2019

Consolidated interim financial statements at 30 June 2019

Gruppo Banco Desio

Contents

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

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
Substitute Auditors	Elena Negonda Erminio Beretta Massimo Celli

General Management

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

Financial Reporting Manager as per art. 154-bis CFA

Financial Reporting Manager	Mauro Walter Colombo

Independent Auditors

Independent Auditors	Deloitte & Touche S.p.A.

The Banco Desio Group

The scope of consolidation at 30 June 2019 of the Banco Desio Group, to which this *consolidated interim financial report* refers, includes the following companies:

On 1 July 2019, the merger of Banca Popolare di Spoleto S.p.A. (the "Merged Company") with Banco di Desio and Brianza S.p.A. (the "Parent Company") took effect in execution of the Merger Project and the respective Shareholders' Meeting resolutions approved on last 7 and 11 May As indicated in the Merger Deed, stipulated on 29 May 2019, for accounting and tax purposes, the transactions of the merged company will be included in the financial statements of the Parent Company from 1 January 2019.

Introduction

This consolidated interim financial report at 30 June 2019 of the Banco Desio Group, made up of the *interim report on operations* and the *condensed interim financial statements*, has been prepared pursuant to art. 154-ter of Legislative Decree 58/1998 ("Consolidated Finance Act" or CFA), implementing Legislative Decree 195 of 6 November 2007 (the so-called "Transparency Directive") as well as for the determination of the profit for the period in order to calculate own funds and drawn up in accordance with International Financial Reporting Standards as endorsed by the European Community under Regulation 1606 of 19 July 2002 as more specifically indicated in the item "Basis of preparation and accounting policies".

In particular, the consolidated interim financial report was prepared in compliance with IAS 34 - Interim Financial Reporting, as well as with the provisions of the Bank of Italy issued with Circular no. 262 of 22 December 2005 and subsequent updates. As more fully illustrated below in this document, we note in particular the first-time adoption of IFRS 16 "Leases" from 1 January 2019.

The figures and ratios included in the *interim report on operations*, where due, refer to the balance sheet of the *condensed interim financial statements* and to the reclassified income statement, as disclosed in the appropriate paragraph, in turn prepared starting from the income statement of the condensed interim financial statements.

This consolidated interim report is subject to a limited audit by Deloitte & Touche S.p.A.

First-time adoption of IFRS 16

First-time adoption of IFRS 16 "Leases"

IFRS 16 - Leases came into force on 1 January 2019; the standard provides a new definition of lease and introduces a criterion based on control (or "right of use") of an asset to distinguish leasing contracts from contracts for the provision of services, identifying as discriminants: the identification of the asset, the absence of the right to replace it, the right to obtain substantially all of the economic benefits deriving from use of the asset and the right to manage use of the asset underlying the contract. This means that rent, rental and lease contracts that were not previously assimilated to finance leases can now fall into the scope of application of the new standard. As a result for contracts falling under the application of IFRS 16:

- the liabilities side of the balance sheet includes the lease liability, which consists of the current value of the payments which, at the valuation date, still have to be paid to the lessor, 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 (to which these contracts were subject before the new standard came into force) lease instalments were recognised under "Other administrative costs", on the basis of IFRS 16 requirements, charges accrued on the lease payable are recorded under "Interest and similar expense" and depreciation charges for the right of use under "Net adjustments to property, plant and equipment/intangible assets". It follows that the impact on the income statement in the first few years will be higher under IFRS 16 than under IAS 17: the depreciation charges are in fact constant over time, whereas interest charges are higher in the first few years, after which they tend to decrease over time.

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

Interim report on operations at 30 June 2019

Key figures and ratios

Balance sheet

Amounts in thousands of Euro	**30.06.2019**	**31.12.2018**	**Change** amount	%
Total assets	14,051,459	13,608,036	443,423	3.3%
Financial assets	3,251,190	3,081,430	169,760	5.5%
Due from banks [1]	444,058	285,314	158,744	55.6%
Loans to customers [1]	9,669,450	9,616,700	52,750	0.5%
of which: Loans to ordinary customers	*9,556,486*	*9,616,700*	*-60,214*	-0.6%
of which: Loans to institutional customers	*112,964*		*112,964*	
Property, plant and equipment [2]	232,635	179,418	53,217	29.7%
Intangible assets	17,823	17,701	122	0.7%
Due to banks	1,631,625	1,620,824	10,801	0.7%
Due to customers [3]	9,545,457	9,254,591	290,866	3.1%
Debt securities in issue	1,417,184	1,426,213	-9,029	-0.6%
Shareholders' equity (including Net profit/loss for the period) [4]	903,446	892,054	11,392	1.3%
Own Funds	1,036,940	1,056,921	-19,981	-1.9%
Total indirect deposits	14,874,739	14,092,711	782,028	5.5%
of which: Indirect deposits from ordinary customers	*9,470,333*	*8,952,340*	*517,993*	*5.8%*
of which: Indirect deposits from institutional customers	*5,404,406*	*5,140,371*	*264,035*	*5.1%*

Income statement [5]

Amounts in thousands of Euro	**30.06.2019**	**30.06.2018**	**Change** amount	%
Operating income	200,698	204,830	-4,132	-2.0%
of which: Net interest income	*108,075*	*105,367*	*2,708*	*2.6%*
Operating costs	137,797	139,046	-1,249	-0.9%
Result of operations	62,901	65,784	-2,883	-4.4%
Profit (loss) from continuing operations after tax	24,250	13,384	10,866	81.2%
Non-recurring profit (loss) after tax	-149	164	-313	-190.9%
Profit for the period [4]	23,476	13,602	9,874	72.6%

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

[2] the balance of this item at 30 June 2019 includes the right of use ("RoU Assets") equal to Euro 56.0 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 30 June 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

[4] pertaining to the Parent Company;

[5] from the Reclassified Income Statement.

Key figures and ratios

	30.06.2019	31.12.2018	Change amount
Capital/Total assets	6.4%	6.6%	-0.2%
Capital/Loans to customers	9.3%	9.3%	0.0%
Capital/Due to customers	9.5%	9.6%	-0.1%
Capital / Debt securities in issue	63.7%	62.5%	1.2%
Common Equity Tier 1 (CET 1)/Risk-weighted assets *(Common Equity Tier 1 ratio)* [6] [7]	12.4%	12.1%	0.3%
Core Tier 1 capital (T1)/Risk-weighted assets *(Tier 1 ratio)* [6] [7]	12.5%	12.3%	0.2%
Total Own Funds/Risk-weighted assets *(Total capital ratio)* [6] [7]	13.6%	13.6%	0.0%
Financial assets/Total assets	23.1%	22.6%	0.5%
Due from banks/Total assets	3.2%	2.1%	1.1%
Loans to customers/Total assets	68.8%	70.7%	-1.9%
Loans to customers/Direct customer deposits	88.2%	90.0%	-1.8%
Due to banks/Total assets	11.6%	11.9%	-0.3%
Due to customers/Total assets	67.9%	68.0%	-0.1%
Debt securities in issue/Total assets	10.1%	10.5%	-0.4%
Direct customer deposits / Total assets	78.0%	78.5%	-0.5%

	30.06.2019	30.06.2018	Change amount
Cost/Income ratio	68.7%	67.9%	0.8%
Net interest income/Operating income	53.8%	51.4%	2.4%
Result of operations/Operating income	31.3%	32.1%	-0.8%
Profit (loss) from continuing operations after tax/Capital [8] [9]	5.5%	4.2%	1.3%
ROE [8] - annualised [9] [10]	5.5%	4.3%	1.2%
Profit (loss) from operations before tax/Total assets (ROA) [9]	0.5%	0.3%	0.2%

	30.06.2019	31.12.2018	Change amount
Net doubtful loans/Loans to customers	1.3%	1.3%	0.0%
Net non-performing loans/Loans to customers	3.9%	4.2%	-0.3%
% Coverage of doubtful loans [11]	59.4%	59.3%	0.1%
% Coverage of doubtful loans, gross of cancellations [11]	62.1%	64.5%	-2.4%
% Total coverage of non-performing loans [11]	43.4%	42.2%	1.2%
% Coverage of non-performing loans, gross of cancellations [11]	45.2%	45.6%	-0.4%
% Coverage of performing loans	0.50%	0.54%	-0.04%

Structure and productivity ratios

	30.06.2019	31.12.2018	Change amount	Change %
Number of employees	2,211	2,209	2	0.1%
Number of branches	264	265	-1	-0.4%
Amounts in thousands of Euro				
Loans and advances to customers per employee [12]	4,375	4,263	112	2.6%
Direct deposits from customers per employee [12]	4,960	4,734	226	4.8%

	30.06.2019	30.06.2018	Change amount	Change %
Operating income per employee [12]- annualised [9]	182	177	5	2.8%
Result of operations per employee [12] - annualised [9]	57	55	2	3.6%

[6] Consolidated capital ratios for Banco Desio. The ratios for the scope of consolidation for regulatory purposes at Brianza Unione level at 30 June 2019 are: Common Equity Tier1 9.7%; Tier 1 10.5%; Total capital ratio 12.1%.

[7] Capital ratios at 30.06.2019 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 11.8%; Tier 1 11.9%; Total capital ratio 12.9%.

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

[9] the amount reported at 31.12.2018 is the final figure at the end of 2018;

[10] the annualised ROE at 30.06.2019 does not take into consideration the annualisation of the Net non-recurring operating profit;

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

[10] number of employees at the reference date

[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.

The macroeconomic scenario

The macroeconomic picture

International scenario

The protectionist orientation of American trade policies has begun to affect the trend of world commerce, business confidence and manufacturing activity. Above all, this scenario conditions the Euro Area because of its greater dependence on foreign demand. The short-term outlook for the global economy remains favourable overall, although with a downsize of growth prospects. Inflation suffers from a general underlying weakness. World trade, while continuing the expansionary phase, has slowed down. The expansion phase is starting to mature, but the risk of a global recession still appear to be remote. The economic cycle remained expansive in the United States, it has stabilized in the Euro Area and in Japan, while growth in Emerging Countries has been held back by the strength of the US dollar.
The risks arising from the possible intensification of economic and political uncertainty have increased. The prospects are in fact weighed down by the risk of a possible intensification of protectionist pressures at world level and a cyclical slowdown that is higher than expected in China, not to mention the uncertainty over the timing and methods with which the United Kingdom's exit from the European Union will take place (Brexit).
However, the current phase of economic expansion presents other peculiarities besides the moderate level of growth; it is long and features low inflation in developed countries, reduced elasticity of international trade with respect to GDP growth, and a limited propensity to invest. At present, it seems that there are none of the factors that usually put an end to periods of expansive phases: no inflationary pressures have been seen that have caused the central banks to impose restrictive monetary policies, while fiscal policies have remained neutral.
Net of its more volatile components, inflation in the main advanced economies remains moderate: it is close to 2% in the United States and the United Kingdom while it remains above 1% in the Euro Area. Inflation remains below all-time averages in the main emerging economies.
The main Central Banks have expressed their intention to maintain an expansive orientation for longer than was previously expected; this has favoured a decline in long-term yields and a recovery in share prices. The traditional cyclical levers (fiscal and monetary policies) should not have an adverse effect on the year. Low inflation and moderate credit dynamics allow monetary authorities to manage the normalisation phase gradually.

United States

The fiscal stimulus with tax cuts and increased spending wanted by the Trump administration should favour the continuation of growth in the United States. The expansion of economic activity, currently supported by all components of domestic demand, is expected to decrease slightly in the coming quarters. Private consumption is fuelled by low unemployment and better earnings. Capital investment has also shown signs of slowing down, as have exports.
Political risk remains high: Government action is not facilitated by the results of the mid-term elections to Congress which produced a Democratic majority. Due to the difficulties in implementing the government's programme on the domestic front and unpredictability on the international front, the Trump administration is suffering a reputational crisis. The future of international trade agreements still seems uncertain, after the announcement of an increase in import tariffs on international partners.
Domestic demand continues to be supported by solid fundamentals: full employment, increased net wealth, a lower tax burden. Only the savings rate, now stable at 3%, could limit the expected growth in consumption. This boom cycle in the United States is one of the longest since World War II. Signs of maturity are beginning to show, even if they are hidden by the peculiar characteristics of this cycle: a slowdown in the upward trend of employment, and a moderate recovery in inflation and in wages.
Unlike consumption, non-residential investment has not reacted significantly to the tax cuts. Restrictive financial conditions and high housing prices should keep residential investments substantially unchanged. The surveys in the manufacturing sector give indications of a slight slowdown.

Moderate inflation allows a gradual exit from the expansive monetary policies of the last decade, with a prudent orientation on the part of the Central Bank about the possibility of new increases.

Japan

The Japanese economy continues to grow at a moderate pace; recently it has weakened due to the reduction in global demand that has slowed down economic activity. The increase in consumption tax expected in the third quarter of the year should generate greater volatility, although forecasts for growth remain positive (around 1%), also in view of possible government support to mitigate the restriction on consumption.
The labour market is increasingly under pressure, with a rising excess in demand that should result in wage increases over the next two years. Unemployment is expected to fall to 2.5%. The accumulation of household savings shows no signs of slowing down, both in anticipation of a future fiscal restriction and low inflation expectations.
Spending on the 2020 Tokyo Olympics, the global cyclical situation and expansive financial conditions are keeping the trend in non-residential investment up. The foreign channel should continue to contribute to the growth in aggregate demand, so it is expected that the driver of the economy in the coming quarters will be domestic demand, both public and private.
Excluding food and energy, inflation slowed significantly, prompting the Central Bank to revise projections downwards several times; the 2% target will therefore not be reached even at the end of 2020.

Emerging Economies

In the main emerging countries, the economic situation is not being helped by the strength of the US dollar.

In China, despite the tariff issue, the acceleration in the agricultural sector and stability in the services sector were not sufficient to offset the deceleration in industry and construction. Business confidence is decreasing and the order backlog, both foreign and domestic, has seen a slight decline. Consumer confidence has decreased, as has the rate of growth in consumer spending and real incomes. The scenario is that of a slow slowdown in economic growth that could still remain above 6%. While maintaining a generally cautious orientation, the Central Bank is expected to help support the economy with liquidity disbursements and reductions in compulsory reserve ratios. Fiscal policy with numerous measures to support families and businesses will also help mitigate the negative effects of the economic situation. Consumer price inflation is expected to rise moderately above 2% during the year.

In India, economic growth is sustained and is expected to remain vigorous at around 7%, thanks to the dynamics of foreign trade, industrial production and private consumption. Recently the slowdown in private consumption was driven downwards by the trend in real incomes and the decline in consumer confidence. The outlook for consumption is therefore moderate for the coming quarters; in any case, lower prices for energy commodities and weak inflation should help boost disposable income. Inflation, net of food and energy, stayed around 4.0%, allowing the Central Bank to postpone any increase in interest rates, which is expected in the second half of the year.

Encouraging trends continue in Russia, in connection with the expected evolution in the oil price. The scenario in Brazil, in a context of presidential elections, leads many operators to improve their forecasts.

Eurozone

In the first part of the year, the GDP of the Euro Area recorded growth of 1.6% in annualized quarterly terms, up on the previous quarter (+1.0%). Growth remains positive in the Eurozone, driven mainly by internal demand; the contribution from exports, on the other hand, has diminished recently. Moderate wage dynamics and ample margins of labour under-utilisation have helped to keep inflation at modest levels (1.7% in April). The dispersion of growth between Core and Peripheral countries is expected to be less marked, while the economic situation remains on a growth trend over 1.5%.

Economic growth should continue to be supported by the resilience of domestic demand, employment growth and accommodative financial conditions. The economic slowdown is largely explained by the contraction of the German economy, due in particular to the decrease in car production and manufacturing. Domestic demand will remain the main driver of growth and consumer spending and capital investment will in fact be bolstered by loans and financing costs. Growth expectations in the construction sector are improving.

Electoral appointments (European Parliament, EU Commission and the top positions at the Central Bank) took place in a sign of substantial continuity, with a reduction in the populist drift. In Italy, the outcome of the European elections has made the stability of the government majority uncertain. Among the risks are also those relating to the negotiations for the United Kingdom's exit from the EU.

The Governing Council of the European Central Bank has extended to the end of 2019 the minimum horizon within which it plans not to change the reference rates and has announced a new series of targeted longer-term refinancing operations (TLTRO III). The Council is ready to use all of the tools available to support the economy and ensure the convergence of inflation at levels below but close to 2% in the medium term.

Italy

In the first quarter of 2019, GDP grew by +0.5% y/y; the net foreign component has contributed to the growth, which offset the decline in domestic demand. The seasonally adjusted production index fell by -1.3%: within it, all the sectors, with the exception of energy assets (+3.7%), showed negative annual changes. In detail, consumer goods fell by -0.7%, capital goods by -2.6% and intermediate goods by -0.7%. New orders acquired by industry turned in a negative growth trend (-3.6%); retail sales, on the other hand, have gone up (+1.6%). Consumer and business confidence indices continue to be negative.

In May the unemployment rate has fallen on an annual basis (9.9% vs 10.1% in May 2018). In May, inflation still continues to remain low: The harmonized index of consumer prices fell to 0.8% (vs 1.1% in April), similarly to the core component (net of unprocessed food and energy) down to 0.5% (vs 0.7% the previous month).

Capital markets and the banking system in Italy

Money and financial markets

The ECB kept the policy rates unchanged in June (reference rate of zero, -0.40% on deposits). The Governing Council expects reference interest rates to remain at current levels at least until mid 2020 and, in any case, as long as it is necessary to ensure that inflation continues to converge at lower levels, but close to 2% in the medium term. The Fed also left rates unchanged: the cost of money is in a range between 2.25% and 2.50%.

In the June average, 3-month Euribor is still in negative territory (-0.33%); the 10-year IRS rate, on the other hand, was 0.24%. On the bond market, 10-year benchmark rates fell in the USA (2.07%, formerly 3.12% in December) and in the Eurozone; in Germany, the benchmark rate came to -0.27% (from 0.46% in December), while in Italy it was 2.29% (from 3.50%).
International share prices grew on a monthly basis. The Dow Jones Euro Stoxx index has increased by +0.6% m/m (+0.4% y/y), the Standard & Poor's 500 index by +1.3% (+4.9% y/y) and the Nikkei 225 index has fallen by +1.6% (-6.7% y/y). Similarly, the major European stock market indices showed positive monthly performances; the FTSE Mib index remained more or less the same (-5.1% y/y); in France, the Cac40 index grew by +0.9% (+0.2% y/y) and, in Germany, the Dax30 index increased by +0.6% (-4.0% y/y). The main banking indices tended to be in decline on a monthly basis: the Italian FTSE Banks declined by -7.3% m/m (-24% y/y), the Dow Jones Euro Stoxx Banks by -6.5% (-22.6% y/y) and the S&P 500 Banks by -1% m/m (-5.7% y/y).

Banking markets

With regard to the banking market, borrowing from resident customers during June 2019 was positive (+2.2%, unchanged from December). Within this, the principal components maintained trends that were in line with previous postings: short-term deposits rose (+3.7%, compared with +2.6% in December) and bonds fell (-6.4%, compared with -12.3% in December). The rise in volumes was accompanied by stability in the overall remuneration (0.61%, unchanged on December). In terms of lending, the latest available data confirms the recovery in loans to the private sector (+0.5%, compared with +1.9% at the end of 2018); this was led by loans to households (+2.6%, compared with +2.8% in December), given the weakness of businesses (-0.2%, vs +1.5% in December). The trend in loans to households remained solid both for the component of mortgages for the purchase of homes and consumer credit. Lending to the productive sector, on the other hand, continues to be influenced by the trend in investments and the economic cycle that, although recovering, remains muted. In June rates on new loans to households and businesses have slightly increased (2.57%, vs 2.55% at the end of 2018). Within them, the interest rate on home purchase loans to households was 1.85% (-11 bps on December), while on loans to businesses it came to 1.36% (vs 1.47% on December).

Regional economy

Lombardy

Despite the slowdown of almost all economic variables, in the past year economic activity in Lombardy has continued to grow (+1.4%, ex +2.7% in 2017). Growth was driven by the continued expansion of business investment, exports and household consumption. With the recovery that started in 2014, the region has recovered pre-crisis activity levels since 2017, showing a systematically better performance than the Italian average, but has not yet filled the growth gap with other European regions accumulated during the period of crisis. Economic activity weakened further in the first quarter of 2019: industrial production grew, although slowing down compared with the previous year. In construction, the expansion of turnover has consolidated in a general context of improvement in the real estate market. The expansion phase continued also in the tertiary sector, albeit with a lower intensity, compared with a slight decrease

in services other than retail trade. Spending by foreign tourists has further increased during the year and has benefited significantly from business trips, especially those related to trade fair events, in which the region stands out for the presence of visitors from abroad.
In the past year the expansion of exports of goods continued: some specific companies and products could be negatively affected by a possible exit of the United Kingdom from the EU, but overall the exposure of Lombard exports to this country is limited.
Corporate profitability continues to be high and the capacity for self-financing has improved. However, the general conditions for access to loans showed signs of tightening in the second half of 2018, while demand remained weak. Bank credit grew moderately and with different trends: the loans to manufacturing and service companies, medium-large and financially more solid companies have increased. In the first part of the current year loans have taken another downturn.

In the early months of 2019 the trend in loans was gradually cancelled due mainly to the lower demand for corporate loans (-1.2%). The offer criteria adopted by the intermediaries were generally favourable despite showing the first signs of tightening. Credit quality has further improved; the proportion of anomalous exposures continued to decrease at a sustained pace (9.8% vs 14.1% at the end of 2017) due to the intensification of sales of doubtful loans.

Household debt continued to grow in the past year, reflecting the expansion of consumer credit (+9.0%) and new mortgage loans (+2.3%). In recent years, the spread of subrogation and replacement of mortgages has allowed Lombard families to reduce the debt burden and ensure themselves against the risk of a rise in market rates.

In 2018 bank deposits of companies resident in Lombardy fell (-4.4%): this trend partly reflected the slowdown in the dynamics of amounts in companies' current accounts. On the other hand, growth in households' current account deposits has intensified, confirming the preference for low-risk and readily liquidated investments.
Lastly, the process of rationalizing the territorial network of banks continued (-423 branches/year), which was associated with a decline in employees accompanied by greater use of remote contact channels between banks and customers. A growing number of intermediaries have launched or planned initiatives in the Fintech area, among which the projects concerning the offer of services to households in the field of electronic payments and automated savings management are of particular importance. Digital innovation has favoured the spread of more advanced payment services, helping to reduce the use of cash.

Umbria

In the past year the economic activity in Umbria has grown at a modest pace. The lively export dynamic was dampened by the weakening of consumption and investments. The prospects for the current year are affected by the increased uncertainty regarding the evolution of the Italian economic situation.
The Region has been one of the territories most affected by the economic and financial crisis and, even today, shows a recovery conditioned by low labour productivity and the limited degree of innovation on the part of businesses.
As for manufacturing, industrial output showed a progressive slowdown due to the drop in orders recorded in the second half of 2018. The turnover trend was sustained by the liveliness of the food, clothing and steel sectors which benefited from the increase in exports. Conversely, industrial investments stopped growing and recourse to tax incentives remained limited. The start of post-earthquake reconstruction has contributed to the limited recovery in construction, both in the residential and public sectors. Commercial sales remain conditioned by the modest dynamics of household consumption. In tourism, the number of overnight stays, while fully recovering the loss recorded following the seismic events, was almost unchanged compared with the early 2000s. Development of the sector is hindered by the difficulties in enhancing the Region's cultural heritage and making it accessible; even so, the level of appreciation on the part of tourists is one of the highest in Italy.

The weakness of industry is associated with employment levels that are still stationary, unlike the hours worked, which have continued to grow due to the strong reduction in the use of State Redundancy Benefits. Among employees, stable recruitments have started to increase again, thanks to the high number of transformations of fixed-term contracts to permanent ones. The unemployment rate decreased (9.1%, formerly 10.4%); among the unemployed the share of those who receive a subsidy has increased and is above the national average.
In 2018, household income increased slightly, although with a high incidence of situations of absolute poverty. Loans to households increased (+3.1%) due to the combined effect of consumer credit (+8.4%) and the demand for mortgages for home purchase (+1.7%) which recovered thanks to lower interest rates. The historically low level of interest rates has in recent years stimulated a wide recourse to subrogation and replacement operations carried out above all by larger intermediaries.
In the first few months of the year, the trend in loans was progressively cancelled mainly because of lower demand for corporate loans (-0.9%). The offer criteria adopted by the intermediaries were generally favourable despite showing the first signs of tightening. Credit quality has further improved and the proportion of anomalous exposures has decreased considerably (16.8% vs 23.4% at the end of 2017) due to the intensification in sales of doubtful loans.

In 2018 bank deposits of businesses and families residing in Umbria did not grow: the dynamics became negative for companies, after a four-year period of strong development linked to cash availability. Household deposits continued to grow but at a more contained pace.
The banks operating in the Region are continuing to downsize their territorial network (-27 branches/year), depending on the development of innovative channels of contact with customers and alternative cash payment instruments, though they are less widespread in Umbria than in the rest of the country. The process of rationalizing the regional banking system has been reflected in recent years in a decline in employment, more marked than in the rest of the country. The number of branches has fallen by more than a sixth in the last decade against a greater spread of digital channels. The number of banks also dropped (today there are 33 banks in the territory, versus 39 at the end of 2016). Although the decline was more intense than in the rest of the country, the level of banking in Umbria still remains high (49 branches per 100,000 inhabitants, 42 in Italy).

