the period.
Loans to customers decreased from Euro 636.9 million at the end of 2017 to Euro 654.1 million at the reference date, a decline of 1.3% or Euro 52.8 million, which is affected by the effects of FTA of IFRS 9, including, in particular, application of the new impairment models based on the concept of "expected loss".
Book *shareholders' equity* at 31 March 2018, including net profit for the period, amounts to Euro 46.1 million, compared with Euro 50.1 million at the end of 2017 (due to the result for the period more than offset by the distribution of dividends).
Own Funds for supervisory purposes have risen from Euro 43.4 million at the end of 2017 to Euro 43.6 million.

Frame of reference

Approval of a non-performing loans (NPL) disposal programme

In execution of its capital management strategy and in accordance with the provisions of the Group's 2018-2020 Business Plan regarding the reduction of the ratio of "Gross non-performing loans/Gross loans" and "Net non-performing loans/Net loans", the Board of Directors of Banco di Desio e della Brianza approved a plan for the sale of NPLs for a gross value of Euro 1.1 billion, which includes a securitisation transaction making use of the Italian Government 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 reference portfolio of the Transaction is made up of mortgage or unsecured loans issued by Banco di Desio e della Brianza (51%) and by Banca Popolare di Spoleto (49%) in favour of "secured" customers, i.e. with relationships secured by mortgages (60%), and "unsecured" customers, i.e. with relationships without collateral (40%).
The Transaction will be 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 (EU) Regulation 575/2013 (CRR) and achieve the related benefits in terms of the reduction in the ratio of "gross non-performing loans/gross loans" and "net non-performing loans/net loans" below the targets envisaged at the end of the 2018-2020 Business Plan.

Outlook

Macroeconomic scenario

The recovery in the Italian economy in the fourth quarter of 2017 was slightly slower than that of the other main countries in the Eurozone: GDP grew by 0.3% on a quarterly basis (compared with +0.5% in September) and by 1.6% on an annual basis. The latest estimates for 2018 foresee less GDP growth than in 2017 (+1.5%) due to the expected slowdown in industrial production and national consumption. Growth in the Italian economy should however gain support in the wake of the international cycle from now until 2020 and at higher than the potential rates of Italy on its own, which will allow us to continue improving the indicators, but without the possibility of a more marked increase.

With regard to the banking market, borrowing from resident customers during the first quarter of 2018 was positive (+0.9%, unchanged in December). Analysing this, the principal components were in line with previously readings: deposits are up (+5.3%, compared with +4.1% in December), whereas bonds are down yet again (-18.0%, compared with -17.0% in December). The rise in volumes was accompanied by a slight fall in remuneration (+0.73%, compared with +0.76% in December).
In terms of lending, the latest available data confirm the annual recovery in loans to the private sector (+2.1%, compared with +1.8% at the end of 2017): this was led by loans to households (+2.8%) and loans to businesses (+1.2%). Lending to the productive sector continues to be influenced by the trend in investments and the economic cycle that, although recovering, remains muted. In March, rates on new loans to households and businesses reached their historical minimum (2.68%). Within this, the mortgage rate for home loans was 1.90%, while the rate for business loans was 1.38%.

Outlook for the current year

Based on the figures at 31 March 2018, it is reasonable to assume that the final result for the year will be positive, substantially in line with that of the previous year, providing the macro economic scenario or the Group's key markets do not suffer critical circumstances, which at present are unforeseen.

As regards the principal risks and uncertainties, note that this Report has been prepared on a going-concern basis, as there is no plausible reason to believe the opposite in the foreseeable future.

Basis of preparation

This *"Consolidated quarterly report at 31 March 2018 – Press release"* has been prepared on a voluntary basis, in order to ensure continuity of information with the previous quarterly reports, given that only the annual and half-yearly reports are now compulsory based on the wording of art. 154-*ter*, paragraph 5, of Legislative Decree no. 58/1998 ("Consolidated Finance Act" or "TUB") introduced by Legislative Decree no. 25/2016 implementing Directive 2013/50/EU.

As regards the recognition and measurement criteria, this Report has been prepared in accordance with the applicable IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as explained in the "Accounting policies" section of the explanatory notes to the consolidated financial statements at 31 December 2017.

In terms of financial disclosure, as the consolidated quarterly report has been prepared in accordance with art. 154-*ter*, paragraph 5 TUF and for the purposes of determining capital for supervisory purposes (Own Funds), it does not include the explanatory notes that would be required to present the Group's financial position and results of operations for the period in accordance with IAS 34.