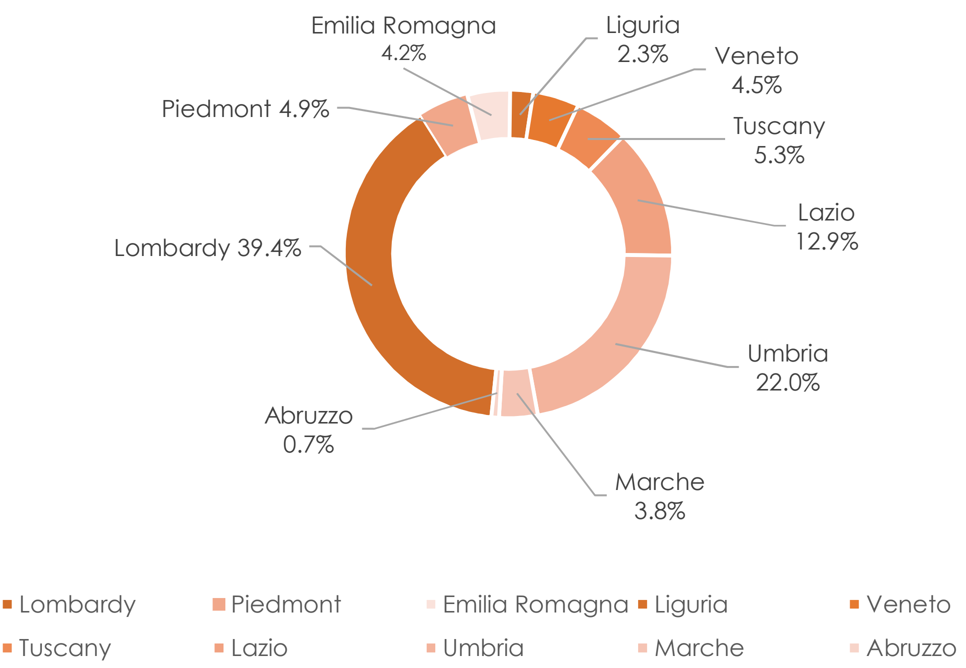
The distribution network

The Group's distribution network at 30 June 2019 consisted of 264 branches, including 146 belonging to the Parent Company Banco di Desio e della Brianza and 118 belonging to Banca Popolare di Spoleto.

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

The following chart gives a breakdown at 30 June 2019 of the overall distribution network by Group company with the percentage represented by the region.

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



As part of the measures to rationalise and improve the efficiency of the distribution network, during the period the Assisi Torchiagina branch was closed. It was also decided to close another 5 branches by the end of the year. A new branch is scheduled to open in Fano this September.

Significant events

Plan for Banca Popolare di Spoleto S.p.A. to be absorbed 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. ("BPS" or the "Merged company") with Banco di Desio and Brianza S.p.A. ("BDB" or the "Parent Company") took legal effect, in execution of the Merger Plan (published on the website www.bancodesio.it) and the respective Shareholders' Meeting resolutions approved on 7 and 11 May of this year.

The Merger completes 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 will make it possible, among other things, to allocate additional resources to the commercial development of the Banco Desio Group, in order to refine the quality of the products and services offered to customers.

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

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

Upon approving the merger plan, the respective Boards of Directors came to establish the 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 transactions, the share capital of Banco di Desio and Brianza S.p.A. was increased by a nominal 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 have been admitted to trading on the MTA like the shares already in circulation.

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

Directors and Officers of the Parent Company

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 and Brianza co-opted a new independent member in the person of Valentina Casella, taking into account the preliminary investigation carried out by the Appointments Committee and with the favourable opinion of the Board of Statutory Auditors.

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

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

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

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

Directors and officers of the subsidiary Fides

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

Inspection of the Banco Desio Group by the Bank of Italy

On 8 March 2019, the Bank of Italy began an inspection on the Banco Desio Group pursuant to articles 54 and 68 CBA. The inspection activities was completed on 12 June 2019, but the results still have to be communicated.

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

In compliance with IFRIC 21, Group banks already recorded at 31 March 2019 the current year's ordinary contribution to the Single Resolution Mechanism of Euro 4.4 million (of which Euro 3.2 million by the Parent Company and Euro 1.2 million by Banca Popolare di Spoleto), given that the "obligating event" under the rules for determination of the contribution to the Single Resolution Mechanism contained in Regulation 2015/63/EU had taken place. Following the relevant communications by the National Resolution Authority, the contribution was paid in May.

Last June, the Bank of Italy announced that the National Resolution Fund needed additional financial resources; it therefore called for additional annual contributions as envisaged in Law no. 208/2015 for 2017; as a result, an additional cost was incurred to support the banking system for Euro 1.6 million (Euro 1.2 million for Banco Desio and Euro 0.4 million for the subsidiary Banca Popolare di Spoleto).

Again in compliance with IFRIC 21, at 30 September 2019, the ordinary contribution to the Deposit Guarantee Scheme (DGS) for the current year will be recorded, when the "obligating event" takes place, based on the provisions of the 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.

Sales of non-performing loan (NPL) portfolios

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

- the Banco Desio portfolio, with a total nominal value of Euro 36.3 million, sold for Euro 1.7 million;
- the Banca Popolare di Spoleto portfolio, with a total nominal value of about Euro 9.4 million, sold for Euro 0.4 million.

As a result of these sales, taking account of all doubtful items identified since last year, pre-tax gains of Euro 1.3 million have been realized overall.

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

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

Covered bond programme

As part of the programme for issuing guaranteed bank bonds (OBG in Italian) pursuant to art. 7-bis of Law no. 130/99 (the "Programme"), which was launched in 2017, in May 2019 the two banks of the Group 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, on 16 July Banco Desio e della Brianza made a second issue of OBG at a fixed-rate for 500 million euro maturing in 7 years, thus increasing the total issue of the Programme to 1.075 million euro.

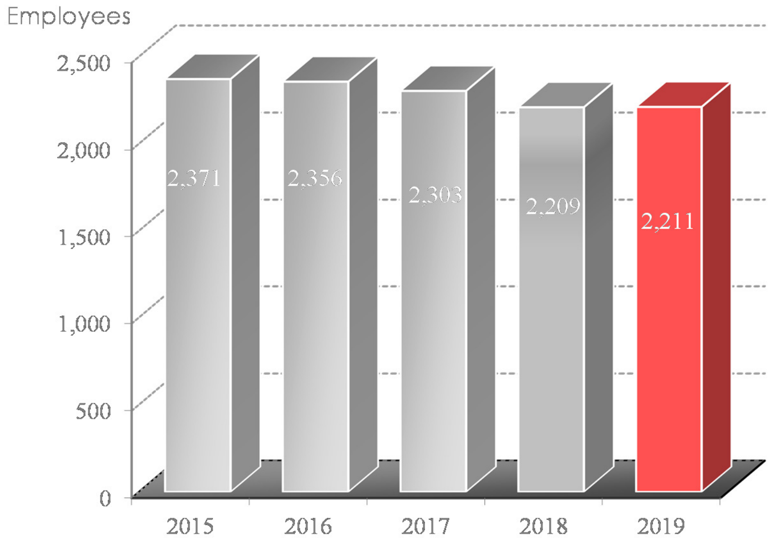
The transaction received strong interest from investors, with a final order book of around 1.9 billion euro, almost four times the value offered, and the participation of around 130 institutional investors.

Human resources

At 30 June 2019, the Group had 2,211 employees, an increase of 2 people (+0.1%) compared with the end of the previous period.

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

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



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

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

					Change	
No. of Employees	**30.06.2019**	**%**	**31.12.2018**	**%**	**Amount**	**%**
Managers	34	1.5%	32	1.4%	2	6.3%
3rd and 4th level middle managers	465	21.0%	454	20.6%	11	2.4%
1st and 2nd level middle managers	585	26.5%	583	26.4%	2	0.3%
Other personnel	1,127	51.0%	1,140	51.6%	-13	-1.1%
Group employees	**2,211**	**100.0%**	**2,209**	**100.0%**	**2**	**0.1%**

Results of operations

Savings deposits: customer funds under management

Total customer funds under management at 30 June 2019 reached Euro 25.8 billion, representing an increase for some Euro 1.1 billion with respect to the 2018 year end balance (4.3%), attributable to the upward trend in both indirect (+5.5%) and direct deposits (+2.6%).

The composition and balances that make up this aggregate, with changes during the period, are shown in the following table.

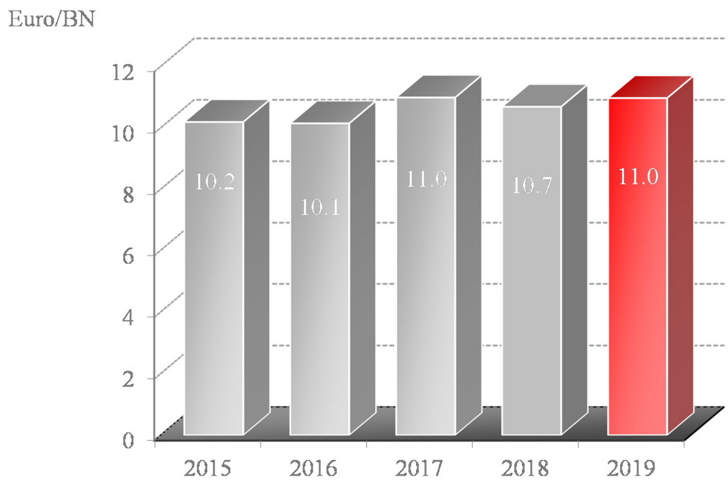
Table no. 2 - **TOTAL CUSTOMER DEPOSITS**

Amounts in thousands of Euro	**30.06.2019**	**%**	**31.12.2018**	**%**	**Change Amount**	**%**
Due to customers	9,545,457	36.9%	9,254,591	37.3%	290,866	3.1%
Debt securities in issue	1,417,184	5.5%	1,426,213	5.8%	-9,029	-0.6%
Direct deposits	**10,962,641**	**42.4%**	**10,680,804**	**43.1%**	**281,837**	**2.6%**
Ordinary customer deposits	9,470,333	36.7%	8,952,340	36.2%	517,993	5.8%
Institutional customer deposits	5,404,406	20.9%	5,140,371	20.7%	264,035	5.1%
Indirect deposits	**14,874,739**	**57.6%**	**14,092,711**	**56.9%**	**782,028**	**5.5%**
Total customer deposits	**25,837,380**	**100.0%**	**24,773,515**	**100.0%**	**1,063,865**	**4.3%**

Direct deposits

As already mentioned, direct deposits at the end of the first half amounted to Euro 10.9 billion, an increase of 2.6% which comes from the higher amounts due to customers of Euro 0.3 billion (+3.1%), partially offset by a reduction in debt securities in issue (-0.6%). The trend in direct deposits in recent years is shown in the following chart.

Chart no. 3 - **TREND IN DEPOSISTS IN RECENT YEARS**



Indirect deposits

Overall, at 30 June 2019 indirect deposits posted an increase of 5.5% compared with the end of the previous year, rising to Euro 14.9 billion.

In particular, this was attributable to deposits from ordinary customers, up by about Euro 0.5 billion (+5.8%), due to the performance of assets under management (+6.1%) and of assets under administration (+5.1%).

Overall, indirect deposits posted an increase of 5.1%, coming in at Euro 5.4 billion.

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

Table no. 3 - **INDIRECT DEPOSITS**

Amounts in thousands of Euro	**30.06.2019**	**%**	**31.12.2018**	**%**	**Change Amount**	**Change %**
Assets under administration (1)	**3,316,443**	**22.3%**	**3,154,614**	**22.4%**	**161,829**	**5.1%**
Assets under management	**6,153,890**	**41.4%**	**5,797,726**	**41.1%**	**356,164**	**6.1%**
of which: Mutual funds and Sicavs	*2,778,254*	*18.7%*	*2,525,826*	*17.9%*	*252,428*	*10.0%*
Managed portfolios	*921,206*	*6.2%*	*892,092*	*6.3%*	*29,114*	*3.3%*
Bancassurance	*2,454,430*	*16.5%*	*2,379,808*	*16.9%*	*74,622*	*3.1%*
Ordinary customer deposits (1)	**9,470,333**	**63.7%**	**8,952,340**	**63.5%**	**517,993**	**5.8%**
Institutional customer deposits (2)	**5,404,406**	**36.3%**	**5,140,371**	**36.5%**	**264,035**	**5.1%**
Indirect deposits (1) (2)	**14,874,739**	**100.0%**	**14,092,711**	**100.0%**	**782,028**	**5.5%**

(1) the totals at 30.06.2019 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 17.4 million (Euro 25.7 million at 31.12.2018);

(2) institutional customer deposits at 30.06.2019 include securities of the Bancassurance segment of ordinary customers of the Parent Company and of Banca Popolare di Spoleto S.p.A. for Euro 2.3 billion (Euro 2.1 billion at 31.12.2018).

The graph below shows the breakdown of indirect deposits from ordinary customers by sector at 30 June 2019. The subsequent chart focuses on the composition of assets under management in the same period, highlighting how, although the "life" bancassurance component constitutes the largest share, mutual funds and Sicavs also increase.

Chart no. 4 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMER BY SECTOR AT 30.06.2019**

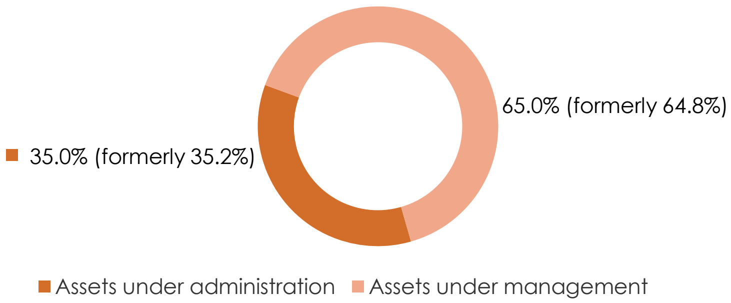
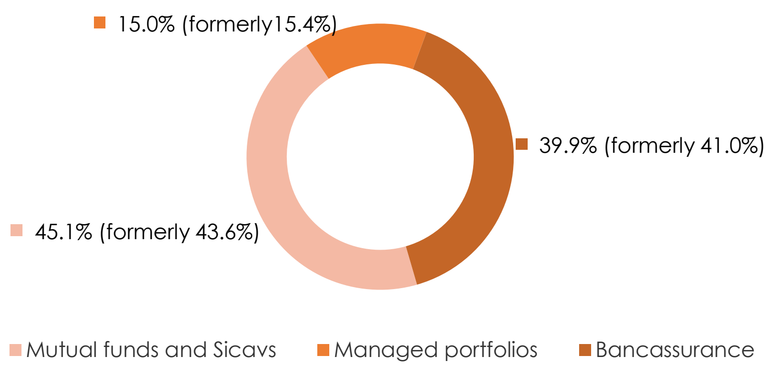


Chart no. 5 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 30.06.2019**



Loans to customers

The total amount of loans to customers at the end of the first half of the year amounted to Euro 9.7 billion, an increase compared with the balance at the end of 2018 (+0.5%), mainly due to the transactions carried out with institutional customers.

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

Chart no. 6 - **TREND IN CUSTOMER LOANS IN RECENT YEARS**

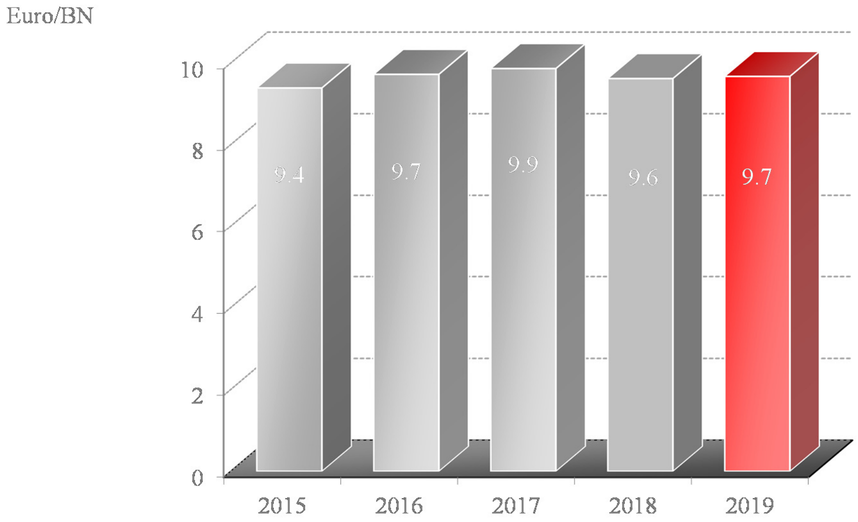


Table no. 4 - **LOANS TO CUSTOMERS**

Amounts in thousands of Euro	**30.06.2019**	**%**	**31.12.2018**	**%**	**Change Amount**	**Change %**
Current accounts	1,485,123	15.5%	1,589,497	16.5%	-104,374	-6.6%
Mortgages and other long-term loans	6,998,226	72.4%	6,895,602	71.7%	102,624	1.5%
Other	1,073,137	11.1%	1,131,601	11.8%	-58,464	-5.2%
Loans to ordinary customers	**9,556,486**	**98.8%**	**9,616,700**	**100.0%**	**-60,214**	**-0.6%**
Repurchase agreements	112,964	1.2%	0	0.0%	112,964	n.s.
Loans to institutional customers	**112,964**	**1.2%**	**0**	**0.0%**	**112,964**	**n.s.**
Loans to customers	**9,669,450**	**100.0%**	**9,616,700**	**100.0%**	**52,750**	**0.5%**
- of which non-performing loans	*377,539*	*3.9%*	*401,372*	*4.2%*	*-23,833*	*-5.9%*
- of which performing loans	*9,291,911*	*96.1%*	*9,215,328*	*95.8%*	*76,583*	*0.8%*

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of the first half-year continues to reflect a high degree of risk diversification.

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

Number of customers [1]	**30.06.2019**	**31.12.2018**
First 10	1.36%	1.34%
First 20	2.25%	2.21%
First 30	3.00%	2.91%
First 50	4.28%	4.14%

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

[2] *net of repurchase agreements with institutional counterparties of Euro 113 million at 30.06.2019.*

Net non-performing loans comprising doubtful loans, "unlikely to pay" loans and non-performing past due and/or overdrawn exposures totalled Euro 377.5 million, net of adjustments of Euro 289.5 million, a decrease of Euro 23.9 million compared with Euro 401.4 million at 31 December 2018. This is due to the sales of non-performing loans carried out in June. In particular, net doubtful loans totalled Euro 125.5 million, unlikely to pay, Euro 248.1 million and non-performing past due and/or overdrawn exposures Euro 3.9 million.

The following table summarises the gross and net indicators of credit risk, where there has been a significant reduction in the ratio of "gross non-performing loans/gross loans" to 6.7% and "net non-performing loans/net loans" to 3.9%, largely below their respective targets of 10% and 5% forecast at the end of the 2018-2020 Business Plan, while the ratio of "gross doubtful loans/gross loans" has fallen to 3.1% and "net doubtful loans/net loans" to 1.3%.

Table no. 6 - **INDICATORS OF CREDIT RISK VERSUS CUSTOMERS (1)**

% of gross loans (1)	**30.06.2019**	**31.12.2018**
Gross non-performing loans to customers	6.67%	6.98%
of which:		
- gross doubtful loans	3.09%	3.02%
- unlikely to pay, gross	3.53%	3.91%
- non-performing past due and/or overdrawn exposures, gross	0.04%	0.05%

% of net loans	**30.06.2019**	**31.12.2018**
Net non-performing loans to customers	3.90%	4.17%
of which:		
- net doubtful loans	1.30%	1.27%
- unlikely to pay, net	2.57%	2.86%
- non-performing past due and/or overdrawn exposures, net	0.04%	0.04%

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

The main indicators on the coverage of non-performing loans are reported below considering, for doubtful loans, the amount of direct write-downs made over the years, together with those relating to performing loans, showing an increase in the coverage level of non-performing loans and an improvement in the risk inherent in the performing loan portfolio.

Table no. 7 - **INDICATORS OF COVERAGE OF LOANS TO CUSTOMERS (2)**

% Coverage of non-performing and performing loans (1)	**30.06.2019**	**31.12.2018**
% Coverage of doubtful loans	59.38%	59.34%
% Coverage of doubtful loans, gross of cancellations	62.07%	64.47%
% Total coverage of non-performing loans	43.40%	42.25%
% Coverage of non-performing loans, gross of cancellations	45.20%	45.65%
% Coverage of performing loans	0.50%	0.54%

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

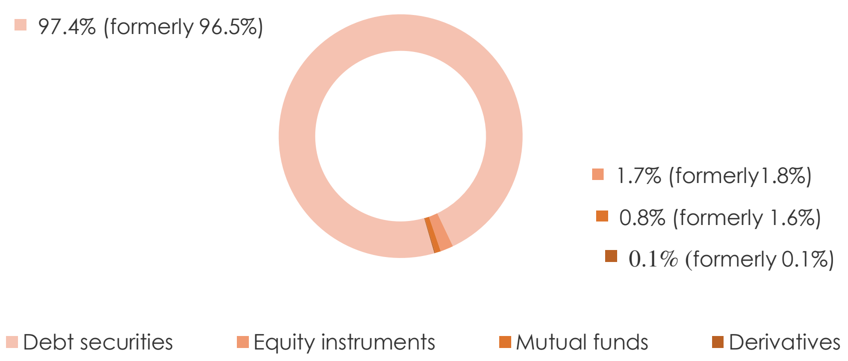
The securities portfolio and interbank position

Securities portfolio

At 30 June 2019, the Group's total financial assets amounted to Euro 3.3 billion, an increase of some Euro 0.2 billion compared with the end of 2018 (+5.5%). Long-term investment policy (held to collect portfolio) is characterised by a significant exposure to Italian government securities, while the residual life of securities of the held to collect and sell portfolio has been significantly curtailed. The Held to Collect category of financial instruments also includes Euro 264.1 million of senior securities of the 2Worlds securitisation subscribed by the Group in June 2018 following the sale of doubtful loans through the GACS scheme, while the residual 5% of mezzanine and junior securities held is included in financial assets that have to be valued at fair value through profit or loss.

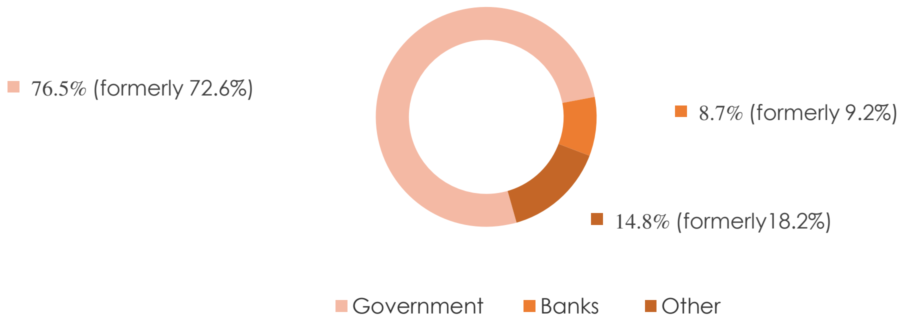
The portfolio breakdown by type of security is shown in the following chart, which shows that a preponderant part (97.4%) of the investments still consist of debt securities.

Chart no. 7 - **PERCENTAGE BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2019 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the first half of the year, 76.5% relates to government securities, 8.7% to securities issued by banks and the remainder to other issuers, as shown by the following chart.

Chart no. 8 - **PERCENTAGE BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2019 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 30.06.2019 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

Table no. 8 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO AND ISSUER**

Amounts in thousands of Euro		30.06.2019		31.12.2018			
		Italy	Total	Italy	Spain	Portugal	Total
Financial assets designated at fair value through profit or loss	Nominal value	-	-	2,371	-	-	2,371
	Book value	-	-	1,521	-	-	1,521
Financial assets designated at fair value through other comprehensive income	Nominal value	490,000	490,000	240,000	-	-	240,000
	Book value	490,473	490,473	241,492	-	-	241,492
Financial assets measured at amortised cost	Nominal value	1,985,921	1,985,921	1,940,921	15,000	25,000	1,980,921
	Book value	1,997,208	1,997,208	1,950,485	15,260	27,451	1,993,196
Sovereign debt	**Nominal value**	**2,475,921**	**2,475,921**	**2,183,292**	**15,000**	**25,000**	**2,223,292**
	Book value	**2,487,681**	**2,487,681**	**2,193,498**	**15,260**	**27,451**	**2,236,209**

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

Amounts in thousands of Euro		**Italy**	**30.06.2019**	
			Nominal value	**Book value**
Financial assets designated at fair value through other comprehensive income	up to 1 year	80,000	80,000	80,023
	1 to 3 years	410,000	410,000	410,450
	3 to 5 years	0	-	-
	over 5 years	0	-	-
	Total	490,000	490,000	490,473
Financial assets measured at amortised cost	up to 1 year	50,000	50,000	50,109
	1 to 3 years	710,000	710,000	710,217
	3 to 5 years	833,921	833,921	839,175
	over 5 years	392,000	392,000	397,707
	Total	1,985,921	1,985,921	1,997,208
Sovereign debt	**up to 1 year**	**130,000**	**130,000**	**130,132**
	1 to 3 years	**1,120,000**	**1,120,000**	**1,120,667**
	3 to 5 years	**833,921**	**833,921**	**839,175**
	over 5 years	**392,000**	**392,000**	**397,707**
	Total	**2,475,921**	**2,475,921**	**2,487,681**

Net interbank position

The Group's net interbank position at 30 June 2019 is negative for Euro 1.2 billion, compared with the position at the end of the previous year, which was also negative for Euro 1.3 billion.

Shareholders' equity and capital adequacy

Shareholders' equity pertaining to the Parent Company at 30 June 2019, including net profit for the period, amounts to Euro 903.4 million, compared with Euro 892.1 million at the end of 2018. The positive change of Euro 11.3 million is due to the comprehensive income of the period amounting to Euro 22.5 million, partly offset by the payment of 2018 dividend of Euro 11.2 million.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 30 June 2019, also explaining the financial and economic effects related to the consolidation of subsidiaries and associated companies.

Table no. 10 - **RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES AT 30.06.2019**

Amounts in thousands of Euro	**Shareholders' equity**	***of which: net profit (loss) for the period***
Balances of the Parent Company Banco Desio at 30 June 2019	***929,615***	***27,065***
Effect of consolidation of subsidiaries	-26,169	5,549
Dividends declared during the period	-	-9,138
Consolidated balance of the Banco Desio Group at 30 June 2019	**903,446**	**23,476**

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 IFRS 9 on own funds and capital ratios.