The Report is subject to a limited audit by Deloitte & Touche SpA in order to calculate the portion of the interim result to be included in own funds; for this reason, the contents of this report are consistent with the quarterly reports (or interim reports on operations) prepared previously, reflecting in any case what is defined in the "*Group Policy for Additional Periodic Financial Information*" approved by the Board of Directors on 11 May 2017.

As already mentioned in "Part A - Accounting Policies" of the notes to the Consolidated Financial Statements at 31 December 2017, IFRS 9 "Financial Instruments" came into force on 1 January 2018; this required approval:

- of the overall framework of options and rules of application defined in the so-called "IFRS 9 methodology framework" (by the Board of Directors' meeting of 30 November 2017);
- of a document on FTA of IFRS 9 (by the Board of Directors meeting of 10 March 2018) which summarises the main application options within the previously approved framework (allocation of the securities in the business models, FVOCI option for equities not included in "Equity investments") and the FTA effects on equity deriving from both the classification and measurement of financial assets and the application of the impairment model.

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

Classification and measurement

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

In this regard, the business models adopted and the procedures for carrying out the test on the contractual characteristics of the cash flows have been formalised (the so-called SPPI test, i.e. "Solely Payments of Principal and Interest", including the "Benchmark Test"). For the Hold to Collect portfolios the thresholds have been defined to allow sales that are frequent, but not particularly large (both individually and in aggregate), or those that are quite large but infrequent, as well as thresholds to allow sales that are close to maturity; at the same time, the parameters were established to identify sales that are consistent with this business model as they are attributable to an increase in credit risk.

As regards the second element of classification of financial assets (based on the characteristics of their cash flows), we defined the contractual characteristics that were analysed for the purpose of passing the SPPI test for both the retail and corporate credit portfolios and bonds.

Impairment

As regards impairment:

- parameters for determining a significant increase of credit risk have been defined for the purpose of correctly allocating performing exposures to stage 1 or stage 2. As regards "impaired" exposures, on the other hand, the alignment of the definitions of accounting and regulatory default makes it possible to consider the current approach to classifying exposures as impaired as identical to the future approach to classifying exposures in stage 3;
- tracking methods have been defined for the credit quality of portfolios of financial assets measured at amortised cost and at fair value recognised directly in equity;
- models have been developed, including forward-looking information, for the staging process and for the calculation of the expected credit loss (ECL) at 12 months (to be applied to stage 1 exposures) and for their lifetime (to be applied to exposures in stage 2 and stage 3).

As regards the tracking of credit quality, in line with the regulatory contents of the standard and the indications of the Supervisory Authorities regarding the methods that larger banks should use in applying it and in the specific areas of the project and as a policy decision to be made unambiguously for all types of exposures after the entry into force of IFRS 9, we carried out a detailed analysis of the credit quality of each position (both in the form of a securitised exposure and in the form of a real loan), for the purpose of identifying any "significant increase in risk" and, by reflection, the conditions for a return from stage 2 to stage 1. In other words, the choice made involves comparing, on a case-by-case basis and at each reporting date, - for the "staging" process - the credit quality of the financial instrument at the time of the assessment and its quality at the time it was disbursed or purchased. For certain categories of exposures in the proprietary securities portfolio (individually identified), the so-called "low credit risk exemption" envisaged in IFRS 9 will be used. This means that we will identify any exposures that have a rating equal to or better than "investment grade" (or similar quality) at each reference date as low credit risk exposures to be classified in stage 1.

Also in relation to this, the elements that constitute the main determinants to be taken into consideration for assessing transfers between the various stages are as follows:

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

A number of specific considerations have to be made in connection with the "staging" process of securities. In purchase and sale transactions subsequent to the first purchase (relating to the same ISIN), which form part of the normal, day-to-day management of such positions, there is now a need to identify a method of identifying sales and reimbursements in order to determine the residual quantities of individual transactions, so that their credit rating at the initial recognition date can be compared with what it is at the reporting date. It was felt that the first-in-first-out (FIFO) method was the one that best reflected the way that portfolios were managed by front office staff, also making it possible to update the credit rating of the issue or issuer continuously on the basis of new purchases.