The calculation of Own Funds and of the consolidated prudential requirements, which are transmitted to the Bank of Italy in relation to the prudential supervisory reports (COREP) and statistical reports (FINREP), is made with reference to Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. as it is the financial parent company of the banking group according to European legislation. [1]

The consolidated own funds calculated by the financial parent company Brianza Unione amount to Euro 922.2 million at 30 June 2019 (CET1 + AT1 of Euro 804.2 million, +T2 of Euro 118.0 million), compared with Euro 934.0 million at the end of the previous year. The Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 9.7% (9.4% at 31 December 2018). The Tier 1 ratio (T1/Risk-weighted assets) was 10.5% (10.3% at 31 December 2018), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 12.1% (12.0% at 31 December 2018).

Consolidated Own Funds calculated at the Banco Desio Group level, after the pay out of 40%, amounted to Euro 1,036.9 million at 30 June 2019 (CET1 + AT1 Euro 956.0 million + T2 Euro 80.9 million), compared with Euro 1,056.9 million at the end of the previous year. The Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 12.4% (12.1% at 31 December 2018). The Tier 1 ratio (T1/Risk-weighted assets) was 12.5% (12.3% at 31 December 2018), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 13.6% (13.6% at 31 December 2018).

[1] For more information on Own Funds and the consolidated prudential requirements at the reference date of 30 June 2019 that are the subject of transmission to the Bank of Italy in relation to supervisory reports (COREP) and statistical reports (FINREP), please refer to the explanation given in the attachment "Information on consolidated shareholders' equity".

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

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

Comparing the new requirements and those previously assigned to the Group[2] with those announced by various competitors, the Group's financial solidity is confirmed.

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

[2] Based on the previous Bank of Italy's instructions sent to the Parent Company on 4 April 2017, which contained the minimum capital requirements to be met at consolidated level following completion of the Supervisory Review and Evaluation Process (SREP): CET1 ratio of 7.25%, binding for 4.75% (minimum regulatory requirement of 4.5% and additional requirements of 0.25%) with the difference represented by the capital conservation buffer, Tier1 ratio of 8.85%, binding for 6.35% (minimum regulatory requirement of 6.0% and additional requirements of 0.35%) with the difference represented by the capital conservation buffer, and Total Capital Ratio of 11.0%, binding for 8.5% (minimum regulatory requirement of 8% and additional requirements of 0.5%) with the difference represented by the capital conservation buffer.

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 *Condensed interim financial statements*, which forms the basis of the specific comments.

The presentation criteria for this table are as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- breakdown of profit (loss) for the period between "Current result after tax" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 230 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers, flat-rate tax on long-term loans and recoveries of legal expense, as well as amortisation of leasehold improvements, reclassified respectively as a reduction to caption 180b) "Other administrative expenses" and as an increase in caption 220 "Net adjustments to intangible assets" included in "Operating expenses";
- the time value components of non-performing financial assets (calculated on the basis of the original effective interest rate) and impairment losses on interest on non-performing loans are reclassified from the item "Net interest income" to "Cost of credit";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of financial assets measured at amortised cost" of "Operating income" is reclassified to "Cost of credit" (which also includes caption 130a) "Net impairment adjustments to financial assets measured at amortised cost"") after "Result of operations";
- the expected loss on securities at amortised cost included in caption 130a) "Net impairment adjustments to financial assets at amortised cost", has been reclassified to caption 130b) "Net adjustments to securities owned" (which also includes the balance of net adjustments for credit risk on securities at fair value with impact on overall profitability);
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 200 "Net provisions for risks and charges - other" to caption "Cost of credit", both captions coming after the "Result of operations";
- 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" and to item "210 Net adjustments to property, plant and equipment"; last year the costs incurred on these contracts were booked under item "190b) Other administrative costs";
- provisions, expenses and revenue of an extraordinary nature or which are "one-off" are reclassified to "Extraordinary provisions for risks and charges, other provisions, expenses and revenue";
- the tax effect on "Non-recurring profit (loss)" is reclassified from caption 300 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

The Profit (loss) from operations after tax is up by 10.9 million euro (+81.2%) compared with the comparison period, mainly due to the negative effect on the cost of credit linked to the sale of doubtful loans by means of a GACS.

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

Captions				Change	
Amounts in thousands of Euro		**30.06.2019**	**30.06.2018**	**Amount**	**%**
10+20	Net interest income	108.075	105.367	2.708	2,6%
70	Dividends and similar income	1.044	3.192	-2.148	-67,3%
40+50	Net commission income	80.410	81.346	-936	-1,2%
80+90+100 +110	Net result of financial assets and liabilities	6.135	8.251	-2.116	-25,6%
230	Other operating income/expense	5.034	6.674	-1.640	-24,6%
	Operating income	**200.698**	**204.830**	**-4.132**	**-2,0%**
190 a	Payroll costs	-84.700	-86.943	2.243	-2,6%
190 b	Other administrative costs	-47.829	-46.393	-1.436	3,1%
210+220	Net adjustments to property, plant and equipment and intangible assets	-5.268	-5.710	442	-7,7%
	Operating costs	**-137.797**	**-139.046**	**1.249**	**-0,9%**
	Result of operations	**62.901**	**65.784**	**-2.883**	**-4,4%**
130a+100a	Cost of credit	-26.921	-46.491	19.570	-42,1%
130 b	Net adjustments to securities owned	2.883	-1.315	4.198	n.s.
140	Profit/losses from contractual changes without write-offs	-111		-111	n.s.
200 a	Net provisions for risks and charges - commitments and guarantees given	-850	90	-940	n.s.
200 b	Net provisions for risks and charges - other	-1.148	-354	-794	224,3%
	Profit (loss) from continuing operations before tax	**36.754**	**17.714**	**19.040**	**107,5%**
300	Income taxes on continuing operations	-12.504	-4.330	-8.174	188,8%
	Profit (loss) from continuing operations after tax	**24.250**	**13.384**	**10.866**	**81,2%**
260	Net result of the measurement at fair value of property, plant and equipment and intangible assets	-260		-260	n.s.
	Provisions for risks and charges, other provisions, one-off expenses and revenue	-74	253	-327	n.s.
	Non-recurring result before tax	**-334**	**253**	**-587**	**n.s.**
	Income taxes from non-recurring items	185	-89	274	n.s.
	Non-recurring profit (loss) after tax	**-149**	**164**	**-313**	**n.s.**
330	**Net profit (loss) for the period**	**24.101**	**13.548**	**10.553**	**77,9%**
340	Profit (Loss) pertaining to Minority interests	-625	54	-679	n.s.
350	**Profit (Loss) for the period pertaining to the Parent Company**	**23.476**	**13.602**	**9.874**	**72,6%**

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

Captions		As per financial statements	Reclassifications								Reclassified income statement
Amounts in thousands of Euro		30.06.2019	Measurement effects on non-performing loans	Tax/expense recoveries	Expected loss on securities at amortized cost	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions, one-off expenses and	Reclassifications IFRS16 - Leases	Income taxes	30.06.2019
10+20	Net interest income	110.825	-3.396						646		108.075
70	Dividends and similar income	1.044									1.044
	Profit (Loss) on investments in associates										
40+50	Net commission income	80.410									80.410
80+90+100 +110	Net result of financial assets and liabilities	6.238					-103				6.135
230	Other operating income/expense	21.482		-15.938		940		-1.450			5.034
	Operating income	**219.999**	**-3.396**	**-15.938**	**0**	**940**	**-103**	**-1.450**	**646**	**0**	**200.698**
190 a	Payroll costs	-84.628						-72			-84.700
190 b	Other administrative costs	-59.435		15.938				1.596	-5.928		-47.829
210+220	Net adjustments to property, plant and equipment and intangible assets	-9.610				-940			5.282		-5.268
	Operating costs	**-153.673**	**0**	**15.938**	**0**	**-940**	**0**	**1.524**	**-646**	**0**	**-137.797**
	Result of operations	**66.326**	**-3.396**	**0**	**0**	**0**	**-103**	**74**	**0**	**0**	**62.901**
130a+100a	Cost of credit	-27.522	3.396		-2.841		103	-57			-26.921
130 b	Net adjustments to securities owned	42			2.841						2.883
140	Profit/losses from contractual changes without write-offs	-111									-111
200 a	Net provisions for risks and charges - commitments and guarantees given	-850									-850
200 b	Net provisions for risks and charges - other	-1.205						57			-1.148
	Profit (loss) from continuing operations before tax	**36.680**	**0**	**0**	**0**	**0**	**0**	**74**	**0**	**0**	**36.754**
300	Income taxes on continuing operations	-12.319								-185	-12.504
	Profit (loss) from continuing operations after tax	**24.361**	**0**	**0**	**0**	**0**	**0**	**74**	**0**	**-185**	**24.250**
260	Net result of the measurement at fair value of property, plant and equipment and intangible assets	-260			0						-260
	Provisions for risks and charges, other provisions, one-off expenses and revenue		0		0			-74			-74
	Non-recurring result before tax	**-260**	**0**	**0**	**0**	**0**	**0**	**-74**	**0**	**0**	**-334**
	Income taxes from non-recurring items									185	185
	Non-recurring profit (loss) after tax	**-260**	**0**	**0**	**0**	**0**	**0**	**-74**	**0**	**185**	**-149**
330	**Net profit (loss) for the period**	**24.101**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**24.101**
340	Profit (Loss) pertaining to Minority interests	-625									-625
350	**Profit (Loss) for the period pertaining to the Parent Company**	**23.476**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23.476**

Table no. 13 - RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 30.06.2018

	Captions	As per financial statements	Reclassifications							Reclassified income statement
	Amounts in thousands of Euro	30.06.2018	Measurement effects on non-performing loans	Tax/expense recoveries	Expected loss on securities at amortized cost	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions, one-off expenses and	Income taxes	30.06.2018
10+20	Net interest income	108.321	-2.954							105.367
70	Dividends and similar income	3.192								3.192
	Profit (Loss) on investments in associates									
40+50	Net commission income	81.346								81.346
80+90+100 +110	Net result of financial assets and liabilities	8.150	0				101			8.251
230	Other operating income/expense	22.910		-17.210		974				6.674
	Operating income	**223.919**	**-2.954**	**-17.210**	**0**	**974**	**101**	**0**	**0**	**204.830**
190 a	Payroll costs	-85.226						-1.717		-86.943
190 b	Other administrative costs	-65.067		17.210				1.464		-46.393
210+220	Net adjustments to property, plant and equipment and intangible assets	-4.736				-974				-5.710
	Operating costs	**-155.029**	**0**	**17.210**	**0**	**-974**	**0**	**-253**	**0**	**-139.046**
	Result of operations	**68.890**	**-2.954**	**0**	**0**	**0**	**101**	**-253**	**0**	**65.784**
130a+100a	Cost of credit	-50.115	2.954		852		-101	-81		-46.491
130 b	Net adjustments to securities owned	-463			-852					-1.315
200 a	Net provisions for risks and charges - commitments and guarantees given	90								90
200 b	Net provisions for risks and charges - other	-435						81		-354
	Profit (loss) from continuing operations before tax	**17.967**	**0**	**0**	**0**	**0**	**0**	**-253**	**0**	**17.714**
300	Income taxes on current operations	-4.419							89	-4.330
	Profit (loss) from continuing operations after tax	**13.548**	**0**	**0**	**0**	**0**	**0**	**-253**	**89**	**13.384**
250+280	Profit (loss) from investments and disposal of investments	-								0
	Provisions for risks and charges, other provisions, one-off expenses and revenue							253		253
	Non-recurring profit (loss) before tax	**0**	**0**	**0**	**0**	**0**	**0**	**253**	**0**	**253**
	Income taxes from non-recurring items								-89	-89
	Non-recurring profit (loss) after tax	**0**	**0**	**0**	**0**	**0**	**0**	**253**	**-89**	**164**
330	**Net profit (loss) for the period**	**13.548**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**13.548**
340	Minority interests	54								54
350	**Profit (Loss) for the period pertaining to the Parent Company**	**13.602**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**13.602**

The net profit attributable to the Parent Company at 30 June 2019 comes to Euro 23.5 million, an increase of 72.6% compared with the profit for the comparative period of Euro 13.6 million.

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

Operating income

Core revenues decreased by about Euro 4.1 million compared with the previous period (-2.0%), coming in at Euro 200.7 million. This is mainly due to the decrease in *net commission income* for Euro 0.9 million (-1.2%), *of the net result of financial assets and liabilities* for Euro 2.1 million, of dividends for Euro 2.1 million and of *other operating income /expense* for Euro 1.6 million (-24.6%) partly offset by the recovery in *net interest income* which has increased by 2.7 million euro (+2.6%).

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 137.8 million and have decreased, with respect to the comparative period, by Euro 1.2 million (-0.9%).

In particular, other administrative expenses have increased by Euro 1.4 million (+3.1%). The balance of other administrative expense includes Euro 4.4 million of the ex-ante gross ordinary contributions to the resolution fund ("Contribution SRM - Single Resolution Mechanism") versus Euro 3.9 million in the comparative period.

This balance also includes Euro 5.9 million of costs for operating leases falling within the scope of IFRS 16 - Leases, which came into force on 1 January 2019; these costs have been booked to item "20 Interest and similar expense" for Euro 0.6 million and to item "210 Net adjustments to property, plant and equipment" for Euro 5.3 million; in the comparative 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 0.3 million (before tax) during the period.

Payroll costs have decreased by 2.6% on the prior period, whereas the balance of net adjustments to property, plant and equipment and intangible assets came to Euro 5.3 million (-7.7%).

Results of operations

The results of operations at 30 June 2019 therefore amounted to Euro 62.9 million, Euro 2.9 million down on the prior period (-4.4%).

Net profit (loss) from continuing operations after tax

The result of operations of Euro 62.9 million leads to a net profit (loss) from operations after tax of Euro 24.3 million, 81.2% up on Euro 13.4 million in the comparative period, mainly because of:

- lower cost of credit (net impairment adjustments to financial assets measured at amortised cost plus gains (losses) on disposal or repurchase of loans) of Euro 26.9 million (Euro 46.5 million in the comparison period), affected by the adjustments made to reflect the economic effects of the GACS project (guarantee for securitisation of NPLs);
- positive net adjustments to proprietary securities of Euro 2.9 million (negative for Euro 1.3 million in the comparative period);

– net provisions for risks and charges of Euro 2.0 million (formerly Euro 0.3 million);

– income taxes on continuing operations of Euro 12.5 million (formerly Euro 4.3 million).

Non-recurring profit (loss) after tax

At 30 June 2019 there was a *non-recurring profit after tax* of Euro 0.2 million. This item basically consists of:

- the revenue component of Euro 1.5 million relating to an insurance refund received.
- the Euro 1.6 million charge for the extraordinary contribution to the SRM requested by the national resolution authority on 7 June 2019;
- the net result of the measurement at fair value of works of art negative for Euro 0.2 million.

net of the related positive tax effects of Euro 0.1 million.

The positive result of Euro 0.2 million in the comparative period is mainly made up of:

– the revenue component of Euro 1.8 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,

net of the related tax effect (negative for Euro 0.1 million).

Profit for the period pertaining to the Parent Company

The total of the *profit from operations after tax* and the *non-recurring profit after tax*, as well as the *result attributable to minority interests*, leads to a net profit for the Parent Company at 30 June 2019 of Euro 23.5 million.

Performance of consolidated companies

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

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

Balance sheet

Amounts in thousands of Euro	30.06.2019	31.12.2018	Change amount	%
Total assets	10,427,556	10,112,843	314,713	3.1%
Financial assets	2,813,835	2,629,146	184,689	7.0%
Due from banks [1]	705,164	675,378	29,786	4.4%
Loans to customers [1]	6,207,504	6,163,674	43,830	0.7%
of which: Loans to ordinary customers	*6,094,540*	*6,163,674*	*-69,134*	*-1.1%*
of which: Loans to institutional customers	*112,964*		*112,964*	
Property, plant and equipment [2]	162,360	134,591	27,769	20.6%
Intangible assets	2,739	2,790	-51	-1.8%
Due to banks	1,670,551	1,669,097	1,454	0.1%
Due to customers [3]	6,173,805	5,964,901	208,904	3.5%
Debt securities in issue	1,334,201	1,338,854	-4,653	-0.3%
Shareholders' equity (including Net profit/loss for the period)	929,615	914,514	15,101	1.7%
Own Funds	998,413	1,005,869	-7,456	-0.7%
Total indirect deposits	12,715,341	12,070,358	644,983	5.3%
of which: Indirect deposits from ordinary customers	*7,344,091*	*6,967,942*	*376,149*	*5.4%*
of which: Indirect deposits from institutional customers	*5,371,250*	*5,102,416*	*268,834*	*5.3%*

[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 30 June 2019 includes the right of use ("RoU Assets") equal to Euro 29.6 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 30 June 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	30.06.2019	30.06.2018	Change amount	%
Operating income	125,529	129,185	-3,656	-2.8%
of which: Net interest income	*62,435*	*59,281*	*3,154*	*5.3%*
Operating costs	87,151	86,640	511	0.6%
Result of operations	38,378	42,545	-4,167	-9.8%
Profit (loss) from continuing operations after tax	26,774	18,136	8,638	47.6%
Non-recurring profit (loss) after tax	291	551	-260	n.s.
Net profit (loss) for the period	27,065	18,687	8,378	44.8%

[4] *from the reclassified income statement*

Key figures and ratios

	30.06.2019	31.12.2018	Change amount
Capital/Total assets	8.9%	9.0%	-0.1%
Capital/Loans to customers	15.0%	14.8%	0.2%
Capital/Due to customers	15.1%	15.3%	-0.2%
Capital/Debt securities in issue	69.7%	68.3%	1.4%
Common Equity Tier 1 (CET 1)/Risk-weighted assets *(Common Equity Tier 1 ratio)* [5]	18.8%	18.0%	0.8%
Core Tier 1 capital (T1)/Risk-weighted assets *(Tier 1 ratio)* [5]	18.8%	18.0%	0.8%
Total Own Funds/Risk-weighted assets *(Total capital ratio)* [5]	20.3%	19.8%	0.5%
Financial assets/Total assets	27.0%	26.0%	1.0%
Due from banks/Total assets	6.8%	6.7%	0.1%
Loans to customers/Total assets	59.5%	60.9%	-1.4%
Loans to customers/Direct customer deposits	82.7%	84.4%	-1.7%
Due to banks/Total assets	16.0%	16.5%	-0.5%
Due to customers/Total assets	59.2%	59.0%	0.2%
Debt securities in issue / Total assets	12.8%	13.2%	-0.4%
Direct customer deposits/Total assets	72.0%	72.2%	-0.2%

	30.06.2019	30.06.2018	Change amount
Cost/Income ratio	69.4%	67.1%	2.3%
Net interest income/Operating income	49.7%	45.9%	3.8%
Result of operations/Operating income	30.6%	32.9%	-2.3%
Profit (loss) from continuing operations after tax/Capital [6] [7]	5.0%	3.4%	1.6%
ROE [5] - annualised [7] [8]	5.0%	3.5%	1.5%
Profit (loss) from operations before tax/Total assets (ROA) [7]	0.6%	0.4%	0.2%

	30.06.2019	31.12.2018	Change amount
Net doubtful loans/Loans to customers	1.0%	1.0%	0.0%
Net non-performing loans/Loans to customers	3.2%	3.5%	-0.3%
% Coverage of doubtful loans	61.4%	62.1%	-0.7%
% Coverage of doubtful loans, gross of cancellations	65.9%	69.8%	-3.9%
% Total coverage of non-performing loans	44.9%	44.3%	0.6%
% Coverage of non-performing loans, gross of cancellations	48.0%	50.0%	-2.0%
% Coverage of performing loans	0.42%	0.45%	-0.03%

Structure and productivity ratios

	30.06.2019	31.12.2018	Change amount	Change %
Number of employees	1,323	1,316	7	0.5%
Number of branches	146	146	0	0.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee [9]	4,704	4,588	116	2.5%
Direct deposits from customers per employee [9]	5,690	5,436	254	4.7%

	30.06.2019	30.06.2018	Change amount	Change %
Operating income per employee [9] - annualised [7]	190	187	3	1.6%
Result of operations per employee [9] - annualised [7]	58	59	-1	-1.7%

(5) capital ratios at 30.06.2019 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 18.6%; Tier 1 18.6%; Total capital ratio 20.0%

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

(7) *the amount reported at 30.06.2018 is the final figure at the end of 2018;*

(8) *the annualised ROE at 30.06.2019 does not take into consideration the annualisation of the net non-recurring operating profit and of the dividends from subsidiaries;*

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

The Profit (loss) from continuing operations after tax is up by 8.6 million (+ 47.6%) compared with the comparison period, which was affected by the negative effect on the cost of credit linked to the sale of doubtful loans by means of a GACS.

Loans to ordinary customers decreased from 6,163.7 million euro at the end of 2018 to Euro 6,094.5 million at the reference date, which is 3.2% of the NPL portfolio (formerly 3.5%).

Shareholders' equity at 30 June 2019, including the result for the period, amounts to Euro 929.6 million, compared with Euro 914.5 million at the end of 2018. The positive change of Euro 15.1 million is due to the comprehensive income of the period amounting to Euro 26.2 million, partly offset by the payment of 2018 dividend of Euro 11.1 million.

Shareholders' equity calculated in accordance with the new regulatory provisions defined as Own Funds, after the pay-out of 40%, amounts to Euro 998.4 million (CET1 + ATI of Euro 927.1 million + T2 of Euro 71.3 million), compared with Euro 1,005.9 million at the end of the previous year.

The Total Capital Ratio, consisting of total Own Funds as a ratio of risk-weighted assets, came to 20.3%.

Banca Popolare di Spoleto S.p.A.

Balance sheet

Amounts in thousands of Euro	**30.06.2019**	**31.12.2018**	**Change** amount	**%**
Total assets	4,192,228	4,200,022	-7,794	-0.2%
Financial assets	437,994	452,981	-14,987	-3.3%
Due from banks [1]	104,449	115,548	-11,099	-9.6%
Loans to customers [1]	3,400,614	3,389,153	11,461	0.3%
Property, plant and equipment [2]	65,874	41,624	24,250	58.3%
Intangible assets	8,302	8,328	-26	-0.3%
Due to banks	326,632	458,078	-131,446	-28.7%
Due to customers [3]	3,370,692	3,288,357	82,335	2.5%
Debt securities in issue	83,574	87,805	-4,231	-4.8%
Shareholders' equity (including Net profit/loss for the period)	233,314	233,002	312	0.1%
Own Funds	276,956	283,913	-6,957	-2.5%
Total indirect deposits	2,176,890	2,048,300	128,590	6.3%
of which: Indirect deposits from ordinary customers	*2,143,734*	*2,010,344*	*133,390*	*6.6%*
of which: Indirect deposits from institutional customers	*33,156*	*37,956*	*-4,800*	*-12.6%*

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

[2] *the balance of this item at 30 June 2019 includes the right of use ("RoU Assets") equal to Euro 25.2 million for operating lease contracts falling within the scope of application of IFRS 16 Leases, which came into effect on 1January 2019*

[3] *the balance of this item at 30 June 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 1January 2019*

Income statement (1)

Amounts in thousands of Euro	30.06.2019	30.06.2018	Change amount	Change %
Operating income	*68,736*	*71,455*	-2,719	-3.8%
of which: Net interest income	*38,704*	*40,225*	*-1,521*	*-3.8%*
Operating costs	47,522	49,845	-2,323	-4.7%
Result of operations	21,214	21,610	-396	-1.8%
Profit (loss) from continuing operations after tax	5,049	2,533	2,516	99.3%
Non-recurring profit (loss) after tax	-440	-387	-53	n.s.
Profit for the period	4,609	2,146	2,463	114.8%

(1) from the Reclassified Income Statement.

Key figures and ratios

	30.06.2019	31.12.2018	Change %
Capital/Total assets	5.6%	5.5%	0.1%
Capital/Loans to customers	6.9%	6.9%	0.0%
Capital/Due to customers	6.9%	7.1%	-0.2%
Capital/Debt securities in issue	279.2%	265.4%	13.8%
Common Equity Tier 1 (CET 1)/Risk-weighted assets *(Common Equity Tier 1 ratio)* (1)	10.6%	10.8%	-0.2%
Core Tier 1 capital (T1)/Risk-weighted assets *(Tier 1 ratio)* (1)	10.6%	10.8%	-0.2%
Total Own Funds/Risk-weighted assets *(Total capital ratio)* (1)	11.3%	11.6%	-0.2%
Financial assets/Total assets	10.4%	10.8%	-0.4%
Due from banks/Total assets	2.5%	2.8%	-0.3%
Loans to customers/Total assets	81.1%	80.7%	0.4%
Loans to customers/Direct customer deposits	98.4%	100.4%	-2.0%
Due to banks/Total assets	7.8%	10.9%	-3.1%
Due to customers/Total assets	80.4%	78.3%	2.1%
Debt securities in issue / Total assets	2.0%	2.1%	-0.1%
Direct customer deposits/Total assets	82.4%	80.4%	2.0%

	30.06.2019	30.06.2018	Change %
Cost/Income ratio	69.1%	69.8%	-0.7%
Net interest income/Operating income	56.3%	56.3%	0.0%
Result of operations/Operating income	30.9%	30.2%	0.7%
Profit (loss) from continuing operations after tax/Capital (2) (3)	4.4%	5.3%	-0.9%
ROE (2) - annualised (3) (4)	4.2%	5.2%	-1.0%
Profit (loss) from operations before tax/Total assets (ROA) (3)	0.4%	0.3%	0.1%

	30.06.2019	31.12.2018	Change %
Net doubtful loans/Loans to customers	1.8%	1.7%	0.1%
Net impaired loans/Loans to customers	5.2%	5.5%	-0.3%
% Coverage of doubtful loans	56.9%	55.6%	1.3%
% Total coverage of non-performing loans	41.7%	39.7%	2.0%
% Coverage of performing loans	0.65%	0.70%	-0.05%

Structure and productivity ratios

	30.06.2019	31.12.2018	Change amount	Change %
Number of employees	842	849	-7	-0.8%
Number of branches	118	119	-1	-0.8%
Amounts in thousands of Euro				
Loans and advances to customers per employee [5]	4,022	3,900	122	3.1%
Direct deposits from customers per employee [5]	4,085	3,885	200	5.1%

	30.06.2019	30.06.2018	Change amount	Change %
Operating income per employee [5] - annualised [3]	163	161	2	1.2%
Result of operations per employee [5] - annualised [3]	50	48	2	4.2%

[1] capital ratios at 30.06.2019 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: 8.9% (CET 1 ratio); 8.9% (Tier 1 ratio); 9.7% (Total capital ratio).
[2] equity excluding net profit (loss) for the period;
[3] the amount reported at 30.06.2018 is the final figure at the end of 2018;
[4] the annualised ROE at 30.06.2019 does not take into consideration the annualisation of the Net non-recurring operating profit;
[5] based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.