A particularly significant element for estimating expected losses is the inclusion of forward-looking factors, macroeconomic scenarios in particular. As part of the process of estimating the "lifetime forward-looking PD" parameter, the Banco Desio Group developed linear regression models (so-called "satellite models") to estimate any change in internal rates of deterioration compared with the trend in significant variables. When estimating risk parameters, we have to consider both regulatory information and macro-economic information derived from external and internal sources (e.g.

system rates of deterioration and macro-economic variables needed to estimate the correlation with internal rates of deterioration).

A specific consideration also has to be made for exposures classified in "stage 3" (equivalent to the perimeter of the impaired portfolio): although no impact is expected from IFRS 9 with reference to the "classification" approach, having regard to the IFRS Foundation's Agenda Paper entitled "Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses" and considering the "Guidelines for less significant Italian banks on the management of non-performing loans" published by the Bank of Italy in January 2018 to encourage their proactive management, we adjusted the impairment on the NPL portfolio to include multi-scenario hypotheses in which the so-called "disposal scenario" is also considered, in line with the declared objectives of the business plan for which the recovery of impaired assets is also foreseen through their transfer. The recoverable amount is consequently determined on the basis of a weighted average of the expected recoveries through the internal work-out process and expected selling prices; these scenarios are weighted according to the expected level of sales in relation to the Group's NPE strategy.

Hedge accounting

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

Declaration of the Financial Reporting Manager

The Financial Reporting Manager, Mauro Walter Colombo, declares pursuant to paragraph 2 of Article 154-bis of the Consolidated Finance Act that the accounting information contained in this press release agrees with the supporting documents, books of account and accounting records.

Desio, 10 May 2018

BANCO DI DESIO E DELLA BRIANZA S.p.A.

Financial Reporting Manager
Mauro Walter Colombo

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The attached consolidated financial schedules at 31 March 2018 are an integral part of the consolidated quarterly report at 31 March 2018. Deloitte & Touche S.p.A., the independent auditors, are completing their limited audit tests with a view to issuing the report needed for inclusion of the profit for the period in the Bank's own funds.

Desio, 10 May 2018

BANCO DI DESIO E DELLA BRIANZA S.p.A.

The Chairman
Stefano Lado

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ATTACHMENT

Table A 1 – Consolidated balance sheet

Assets	31.03.2018	31.12.2017	Change amount	Change %
10. Cash and cash equivalents	44,990	59,413	(14,423)	-24.3%
20. Financial assets designated at fair value through profit and loss	85,230	20,981	64,249	306.2%
a) Financial assets held for trading	27,632	20,981	6,651	31.7%
c) Other financial assets that are necessarily measured at fair value	57,598		57,598	0.0%
30. Financial assets designated at fair value through other comprehensive income	1,487,131	1,511,467	(24,336)	-1.6%
40. Financial assets measured at amortised cost	11,848,938	11,828,618	20,320	0.2%
a) Due from banks	1,503,094	1,342,552	160,542	12.0%
b) Loans to customers	10,345,844	10,486,066	(140,222)	-1.3%
50. Hedging derivatives	4	5	(1)	-20.0%
60. Adjustment to financial assets with generic hedge (+/-)	749	875	(126)	-14.4%
90. Property, plant and equipment	179,459	180,566	(1,107)	-0.6%
100. Intangible assets	17,774	17,946	(172)	-1.0%
of which:				
- goodwill	15,322	15,322	-	0.0%
110. Tax assets	231,987	212,527	19,460	9.2%
a) current	40,361	35,097	5,264	15.0%
b) deferred	191,626	177,430	14,196	8.0%
130. Other assets	161,729	163,424	(1,695)	-1.0%
Total assets	**14,057,991**	**13,995,822**	**62,169**	**0.4%**

Liabilities and shareholders' equity	31.03.2018	31.12.2017	Change amount	Change %
10. Financial liabilities measured at amortised cost	12,727,340	12,686,585	40,755	0.3%
a) Due to banks	1,706,915	1,705,928	987	0.1%
b) Due to customers	9,350,321	9,272,337	77,984	0.8%
c) Debt securities in issue	1,670,104	1,708,320	(38,216)	-2.2%
20. Financial liabilities held for trading	6,039	7,976	(1,937)	-24.3%
40. Hedging derivatives	4,580	4,724	(144)	-3.0%
60. Tax liabilities	31,290	30,226	1,064	3.5%
a) current	4,185	3,425	760	22.2%
b) deferred	27,105	26,801	304	1.1%
80. Other liabilities	295,368	210,961	84,407	40.0%
90. Provision for termination indemnities	28,624	28,962	(338)	-1.2%
100. Provisions for risks and charges	49,739	46,547	3,192	6.9%
a) commitments and guarantees given	1,913		1,913	0.0%
c) other provisions for risks and charges	47,826	46,547	1,279	2.7%
120. Valuation reserves	49,704	38,307	11,397	29.8%
150. Reserves	729,075	761,201	(32,126)	-4.2%
160. Share premium reserve	16,145	16,145	-	0.0%
170. Share capital	67,705	67,705	-	0.0%
190. Minority interests (+/-)	42,895	52,785	(9,890)	-18.7%
200. Net profit (loss) for the period (+/-)	9,487	43,698	(34,211)	-78.3%
Total liabilities and shareholders' equity	**14,057,991**	**13,995,822**	**62,169**	**0.4%**

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

Table A 2 – Consolidated income statement

Captions		31.03.2018	31.03.2017	Change amount	%
10.	Interest and similar income	70,266	70,616	(350)	-0.5%
	of which: interest income calculated using the effective interest method	50,048	48,965	1,083	2.2%
20.	Interest and similar expense	(14,344)	(13,249)	(1,095)	8.3%
30.	**Net interest income**	**55,922**	**57,367**	**(1,445)**	**-2.5%**
40.	Commission income	41,581	42,263	(682)	-1.6%
50.	Commission expense	(2,973)	(3,579)	606	-16.9%
60.	**Net commission income**	**38,608**	**38,684**	**(76)**	**-0.2%**
70.	Dividends and similar income	458	460	(2)	-0.4%
80.	Net trading income	(20)	1,571	(1,591)	n.s.
90.	Net hedging gains (losses)	(2)	(209)	207	-99.0%
100.	Gains (losses) on disposal or repurchase of:	5,551	770	4,781	620.9%
	a) financial assets measured at amortised cost	(101)		(101)	n.s.
	b) financial assets designated at fair value through other comprehensive income	5,832	966	4,866	503.7%
	c) financial liabilities	(180)	(196)	16	-8.2%
110.	Net result of other financial assets and liabilities designated at fair value through profit and loss	(1,070)	(8)	(1,062)	n.s.
	a) financial assets and liabilities designated at fair value		(8)	8	-100.0%
	b) other financial assets that have to be measured at fair value	(1,070)		(1,070)	n.s.
120.	**Net interest and other banking income**	**99,447**	**98,635**	**812**	**0.8%**
130.	Net value adjustments/write-backs for credit risk relating to:	(17,110)	(17,934)	824	-4.6%
	a) financial assets measured at amortised cost	(17,117)	(14,638)	(2,479)	16.9%
	b) financial assets designated at fair value through other comprehensive income	7	(3,296)	3,303	n.s.
150.	**Net profit from financial activities**	**82,337**	**80,701**	**1,636**	**2.0%**
180.	**Net profit from financial and insurance activities**	**82,337**	**80,701**	**1,636**	**2.0%**
190.	Administrative costs:	(75,437)	(76,132)	695	-0.9%
	a) payroll costs	(43,177)	(44,417)	1,240	-2.8%
	b) other administrative costs	(32,260)	(31,715)	(545)	1.7%
200.	Net provisions for risks and charges	(2,318)	1,253	(3,571)	n.s.
	a) commitments for guarantees given	49	2,158	(2,109)	-97.7%
	b) other net provisions	(2,367)	(905)	(1,462)	161.5%
210.	Net adjustments to property, plant and equipment	(1,845)	(1,977)	132	-6.7%
220.	Net adjustments to intangible assets	(533)	(499)	(34)	6.8%
230.	Other operating charges/income	11,272	11,209	63	0.6%
240.	**Operating costs**	**(68,861)**	**(66,146)**	**(2,715)**	**4.1%**
290.	**Profit (loss) from current operations before tax**	**13,476**	**14,555**	**(1,079)**	**-7.4%**
300.	Income taxes on current operations	(3,897)	(5,611)	1,714	-30.5%
310.	**Profit (loss) from current operations after tax**	**9,579**	**8,944**	**635**	**7.1%**
330.	**Net profit (loss) for the period**	**9,579**	**8,944**	**635**	**7.1%**
340.	Net profit (loss) pertaining to minority interests	(92)	(300)	208	-69.3%
350.	**Parent Company net profit (loss)**	**9,487**	**8,644**	**843**	**9.8%**

	31.03.2018	31.03.2017
Basic earnings per share (Euro)	0.071	0.065
Diluted earnings per share (Euro)	0.071	0.065

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

In order to facilitate the comparability of caption "10. Interest and similar income", it should be noted that the balance of the caption at 31 March 2018 includes the release of the time value component of impaired financial assets of Euro 2,378 thousand; in the period under comparison, the release of this component is included in caption "130.a) and is equal to Euro 6,799 thousand.