At the reference date, the Parent Company Banco di Desio e della Brianza S.p.A. held an investment of 81.67% in this company.

The Profit (loss) from continuing operations after tax is up by 2.5 million compared with the previous period which was affected by the negative effect on the cost of credit linked to the sale of doubtful loans by means of a GACS.

Shareholders' equity at 30 June 2019, including the result for the period, amounts to Euro 233.3 million, compared with Euro 233.0 million at the end of 2018. The positive change of Euro 0.3 million is due to the comprehensive income of the period amounting to Euro 4.5 million, offset by the payment of 2018 dividend of Euro 4.2 million.

Shareholders' equity calculated in accordance with the new regulatory provisions defined as Own Funds, after the pay-out of 40%, amounts to Euro 277.0 million (CET1 + ATI of Euro 259.0 million + T2 of Euro 18 million), compared with Euro 283.9 million at the end of the previous year.

The Total Capital Ratio, consisting of total Own Funds as a ratio of risk-weighted assets, came to 11.3%.

Fides S.p.A.

Balance sheet

Amounts in thousands of Euro	30.06.2019	31.12.2018	Change amount	%
Total assets	760,065	711,437	48,628	6.8%
Financial assets	15	15	0	0.0%
Due from banks	2,585	2,922	-337	-11.5%
Loans to customers	753,673	706,240	47,433	6.7%
Property, plant and equipment	1,352	127	1,225	964.6%
Intangible assets	1,256	1,057	199	18.8%
Due to banks	700,744	652,070	48,674	7.5%
of which: Due to Group Banks	*700,744*	*652,070*	*48,675*	*7.5%*
Due to customers	4,679	3,678	1,001	27.2%
Shareholders' equity (including Net profit/loss for the period)	48,923	51,533	-2,610	-5.1%
Own Funds	45,164	44,736	428	1.0%

Income statement [(1)]

Amounts in thousands of Euro	30.06.2019	30.06.2018	Change amount	%
Operating income	8,223	8,427	-204	-2.4%
of which: Net interest income	7,588	6,964	624	9.0%
Operating costs	-3,487	-3,357	-130	3.9%
Result of operations	4,735	5,070	-335	-6.6%
Profit (loss) from continuing operations after tax	3,139	3,540	-401	-11.3%
Non-recurring profit (loss) after tax	0	0	0	n.s.
Net profit for the year	3,139	3,540	-401	-11.3%

[(1)] *from the reclassified income statement*

Key figures and ratios

	30.06.2019	31.12.2018	Change amount
Capital/Total assets	6.4%	7.2%	-0.8%
Capital/Loans to customers	6.5%	7.3%	-0.8%
Capital/Due to Banks	7.0%	7.9%	-0.9%
Total Own Funds/Risk-weighted assets *(Total capital ratio)*	7.3%	7.6%	-0.3%
Loans to customers/Total assets	99.2%	99.3%	-0.1%
Due to banks/Total assets	92.2%	91.7%	0.5%
	30.06.2019	**30.06.2018**	**Change amount**
Cost/Income ratio	42.4%	39.8%	2.6%
Net interest income/Operating income	92.3%	82.6%	9.7%
Result of operations/Operating income	57.6%	60.2%	-2.6%
Profit (loss) from continuing operations after tax/Capital [(2) (3)]	13.7%	16.2%	-2.5%
Profit (loss) from operations after tax/Capital [(2)] (R.O.E) [(3)]	13.7%	16.2%	-2.5%
Profit (loss) from operations before tax/Total assets (ROA) [(3)]	1.2%	1.4%	-0.2%
	30.06.2019	**31.12.2018**	**Change amount**
Net doubtful loans/Loans to customers	0.1%	0.1%	0.0%
Net non-performing loans/Loans to customers	0.3%	0.4%	0.0%
% Coverage of doubtful loans	64.5%	64.2%	0.3%
% Total coverage of non-performing loans	39.9%	39.6%	0.3%
% Coverage of performing loans	0.07%	0.06%	0.01%

Structure and productivity ratios

	30.06.2019	31.12.2018	Change amount	Change %
Number of employees	46	44	2	4.5%
Amounts in thousands of Euro	**30.06.2019**	**31.12.2018**	**Change amount**	**%**
Loans and advances to customers per employee [(4)]	16,748	16,051	697	4.3%
Amounts in thousands of Euro	**30.06.2019**	**30.06.2018**	**Change amount**	**%**
Operating income per employee [(4)] - annualised [(3)]	365	382	-17	-4.5%
Result of operations per employee [(4)] - annualised [(3)]	210	234	-24	-10.3%

[(3)] the amount reported at 30.06.2018 is the final figure at the end of 2018;

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

At the reference date, the Parent Company Banco di Desio e della Brianza S.p.A. held an investment of 100%.

Profit at 30 June 2019 amounted to 3.1 million euro, with a drop on the comparative period (-11.3%); operating income amounted to 8.2 million euro on 8.4 million euro at 30 June 2018, operating costs totalled 3.5 million euro (formerly 3.4 million euro), and the results of operations amounted to 4.7 million euro (formerly 5.1 million euro). The net impairment adjustments to loans and advances of 0.2 million euro (positive for 0.1 million euro in the comparative period), the net provisions for risks and charges of 0.02 million euro (vs 0.1 million euro) and taxes of 1.4 million euro (vs 1.5 million euro lead to the result for the period.

Loans to customers have gone from 706.2 million euro at the end of 2018 to 753.7 million euro at the reporting date.

Book shareholders' equity went from 51.5 million euro at 31 December 2018 to 48.9 million euro at the reporting date, due to the distribution of dividends, partly offset by the result for the period. Own Funds for supervisory purposes have risen from Euro 44.7 million at the end of 2018 to Euro 45.2 million.

Other information

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 and Brianza S.p.A.

The latest ratings are therefore as follows:

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

Existence of the conditions of arts. 15 and 16 of market regulations

The conditions laid down in arts. 15 and 16 of the "Market Regulations", adopted with Consob's Resolution 20249 of 28 December 2017, in this case with reference to Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A., the holding company of the Parent Company, as reported in the Group's "Annual Report on Corporate Governance and Corporate Structure" required by art. 123-bis of the CFA and made available on the website www.bancodesio.it, Banco Desio - Corporate Governance Section".

Transactions with related parties

For a description of the procedures that govern transactions with related parties (pursuant to art. 2391-bis of the Italian 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 (www.bancodesio.it) in the Corporate Governance section, pursuant to art. 123-bis of the CFA. For further information, please refer to the specific section of the Condensed consolidated interim financial statements.

Outlook for the rest of the year and principal risks and uncertainties

Based on the final results for the first half of 2019, we expect for the current year to achieve positive results, probably in line with those of the previous year, if the macroeconomic scenario does not reveal significant and unexpected critical events.

As regards the principal risks and uncertainties, note that this consolidated interim financial report at 30 June 2019 has been prepared on a going-concern basis, as there is no plausible reason to believe the contrary in the foreseeable future.

Condensed consolidated interim financial statements

at 30 June 2019

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets	30.06.2019	31.12.2018	Change amount	%
10. Cash and cash equivalents	46,754	69,219	(22,465)	-32.5%
20. Financial assets designated at fair value through profit or loss	35,699	60,188	(24,489)	-40.7%
a) Financial assets held for trading	9,445	8,186	1,259	15.4%
c) Other financial assets that are necessarily measured at fair value	26,254	52,002	(25,748)	-49.5%
30. Financial assets measured at fair value through other comprehensive income	547,293	296,421	250,872	84.6%
40. Financial assets measured at amortised cost	12,781,706	12,626,834	154,872	1.2%
a) Due from banks	711,007	555,965	155,042	27.9%
b) Loans to customers	12,070,699	12,070,869	(170)	0.0%
50. Hedging derivatives		1	(1)	-100.0%
60. Adjustment to financial assets with generic hedge (+/-)	1,062	684	378	55.3%
90. Property, plant and equipment	232,635	179,418	53,217	29.7%
100. Intangible assets	17,823	17,701	122	0.7%
of which:				
- goodwill	15,322	15,322		
110. Tax assets	209,131	226,537	(17,406)	-7.7%
a) current	22,022	29,227	(7,205)	-24.7%
b) deferred	187,109	197,310	(10,201)	-5.2%
130. Other assets	179,356	131,033	48,323	36.9%
Total assets	**14,051,459**	**13,608,036**	**443,423**	**3.26%**

Liabilities and shareholders' equity	30.06.2019	31.12.2018	Change amount	%
10. Financial liabilities measured at amortised cost	12,650,546	12,301,628	348,918	2.8%
a) Due to banks	1,631,625	1,620,824	10,801	0.7%
b) Due to customers	9,601,737	9,254,591	347,146	3.8%
c) Debt securities in issue	1,417,184	1,426,213	(9,029)	-0.6%
20. Financial liabilities held for trading	7,931	6,046	1,885	31.2%
40. Hedging derivatives	6,544	5,175	1,369	26.5%
60. Tax liabilities	17,442	23,313	(5,871)	-25.2%
a) current	1,175	1	1,174	n.s.
b) deferred	16,267	23,312	(7,045)	-30.2%
80. Other liabilities	366,276	273,634	92,642	33.9%
90. Provision for termination indemnities	25,751	25,175	576	2.3%
100. Provisions for risks and charges	29,421	36,745	(7,324)	-19.9%
a) commitments and guarantees given	3,230	2,377	853	35.9%
c) other provisions for risks and charges	26,191	34,368	(8,177)	-23.8%
120. Valuation reserves	42,981	43,920	(939)	-2.1%
150. Reserves	753,139	729,024	24,115	3.3%
160. Share premium reserve	16,145	16,145		
170. Share capital	67,705	67,705		
190. Minority interests (+/-)	44,102	44,266	(164)	-0.4%
200. Net profit (loss) for the period (+/-)	23,476	35,260	(11,784)	-33.4%
Total liabilities and shareholders' equity	**14,051,459**	**13,608,036**	**443,423**	**3.26%**

Note: the caption "90. Property, plant and equipment" at 30 June 2019 includes the recognition of the right of use asset ("RoU Asset") for Euro 55,981 thousand against operating lease contracts falling within the scope of IFRS 16, which came into force on 1 January 2019; similarly, caption "10.b) Due to customers" at 30 June 2019 includes Euro 56,280 thousand of lease liabilities recognized on the same contracts in application of IFRS 16.

CONSOLIDATED INCOME STATEMENT

Captions		30.06.2019	30.06.2018	Change amount	%
10.	Interest and similar income	132,926	136,313	(3,387)	-2.5%
20.	Interest and similar expense	(22,101)	(27,992)	5,891	-21.0%
30.	**Net interest income**	**110,825**	**108,321**	**2,504**	**2.3%**
40.	Commission income	87,985	87,662	323	0.4%
50.	Commission expense	(7,575)	(6,316)	(1,259)	19.9%
60.	**Net commission income**	**80,410**	**81,346**	**(936)**	**-1.2%**
70.	Dividends and similar income	1,044	3,192	(2,148)	-67.3%
80.	Net trading income	1,004	(241)	1,245	n.s.
90.	Net hedging gains (losses)	(103)	(4)	(99)	n.s.
100.	Gains (losses) on disposal or repurchase of:	3,614	9,664	(6,050)	-62.6%
	a) financial assets measured at amortised cost	1,922	(101)	2,023	n.s.
	b) financial assets designated at fair value through other comprehensive income	1,794	10,181	(8,387)	-82.4%
	c) financial liabilities	(102)	(416)	314	-75.5%
110.	Net result of other financial assets and liabilities designated at fair value through profit or loss	1,723	(1,269)	2,992	n.s.
	b) other financial assets that have to be measured at fair value	1,723	(1,269)	2,992	n.s.
120.	**Net interest and other banking income**	**198,517**	**201,009**	**(2,492)**	**-1.2%**
130.	Net value adjustments/write-backs for credit risk relating to:	(27,480)	(50,578)	23,098	-45.7%
	a) financial assets measured at amortised cost	(27,522)	(50,115)	22,593	-45.1%
	b) financial assets designated at fair value through other comprehensive income	42	(463)	505	n.s.
140.	Profit/losses from contractual changes without write-offs	(111)		(111)	n.s.
150.	**Net profit from financial activities**	**170,926**	**150,431**	**20,495**	**13.6%**
180.	**Net profit from financial and insurance activities**	**170,926**	**150,431**	**20,495**	**13.6%**
190.	Administrative costs:	(144,063)	(150,293)	6,230	-4.1%
	a) payroll costs	(84,628)	(85,226)	598	-0.7%
	b) other administrative costs	(59,435)	(65,067)	5,632	-8.7%
200.	Net provisions for risks and charges	(2,055)	(345)	(1,710)	495.7%
	a) commitments for guarantees given	(850)	90	(940)	n.s.
	b) other net provisions	(1,205)	(435)	(770)	177.0%
210.	Net adjustments to property, plant and equipment	(8,926)	(3,672)	(5,254)	143.1%
220.	Net adjustments to intangible assets	(684)	(1,064)	380	-35.7%
230.	Other operating charges/income	21,482	22,910	(1,428)	-6.2%
240.	**Operating costs**	**(134,246)**	**(132,464)**	**(1,782)**	**1.3%**
260.	Net result of the measurement at fair value of property, plant and equipment and intangible assets	(260)		(260)	n.s.
290.	**Profit (loss) from current operations before tax**	**36,420**	**17,967**	**18,453**	**102.7%**
300.	Income taxes on current operations	(12,319)	(4,419)	(7,900)	178.8%
310.	**Profit (loss) from current operations after tax**	**24,101**	**13,548**	**10,553**	**77.9%**
330.	**Net profit (loss) for the period**	**24,101**	**13,548**	**10,553**	**77.9%**
340.	Net profit (loss) pertaining to minority interests	(625)	54	(679)	n.s.
350.	**Parent Company net profit (loss)**	**23,476**	**13,602**	**9,874**	**72.6%**

	30.06.2019	30.06.2018
Basic earnings per share (Euro)	0.18	0.10
Diluted earnings per share (Euro)	0.18	0.10

To ease comparison, note that the balances at 30 June 2019 include Euro 646 thousand in the caption “20. Interest expense and similar charges” and Euro 5,282 thousand in caption “210 Net adjustments to property, plant and equipment” of operating lease charges falling within the scope of IFRS 16 from 1 January 2019; in the comparative period the charges related to these contracts were shown in caption "190 b) Other administrative costs".

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Captions	30.06.2019	30.06.2018
10.	**Net profit (loss) for the period**	**24,101**	**13,548**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Equity instruments designated at fair value through other comprehensive income	(86)	-
50.	Property, plant and equipment	46	-
70.	Defined-benefit pension plans	(651)	119
	Other elements of income, net of income taxes with reversal to income statement		
120.	Cash-flow hedges	(581)	(274)
140.	Financial assets (other than equities) designated at fair value through other comprehensive income	307	(27,681)
170.	**Total other elements of income (net of income taxes)**	**(965)**	**(27,836)**
180.	**Total comprehensive income (Captions 10+170)**	**23,136**	**(14,288)**
190.	Total comprehensive income pertaining to minority interests	(600)	623
200.	**Total consolidated comprehensive income pertaining to Parent Company**	**22,536**	**(13,665)**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.06.2019

	Balance at 31.12.2018	Changes in opening balances	Balance at 01.01.2019	Allocation of prior year results		Changes during the year									Group shareholders' equity at 30.06.2019	Minority interests at 30.06.2019
							Transactions on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income at 30.06.2019		
Share capital:																
a) ordinary shares	118,592		118,592										(2)		60,840	57,750
b) other shares	6,865		6,865												6,865	
Share premium reserve	31,594		31,594										(1)		16,145	15,448
Reserves:																
a) from profits	680,223		680,223	24,650									3		739,343	(34,467)
b) other	17,612		17,612												13,796	3,816
Valuation reserves:	44,927		44,927											(965)	42,981	981
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	36,558		36,558	(24,650)	(11,908)									24,101	23,476	625
Group shareholders' equity	**892,054**		**892,054**		**(11,146)**								**2**	**22,536**	**903,446**	
Minority interests	**44,266**		**44,266**		**(762)**								**(2)**	**600**		**44,102**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.06.2018

	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 30.06.2018	Minority interests at 30.06.2018
							Transactions on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income at 30.06.2018		
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		(40)									715,239	(35,004)
b) other	17,612		17,612												13,796	3,816
Valuation reserves:	38,840	8,146	46,986											(27,836)	19,133	17
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	44,959		44,959	(31,138)	(13,821)									13,548	13,602	(54)
Group shareholders' equity	**927,056**	**(54,432)**	**872,624**		**(13,299)**	**(40)**								**(13,665)**	**845,620**	
Minority interests	**52,785**	**(9,715)**	**43,070**		**(522)**									**(623)**		**41,925**

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".

CONSOLIDATED CASH FLOW STATEMENT

	30.06.2019	30.06.2018
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**80,777**	**85,471**
- interest received (+)	128,157	134,896
- interest paid (-)	(21,507)	(29,248)
- dividends and similar income (+)	1,044	3,192
- net commission income (+/-)	80,410	81,346
- payroll costs (-)	(79,653)	(80,143)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(47,047)	(57,373)
- other revenues (+)	31,692	37,220
- taxation (-)	(12,319)	(4,419)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(443,887)**	**(166,274)**
- financial assets held for trading	(2,174)	812
- financial assets designated at fair value through profit and loss		
- other financial assets that are necessarily measured at fair value	22,292	(13,301)
- financial assets designated at fair value through other comprehensive income	(249,450)	74,169
- financial assets measured at amortised cost	(188,807)	(91,512)
- other assets	(25,748)	(136,442)
3. Cash generated (absorbed) by financial liabilities	**354,297**	**81,018**
- financial liabilities measured at amortised cost	282,927	116,128
- financial liabilities held for trading	1,686	(2,114)
- financial liabilities designated at fair value through profit and loss		
- other liabilities	69,684	(32,996)
Net cash generated/absorbed by operating activities (A)	**(8,813)**	**215**
B. INVESTING ACTIVITIES		
1. Cash generated by	**15**	**49**
- sale of equity investments		
- dividends collected on equity investments		
- sale of property, plant and equipment	15	49
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(3,222)**	**(2,760)**
- purchase of equity investments		
- purchase of property, plant and equipment	(2,416)	(2,225)
- purchase of intangible assets	(806)	(535)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	**(3,207)**	**(2,711)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(11,908)	(13,821)
- sale/purchase of third party control		
Net cash generated/absorbed by financing activities (C)	**(11,908)**	**(13,821)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(23,928)**	**(16,317)**

RECONCILIATION

	30.06.2019	30.06.2018
Cash and cash equivalents at beginning of period	**69,219**	**59,413**
Net increase (decrease) in cash and cash equivalents	(23,928)	(16,317)
Cash and cash equivalents: effect of changes in exchange rates	1,463	1,440
Cash and cash equivalents at end of period	**46,754**	**44,536**

CONSOLIDATED INCOME STATEMENT – QUARTER BY QUARTER

Captions		2nd quarter 2019	1st quarter 2019	2nd quarter 2018	1st quarter 2018
10.	Interest and similar income	66,503	66,423	66,047	70,266
20.	Interest and similar expense	(11,350)	(10,751)	(13,648)	(14,344)
30.	**Net interest income**	**55,153**	**55,672**	**52,399**	**55,922**
40.	Commission income	46,052	41,933	46,081	41,581
50.	Commission expense	(3,666)	(3,909)	(3,343)	(2,973)
60.	**Net commission income**	**42,386**	**38,024**	**42,738**	**38,608**
70.	Dividends and similar income	587	457	2,734	458
80.	Net trading income	249	755	(221)	(20)
90.	Net hedging gains (losses)	(87)	(16)	(2)	(2)
100.	Gains (losses) on disposal or repurchase of:	2,814	800	4,113	5,551
	a) financial assets measured at amortised cost	1,912	10	-	(101)
	b) financial assets designated at fair value through other comprehensive income	995	799	4,349	5,832
	c) financial liabilities	(93)	(9)	(236)	(180)
110.	Net result of other financial assets and liabilities designated at fair value through profit or loss	303	1,420	(199)	(1,070)
	b) other financial assets that have to be measured at fair value	303	1,420	(199)	(1,070)
120.	**Net interest and other banking income**	**101,405**	**97,112**	**101,562**	**99,447**
130.	Net value adjustments/write-backs for credit risk relating to:	(19,256)	(8,224)	(33,468)	(17,110)
	a) financial assets measured at amortised cost	(19,204)	(8,318)	(32,998)	(17,117)
	b) financial assets designated at fair value through other comprehensive income	(52)	94	(470)	7
140.	Profit/losses from contractual changes without write-offs	(182)	71	-	-
150.	**Net profit from financial activities**	**81,967**	**88,959**	**68,094**	**82,337**
180.	**Net profit from financial and insurance activities**	**81,967**	**88,959**	**68,094**	**82,337**
190.	Administrative costs:	(71,225)	(72,838)	(74,856)	(75,437)
	a) payroll costs	(42,612)	(42,016)	(42,049)	(43,177)
	b) other administrative costs	(28,613)	(30,822)	(32,807)	(32,260)
200.	Net provisions for risks and charges	(1,132)	(923)	1,973	(2,318)
	a) commitments for guarantees given	(35)	(815)	41	49
	b) other net provisions	(1,097)	(108)	1,932	(2,367)
210.	Net adjustments to property, plant and equipment	(4,453)	(4,473)	(1,827)	(1,845)
220.	Net adjustments to intangible assets	(351)	(333)	(531)	(533)
230.	Other operating charges/income	11,955	9,527	11,638	11,272
240.	**Operating costs**	**(65,206)**	**(69,040)**	**(63,603)**	**(68,861)**
260.	Net result of the measurement at fair value of property, plant and equipment and intangible assets	(260)	-	-	-
290.	**Profit (loss) from current operations before tax**	**16,501**	**19,919**	**4,491**	**13,476**
300.	Income taxes on current operations	(4,974)	(7,345)	(522)	(3,897)
310.	**Profit (loss) from current operations after tax**	**11,527**	**12,574**	**3,969**	**9,579**
320.	Net profit (loss) of discontinued operations, net of taxes	-		-	-
330.	**Net profit (loss) for the period**	**11,527**	**12,574**	**3,969**	**9,579**
340.	Net profit (loss) pertaining to minority interests	(64)	(561)	146	(92)
350.	**Parent Company net profit (loss)**	**11,463**	**12,013**	**4,115**	**9,487**

EXPLANATORY NOTES

BASIS OF PREPARATION AND ACCOUNTING POLICIES

GENERAL INFORMATION

Declaration of compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements of the Banco Desio Group have been prepared pursuant to art. 154-ter of Legislative Decree no. 58/1998 and for the purposes of determining own funds, in accordance with the applicable IAS/IFRS in force at the reference date, issued by the International Accounting Standards Board (IASB) and related interpretations issued by the IFRS Interpretations Committee (IFRIC) and endorsed by the European Commission, as per EU Regulation 1606 of 19 July 2002.

In particular, the content of the condensed interim financial statements complies with IAS 34 – Interim financial statements, as well as with the enabling regulations for art. 9 of Legislative Decree 38/2005 and the Bank of Italy Circular 262 of 22 December 2005.

Basis of preparation

The condensed consolidated interim financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement, the income statement quarter by quarter and the explanatory notes, which provide, among other things, the information on fair value, the details of the main balance sheet and income statement captions, information on risks and hedging policies, information on transactions with related parties and segment information (as well as information on shareholders' equity reported in an attachment). The interim condensed consolidated financial statements are also accompanied by the interim report on operations.

For the preparation of the financial statements and the contents of the explanatory notes, reference was made to the provisions contained in the Bank of Italy Circular 262 "*Bank financial statements: schedules and rules for preparation*" of 22 December 2005, as per the 6th update of 30 November 2018. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The condensed interim consolidated financial statements have been prepared in a clear manner to give a true and fair view of the balance sheet, financial position and result for the period of the Banco Desio Group 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 these financial statements 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", endorsed by the European Commission with Regulation (EU) 2017/1986 of 31 October 2017, which replaced IAS 17 "Leases", as well as the interpretation 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, these condensed consolidated interim financial statements explain in detail the Banco Desio Group's updated accounting policies and provide an analysis of the main items in the financial statements.

The separate financial statements used in preparing the consolidated interim financial statements are those prepared by the subsidiaries as of the same reporting date, adjusted - where necessary - to comply with the IAS/IFRS adopted by the Parent Company.

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

Scope of consolidation and methodology

Investments in subsidiaries

Name	Head office	Type of relationship	Nature of holding	
			Parent company	% held
Banca Popolare di Spoleto S.p.A.	Spoleto	1	Banco Desio	81.67
Fides S.p.A.	Rome	1	Banco Desio	100.00
Desio OBG S.r.l.	Conegliano	1	Banco Desio	60.00

Key

Type of relationship:

1 = majority of votes at the ordinary shareholders' meeting

There have been no changes in the scope of consolidation with respect to the situation at 31 December 2018.