Table A 3 – Statement of Consolidated Comprehensive Income

	Captions	31.03.2018	31.03.2017
10.	**Net profit (loss) for the period**	**9,579**	**8,944**
	Other elements of income, net of income taxes without reversal to income statement		
70.	Defined-benefit pension plans	139	11
	Other elements of income, net of income taxes with reversal to income statement		
120.	Cash-flow hedges	22	482
140.	Financial assets (other than equities) designated at fair value through other comprehensive income	3,398	(9,449)
170.	**Total other elements of income (net of income taxes)**	**3,559**	**(8,956)**
180.	**Total comprehensive income (Captions 10+170)**	**13,138**	**(12)**
190.	Total comprehensive income pertaining to minority interests	(347)	31
200.	**Total consolidated comprehensive income pertaining to Parent Company**	**12,791**	**19**

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

Table A 4 – Statement of changes in consolidated shareholders' equity for the period 1 January – 31 March 2018

	Balance at 31.12.2017	Changes in opening balances	Balance at 01.01.2018	Allocation of prior year results		Changes during the year									Group shareholders' equity at 31.03.2018	Minority interests at 31.03.2018
							Transactions on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income at 31.03.2018		
Share capital:																
a) ordinary shares	118,592		118,592												60,840	57,752
b) other shares	6,865		6,865												6,865	
Share premium reserve	31,594		31,594												16,145	15,449
Reserves:																
a) from profits	721,430	(72,293)	649,137	31,138											715,279	(35,004)
b) other	17,612		17,612												13,796	3,816
Valuation reserves:	38,840	8,146	46,986											3,559	49,704	841
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	44,959		44,959	(31,138)	(13,821)									9,579	9,487	92
Group shareholders' equity	**927,056**	**(54,432)**	**872,624**		**(13,299)**									**12,791**	**872,116**	
Minority interests	**52,785**	**(9,715)**	**43,070**		**(522)**									**347**		**42,895**

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

Table A 5 – Statement of changes in consolidated shareholders' equity for the period 1 January – 31 March 2017

	Balance at 31.12.2016	Changes in opening balances	Balance at 01.01.2017	Allocation of prior year results		Changes during the year									Group shareholders' equity at 31.03.2017	Minority interests at 31.03.2017
							Transactions on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income at 31.03.2017		
Share capital:																
a) ordinary shares	118,482		118,482												60,840	57,642
b) other shares	6,865		6,865												6,865	
Share premium reserve	31,570		31,570												16,145	15,425
Reserves:																
a) from profits	707,638		707,638	25,141											758,719	(25,940)
b) other	17,612		17,612												13,796	3,816
Valuation reserves:	10,848		10,848											(8,956)	3,130	(1,238)
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	25,537		25,537	(25,141)	(396)									8,944	8,644	300
Group shareholders' equity	**868,120**		**868,120**											**19**	**868,139**	
Minority interests	**50,381**		**50,381**		**(396)**									**(31)**		**49,954**

Table A 6 – Reconciliation of the Parent Company's net profit and shareholders' equity with the Group's consolidated net profit and shareholders' equity

Amounts in thousands of Euro	**Shareholders' equity**	***of which: net profit (loss) for the period***
Parent Company balances at 31 March 2018	***905,576***	***15,443***
Effect of consolidation of subsidiaries	-33,460	2,144
Dividends declared during the period	-	-8,100
Consolidated balances at 31 March 2018	**872,116**	**9,487**

Table A 7 – Reconciliation of the net profit and shareholders' equity reported in the consolidated income statement with the net profit based on the perimeter of the banking group for the purposes of calculating consolidated capital for supervisory purposes

Amounts in thousands of Euro	**Amount**
Profit of the Group	**9,487**
Elements deducted	6,177
- proposed dividends to shareholders of the Bank (40% pay-out)	*6,177*
Net profit attributable to Tier 1 capital in Own Funds	**3,310**