Significant assessments and assumptions in determining the scope of consolidation

The scope of consolidation is determined in accordance with the provisions contained in IFRS 10 - Consolidated Financial Statements. Accordingly, the Parent Company consolidates an entity when the three elements of control are met (1. power over an investee; 2. exposure, or rights, to variable returns from its involvement with the investee; 3. ability to use its power over the investee to affect the amount of the investor's returns). Generally, when an entity is held directly through voting rights, control comes from holding more than half of the voting rights. In other cases, the assessment of control is more complex and requires greater use of judgement, as it means taking into account all relevant factors and circumstances that could lead to control over the entity, such as:

- the purpose and design of the entity;
- the relevant activities, that is, the activities that significantly affect the entity's returns and how they are governed;
- any right, arising from contractual arrangements, that gives the investor the ability to direct the relevant activities, that is, the power to establish the entity's financial and operating policies, the power to exercise the majority of voting rights at meetings of the governing body or the power to appoint or remove the majority of the members of the governing body;
- the Group's exposure to variability of the returns.

Investments in subsidiaries with significant minority interests

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

Name	Minority interests %	Dividends paid to third parties
Banca Popolare di Spoleto S.p.A.	18.33	762
Desio OBG S.r.l.	40.00	-

Investments with significant minority interests: accounting information

Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Net interest and other banking income	Operating costs	Profit (loss) from current operations before tax	Profit (loss) from current operations after tax	Profit (loss) after tax on non-current assets held for sale	Net profit (loss) for the period (1)	Other elements of income, net of income taxes (2)	Comprehensive income (3) = (1) + (2)
Banca Popolare di Spoleto S.p.A.	4,192,228	25,625	3,943,058	74,176	3,813,526	233,315	39,889	68,599	(48,032)	7,075	4,609	-	4,609	(136)	4,473
Desio OBG S.r.l.	62	-	49	1	-	10	-	35	(35)	-	-	-	-	-	-

Significant restrictions

There are no restrictions (e.g. legal, contractual or regulatory restrictions) on the Parent Company's ability to access the assets, or to use them, and to pay off the liabilities of the Group, such as restrictions on the ability of the Parent Company or its subsidiaries to transfer cash or limitations on transfers of funds in the form of dividends, loans or advances granted to (or from) other Group companies.

Other information

The basis of consolidation, in compliance with IFRS 10, is as follows:

- subsidiaries: assets, liabilities, shareholders' equity, "off-balance sheet" transactions, costs and revenues are included in the relevant items of the consolidated financial statements on a line-by-line basis. Any positive difference emerging from a comparison of the book value of each investment and the relevant portion of the subsidiary's shareholders' equity, left over after any allocation to a specific balance sheet captions, is recognised as goodwill and subjected to impairment testing;
- associates: investments in associates are consolidated using the equity method (this policy was not applicable at the date of the quarterly consolidated financial statements as the Parent Company does not have any investments in associates).

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, in the condensed interim financial statements at 30 June 2019 the Banco Desio Group has changed its method of accounting for the recognition and measurement of artistic assets (governed by IAS 16 "Property, plant and equipment").

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

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

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

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

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

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

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

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

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

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

The fair value of the artistic assets was established by means of specific appraisals carried out by a qualified, independent company.

At consolidation level, as analysed in greater detail in "Section 9 - Property, plant and equipment" of the notes to the balance sheet, this change involved the recognition of a pre-tax gain of Euro 60 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 224 thousand before tax.

Implementation 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 (bearing in mind its absorption of Banca Popolare di Spoleto), also considering a floor of 0% for due dates that have negative interest rates. This curve is based on a risk-free rate (i.e. market interest rate) on the financing spread (i.e. the lessee's credit risk) and is amortising. Typically, the lease contract does not provide for a single payment on the due date, but rather a periodic payment of instalments over the entire duration of the contract, which involves a declining trend for the residual debt.

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

On the basis of the analyses carried out by the Banco Desio Group as part of the project for implementation of IFRS 16, taking into account the methodological choices made, on 1 January 2019, on first-time adoption of the accounting standard, a "Lease Liability" of Euro 61.3 million was recorded 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.

Use of estimates and assumptions in preparing the condensed consolidated interim financial statements

The preparation of the condensed consolidated financial statements requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement, and on the disclosures provided in the notes.

The use of such estimates involves the use of available information and the adoption of subjective assessments, partly based on historical experience, in order to make reasonable assumptions for the recognition of operating events. By their nature, these estimates and assumptions may change from year to year and, therefore, it cannot be excluded that the values currently shown here may in future differ because of a change in the subjective assessments used.

The main areas in which the use of subjective estimates and assessments is applied are:

- the valuation models used for carrying out impairment tests relating to investments and to intangible assets with an indefinite useful life (goodwill);
- quantification of the losses arising from the impairment of loans and financial assets in general;
- determination of the fair value of financial instruments for disclosure purposes;
- the use of valuation models for determining the fair value of financial instruments not quoted in active markets;
- quantification of the provisions for employee benefits and the provisions for risks and charges;
- estimates and assumptions about the recoverability of deferred tax assets;
- the valuation of the assets acquired and liabilities taken on at their fair value as part of the business combination.

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

Comparability of financial statements

In accordance with IAS 34, the half yearly consolidated financial statements have to include not only the financial schedules at the reference date, but also comparative figures for the following periods:

- the balance sheet at the end of the previous year;
- the income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement for the corresponding period of the previous year.

For the purpose of preparing this document, the comparative figures for the balance sheet (at 31 December 2018) and income statement (at 30 June 2018) continue 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:

- the balance sheet figures at 31 December 2018 do not include the effects of FTA of IFRS 16 described earlier;
- the income statement figures for the half-year in question reflect the application of IFRS 16 from 1 January 2019, 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.

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

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

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

Following notification of the contributions by the competent authorities (Bank of Italy as the resolution authority and FITD as the deposit protection authority), the standard and special contributions paid by Group banks have been charged to income statement caption "150 b) Other administrative costs", as indicated in the Bank of Italy communications dated 19 January 2016.

Domestic tax group election

The Italian companies of the Banco Desio Group (except for Desio OBG S.r.l., given its status as an SPV) have chosen to be a "domestic tax group" for the years 2018-2020, governed by arts. 117-129 of the Consolidated Income Tax Law, which was introduced into tax legislation by Legislative Decree no. 344/2003. This law provides an optional system, under which the total income or tax loss of each subsidiary in the tax consolidation - together with withholdings, deductions and tax credits - are transferred to the parent company, which then calculates a single taxable income or tax loss to be carried forward (as resulting from the sum of its own taxable income or tax losses and those of the participating subsidiaries) and, consequently, a single tax liability or tax credit.

Legal audit

These condensed consolidated interim financial statements have been subjected to a limited audit by Deloitte & Touche S.p.A., pursuant to the resolution of the Shareholders' Meeting of 26 April 2012.

MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

The accounting policies explained below, which were used in preparing this document, comply with the IAS/IFRS endorsed by the European Commission and in force on the reference date, and have been applied on a going-concern basis.

For the purchase and sale of standard financial assets, i.e. contracts for which delivery is made in a period established by regulations or market conventions, reference is made to the settlement date.

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

Classification

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

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

In particular, the following are recognised in this item:

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

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

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

Recognition

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

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

Measurement

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

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

Derecognition

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

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

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

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

Classification

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

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

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

In particular, the following are recognised in this item:

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

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

Recognition

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

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

Measurement

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

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

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

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

Derecognition

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

Financial assets measured at amortised cost

Classification

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

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

In particular, the following are recognised in this item:

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

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

Recognition

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

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

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

Measurement

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

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

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

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

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

- upon initial registration, for an amount equal to the expected loss at twelve months;
- at the time of subsequent measurement of the asset, where the credit risk has not increased significantly compared with the initial recognition, in relation to changes in the amount of adjustments for expected losses in the following twelve months;
- at the time of subsequent measurement of the asset, where the credit risk has increased significantly compared with the initial recognition, in relation to the recognition of adjustments for expected losses referable to the asset's contractual lifetime;
- at the time of the subsequent measurement of the asset, where the "significance" of this increase has ceased, in relation to the adjustment of the cumulative adjustments to take account of the switch from an expected loss over the lifetime of the instrument to one at twelve months.

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

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

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

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

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

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

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

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

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

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

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

- the purposes for which the changes were made: for example, renegotiations for commercial reasons and concessions for the financial difficulties of the counterparty:

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

Derecognition

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

Recognition of items affecting the income statement

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

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

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

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

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

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

Hedging transactions

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

Classification

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

The type of hedge used may be:

- fair value hedges (microhedging of fair value): the objective is to hedge the risk of changes in the fair value of the hedged instrument (assets, liabilities or irrevocable commitment not recognised subject to changes in fair value attributable to a particular risk that may affect the income statement, including exchange rate risk);
- cash-flow hedges: the objective is to hedge the change in cash flows attributable to specific risks of the instrument (assets, liabilities or highly probable scheduled transaction exposed to changes in cash flows attributable to a particular risk that may affect the income statement).

Recognition

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

The recognition of hedging transactions assumes:

- the involvement of counterparties outside the Banco Desio Group;
- a specific designation and identification of financial hedging and hedged instruments used for the transaction;
- definition of the risk management objectives being pursued, specifying the nature of the risk being hedged;
- passing the effectiveness test at the beginning of the hedging relationship and prospectively, with specific measurement procedures and frequency;
- preparation of formal documentation of the hedging relationship.

Measurement

A hedging transaction is defined as effective if the changes in fair value (or future cash flows) of the hedging instrument offset the changes in the financial instrument being hedged within the 80%-125% limits laid down in IAS 39.

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

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

Recognition of items affecting the income statement – Fair value hedges

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

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

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

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

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

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

Derecognition

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

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

Equity investments

Classification

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

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

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

Recognition

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

Measurement

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

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

Property, plant and equipment

Classification

Property, plant and equipment include land, buildings, works of art, 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 assets used in business and valuable works of art, which are measured according to the value re-determination method.

For assets subject to valuation according to the value recalculation 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 reduction 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 subject to an impairment test if impairment indicators emerge.

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[3] 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.

[3] 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.

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.

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*).

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.

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

Other information

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

Quantitative information

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	30.06.2019 L1	30.06.2019 L2	30.06.2019 L3	31.12.2018 L1	31.12.2018 L2	31.12.2018 L3
1. Financial assets designated at fair value through profit or loss	16,837	864	17,998	39,693	3,809	16,686
a) Financial assets held for trading	4,991	1	4,453	2,251	2,957	2,978
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	11,846	863	13,545	37,442	852	13,708
2. Financial assets measured at fair value through other comprehensive income	493,051	49,225	5,017	244,034	47,267	5,120
3. Hedging derivatives	-	-	-	-	1	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	509,888	50,089	23,015	283,727	51,077	21,806
1. Financial liabilities held for trading	-	3,621	4,310	-	3,221	2,825
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	6,544	-	-	5,175	-
Total	-	10,165	4,310	-	8,396	2,825

Key

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

Investments valued on the basis of unobservable inputs (Level 3) are a very limited share of financial assets measured at fair value (3.9% compared with 6.11% at end-2018).

These are mainly non-controlling equity investments classified under "Financial assets measured at fair value through other comprehensive income".

At 30 June 2019, the impact of applying the Credit Value Adjustment and Debit Value Adjustment to the balance sheet values has not been calculated as all outstanding derivative contracts are backed by collateral agreements with counterparties to mitigate credit risk (CSA agreements).

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

	Financial assets designated at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily at fair value				
1. Opening balance	**16,686**	**2,978**	**-**	**13,708**	**5,120**	**-**	**-**	**-**
2. Increases	**4,484**	**4,453**	**-**	**31**	**-**	**-**	**-**	**-**
2.1. Purchases	-	-	-	-	-	-	-	-
2.2. Profits posted to:	4,484	4,453	-	31	-	-	-	-
2.2.1. Income statement	4,484	4,453	-	31	-	-	-	-
- of which: capital gains	4,484	4,453	-	31	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	-	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	**3,172**	**2,978**	**-**	**194**	**103**	**-**	**-**	**-**
3.1. Sales	-	-	-	-	-	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3. Losses posted to:	3,119	2,978	-	141	91	-	-	-
3.3.1. Income statement	3,119	2,978	-	141	-	-	-	-
- of which: capital losses	3,119	2,978	-	141	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	-	91	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	53	-	-	53	12	-	-	-
4. Closing balance	**17,998**	**4,453**	**-**	**13,545**	**5,017**	**-**	**-**	**-**

A.4.5.3 Annual changes in financial liabilities at fair value (Level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Hedging derivatives
1. Opening balance	**2,825**	**-**	**-**
2. Increases	**4,310**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses posted to:	4,310	-	-
2.2.1. Income statement	4,310	-	-
- of which: capital losses	4,310	-	-
2.2.2. Shareholders' equity		-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**2,825**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits posted to:	2,825	-	-
3.3.1. Income statement	2,825	-	-
- of which: capital gains	2,825	-	-
3.3.2. Shareholders' equity		-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**4,310**	**-**	**-**

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	30/06/2019				31/12/2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	12,781,706	1,960,686	6,473,801	3,860,380	12,626,834	1,924,789	6,205,963	4,278,119
2. Investment property	1,800			1,946	1,814			1,946
3. Non-current assets and disposal groups held for sale								
Total	**12,783,506**	**1,960,686**	**6,473,801**	**3,862,326**	**12,628,648**	**1,924,789**	**6,205,963**	**4,280,065**
1. Financial liabilities measured at amortised cost	12,650,546	321	1,411,311	11,249,455	12,301,628	321	1,407,229	10,890,843
2. Liabilities associated with assets held for sale								
Total	**12,650,546**	**321**	**1,411,311**	**11,249,455**	**12,301,628**	**321**	**1,407,229**	**10,890,843**

Key

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

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

MAIN BALANCE SHEET AND INCOME STATEMENT CAPTIONS

ASSETS

Cash and cash equivalents – caption 10

1.1 Cash and cash equivalents: breakdown

	30.06.2019	31.12.2018
a) Cash	46,754	69,219
b) Demand deposits with central banks	-	-
Total	**46,754**	**69,219**

Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	30.06.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	897	1	-	3	1,519	-
1.1 Structured securities	897	-	-	1	-	-
1.2 Other debt securities	-	1	-	2	1,519	-
2. Equity instruments	3,185	-	-	2,207	-	-
3. UCITS units	823	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**4,905**	**1**	**-**	**2,210**	**1,519**	**-**
B. Derivatives	-	-	-	-	-	-
1. Financial derivatives	86	-	4,453	41	1,438	2,978
1.1 for trading	86	-	4,453	41	1,438	2,978
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**86**	**-**	**4,453**	**41**	**1,438**	**2,978**
Total (A+B)	**4,991**	**1**	**4,453**	**2,251**	**2,957**	**2,978**

Key

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

Caption "Financial assets held for trading" comprises:

a) Cash assets held for trading;

b) Positive value of derivatives held for trading.

The policy adopted for the categorisation of financial instruments within the three levels of the fair value hierarchy is disclosed in the previous section on "Information on fair value".

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

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

Captions/Amounts	30.06.2019	31.12.2018
A. Cash assets		
1. Debt securities	**898**	**1,522**
a) Central Banks	-	-
b) Public administrations	-	1,520
c) Banks	1	2
d) Other financial companies	897	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**3,185**	**2,207**
a) Banks	366	-
b) Other financial companies	1,368	1,322
of which: insurance companies	-	-
c) Non-financial companies	1,451	885
d) Other issuers	-	-
3. Mutual funds	**823**	**-**
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)	**4,906**	**3,729**
B. Derivatives		
a) Central counterparties	-	-
b) Other	4,539	4,457
Total (B)	**4,539**	**4,457**
Total (A+B)	**9,445**	**8,186**

2.5 Other financial assets mandatorily at fair value: breakdown

Captions/Amounts	30.062019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**863**	**1,440**	**-**	**852**	**1,460**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	863	1,440	-	852	1,460
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Mutual funds	**11,846**	**-**	**12,105**	**37,442**	**-**	**12,248**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**11,846**	**863**	**13,545**	**37,442**	**852**	**13,708**

Key

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

The item "Financial assets mandatorily at fair value" includes the mutual fund units that are not held for trading purposes; these instruments, previously classified under item 40 "Assets available for sale" in application of the IAS 39, by their very nature do not pass the SPPI test ("solely payments of principal and interests") foreseen in IFRS 9 "Financial Instruments".

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

	30.06.2019	31.12.2018
1. Equity instruments	**-**	**-**
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	**2,303**	**2,312**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	1,440	1,460
d) Other financial companies	863	852
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Mutual funds	**23,951**	**49,690**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**26,254**	**52,002**

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	30.06.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	493,051	1,958	-	244,034	-	-
1.1 Structured securities	-	1,958	-	-	-	-
1.2 Other debt securities	493,051	-	-	244,034	-	-
2. Equity instruments	-	47,267	5,017	-	47,267	5,120
3. Loans	-	-	-	-	-	-
Total	**493,051**	**49,225**	**5,017**	**244,034**	**47,267**	**5,120**

Key

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

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

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

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

Captions/Amounts	30.06.2019	31.12.2018
1. Debt securities	**495,009**	**244,034**
a) Central banks	-	-
b) Public administrations	490,473	241,492
c) Banks	4,536	2,542
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**52,284**	**52,387**
a) Banks	10,000	10,000
b) Other issuers:	42,284	42,387
- other financial companies	3,808	3,796
of which: insurance companies	-	-
- non-financial companies	38,476	38,579
- other	-	12
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**547,293**	**296,421**

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	30.06.2019						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	**241,856**	**-**	**-**	**-**	**-**	**241,856**	**66,204**	**-**	**-**	**-**	**-**	**66,204**
1. Time deposits	-	-	-				-	-	-			
2. Reserve requirement	241,856	-	-				66,204	-	-			
3. Repurchase agreements	-	-	-				-	-	-			
4. Other	-	-	-				-	-	-			
B. Due from banks	**469,151**	**-**	**-**	**-**	**267,517**	**202,203**	**489,761**	**-**	**-**	**-**	**265,138**	**219,111**
1. Loans	202,203	-	-	-	-	202,203	219,111	-	-	-	-	219,111
1.1 Current accounts and demand deposits	36,033	-	-				21,662	-	-			
1.2. Time deposits	42,668	-	-				44,028	-	-			
1.3. Other loans:	123,502	-	-				153,421	-	-			
- Repurchase agreements	-	-	-				-	-	-			
- Finance leases	-	-	-				-	-	-			
- Other	123,502	-	-				153,421	-	-			
2. Debt securities	266,948	-	-	-	267,517	-	270,650	-	-	-	265,138	-
2.1 Structured securities	3,901	-	-	-	3,854	-	3,885	-	-	-	3,687	-
2.2 Other debt securities	263,047	-	-	-	263,663	-	266,765	-	-	-	261,451	-
Total	**711,007**	**-**	**-**	**-**	**267,517**	**444,059**	**555,965**	**-**	**-**	**-**	**265,138**	**285,316**

Key

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

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

a) stage 1 for exposures performing in line with expectations;

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

c) stage 3 for non-performing exposures.

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

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

The Group's commitment to maintain the reserve requirement amounts to Euro 93.5 million at 30 June 2019 (versus Euro 92.6 million at December 2018) of which Euro 60.3 million by Banco Desio and Euro 33.2 million by Banca Popolare di Spoleto S.p.A.

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.

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

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

Type of transaction/Amounts	30.06.2019						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	**9,291,911**	**377,539**	**12,381**	**-**	**5,822,534**	**3,416,321**	**9,215,328**	**401,372**	**12,203**	**-**	**5,486,809**	**3,992,803**
1.1. Current accounts	1,386,650	98,473	416	-	-	-	1,484,991	104,506	437	-	-	-
1.2. Repurchase agreements	112,964	-	-	-	-	-	-	-	-	-	-	-
1.3. Mortgage loans	5,806,032	255,029	11,814	-	-	-	5,715,921	269,803	11,663	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary	761,850	3,403	36	-	-	-	715,760	3,559	40	-	-	-
1.5. Finance leases	159,226	12,686	-	-	-	-	177,054	13,506	-	-	-	-
1.6. Factoring	23,545	27	-	-	-	-	23,410	27	-	-	-	-
1.7. Other loans	1,041,644	7,921	115	-	-	-	1,098,192	9,971	63	-	-	-
2. Debt securities	**2,401,249**	**-**	**-**	**1,960,686**	**383,750**	**-**	**2,454,169**	**-**	**-**	**1,924,789**	**454,016**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	2,401,249	-	-	1,960,686	383,750	-	2,454,169	-	-	1,924,789	454,016	-
Total	**11,693,160**	**377,539**	**12,381**	**1,960,686**	**6,206,284**	**3,416,321**	**11,669,497**	**401,372**	**12,203**	**1,924,789**	**5,940,825**	**3,992,803**

Gross loans amount to a total of Euro 10,005,587 thousand (Euro 9,960,032 thousand at the end of last year). Total write-downs amount to Euro 336,137 thousand (Euro 343,333 thousand in December 2018).

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 30 June 2019 these loans amount to Euro 1,371,442 thousand (versus Euro 1,097,558 thousand) due to a further sale to Desio OBG in June for 329,515 thousand.

Caption "Mortgage loans" also includes collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 1,687,240 thousand (Euro 1,787,145 thousand at the end of last year).

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

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

This caption includes the interest accrued at 30 June 2019 that is recoverable from 1 March of the following year, due to application of the new rules for the calculation of interest on banking transactions established in MEF Decree no. 343/2016, which implements art. 120, para. 2, of the Consolidated Banking Law (T.U.B.).

The fair value of non-current performing loans is measured using techniques that discount the cash flows expected after considering the related credit risk, while the carrying amount of non-performing and current performing loans is considered to be a reasonable approximation of fair value. 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 264,148 thousand of senior notes issued by the "2Worlds s.r.l." SPV following the sale of doubtful loans through use of the "GACS" scheme.

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

Type of transaction/Amounts	30.06.2019 First and second stage	30.06.2019 Third stage	30.06.2019 of which: impaired financial assets acquired or originated	31.12.2018 First and second stage	31.12.2018 Third stage	31.12.2018 of which: impaired financial assets acquired or originated
1. Debt securities	**2,401,249**	**-**	**-**	**2,454,169**	**-**	**-**
a) Public administrations	1,997,208	-	-	1,993,197	-	-
b) Other financial companies	378,224	-	-	430,167	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	25,817	-	-	30,805	-	-
2. Loans to:	**9,291,911**	**377,539**	**12,381**	**9,215,328**	**401,372**	**12,195**
a) Public administrations	28,258	390	-	29,469	403	-
b) Other financial companies	246,972	4,181	-	122,162	2,974	-
of which: insurance companies	3,839	-	-	4,740	-	-
c) Non-financial companies	5,178,979	256,906	4,450	5,411,489	276,371	4,607
d) Households	3,837,702	116,062	7,931	3,652,208	121,624	7,588
Total	**11,693,160**	**377,539**	**12,381**	**11,669,497**	**401,372**	**12,195**

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		2,655,701	2,655,701	15,078	-	2,471	111	-	-
Loans		8,744,064	-	1,038,756	667,049	23,269	23,581	289,510	**18,945**
Total	**30.06.19**	**11,399,765**	**2,655,701**	**1,053,834**	**667,049**	**25,740**	**23,692**	**289,510**	**18,945**
Total	**31.12.18**	**11,218,635**	**2,720,173**	**1,062,444**	**694,974**	**29,212**	**26,405**	**293,602**	**X**
of which: impaired financial assets acquired or originated		X	X	4,836	11,220	X	63	3,613	-

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:

a) stage 1 for exposures performing in line with expectations;

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

c) stage 3 for non-performing exposures.

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

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

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

Hedging derivatives - caption 50

5.1 Hedging derivatives: breakdown by type and level

	30.06.2019				31.12.2018			
	FV			NV	FV			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	-	-	-	-	1	-	5,599
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**5,599**

Key

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

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

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

6.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets / Components of the Group	30.06.2019	31.12.2018
1. Positive adjustments	**1,895**	**1,523**
1.1 of specific portfolios:	-	1,523
a) financial assets measured at amortised cost	-	1,523
b) financial assets designated at fair value through other comprehensive income	-	-
1.2 total	1,895	-
2. Negative adjustments	**833**	**839**
2.1 of specific portfolios:	-	839
a) financial assets measured at amortised cost	-	839
b) financial assets designated at fair value through other comprehensive income	-	-
2.2 total	833	-
Total	**1,062**	**684**

The adjustment to financial assets with generic hedges ("macrohedging") refers to changes in fair value due to fluctuations in interest rates on portfolios of similar assets from the point of view of the financial profile and the underlying risks identified by the Group for the purpose of designating the different fair value macro-hedging relationships for interest rate risk.

Property, plant and equipment - caption 90

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

Assets/Amounts	30.06.2019	31.12.2018
1. Own assets	**174,854**	**177,604**
a) land	52,778	52,778
b) property	102,948	104,197
c) furniture	4,881	5,311
d) electronic systems	3,901	4,469
e) other	10,346	10,849
2. Land and property under finance lease	**55,981**	**-**
a) land	-	-
b) property	54,046	-
c) furniture	-	-
d) electronic systems	-	-
e) other	1,935	-
Total	**230,835**	**177,604**
of which: obtained through enforcement of the guarantees received	-	-

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, the policy method is cost: This standard is also applied to all other property, plant and equipment, except for those assets acquired through business combinations and shown in the consolidated financial statements at fair value, pursuant to IFRS 3.

All categories of property, plant and equipment are depreciated on a straight-line basis, except for land and works of art, which are not depreciated.

Please note that, as reported in the previous section "Other aspects" of Part A "Accounting policies", compared with the previous financial statements, in the condensed interim financial statements at 30 June 2019 the Banco Desio Group has changed the accounting method for the recognition and measurement of artistic assets (governed by IAS 16 "Property, plant and equipment").The change in question involved moving from the cost model to the revaluation model, i.e. recalculating the value at the next valuation date following initial recognition of works of art in order to bring their carrying amount into line with their current market values.

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

Item 1.e "Own assets - other" includes energy and thermal plants and videoconference systems, as well as the artistic assets mentioned previously.

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

9.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	30.06.2019				31.12.2018			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,800**	**-**	**-**	**1,946**	**1,814**	**-**	**-**	**1,946**
a) land	828	-	-	860	828	-	-	860
b) property	972	-	-	1,086	986	-	-	1,086
2. Land and property under finance lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) property	-	-	-	-	-	-	-	-
Total	**1,800**	**-**	**-**	**1,946**	**1,814**	**-**	**-**	**1,946**
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

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

Intangible assets - caption 100

10.1 Intangible assets: breakdown by type

Assets/Amounts	30.06.2019		31.12.2018	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		**15,322**		**15,322**
A.1.1 pertaining to the Group		15,322		15,322
A.1.2 pertaining to minority interests		-		-
A.2 Other intangible assets	**2,501**	**-**	**2,379**	**-**
A.2.1 Carried at cost	2,501	-	2,379	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	2,501	-	2,379	-
A.2.2 Carried at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**2,501**	**15,322**	**2,379**	**15,322**

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

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

Analysis of trigger events for impairment testing of goodwill

According to IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, an impairment test on cash generating units (CGU), which for Banco Desio coincide with the legal entities, is carried out at each period end.

Impairment testing, unchanged with respect to the previous year, 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 impairment test carried out at 30 June 2019 on the CGUs underlying goodwill did not reveal any signs of losses.

In particular, in order to verify the existence of conditions that would have required the impairment tests to be repeated at the reporting date, certain qualitative and quantitative indicators of presumed impairment were monitored at legal entity level (CGUs).

The analysis of trigger events was carried out for the main assumptions considered in the context of the impairment test carried out for financial statement purposes at 31 December 2018. These were identified with particular reference to the net result for the period in relation to the forecasts, the development of loans in terms of risk -weighted assets (RWA), capital ratios (with particular reference to capital absorption) and the cost of equity (Ke).

As a result of this analysis, no trigger events were identified such as to require a repeat of impairment test, nor any write-downs in the interim financial report at 30 June 2019.

Tax Assets and Liabilities - asset caption 110 and liability caption 60

The tax assets and liabilities arising from the application of "deferred taxation" originated as a result of the temporary differences between the assets recognised in the financial statements and the corresponding tax values.

The theoretical tax rates applied to the temporary differences are those in effect at the time of their absorption.

Deferred tax assets are recognised when their recovery is probable.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	30.06.2019	31.12.2018
A) With contra-entry to the income statement:				
Tax losses	4,332	273	4,605	1,284
Tax deductible goodwill	3,818	773	4,591	4,824
Write-down of loans to customers deductible on a straight-line basis	144,118	20,066	164,184	175,944
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994				
Provision for implicit risks on loans				
Write-downs of shares classified under securities FVPL				
Statutory depreciation of buildings				
Statutory depreciation of property, plant and equipment	262		262	253
Provision for guarantees and commitments and country risk	889		889	655
Provisions for personnel costs	3,000	422	3,422	6,270
Provision for lawsuits	3,062	47	3,109	3,008
Provision for claw-backs	181	36	217	232
Provision for sundry charges	506	14	520	608
Tax provision for termination indemnities	273		273	296
Entertainment expenses, one third of which is deductible over four subsequent years				
Other general expenses deductible in the following year				
Other	1,529	485	2,014	1,445
Total A	**162,275**	**22,116**	**184,391**	**195,124**
B) With contra-entry to shareholders' equity:				
Tax provision for termination indemnities	1,054		1,054	808
Write-down of securities classified at FVOCI	2	11	13	7
Other	1,374	277	1,651	1,371
Total B	**2,430**	**288**	**2,718**	**2,186**
Total (A+B)	**164,705**	**22,404**	**187,109**	**197,310**

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	30.06.2019	31.12.2018
A) With contra-entry to the income statement:				
Gains on disposal of property, plant and equipment				
Tax depreciation of buildings	6,692	871	7,563	7,563
Tax depreciation of property, plant and equipment		15	15	15
Tax amortisation of goodwill	474	96	570	570
Tax amortisation of deferred charges (software)				
Tax provision as per art. 106, paragraph 3				
Tax provision for termination indemnities				
Other	4,283	654	4,937	5,544
Total A	**11,449**	**1,636**	**13,085**	**13,692**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	504	102	606	606
Revaluation of securities classified at FVOCI	653	546	1,199	7,661
Revaluation of equity investments	268	1,085	1,353	1,353
Tax provision for termination indemnities				
Other	20	4	24	
Total B	**1,445**	**1,737**	**3,182**	**9,620**
Total (A+B)	**12,894**	**3,373**	**16,267**	**23,312**

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

Other assets - caption 130

16.1 Other assets: breakdown

	30.06.2019	31.12.2018
Tax credits		
- capital	8,659	8,848
- interest		
Amounts recoverable from the tax authorities for advances paid	26,487	30,879
Withholding tax credits		
Cheques negotiated to be cleared	19,368	24,663
Guarantee deposits		
Invoices issued to be collected	1,422	1,184
Debtors for securities and coupons to be collected by third parties	134	19
Printer consumables and stationery		
Items being processed and in transit with branches	73,151	23,037
Currency spreads on portfolio transactions	632	368
Investments of the supplementary fund for termination indemnities	170	180
Leasehold improvement expenditure	10,851	11,720
Accrued income and prepaid expenses	6,133	2,457
Other items	32,349	27,678
Total	**179,356**	**131,033**

The "Tax credits - capital" caption mainly relates to the reimbursement requested by the Bank in 2012 regarding the deductibility from Ires and of the Irap due on the payroll costs of employees and similar personnel. Decree Law 201/2011 provided for the deductibility of IRAP related to payroll costs for IRES purposes, from 2012, and established that this deduction could be claimed by requesting a reimbursement of higher taxes paid, also in previous tax years.

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

- a receivable for withholding tax on interest on deposits and current accounts of Euro 236 thousand;
- a receivable for virtual stamp duty of Euro 22,290 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 3,713 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 security transactions, Euro 32,564 thousand, settled afterwards; the F24 tax payment forms accepted through internet and home banking instructions that will be debited to accounts on the due date, Euro 23,167 thousand, and the recovery of commissions on lines of credit made available to customers, Euro 8,418 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new reference half-year.

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

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

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

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

- commissions and taxes awaiting collection for Euro 15,492 thousand;
- invoices to be issued for Euro 3,228 thousand;
- Euro 1,701 thousand due following currency transactions;
- consideration receivable arising from the sale to specialist intermediaries of non-performing loans for Euro 1,634 thousand;
- receivables for 844 thousand euro from financial consultants for the amount awarded by way of entry bonus and not yet vested.

LIABILITIES

Financial liabilities measured at amortised cost - caption 10

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

Type of transaction/Components of the group	30.06.2019				31.12.2018			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**1,583,193**	X	X	X	**1,586,367**	X	X	X
2. Due to banks	**48,432**	X	X	X	**34,457**	X	X	X
2.1 Current accounts and demand deposits	21,739	X	X	X	15,749	X	X	X
2.2 Time deposits	12,860	X	X	X	-	X	X	X
2.3 Loans	13,771	X	X	X	18,708	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	13,771	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 Other payables	62	X	X	X	-	X	X	X
Total	**1,631,625**	**-**	**-**	**1,631,625**	**1,620,824**	**-**	**-**	**1,620,824**

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).

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

Type of transaction/Components of the group	30.06.2019				31.12.2018			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	8,416,485	-	-	X	8,062,703	-	-	-
2. Time deposits	1,047,220	-	-	X	1,125,249	-	-	-
3. Loans	32,031	-	-	X	27,293	-	-	-
3.1 Repurchase agreements	-	-	-	X	-	-	-	-
3.2 Other	32,031	-	-	X	27,293	-	-	-
4. Payables for commitments to repurchase own equity instruments	-	-	-	X	-	-	-	-
5 Finance lease payables	55,071	-	-	X	-	-	-	-
5. Other payables	50,930	-	-	-	39,346	-	-	-
Total	**9,601,737**	**-**	**-**	**9,601,737**	**9,254,591**	**-**	**-**	**9,254,591**

The main components of "Other payables" relate to: cashier's cheques for Euro 45,454 thousand and cheques for Euro 544 thousand (cashier's cheques for Euro 35,097 thousand and cheques for Euro 540 thousand respectively at the end of the previous year).

The "3.2 Loans: Other" caption represents loans received from Cassa Depositi e Prestiti that were used to grant reconstruction loans to customers following the 2009 earthquake in Abruzzo.

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

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

Type of security/Amounts	30.06.2019				31.12.2018			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	1,401,091	321	1,411,311	-	1,410,785	321	1,407,229	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,401,091	321	1,411,311	-	1,410,785	321	1,407,229	-
2. other securities	16,093	-	-	16,093	15,428	-	-	15,428
2.1 Structured	-	-	-	-	-	-	-	-
2.2 other	16,093	-	-	16,093	15,428	-	-	15,428
Total	**1,417,184**	**321**	**1,411,311**	**16,093**	**1,426,213**	**321**	**1,407,229**	**15,428**

Key

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

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

The caption "A.1.2 Bonds: other" includes the Guaranteed Bank Bonds (GGB) issued in 2017 for Euro 575 million.

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 15,417 thousand were issued with a short term maturity and Euro 656 thousand were issued with a longer than short term maturity. The remainder consists of certificates of Euro 20 thousand that have reached maturity and which are due to be redeemed.

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

1.4 Details of caption "10.c) Debt securities in issue": subordinated securities

Bonds	Issue date	Maturity date	Currency	Interest rate	30.06.2019	31.12.2018
ISIN code IT0005038085	28.08.2014	28.08.2019	EUR	FR	48,967	50,262
ISIN code IT0005070179	22.12.2014	22.12.2019	EUR	FR	49,989	49,935
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,921	79,939
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	50,130	50,069
Total					**229,007**	**230,205**

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

Financial liabilities held for trading - caption 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	30.06.2019					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	-	3,621	4,310	X	X	-	3,221	2,825	X
1.1 For trading	X	-	3,621	4,310	X	X	-	3,221	2,825	X
1.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**3,621**	**4,310**	**X**	**X**	**-**	**3,221**	**2,825**	**X**
Total (A+B)	**X**	**-**	**3,621**	**4,310**	**X**	**X**	**-**	**3,221**	**2,825**	**X**

Key

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

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

Hedging derivatives - caption 40

4.1 Hedging derivatives: breakdown by type and level

	30.06.2019				31.12.2018			
	NV	Fair value			NV	Fair value		
		L1	L2	L3		L1	L2	L3
A) Financial derivatives	**137,711**	**-**	**6,544**	**-**	**137,899**	**-**	**5,175**	**-**
1) Fair value	7,711	-	3,623	-	7,899	-	3,120	-
2) Cash flows	130,000	-	2,921	-	130,000	-	2,055	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**137,711**	**-**	**6,544**	**-**	**137,899**	**-**	**5,175**	**-**

Key

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

Other liabilities - caption 80

8.1 Other liabilities: breakdown

	30.06.2019	31.12.2018
Due to tax authorities	273	345
Amounts payable to tax authorities on behalf of third parties	52,415	27,265
Social security contributions to be paid	3,719	4,883
Dividends due to shareholders	16	11
Suppliers	18,421	17,211
Amounts available to customers	19,088	17,481
Interest and dues to be credited		256
Payments against bill instructions	87	150
Early payments on loans not yet due	55	147
Items being processed and in transit with branches	218,552	82,752
Currency differences on portfolio transactions	16,795	100,431
Due to personnel	15,953	11,395
Sundry creditors	10,515	7,883
Accrued expenses and deferred income	10,387	3,424
Total	**366,276**	**273,634**

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

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

- bank transfers being processed of Euro 145,047 thousand (Euro 71,940 thousand at the prior year end),
- items related to transactions in securities settled afterwards for Euro 62,220 thousand,
- transitory items for settlement of purchase orders of customers of asset management products (funds and bancassurance) for Euro 2,600 thousand (Euro 939 thousand last year),
- to be collected MAV/RAV receipts, payment slips and Sepa direct debit (SDD) instructions for Euro 1,848 thousand (Euro 6,331 thousand last year).

The amount of "Currency differences on portfolio transactions" is the result of the offset of illiquid liability positions against illiquid asset positions, in relation to various types of transactions in connection with the accounts of customers and of correspondent banks. The balance for the period is recorded under other assets; the change compared with the previous year is attributable to the different dynamics of payments on the portfolio based on the calendar (last day of the business year unlike the previous year).

"Due to personnel" includes the payable relating to early retirement incentives of Euro 13,654 thousand (Euro 9,080 thousand at the end of last year) and the amount due for holiday pay of Euro 1,607 thousand (Euro 1,689 thousand at the prior year end).

The main items included under caption "Sundry creditors" refer to: sundry creditors from dealing in foreign exchange for 1,900 thousand euro (736 thousand euro last year), creditors for bills withdrawn for 1,046 thousand euro (355 thousand euro last year) and bank transfers being processed for 213 thousand euro (875 thousand euro last year).

Provisions for risks and charges - caption 100

10.1 Provisions for risks and charges: breakdown

Captions/Amounts	30/06/2019	31/12/2018
1. Credit risk provisions relating to commitments and financial guarantees given	3,230	2,377
2. Provisions for other commitments and other guarantees given	-	-
3. Pensions and similar commitments	-	-
4. Other provisions for risks and charges	26,191	34,368
4.1 Legal and tax disputes	12,151	11,727
4.2 Personnel expenses	10,988	19,683
4.3 other	3,052	2,958
Total	**29,421**	**36,745**

In caption "1. Provisions for credit risk relating to commitments and financial guarantees given", the risk provision is determined by applying the models for calculating the expected loss defined on first-time adoption of "IFRS 9 Financial Instruments" (1 January 2018).

The "Legal disputes" caption includes provisions made for losses expected to arise from disputes, of which Euro 11,496 thousand relates to legal disputes (Euro 10,977 thousand at the end of last year) and Euro 655 thousand relates to bankruptcy clawback actions (Euro 704 thousand at the end of 2018).

The caption "personnel expenses" includes: the residual accrual to the solidarity fund for 146 thousand euro (15,003 thousand euro last year), the accruals made to the bonus system for 7,056 thousand euro (7,167 thousand euro last year), the accruals for long-service and additional holiday awards for 3,473 thousand euro (3,387 thousand euro last year).

The caption "Other" mainly includes provisions for charges pertaining to other operating risks, including provisions for tax disputes for 55 thousand euro and those for contractual indemnities due to financial advisors.

Group Shareholders' equity - captions 120, 130, 140, 150, 160, 170 and 180

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

	30.06.2019	31.12.2018
A. Share capital	**67,705**	**67,705**
A.1 Ordinary shares	60,840	60,840
A.2 Savings shares	6,865	6,865
A.3 Preference shares		
B. Treasury shares		
B.1 Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	**67,705**	**67,705**

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

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

No Group company holds or has held any treasury shares in the course of the period.

Minority interests - caption 190

14.1 Details of caption 210 "Minority interests"

Name	30.06.2019	31.12.2018
Equity investments in consolidated companies with significant minority interests	**44,102**	**44,266**
Banca Popolare Spoleto S.p.A.	44,098	44,262
Desio OBG S.r.l.	4	4
Other equity investments	**-**	**-**
Total	**44,102**	**44,266**

Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	30.06.2019	30.06.2018
1. Financial assets designated at fair value through profit or loss	215	-	-	215	50
1.1 Financial assets held for trading	7	-	-	7	50
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	208	-	-	208	-
2. Financial assets designated at fair value through other comprehensive income	1,085	-	X	1,085	3,209
3. Financial assets measured at amortised cost	6,569	121,876	X	128,445	129,846
3.1 Due from banks	1,214	423	X	1,637	950
3.2 Loans to customers	5,355	121,453	X	126,808	128,896
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	7	7	1
6. Financial liabilities	X	X	X	3,174	3,207
Total	**7,869**	**121,876**	**7**	**132,926**	**136,313**

Interest on "Loans to customers" 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. Overall, the interest accrued at the end of June amounted to 2,111 thousand euro (1,792 thousand euro in June last year).

Conversely, the caption includes default interest collected in the period, but pertaining to previous periods, of Euro 349 thousand (Euro 230 thousand in June last year).

Caption "3. Financial assets valued at amortised cost" of the comparative period included interest accrued on securities classified as "held to maturity" for Euro 522 thousand under "loans to banks" and for Euro 2,027 thousand under "loans to customers".

The balance of item "3.2 Loans to customers" at 30 June 2019 is shown net of the release of the time value component of non-performing financial assets of Euro 4,768 thousand (vs Euro 4,739 thousand) and of the negative adjustments on interest related to non-performing loans for approximately Euro 1,373 thousand (vs Euro 1,785 thousand).

The interest related to "6. Financial liabilities" refers to the benefit deriving from application of the negative interest rate of 0.40% on the portion of the total loan granted by the Eurosystem to the Banco Desio Group as part of "TLTRO II".

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	30.06.2019	30.06.2018
1. Financial liabilities measured at amortised cost	(12,974)	(8,454)	X	(21,428)	(25,205)
1.1 Due to central banks	(55)	X	X	(55)	-
1.2 Due to banks	(480)	X	X	(480)	(376)
1.3 Due to customers	(12,439)	X	X	(12,439)	(12,545)
1.4 Debt securities in issue	X	(8,454)	X	(8,454)	(12,284)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	(36)	(36)	(142)
5. Hedging derivatives	X	X	(637)	(637)	(658)
6. Financial assets	X	X	X	-	(1,987)
Total	**(12,974)**	**(8,454)**	**(673)**	**(22,101)**	**(27,992)**

The amount of caption "5. Hedging derivatives" represents the difference between negative and positive differentials on this type of financial instrument.

1.5 Differentials on hedging transactions

Captions	30.06.2019	30.06.2018
A. Positive differentials on hedging transactions:	32	32
B. Negative differentials on hedging transactions:	(669)	(690)
C. Balance (A-B)	**(637)**	**(658)**

Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	30.06.2019	30.06.2018
a) guarantees given	1,230	1,438
b) credit derivatives	-	-
c) management, brokerage and consulting services:	31,138	32,495
1. trading in financial instruments	-	-
2. trading in foreign exchange	491	805
3. portfolio management	3,479	3,722
3.1 individual	3,269	3,443
3.2. collective	210	279
4. custody and administration of securities	744	779
5. custodian bank	-	-
6. placement of securities	11,356	11,343
7. order taking	2,658	3,253
8. advisory services	-	-
8.1 regarding investments	-	-
8.2 regarding financial structuring	-	-
9. distribution of third-party services	12,410	12,593
9.1 asset management	196	209
9.1.1 individual	196	209
9.1.2. collective	-	-
9.2 insurance products	9,159	8,579
9.3 other products	3,055	3,805
d) collection and payment services	14,636	14,411
e) servicing related to securitisation	80	35
f) services for factoring transactions	57	62
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	34,628	34,162
j) other services	6,216	5,059
Total	**87,985**	**87,662**

Commissions for "other services" include commission income for transactions for the assignment of one fifth of salary and loans with delegation of payment for Euro 1,880 thousand (Euro 1,149 thousand last year), recoveries of expenses on customer collection and payments for Euro 385 thousand (Euro 435 thousand last year), fees for the Internet banking service of Euro 911 thousand (Euro 832 thousand last year) and recoveries of expenses on mortgage instalments for Euro 730 thousand (Euro 668 thousand last year).

2.3 Commission expense: breakdown

Services/Amounts	30.06.2019	30.06.2018
a) Guarantees received	(212)	(245)
b) credit derivatives	-	-
c) management and brokerage services:	(1,453)	(1,341)
1. trading in financial instruments	(37)	(46)
2. trading in foreign exchange	-	-
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	(660)	(621)
5. placement of financial instruments	-	-
6. offer of securities, financial products and services through financial promoters	(756)	(674)
d) collection and payment services	(1,280)	(1,743)
e) other services	(4,630)	(2,987)
Total	**(7,575)**	**(6,316)**

Commissions for "offer of securities, financial products and services through financial promoters" and for "other services" include fees relating to remuneration of the network of financial advisors and agents for Euro 3,944 thousand (Euro 2,569 thousand last year).

Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	30.06.2019		30.06.2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	30	0	97	0
B. Other financial assets that have to be measured at fair value	0	0	0	0
C. Financial assets valued at fair value through other comprehensive income	1,014	0	3,095	0
D. Equity investments	0	0	0	0
Total	**1,044**	**0**	**3,192**	**0**

The table shows the dividends collected on minority shareholdings classified as Financial assets designated at fair value through other comprehensive income,

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	**159**	**565**	**(219)**	**(130)**	**375**
1.1 Debt securities	13	10	(55)	(1)	(33)
1.2 Equity instruments (other than banking investments)	146	399	(112)	(74)	359
1.3 UCITS units	-	8	(52)	-	(44)
1.4 Loans	-	-	-	-	-
1.5 Other	-	148	-	(55)	93
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**1,424**
4. Derivatives	**99**	**1,843**	**(1,138)**	**(1,676)**	**(795)**
4.1 Financial derivatives:	99	1,843	(1,138)	(1,676)	(795)
- On debt securities and interest rates	53	1,142	(1,133)	(890)	(828)
- On equities and equity indices	46	698	(5)	(786)	(47)
- On currency and gold	X	X	X	X	77
- Other	-	3	-	-	3
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**258**	**2,408**	**(1,357)**	**(1,806)**	**1,004**

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

Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	30.06.2019	30.06.2018
A. Income relating to:		
A.1 Fair value hedges	9	102
A.2 Hedged financial assets (fair value)	407	1
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)	**416**	**103**
B. Charges relating to:		
B.1 Fair value hedges	(514)	(2)
B.2 Hedged financial assets (fair value)	(5)	(105)
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)	**(519)**	**(107)**
C. Net hedging gains (losses) (A-B)	**(103)**	**(4)**

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

Gains (Losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	30.06.2019			30.06.2018		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	4,592	(2,670)	1,922	-	(101)	(101)
1.1 Due from banks	150	-	150	-	-	-
1.2 Loans to customers	4,442	(2,670)	1,772	-	(101)	(101)
2. Financial assets designated at fair value through other comprehensive income	1,851	(57)	1,794	11,683	(1,502)	10,181
2.1 Debt securities	1,851	(57)	1,794	11,683	(1,502)	10,181
2.2 Loans	-	-	-	-	-	-
Total assets	**6,443**	**(2,727)**	**3,716**	**11,683**	**(1,603)**	**10,080**
Financial liabilities measured at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	22	(124)	(102)	11	(427)	(416)
Total liabilities	**22**	**(124)**	**(102)**	**11**	**(427)**	**(416)**

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" includes the net gain (loss) on disposal of doubtful loans.

The caption "2. Financial assets designated at fair value through other comprehensive income" is represented by the economic effect of the sale in the year of the held to collect & sell portfolio, 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.

Result of financial assets and liabilities designated at fair value through profit and loss - caption 110

7.2. Net change in value of other financial assets and liabilities designated at fair value through profit and loss: breakdown of other financial assets that are mandatorily valued at fair value

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**526**	**1,396**	**(199)**	**-**	**1,723**
1.1 Debt securities	24	-	-	-	24
1.2 Equity instruments	-	-	-	-	-
1.3 Mutual funds	502	1,396	(199)	-	1,699
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**526**	**1,396**	**(199)**	**-**	**1,723**

This item consists of the result of financial instruments which, with the introduction of "IFRS 9 - Financial Instruments", 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 (Solely payments of principal and interests) 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.

Net 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)		30.06.2019	30.06.2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Due from banks	**(45)**	**-**	**-**	**609**	**-**	**564**	**(168)**
- loans	-	-	-	243	-	243	-
- debt securities	(45)	-	-	366	-	321	(168)
B. Loans to customers	**(160)**	**(2,338)**	**(48,312)**	**4,914**	**17,810**	**(28,086)**	**(49,947)**
- loans	(160)	(2,338)	(48,312)	2,396	17,810	(30,604)	(49,095)
- debt securities	-	-	-	2,518	-	2,518	(852)
Total	**(205)**	**(2,338)**	**(48,312)**	**5,523**	**17,810**	**(27,522)**	**(50,115)**

This caption includes the adjustments and write-backs made for the impairment of loans to banks and customers, including debt securities.

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

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

- Doubtful loans for 18,955 thousand euro (48,113 thousand euro in June 2018);
- Unlikely to pay loans for 28,897 thousand euro (34,375 thousand euro in June 2018);
- Past due loans for 460 thousand euro (715 thousand euro in June 2018).

"Portfolio" write-backs relate to the performing loans portfolio (first and second stage).

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

- doubtful loans amortised in previous periods and actual recoveries higher than expected for 729 thousand euro (744 thousand euro in June 2018)
- collections of loans previously written down for 7,980 thousand euro (12,472 thousand euro in June 2018)
- write-backs for 9,101 thousand euro (21,965 thousand euro in June 2018).

The adjustments to loans and debt securities are determined by applying the new models for the calculation of the expected credit losses adopted by the bank in application of "IFRS 9 Financial Instruments".

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

Transactions/Income components	Write-downs (1)			Write-backs (2)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage	30.06.2019	30.06.2018
		Write-off	Other				
A. Debt securities	(411)	-	-	453	-	42	(463)
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
Total	**(411)**	**-**	**-**	**453**	**-**	**42**	**(463)**

This item includes the adjustments and write-backs deriving from application of the new models for determining the expected loss on the "held to collect & sell" debt securities portfolio in application of "IFRS 9 - Financial Instruments".

Administrative expenses - caption 190

10.1 Payroll costs: breakdown

Type of expense/Amounts	Total	Total
1) Employees	(82,461)	(83,058)
a) wages and salaries	(56,408)	(58,094)
b) social security charges	(15,083)	(15,372)
c) termination indemnities	-	-
d) pension expenses	-	-
e) provision for termination indemnities	(135)	(95)
f) provision for post-retirement benefits and similar commitments:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(5,110)	(5,291)
- defined contribution	(5,110)	(5,291)
- defined benefit	-	-
h) equity-based payments	-	-
i) other personnel benefits	(5,725)	(4,206)
2) Other active employees	(241)	(223)
3) Directors and auditors	(1,957)	(2,070)
4) Retired personnel	-	-
5) Recovery of cost of employees seconded to other companies	31	125
6) Reimbursement of cost of third-party employees seconded to the Company	-	-
Total	**(84,628)**	**(85,226)**

The caption "1.g – payments to external supplementary pension funds: defined contribution" includes part of the termination indemnities paid to the state pension scheme and to supplementary pension funds.

Details of caption "1.i) – other employee benefits" are provided in table 12.4 below.

12.4 Other personnel benefits

	30.06.2019	30.06.2018
Provision for sundry charges	(2,778)	(2,972)
Contributions to healthcare fund	(890)	(889)
Training and instruction costs	(310)	(537)
Rent expense of property used by employees	(173)	(144)
Redundancy incentives	45	1,723
Other	(1,619)	(1,387)
Total	**(5,725)**	**(4,206)**

The revenue component of euro 1,723 thousand of the comparision period under "redundancy incentives" refers to the adjustment of the liabilities recorded to cover the redundancy plan at the end of 2016.

The main components of the "Other" caption include company canteen costs of Euro 1,001 thousand (Euro 1,058 thousand in June 2018) and costs relating to insurance premiums of Euro 208 thousand (Euro 225 thousand in June 2018).

12.5 Other administrative costs: breakdown

	30.06.2019	30.06.2018
Indirect taxes and duties:		
- Stamp duty	(13,145)	(13,096)
- Other	(2,790)	(2,999)
Other costs:		
- IT expenses	(9,668)	(9,647)
- Lease of property and other assets	(790)	(6,633)
- Maintenance of buildings, furniture and equipment	(3,501)	(3,055)
- Post office and telegraph	(1,219)	(1,727)
- Telephone and data transmission	(3,186)	(2,965)
- Electricity, heating, water	(2,083)	(2,240)
- Cleaning services	(668)	(687)
- Printed matter, stationery and consumables	(596)	(534)
- Transport costs	(638)	(660)
- Surveillance and security	(1,054)	(1,226)
- Advertising	(1,172)	(929)
- Information and surveys	(993)	(1,065)
- Insurance premiums	(499)	(503)
- Legal fees	(1,403)	(3,087)
- Professional consulting fees	(5,634)	(3,714)
- Various contributions and donations	(182)	(63)
- Sundry expenses	(10,214)	(10,237)
Total	**(59,435)**	**(65,067)**

Sundry expenses include the contribution to the Single Resolution Mechanism (SRM) for Euro 4,357 thousand (vs Euro 3,905 thousand), the extraordinary contribution to the same SRM for Euro 1,596 thousand (vs 1,463 thousand), reimbursements to employees for travel expenses, mileage reimbursements for Euro 682 thousand (Euro 631 thousand in June 2018), expenses for registration of mortgage, injunctions and assignment of receivables for Euro 497 thousand (Euro 968 thousand in June 2018), membership fees for Euro 807 thousand (Euro 835 thousand in June 2018) and subscriptions to newspapers and magazines for Euro 158 thousand (Euro 159 thousand in June 2018).

"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 0.6 million euro and item 180 "Net adjustments to property, plant and equipment" for 5.3 million euro.

Net provisions for risks and charges - caption 200

13.1 Net provisions for other risks and charges: breakdown

	Provision	Utilisations	30.06.2019	30.06.2018
Commitments for guarantees given	(1,622)	772	(850)	90
Charges for legal disputes	(1,203)	203	(1,000)	(355)
Other	(238)	33	(205)	(80)
Total	**(3,063)**	**1,008**	**(2,055)**	**(345)**

The item "Commitments for guarantees given" represents the provision/use of the provision for risks determined by applying the models for calculating the expected loss defined in application of "IFRS 9 Financial Instruments".

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.

Net adjustments to property, plant and equipment - caption 210

14.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	**Depreciation (a)**	**Impairment adjustments (b)**	**Write-backs (c)**	**Net result (a + b - c)**
A. Property, plant and equipment				
A.1 - For business purposes	(8,912)	-	-	(8,912)
- Owned	(3,630)	-	-	(3,630)
- Right of use acquired under leases	(5,282)	-	-	(5,282)
A.2 Held under finance leases	(14)	-	-	(14)
- Owned	(14)	-	-	(14)
- Right of use acquired under leases	-	-	-	-
A.3 Inventories	X	-	-	-
Total	**(8,926)**	**-**	**-**	**(8,926)**

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.

Net adjustments to intangible assets - caption 220

14.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c)
A. Intangible assets				
A.1 Owned	(684)	-	-	(684)
- Generated internally	-	-	-	-
- Other	(684)	-	-	(684)
A.2 Right of use under leases	-	-	-	-
Total	**(684)**	**-**	**-**	**(684)**

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

Other operating charges/income - caption 230

16.1 Other operating charges: breakdown

	30.06.2019	30.06.2018
Amortisation of leasehold improvements	(945)	(979)
Losses on disposal of property, plant and equipment	(7)	(134)
Charges on non-banking services	(308)	(977)
Total	**(1,260)**	**(2,090)**

16.2 Other operating income: breakdown

	30.06.2019	30.06.2018
Recovery of taxes from third parties	14,444	14,521
Recharge of costs of current accounts and deposits	2,447	4,535
Rental and leasing income	50	25
Other expense recoveries	4,073	5,534
Gains on disposal of property, plant and equipment		
Other	1,728	385
Total	**22,742**	**25,000**

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 1,212 thousand (vs Euro 2,797 thousand) and other recoveries for various communications to customers of Euro 1,137 thousand (vs Euro 1,636 thousand).

"Other expense recoveries" include, in particular, recoveries of legal costs relating to various doubtful loans of Euro 426 thousand (vs Euro 1,698 thousand), the recovery of investigation costs of various loans for Euro 3,186 thousand (Euro 3,403 thousand), recovery of appraisals in connection with mortgage loans of Euro 146 thousand (Euro 166 thousand), the recovery of sundry expenses relating to lease applications of Euro 98 thousand (Euro 149 thousand).

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

Net result of the measurement at fair value of property, plant and equipment and intangible assets - caption 260

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

Assets/Income items	Revaluations	Write-downs	Exchange differences		Net result
			Positive	Negative	
	(a)	(b)	(c)	(d)	(a-b+c-d)
A. Property, plant and equipment	**-**	**(260)**	**-**	**-**	**(260)**
A.1 - For business purposes:	-	(260)	-	-	(260)
- Owned	-	(260)	-	-	(260)
- Right of use acquired under leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
A.2 Investment property:	-	-	-	-	-
- Owned	-	-	-	-	-
- Right of use acquired under leases	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
B.1.1 Generated internally	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Right of use acquired under leases	-	-	-	-	-
Total	**-**	**(260)**	**-**	**-**	**(260)**

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

Income taxes on current operations - caption 300

19.1 Income taxes on current operations

Income items/Amounts	30.06.2019	30.06.2018
1. Current taxes (-)	(1,737)	(1,504)
2. Change in prior period income taxes (+/-)	-	-
3. Reduction in current taxes (+)	-	-
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(11,191)	(4,566)
5. Change in deferred tax liabilities (+/-)	609	1,651
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(12,319)**	**(4,419)**

Earnings per share

	30.06.2019		30.06.2018	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Net profit of the Group attributable to the various classes of shares (thousands of euro)	20,676	2,800	11,980	1,622
Average number of shares outstanding	117,000,000	13,202,000	117,000,000	13,202,000
Average number of potentially dilutive shares	-	-	-	-
Average number of diluted shares	117,000,000	13,202,000	117,000,000	13,202,000
Earnings per share (Euro)	**0.18**	**0.21**	**0.10**	**0.12**
Diluted earnings per share (Euro)	**0.18**	**0.21**	**0.10**	**0.12**

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 Parent Company's Risk Management function reports directly to the Board of directors and participates in the risk management process designed to identify, measure, assess, monitor, prevent, mitigate and communicate the risks assumed or which could be assumed in the conduct of business. This function also covers the subsidiaries, in accordance with the provisions of the relevant Service Agreements.

The Board of Directors of the Parent Company approves, at least annually, the Group's "Risk Appetite Framework (RAF)" and the "Policy for risk management", which define risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. These documents provide for specific risk indicators with the relevant attention thresholds on an individual legal entity basis. The internal control process over capital adequacy (ICAAP) also forms part of the risk management system and of the liquidity risk governance and management system (ILAAP).

SECTION 1 – RISKS OF THE ACCOUNTING CONSOLIDATION

<u>Quantitative information</u>

Credit quality

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		125,531	248,131	3,876	161,682	12,242,486	12,781,706
2. Financial assets measured at fair value through other comprehensive income		-	-	-	-	495,009	495,009
3. Financial assets designated at fair value		-	-	-	-	-	-
4. Other financial assets mandatorily at fair value		-	-	-	-	2,303	2,303
5. Financial assets being sold		-	-	-	-	-	-
Total	**30.06.2019**	**125,531**	**248,131**	**3,876**	**161,682**	**12,739,798**	**13,279,018**
Total	**31.12.2018**	**122,451**	**274,780**	**4,141**	**207,007**	**12,264,801**	**12,873,180**

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	Gross exposure	Total write-downs	Net exposure	
1. Financial assets measured at amortised cost		640,793	263,255	377,538	12,453,598	49,430	12,404,168	12,781,706
2. Financial assets measured at fair value through other comprehensive income		-	-	-	495,009	-	495,009	495,009
3. Financial assets designated at fair value		-	-	-	X	X	-	-
4. Other financial assets mandatorily at fair value		-	-	-	X	X	2,303	2,303
5. Financial assets being sold		-	-	-	-	-	-	-
Total	**30.09.2019**	**640,793**	**263,255**	**377,538**	**12,948,607**	**49,430**	**12,901,480**	**13,279,018**
Total	**31.12.2018**	**655,376**	**264,004**	**401,372**	**12,525,113**	**55,617**	**12,471,808**	**12,873,180**

Portfolio/Quality		Assets with an obviously poor credit quality		Other assets
		Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading		-	-	5,437
2. Hedging derivatives		-	-	-
Total	**30.06.2019**	**-**	**-**	**5,437**
Total	**31.12.2018**	**-**	**3**	**5,977**

The portfolio of Assets measured at amortised cost includes non-performing loans acquired through the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) booked to the consolidated financial statements in accordance with IFRS 3. In the table, the gross value of these loans is expressed at purchase cost. The difference between the nominal amount of the loans and their purchase price at 30 June 2019 amounted to Euro 26,257 thousand. This difference essentially represents the write-downs made by the subsidiary BPS on non-performing loans prior to the acquisition of control.

For a more accurate calculation of the credit risk indicators (coverage ratio), it should be noted that the total amount of gross non-performing assets valued at amortised cost at 30 June 2019 - considering non-performing loans of the subsidiary BPS with their write-downs - amounted to Euro 667 million and total write-downs to Euro 289.5 million.

SECTION 2 – RISKS OF THE CONSOLIDATION FOR REGULATORY PURPOSES

1.1 CREDIT RISK

Qualitative information

1. *General aspects*

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

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

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

2 *Credit risk management policies*

2.1 Organisational aspects

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

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

2.2 Systems for managing, measuring and monitoring credit risk

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

During the fact finding stages of the lending process, the Group performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer's financial standing from what is known of the customer and of the customer's economic environment. During the process of granting credit, the Group operates according to guidelines based on risk diversification among various customers operating in different industries and market sectors and on the appropriateness of the credit facility depending on the independent creditworthiness of the borrower, the technical form and the collateral that could be acquired. The analysis and monitoring of risk associated with the lending process is performed with the support of specific operating procedures. The aim of a prompt monitoring system is to identify, as soon as possible, signs of deterioration of exposures in order to intervene with effective corrective measures. To this end, credit exposures are monitored by means of an analysis of relationship trends and by central oversight of risk by means of dedicated procedures. As part of its corporate risk management policy, the Group has set up a system of operating limits and specific Key Risk Indicators (KRI). In the context of monitoring and control, on pre-established thresholds being exceeded, the Parent Company's Risk Management function activates internal procedures for an intervention in order to maintain a risk appetite level consistent with the guidelines laid down in the RAF and the risk management policies.

For risk management purposes, Banco Desio Group uses an internal rating system (CRS - Credit Rating System) that classifies each counterparty in risk classes that reflect their probability of default. The classification of performing counterparties is on a scale from 1 to 10, while there are three non-performing classes (past due and/or overdrawn exposures, unlikely-to-pay and doubtful loans).

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

2.3 Methods of measuring expected losses

The general approach defined by IFRS 9 to estimate the impairment is based on a process aimed at highlighting the deterioration of the credit quality of a financial instrument at the reporting date compared with the date of initial recognition. The regulatory indications regarding the assignment of credits to the various "stages" envisaged by the Standard (a process known as "staging" or "stage allocation") do in fact identify significant changes in credit risk by referring to the change in creditworthiness with respect to the initial recognition of the counterparty, the expected life of the financial asset and other forward-looking information that may affect credit risk.

In accordance with IFRS 9, performing loans are broken down into two different categories:

Stage 1: this bucket includes assets that have not suffered a significant deterioration in credit risk. This stage provides for the calculation of the expected loss at one year on a collective basis;

Stage 2: this bucket classifies assets that show a significant deterioration in credit quality between the reporting date and the date of initial recognition. For this bucket the expected loss must be calculated from a lifetime perspective, i.e. over the entire duration of the instrument, on a collective basis.

2.4 Credit risk mitigation techniques

As part of the process leading up to the provision of credit, whenever possible, the Group acquires real and/or personal guarantees in order to mitigate risk, even if the requirements appear to be satisfied.

For all loans, the main type of real guarantee is the mortgage, primarily related to the technical form of mortgage loans (particularly on residential properties). To a lesser extent, but 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 Group has introduced a policy that lays down the criteria for making adjustments by codifying the rules that establish the minimum percentages to be applied in determining expected losses, depending on the type of non-performing loan, the original technical form and the type of collateral. The management of non-performing exposures is delegated to a specific organisational unit, the NPL Department, responsible for identifying strategies for maximising recovery on individual positions and defining the adjustments to be applied to them. The only "non-performing past due/overdue" exposures subject to a collective write-down and with a high probability of reclassification between "performing" exposures are managed by the function delegated to credit performance monitoring, which eventually proceeds to classify among the "unlikely to pay" loans, transferring their management to the NPL Department.

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

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

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

In execution of its capital management strategy and following the important transactions carried out last year, the Group continued in the first half of the year the NPL sale programme, completing a traditional sale for a total nominal value of 45.7 million euro in June. Following this disposal of non-performing loans, the Group's NPL Ratio (ratio of gross non-performing loans to gross loans) is less than 6.7%. At the same time, the NPL Ratio containment policy continues through initiatives that will allow further improvement in the levels of this indicator.

In particular, considering the limited volumes of past due/overdue positions, the Group'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 a significant share, in terms of volume, the focus is more on reducing transfers to UTP for this type of loan.

The methods and operational tools used by the Banco Desio Group, through which the positions that present credit anomalies and critical factors are identified and managed, are regulated and formalised in the internal documentation. In particular, monitoring is strongly focused on analysing the performance of the individual risk positions intercepted through periodic and spot checks, based on the systematic reports produced by the internal IT procedure (Credit Quality Manager) and highlighted by the Monitoring Dashboard. In addition to photographing and periodically monitoring the trend in anomalies, this tool provides an assessment of the individual branches for the purposes of control and eventual intervention, giving each one a ranking based on various risk indicators.

This reporting tool, which is also used to provide support for senior management and the Network, makes it possible to interpret, process and age the data coming from various certified sources, in order to detect the credit quality of the Group Bank, of the Territorial Areas and of the Branches.

3.2 Write-offs

Non-performing exposures for which there is no possibility of recovery (either total or partial) are subject to be written off from the accounting records in accordance with the policies in force from time to time, approved by the Group's Board of Directors. Among the strategies identified for containing NPLs, the Group has envisaged for unlikely to pay loans, a management approach based on single name assignments with particular reference to those loans managed with a view to liquidation or total repayment (so-called "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

Credit quality

A.1.4 Regulatory consolidation – On- and off-balance sheet exposures to banks: gross and net amounts

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. CASH EXPOSURES					
a) Doubtful loans	-	X	-	-	
- of which: exposures subject to forbearance	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
c) Past due non-performing loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
d) Past due performing loans	X	-	-	-	-
- of which: exposures subject to forbearance	X	-	-	-	-
e) Other performing exposures	X	717,716	727	716,989	-
- of which: exposures subject to forbearance	X	-	-	-	-
TOTAL A	**-**	**717,716**	**727**	**716,989**	**-**
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing	-	X	-	-	-
b) Performing	X	27,007	5	27,002	-
TOTAL B	**-**	**27,007**	**5**	**27,002**	**-**
TOTAL A+B	**-**	**744,723**	**732**	**743,991**	**-**

A.1.5 Regulatory consolidation – On- and off-balance sheet credit exposures to customers: gross and net amounts

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. CASH EXPOSURES					
a) Doubtful loans	287,965	X	162,434	125,531	18,945
- of which: exposures subject to forbearance	39,825	X	20,832	18,993	-
b) Unlikely to pay	348,385	X	100,254	248,131	-
- of which: exposures subject to forbearance	175,161	X	41,510	133,651	-
c) Past due non-performing loans	4,442	X	566	3,876	-
- of which: exposures subject to forbearance	1,157	X	155	1,002	-
d) Past due performing loans	X	164,132	2,450	161,682	-
- of which: exposures subject to forbearance	X	12,796	458	12,338	-
e) Other performing exposures	X	12,064,962	46,241	12,018,721	-
- of which: exposures subject to forbearance	X	114,279	3,487	110,792	-
TOTAL A	**640,792**	**12,229,094**	**311,945**	**12,557,941**	**18,945**
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing	49,934	X	1,874	48,060	-
b) Performing	X	3,104,637	1,345	3,103,292	-
TOTAL B	**49,934**	**3,104,637**	**3,219**	**3,151,352**	**-**
TOTAL A+B	**690,726**	**15,333,731**	**315,164**	**15,709,293**	**18,945**

The gross exposure and the related specific adjustments of non-performing loans acquired through the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) are shown net of differences between the nominal value and the purchase price of such loans at 30 June 2019; details are provided below:

a) Doubtful loans: euro 21,081 thousand;

b) Unlikely to pay loans: euro 5,176 thousand.

Classification of exposures on the basis of external and internal rating

Regulatory Consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given for external rating classes (gross values)

Exposures	External rating class						Without rating	Total
	Class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	**14,805**	**572,833**	**3,129,120**	**561,078**	**68,377**	**30,868**	**8,712,312**	**13,089,393**
- First stage	14,805	561,129	3,084,883	474,555	45,463	13,927	7,200,005	11,394,767
- Second stage	-	11,704	42,908	73,277	19,483	13,800	892,662	1,053,834
- Third stage	-	-	1,329	13,246	3,431	3,141	619,645	640,792
B. Financial assets designated at fair value through other comprehensive income	**2,578**	**-**	**480,469**	**-**	**-**	**-**	**11,962**	**495,009**
- First stage	2,578	-	480,469	-	-	-	11,962	495,009
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B+C)	**17,383**	**572,833**	**3,609,589**	**561,078**	**68,377**	**30,868**	**8,724,274**	**13,584,402**
D. Commitments to disburse funds and financial guarantees issued								
- First stage	1,146	299,656	328,289	107,525	4,724	1,808	2,081,201	2,824,349
- Second stage	-	157	1,155	3,234	876	-	42,997	48,419
- Third stage	-	-	1,612	1,832	54	59	43,229	46,786
Total (D)	**1,146**	**299,813**	**331,056**	**112,591**	**5,654**	**1,867**	**2,167,427**	**2,919,554**
Total (A+B+C+D)	**18,529**	**872,646**	**3,940,645**	**673,669**	**74,031**	**32,735**	**10,891,701**	**16,503,956**

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

The following table gives a reconciliation between the rating classes indicated in table A.2.1 and those provided by the ECAIs Moody's and Cerved, the agencies that the Group uses for external ratings.

Classes of credit quality	Moody's rating	Cerved rating
1	from Aaa to Aa3	A1
2	from A1 to A3	from A2 to A3
3	from Baa1 to Baa3	B1
4	from Ba1 to Ba3	B2
5	from B1 to B3	C11
6	Caa1 or less	C12 or less

Regulatory Consolidation – Distribution of financial assets, commitments to disburse funds and financial guarantees given for internal rating classes (gross values)

The Group does not use internal rating models for the determination of capital requirements.

The Group uses a rating model to assess retail customers (individual consumers) and corporate customers (Small Businesses, Small and Medium-sized Enterprises, Large Corporate, Real Estate, Financial and Institutional).

The following table shows performing loans belonging to the above categories with the proportion of each rating class to the overall exposure.

Exposures at 30.06.2019	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
Cash exposures	63.83%	29.45%	5.22%	1.50%	100%
Off-balance sheet exposures	83.23%	14.66%	1.40%	0.71%	100%

Large exposures

With reference to current supervisory regulations, the situation at 30 June 2019 is reported below:

Description	*Nominal amount*	*Weighted amount*	*Number of positions*
Large exposures	3,599,949	328,874	6

The positions indicated relate to exposures towards the Italian Government, to Cassa di Compensazione e Garanzia, to the Bank of Italy, to the Guarantee Fund under Law no. 662/96 with Mediocredito Centrale, to the SPV Two Worlds S.r.l. and to BNP Paribas, mainly as part of the relationship within the covered bond transaction.

1.2 MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK – TRADING PORTFOLIO REPORTED FOR SUPERVISORY PURPOSES

Qualitative information

A. General aspects

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

The information in this section refers only to Italian Group companies, as the assets held by the other companies are not significant.

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

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

In carrying out its responsibilities for management and coordination, the Board of Directors of the Parent Company issued specific rules on controls to all companies in the Banking Group.

Trading by the Parent Company's Finance Department is undertaken only for the Italian Group banks and is subject to operating limits as set out in the "Risk Policy" and in corporate regulations; in order to mitigate market risk, specific limits have been set for size, duration and Value at Risk (VaR). A specific reporting system is the tool used to provide adequate information to the organisational units involved.

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

For the quantification of generic 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

Regulatory trading book: internal models and other methodologies used for sensitivity analysis

The monitoring of the "trading portfolio reported for supervisory purposes" in the first half of 2019 evidenced a structure with limited market risks. Related VaR at 30.06.2019 amounted to Euro 0.073 million, with a percentage of 4.2% of the trading portfolio.

1.2.2. INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

Qualitative information

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

The measurement of interest rate risk is performed by the Parent Company's risk management function. This activity is carried out for the Group's banks, which cover almost 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 ALMpro/ERMAS3.

The static analysis currently performed allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income. In this context, the results of the banking book for financial statement purposes are also presented, excluding analysis of financial instruments in the trading portfolio for supervisory purposes.

The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of Gap Analysis. The changes in the economic value of assets and liabilities are analysed by applying Duration Gap and Sensitivity Analysis approaches.

The analyses are carried out also considering non-parallel shifts in the yield curve and the application of behavioural models for demand items. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

Quantitative information

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 30 June 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 30.06.2019

	+100 bps	**-100 bps**
% of the expected margin	*9.87%*	*-25.88%*
% of net interest and other banking income	*5.23%*	*-13.72%*
% of the result of the year	*28.87%*	*-75.70%*
% of shareholders' equity	*1.51%*	*-3.95%*

With regard to the 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 that has been maintained 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 30.06.2019.

	+100 bps	**-100 bps**
% of the economic value	*-12.95%*	*4.23%*

1.2.3. EXCHANGE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

The Group is exposed to exchange risk as a result of its trading activities in foreign exchange markets and investment activities and fundraising with instruments denominated in a currency other than the domestic one.

The exposure to exchange risk is marginal. As regards only the Italian banks, forex operations are managed by the Parent Company's Finance Department.

Exchange rate risk is managed through operating limits, both by currency areas and by concentration on each currency. In addition, daily and yearly stop-loss operating limits have been set.

B. Hedging of exchange risk

The Group's main objective is to manage exchange risk in a prudent manner, always taking into consideration the possibility of taking advantage of any market opportunities. Transactions that involve taking on exchange risk are managed through appropriate hedging strategies.

Quantitative information

Internal models and other methodologies or the analysis of sensitivity

The Group's exchange risk profile is not particularly significant, given the limited foreign currency exposure of the main asset and liability items and the related hedges put in place through the use of financial derivatives.

1.3 HEDGING POLICIES

A. Fair value hedges

As part of an active and prudent management of the risks associated with operations, the Group uses fair value hedges and solely on behalf of the Italian banks in the Group, in order to protect the income statement from risks arising from adverse changes in fair value; the objective of a hedge is to offset any changes in the fair value of the hedged instrument with changes in the fair value of the hedging instrument.

To date, hedged instruments relate to assets (fixed rate mortgage loans granted). As regards assets, various types of hedges represented by Group micro and macro hedges have been implemented. For hedging, we use derivatives represented by unlisted securities - mainly amortising interest rate swaps and interest rate options - but only to hedge interest rate risk.

The Parent Company has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (IAS). The method used by the Parent Company for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

B. Cash flow hedges

The Group uses cash flow hedges to reduce exposure to adverse changes in expected cash flows; the objective is to stabilise the cash flows of the hedged instrument with the flows of the hedging instrument.

To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges.

For hedging, we use derivatives represented by unlisted securities - interest rate swaps - but only to hedge interest rate risk.

The Parent Company has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (IAS). The method used by the Parent Company for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

1.4. LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Parent Company's Finance Department with the aim of verifying the Group's ability to meet liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market.

The monitoring of and periodic reporting on liquidity risk is carried out by the Parent Company's Risk Management function in compliance with the threshold of tolerance for this kind of risk as determined by the Policy for the management of liquidity risk. Treasury activities consist of procuring and allocating available liquidity through the interbank market, open market operations and transactions in repurchase agreements and derivatives.

The management of operational liquidity has the objective of ensuring the Group is capable of meeting expected and unexpected payment commitments in the context of the "normal course of business" (going concern) over a short term time horizon that does not exceed 3 months. The scope of reference of the daily report on operating liquidity refers to items with a high level of volatility and a considerable impact on the monetary base. The monitoring and control of operating limits is carried out through the acquisition of information resulting from collection and payment transactions, management of accounts for services and trading in the financial instruments held in proprietary portfolios.

The counterbalancing capacity model allows us to integrate the report with all of the free assets that can readily be used, both to be eligible for refinancing with the ECB and to be sold. Next to the application of haircuts determined by the ECB for eligible securities, appropriate discount factors are prepared (divided by type of security, rating and currency), also for all securities not eligible, but still considered marketable if appropriately positioned in time buckets.

Further support for the management of liquidity risk is derived from the monitoring of structural liquidity with the primary objective of maintaining an adequate dynamic relationship between assets and liabilities in the medium to long term.

Operations are measured using Asset and Liability Management (ALM) methods through the ERMAS3 application: by developing all of the cash flows generated by operations, it allows us to evaluate and manage in the various 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) due to the increase in non-performing 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 of the Parent Company by organising bond issues on the retail market and on the Euromarket. The financing strategies adopted by the Group are focused on a subdivision of funding sources, with a preference for retail as opposed to wholesale customers, as well as on a significant number of counterparties and thus ensuring an adequate diversification of the residual maturities of liabilities.

1.4. OPERATIONAL RISK

Qualitative information

A. General aspects, management and measurement of operational risk

Operational risk is the risk of incurring losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events, inclusive of legal risk (see EU regulation 575/2013).

The Group uses the above definition of operational risk within the operational risk management model that has been approved and embodied within corporate policy.

In this regard, a specific operational risk management macro-process (ORM framework) has been designed that consists of the following phases:

- Identification: recognition, collection and classification of information relating to operational risks;
- Measurement: economic measurement of operational risks linked to the Bank's operations;
- Monitoring and reporting: collection and structured organisation of the results in order to monitor the evolution of operational risk exposure;
- Mitigation and control: risk transfer and improvement of business processes.

To support the operational risk management model, the following processes have been formalised both for the Parent Company and for the subsidiaries Banca Popolare di Spoleto and Fides:

- Loss Data Collection – structured process for gathering data on operational losses arising within the Bank;
- Risk Self Assessment – structured process for the measurement of operational risks designed to have complete vision of risk events in terms of the potential impact and the worst case impact.

The Parent Company's Risk Management function applied company regulations to structure an adequate monitoring and reporting system for operational risk by integrating it with the dictates of the supervisory regulations about the provisions regarding coordination between control functions. With respect to the detrimental events gathered in the Corporate Database of Operational Losses (DBPOA), a reporting system was implemented that is capable of providing information concerning the events in question: number of events, gross amount of losses and any recoveries.

In compliance with Bank of Italy regulations (Circular 285/2013, Part I, Title IV, chap. 4, 5), the Group adopted:

- Security Policy;
- Procedure for Accident Management;
- IT Risk Assessment methodology.

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 activities for updating the measures adopted for the management of business continuity have been completed and optimization of the Plan is currently underway and thanks to the new corporate structure, it will be possible to achieve greater efficiency.

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.

Risk related to outstanding legal disputes

The Banco Desio 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	18	€ 12.073 million	€ 0.659 million
Other lawsuits	695	€ 77.239 million	€ 10.033 million

The principal disputes (claims in excess of Euro 1 million) involving Banco di Desio e della Brianza are described below:

- 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 1.103 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;
- 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. Having asked the expert witness for clarification, the Judge ordered him to correct the inaccuracy in the calculation highlighted by the respondent and to review all of the figures, adjourning the case to 10 September 2019;

- Claim of Euro 12.569 million. Following the rejection of the Preventive Technical Assessment established in March 2018, the plaintiff initiated a judgement of merit at the Court of Monza (first hearing on 28 March 2019) to request the return of the amounts made available (transfers and requests for bank drafts), according to the plaintiff, based on false signatures and consequently stolen from his assets for the total of Euro 12,569,843. As things stand at present, the Bank's legal advisor thought that the risk of losing the case was remote, also considering the outcome of the Preventive Technical Assessment. The hearing for admission of the means of investigation has been scheduled for 25 September 2019.

The principal disputes (claims in excess of Euro 1 million) involving Banco Popolare di Spoleto are described below:

- 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 ruling in 2017, the Court of Terni rejected the request submitted by the Receivership and the appeal was served on 16 January 2018. At the first hearing before the Court of Appeal of Perugia, scheduled for 26 April 2018, the Court reserved the right to decide on whether the means of investigation were admissible;
- Claim of Euro 1.526 million. By writ notified in 2015, the counterparty summoned Banco di Desio e della Brianza and Banca Popolare di Spoleto before the Court of Prato to obtain reimbursement of the capital invested in a series of securities and, alternatively, the amount of the loss incurred during the course of the investment. The Bank has stated that it is not involved, given the contribution to Banca Popolare di Spoleto of the relationship concerned, as part of the special transaction that transferred the line of business consisting of 32 branches; Banca Popolare di Spoleto has objected to the merits of the application. At the hearing of 19 April 2018, the counterparty was formally interrogated. The Judge ordered an expert appraisal by a graphologist, scheduling the hearing for 12 September 2019 to make the examination of the appraisal;
- 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. The next hearing is scheduled for 19 September 2019 to discuss the expert assessments;

- Claim of Euro 7.310 million. With a writ notified in 2013, the Receivership summoned Banca Popolare di Spoleto together with Banca delle Marche and Monte dei Paschi di Siena before the Court of Perugia to hear ascertained and declared invalid and/or ineffective and/or unenforceable as the receiver of the sale of the loan and, therefore, to hear them condemned, jointly and severally, to pay the sum. The application seems totally unfounded as confirmed by the counsel that we appointed to appear in court. On 2 December 2009 (about three years before the declaration of bankruptcy with judgement on 21 March 2013), the Bank, together with the two other banks, granted a line of credit to the bankrupt company, usable in the technical form of an advance on contracts to public entities and/or the public administration, for an amount of Euro 1 million for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. The Judge rejected all of the preliminary enquiries proposed by the Receivership and scheduled the hearing for 5 February 2020 for clarification of the conclusions without carrying out any investigation work. The case is being decided;
- Claim of Euro 1.744 million. A customer company and the guarantors sued Banca Popolare di Spoleto before the Court of Spoleto in order to hear, ascertain and declare the application of usurious interest, asking the Court for payment by the Bank of Euro 338 thousand for interest allegedly not due, in addition to Euro 169 thousand by way of damages for the company and Euro 730 thousand for each guarantor in compensation for damages for breach of the principles of fairness and good faith. This case appears to be unfounded, given the favourable jurisprudence regarding similar situations and the general nature of the application for damages. An expert appraisal was carried out, which confirmed the lawfulness of the relationships involved in the lawsuit. The next hearing has been scheduled for 25 September 2019 to discuss the conclusions;
- 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 the cooperative, 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 Judge has reserved judgement on the evidence.
- Claim of Euro 1.0 million. In a preventive summons, the counterparty contends that the Bank, by exploiting its bargaining power, refused to grant a mortgage loan requested by the company in 2011 of 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 was postponed to 22 January 2020 for the examination of the expert report;
- 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 3.6 million. The receivership cited Banca Popolare di Spoleto (BPS) 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 BPS 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 BPS 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 so the validity of the merger deed can no longer be questioned, the case will return to Court, which will reiterate the fairness of the exchange ratio established for the transaction.

* * *

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 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. On 10 June 2019, the judge ordered the exhibition of certain documents, setting a new hearing for 10 October 2019 to discuss the preliminary requests (as well as the expert appraisal).

Quantitative information

The number of detrimental events recorded by the Group in the course of the first half of 2019, comes to 989. The result of the process of collecting adverse events is summarised in the table below:

Event type	% Events	% of total	% 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	0.30%	2.73%	1.84%	33.39%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	3.24%	18.24%	18.32%	0.56%
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	0.40%	13.64%	13.78%	0.00%
RELATIONAL ACTIVITY CONNECTED TO CUSTOMERS, PRODUCTS AND CHANNELS Losses due to inability (not intentional or negligent) to fulfil professional commitments taken with customers (including fiduciary requirements and adequate information on investments)	13.75%	23.00%	23.24%	0.00%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	0.61%	0.48%	0.49%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.10%	0.05%	0.05%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	81.60%	41.87%	42.29%	0.00%
TOTAL Banco Desio e della Brianza Group	**100.00%**	**100.00%**	**100.00%**	**1.01%**

The gross operating loss comes to Euro 2.002 million, for which provisions were made during the year of Euro 1.006 million. Of the loss recorded, an amount was recovered of Euro 20 thousand, resulting in a net operating loss of Euro 1.982 million.

TRANSACTIONS WITH RELATED PARTIES

TRANSACTIONS WITH RELATED PARTIES

Information on the remuneration of directors and managers

For information on the remuneration paid to directors and managers with strategic responsibilities, please refer to the "Report on the Group's Remuneration Policies" at 31 December 2018 prepared in accordance with art. 123-ter CFA.

Related party disclosures

The internal procedure ("Internal Regulations") for the management of transactions with related parties and entities included in the scope of application of art. 136 of the CBA, adopted in accordance with Consob Regulation no. 17221/2010 and supplemented in accordance with the Minimum Capital Requirement in respect of risk assets and conflicts of interest with respect to persons linked to the Bank or the Banking Group pursuant to art. 53 CBA, is explained in the Annual Report on Corporate Governance at 31 December 2018. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents/Related Parties" section.

Given that, pursuant to art. 5 of Consob Regulation 17221/2010 and art. 154-ter of the CFA, periodic information has to be provided:

a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation[4];

b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Group;

c) on any changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Group,

there were no transactions worthy of note during the period other than the approval of the merger of Banca Popolare di Spoleto S.p.A. with Banco di Desio e della Brianza S.p.A. 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, already described in the interim report on operations and in the notes to the financial statements at 31 December 2018.

Transactions with related parties are generally entered into on an arm's length basis and are, in any case, in the Group's interest.

Comparison with the equivalent market or standard conditions is mentioned in the periodic reporting of transactions to the Corporate Bodies.

In this context, there are no transactions outstanding at 30 June 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.

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[4] 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)

The following paragraphs summarise - in a prudential logic of unified management of potential conflicts of interest - existing relationships with the Parent Company, subsidiary companies, associates and other related parties pursuant to art. 53 CBA and/or art. 2391-bis of the Italian Civil Code, included entities treated as per art 136 of CBA also in compliance with Italian laws), highlighting, in particular, the balance of current accounts and of the securities portfolio at the end of the first half of 2017.

Parent Company

At the end of the half-year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A. amounted to Euro 133.4 million, of which Euro 129.1 million, relating to the securities portfolio.

At the end of last year, a five-year unsecured "bullet" financing transaction was entered into with this Company for a total of 5 million to replace a similar credit line at another Bank which was about to expire. Note that the operation falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the offices held by certain officers. We can confirm, also in this case in question, that this is a transaction falling within the ordinary lending activity, carried out at market conditions (within the scope of the list of conditions in force for related parties in accordance with a specific framework resolution).

A service agreement has also been stipulated with the same Company governing the reciprocal rights and obligations inherent to the accounting and reporting activities delegated to Banco di Desio e della Brianza S.p.A. for regulatory consolidation purposes pursuant to art. 11 and 99 of EU Regulation no. 575/2013 (CRR). The fees paid to the latter are of a minor amount and have in any case been determined with the same methodology as similar agreements with subsidiaries belonging to the same banking group. It should be noted that this transaction also falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers referred to in the following paragraph "Transactions with Officers and parties related to them".

Transactions with Officers and parties related to them

As for the granting of credit lines approved in the first half of 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 Italian Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of the Group and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 40 positions existing at 30 June 2019 comes to some Euro 9.5 million and the related utilisations amount in total to some Euro 5.7 million.

As regards funding relationships held by Group banks directly with Officers, as well as parties related to them, it should also be noted that the total balances at 30 June 2019 amounted to Euro 132.4 million in amounts due to customers (including approximately Euro 98.2 million in securities portfolios).

Details on to the lending and funding relationships referred to in this paragraph are shown in the following table:

	Balances at 30.06.2019 (in €/million)
Lending transactions:	
Amount granted	9.5
Amount drawn down	5.7
Funding transactions:	
C/c and d/r amount (a)	34.2
Amount of securities portfolios (b)	98.2
Total (a+b)	132.4

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.

SEGMENT REPORTING

SEGMENT REPORTING

The Banco Desio Group operates by carrying out traditional banking activities, providing asset management services and selling life and non-life bancassurance products.

Consistent with the system of internal reporting used by management to monitor the trend in results and take operating decisions about the allocation of resources, the Group's segment reporting takes account of the organisational and managerial structure described below.

The "banking" segment comprises the two network banks in the Group, Banco di Desio e della Brianza S.p.A. and Banca Popolare di Spoleto S.p.A. and the SPV Desio OBG s.r.l.

The "near-banking" segment comprises Fides S.p.A., a financial intermediary that is registered pursuant to art. 106 CBA.

The "consolidation adjustments" column includes the consolidation entries and the intercompany eliminations, except for the Purchase Price Allocation entries attributed to the "banking" segment to which they relate.

The total of the columns described above is the amount reported in the consolidated half-yearly report of the Banco Desio Group.

Income statement	Banking	Near-banking	Consolidation adjustments	Total 30.06.2019
Net profit from financial and insurance activities [(1)]	225,563	8,223	(13,898)	219,888
Fixed costs [(2)]	(154,225)	(3,489)	4,041	(153,673)
Provisions and adjustments [(3)]	(29,616)	(179)	-	(29,795)
Profit (loss) from equity investments carried at equity	-		-	-
Gains (losses) on disposal of investments				-
Profit (loss) from current operations before tax	**41,722**	**4,555**	**(9,857)**	**36,420**

[(1)] including other operating charges/income and profits/losses from contractual changes without cancellations
[(2)] administrative costs, net adjustments to property, plant and equipment and intangible assets
[(3)] net impairment adjustments to loans and financial assets, provisions for risks and charges, goodwill

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 30.06.2019
Financial assets	3,251,829	15	(654)	3,251,190
Due from banks [(4)]	809,661	2,585	(368,188)	444,058
Loans to customers [(4)]	9,616,522	753,673	(700,745)	9,669,450
Due to banks	1,997,182	700,745	(1,066,302)	1,631,625
Due to customers	9,599,568	4,679	(2,510)	9,601,737
Debt securities in issue	1,417,775		(591)	1,417,184
Indirect deposits, under administration and management	**14,892,230**		**(17,491)**	**14,874,739**

(4) net of Held to collect (HTC) debt securities measured at amortised cost and reported under Financial Assets

Income statement	Banking	Near-banking	Consolidation adjustments	Total 30.06.2018
Net profit from financial and insurance activities [(1)]	227,726	8,428	(12,235)	223,919
Fixed costs [(2)]	(155,248)	(3,358)	3,577	(155,029)
Provisions and adjustments [(3)]	(50,890)	(33)		(50,923)
Profit (loss) from equity investments carried at equity	-	-		-
Gains (losses) on disposal of investments	-	-		-
Profit (loss) from current operations before tax	**21,588**	**5,037**	**(8,658)**	**17,967**

[(1)] including other operating charges/income
[(2)] administrative costs, net adjustments to property, plant and equipment and intangible assets
[(3)] net impairment adjustments to loans and financial assets, provisions for risks and charges, goodwill

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 31.12.2018
Financial assets	3,082,124	15	(709)	3,081,430
Due from banks [(4)]	790,948	2,922	(508,556)	285,314
Loans to customers [(4) (5)]	9,562,530	706,240	(652,070)	9,616,700
Due to banks	2,127,174	652,071	(1,158,421)	1,620,824
Due to customers	9,253,258	3,678	(2,345)	9,254,591
Debt securities in issue	1,426,659	-	(446)	1,426,213
Indirect deposits, under administration and management	**14,118,658**	**-**	**(25,947)**	**14,092,711**

(4) net of Held to collect (HTC) debt securities measured at amortised cost and reported under Financial Assets
(5) net of doubtful loans classified under Non-current assets and disposal groups held for sale at 30 June 2018

CERTIFICATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION 11971 OF 14 MAY 1999

CERTIFICATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

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 with respect to the Company and

- their effective application of the administrative and accounting procedures for the preparation of the condensed consolidated interim financial statements during the first half of 2018.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the condensed consolidated interim financial statements at 30 June 2018 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.

3. We also certify that:

3.1 the condensed consolidated interim financial statements:

a. have been prepared in accordance with the applicable IAS/IFRS recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002;

b. agree with the books of account and accounting records;

c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the consolidation;

3.2 the interim report on operations includes a reliable analysis of significant events that took place during the first six months of the year and their impact on the condensed consolidated interim financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Desio, 6 August 2019

Chairman	Financial Reporting Manager
Stefano Lado	*Mauro Walter Colombo*

AUDITORS' REPORT

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REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Banco di Desio e della Brianza S.p.A.

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of Banco di Desio e della Brianza S.p.A. and subsidiaries (the "Banco Desio Group"), which comprise the consolidated balance sheet as of 30 June 2019 and the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated shareholders' equity and the consolidated cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of the half-yearly condensed consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of the Banco Desio Group as at 30 June 2019 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Maurizio Ferrero
Partner

Milan, Italy
7 August 2019

This report has been translated into the English language solely for the convenience of international readers.

ATTACHMENT: INFORMATION ON THE CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY (FINANCIAL PARENT COMPANY BRIANZA UNIONE)

A. Qualitative information

The Banco Desio Group pays a great deal of attention to its own capital, being well aware both of its function as a factor in defence of the trust of external funders, as it can be used to absorb losses, and of its importance for purely operational and business development purposes.

A good level of capitalisation allows us to address the question of business development with the necessary degree of autonomy and to preserve the stability of the Group.

The policy of the Parent Company, Banco Desio, is therefore to assign a considerable priority to capital to use it in the best way possible in expanding the business.

The concept of book equity used by the Group is given by the sum of the following liability captions: share capital, valuation reserves, reserves, share premium reserve and net profit (loss) for the period.

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by business type

Captions	Group min. requirements	Insurance companies	Other businesses	Consolidation adjustments and eliminations	30.06.2019
Share capital	276,038				276,038
Share premium reserve	56,173				56,173
Reserves	525,760				525,760
- revenue reserves:	525,760				525,760
a) legal reserve	61,280				61,280
b) statutory reserve	305,062				305,062
c) reserve for treasury shares	160				160
d) other	159,258				159,258
(Treasury shares)	(160)				(160)
Valuation reserves:	43,963				43,963
- Equity instruments designated at fair value through other comprehensive income	25,280				25,280
- Financial assets (other than equities) designated at fair value through other comprehensive income	1,291				1,291
- Property, plant and equipment	45				45
- Cash-flow hedges	(1,878)				(1,878)
- Actuarial gains (losses) on defined-benefit pension plans	(3,671)				(3,671)
- Special revaluation laws	22,896				22,896
Net profit (loss) of the year (+/-) pertaining to the Group and minority interests	23,529				23,529
Shareholders' equity	**925,303**				**925,303**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amounts	Regulatory consolidation		Insurance companies		Other businesses		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,297	(6)							1,297	(6)
2. Equity instruments	24,108	(170)							24,108	(170)
3. Loans										
Total 30.06.2019	**25,405**	**(176)**							**25,405**	**(176)**
Total 31.12.2018	**25,092**	**(85)**							**25,092**	**(85)**

SECTION 2 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS

The scope of consolidation, defined in accordance with current prudential regulations, includes companies that have the following characteristics:

- banking, financial and product/service companies, directly or indirectly controlled by the Parent Company and consolidated on a line-by-line basis;
- companies, other than banking, financial and product/service companies, controlled directly or indirectly by the Parent Company exclusively or jointly, or subject to significant influence; the equity method is applied to these companies.

The banking and financial companies and the companies other than banking and financial companies carried at equity held directly or indirectly by the Parent Company are included in risk-weighted assets based on articles 46 "Deduction of Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities" and 48 "Threshold exemptions from deduction from Common Equity Tier 1 items" of EU regulation no. 575/2013.

Within the Banking Group, there are no restrictions or impediments to the transfer of capital resources between Group companies.

2.1 Own Funds and capital adequacy ratios

The elements included in Own Funds, as the basis of the capital adequacy requirements that banks must satisfy, are defined in accordance with the harmonised rules for banks and investment companies contained in the EU Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) of 26/06/2013 that transpose into EU law the standards defined by the Basel Committee for banking supervision (Basel 3 framework).

The applicable regulation, in compliance with EU directives, indicates the method for the calculation of capital for supervisory purposes. The latter is the sum of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital.

Based on legislation in force, the components of Own Funds are described below:

i. *Common Equity Tier 1 - CET 1* – The components of Common Equity Tier 1 are the following: a) equity instruments, as long as they comply with the conditions set out in art. 28 or, where applicable, in article 29 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point; c) profit not distributed; d) accumulated other comprehensive income; e) other reserves; f) provisions for general banking risks. Components c) to f) are recognised as common equity tier 1 only if they can be used without restriction and without delay by an entity to cover risks or losses as and when the risks or losses arise.

ii. *Additional Tier 1 capital - AT1* – The components of Additional Tier 1 capital are the following: a) equity instruments, where they comply with the conditions set out in art. 52, paragraph 1 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point. The instruments included under a) do not qualify as components of common equity tier 1 or tier 2.

iii. *Tier 2 capital - T2* – The components of Tier 2 are the following: a) equity instruments and subordinated debt, where they comply with the conditions set out in article 63 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point; c) for entities that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 2 of EU Regulation no. 575/2013, general loan provisions, gross of the related tax effect, up to 1.25 % of the risk-weighted exposure amounts computed in compliance with part three, title II, chapter 2 of the Regulation; d) for entities that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of EU Regulation no. 575/2013, the positive amounts, gross of the related tax effect, resulting from the computation in accordance with articles 158 and 159 up to 0.6% of the risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of the Regulation.

Consolidated Own Funds calculated at the Banco Desio Group level, after the pay out of 40%, amounted to Euro 1,036.9 million at 30 June 2019 (CET1 + AT1 Euro 956.0 million + T2 Euro 80.9 million), compared with Euro 1,056.9 million at the end of the previous year.

In this regard it is recalled that in January 2018, the Boards of Directors of Banca Popolare di Spoleto and Banco di Desio e della Brianza, taking account of a best estimate of the higher adjustments for expected losses on performing and non-performing loans on first-time application of IFRS 9, resolved to join the transitional regime for the determination of own funds and capital ratios, introduced by Regulation (EU) 2017/2395 of 12 December 2017 with a view to reducing the impact of first-time application, 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 following table shows the consolidated regulatory requirements of the Banco Desio Group calculated with and without applying the transitional provisions.

	30.06.2019	
	Application of the transitional regime	**Without application of the transitional regime**
OWN FUNDS		
Common Equity Tier 1 - CET 1	947,780	
Common Equity Tier 1 - CET1 without application of the transitional provisions		*897,844*
Tier 1 capital	956,043	
Tier 1 capital without application of the transitional provisions		*906,050*
Total own funds	1,036,940	
Total own funds without application of the transitional provisions		*981,238*
RISK ASSETS		
Risk-weighted assets	7,651,560	
Risk-weighted assets without application of the transitional provisions		*7,620,452*
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	12.387%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional provisions		*11.782%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	12.495%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional provisions		*11.890%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.552%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional provisions		*12.876%*

SECTION 3 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS (FINANCIAL PARENT COMPANY BRIANZA UNIONE)

Under the provisions of Articles 11, paragraphs 2 and 3 and 13, paragraph 2 of the CRR Regulation, the banks controlled by a "financial parent company" have to comply with the requirements established by the aforementioned regulation on the basis of the consolidated situation of the financial parent company. As a result, we have had to change the Group's scope of consolidation for supervisory purposes, now calculating capital ratios at the level of Brianza Unione di Luigi Gavazzi and Stefano Lado S.A.p.A., which is the company that controls 52.084% of Banco di Desio and Brianza S.p.A.

The calculation of Own Funds and of the consolidated prudential requirements at 30 June 2019, which are transmitted to the Bank of Italy in relation to the prudential supervisory reports (COREP) and statistical reports (FINREP), was therefore made with reference to Brianza Union di Luigi Gavazzi e Stefano Lado S.A.p.A. as it is the financial parent company of the banking group according to European legislation. This section therefore presents the results of this calculation, relating to the regulatory scope of the consolidated financial statements drawn up by Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. (the financial parent company).

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

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

3.1 Own Funds and capital adequacy ratios

The consolidated own funds calculated by the financial parent company Brianza Unione amount to Euro 922.2 million at 30 June 2019 (CET1 + AT1 of Euro 804.2 million, T2 of Euro 118.0 million), compared with Euro 934.0 million at the end of the previous year.

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

	30.06.2019	
	Application of the transitional regime	Without application of the transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	743,412	
Common Equity Tier 1 - CET1 without application of the transitional provisions		*715,867*
Tier 1 capital	804,200	
Tier 1 capital without application of the transitional provisions		*776,287*
Total own funds	922,214	
Total own funds without application of the transitional provisions		*876,145*
RISK ASSETS		
Risk-weighted assets	7,649,637	
Risk-weighted assets without application of the transitional provisions		*7,618,529*
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	9.718%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional provisions		*9.396%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	10.513%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional provisions		*10.189%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	12.056%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional provisions		*11.500%*

At 30 June 2019 the consolidated ratios calculated for the financial parent company are above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority through the SREP procedure previously referred to.