Gruppo Banco Desio

PRESS RELEASE

CONSOLIDATED RESULTS AT 30 SEPTEMBER 2019
NET PROFIT AT 33.7 MILLION EURO (VS 23.3 MILLION EURO)

The Board of Directors of Banco di Desio e della Brianza S.p.A. has approved this "Consolidated Quarterly Report at 30 September 2019 – Press Release"

PROFITABILITY	✓ **CONSOLIDATED NET PROFIT (pertaining to the Parent Company) of Euro 33.7 million (Euro 23.3 million at 30 September 2018) AN INCREASE OF 44.6%**
SUPPORT FOR THE ECONOMY	✓ **INCREASE IN THE TOTAL CUSTOMER DEPOSITS to Euro 26.5 billion (+7.0% on 31.12.2018), of which DIRECT DEPOSITS of Euro 11.3 billion (+5.6% on 31.12.2018), with a *Ordinary customer loans/Direct deposits ratio* at 84.7%, vs 90.0% and INDIRECT DEPOSITS of Euro 15.2 billion (+8.1%, of which ORDINARY CUSTOMERS +6.9% and INSTITUTIONAL CUSTOMERS +10.1%)** ✓ **LOANS TO CUSTOMERS at the reporting date stood at around Euro 9.6 billion (-0.6% on the figure at the end of 2018, due to the sale of NPLs during the period)** ✓ **NEW LOANS to households and businesses of Euro 1.5 billion (Euro 1.5 billion in the comparative period), confirming the contribution of the Banco Desio Group in terms of access to credit for the private sector and the offer of loans to the real economy**
ASSET QUALITY	✓ **INCIDENCE OF NPLs:** ***Net non-performing loans/Net loans ratio* at 3.8% (vs 4.2% at 31.12.2018)** ***Gross non-performing loans/Gross loans ratio* of 6.6% (vs 7.0%)** ***Net doubtful loans/Net loans ratio* at 1.3% (vs 1.3%)** ***Gross doubtful loans/Gross loans ratio* at 3.2% (vs 3.0%)** ✓ **LEVELS OF COVERAGE of non-performing and performing loans** **Coverage ratio of non-performing loans at 44.9% (vs 42.2%), 46.7% gross of write-offs (vs 45.6% at 31 December 2018)** **Coverage ratio of doubtful loans at 61.0% (vs 59.3%) and gross of write-offs at 63.5% (vs 64.5%)** **Coverage of performing loans 0.49% (vs 0.54%)**

CAPITAL SOLIDITY[1]

Ratios at 30 September 2019 [2]	Banco di Desio e della Brianza	Banco Desio Group	Brianza Unione Group
CET 1	14.18%	12.70%	9.59%
TIER 1	14.19%	12.72%	10.33%
Total Capital	15.10%	13.52%	11.62%

The consolidated ratios at the level of Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A., the parent company that controls 49.882% of Banco di Desio e della Brianza S.p.A., have been calculated on the basis of articles 11, paragraphs 2 and 3 and 13, paragraph 2, of the CRR Regulation.

***

The Board of Directors of Banco di Desio e della Brianza S.p.A., which met on 30 October 2019, approved the "Consolidated quarterly report on operations at 30 September 2019 – Press release" (hereinafter "Report"), which has been prepared on a voluntary basis.

---

[1] Based on the Bank of Italy's instructions sent to Banco di Desio e della Brianza S.p.A. and to the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. on 27 June 2019, the following minimum capital requirements have been assigned to the Brianza Unione Group for CRR purposes, following completion of the Supervisory Review and Evaluation Process (SREP): CET1 ratio of 7.25%, binding - pursuant to art. 67-ter TUB - 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.

[2] In application of the transitional provisions introduced by Regulation (EU) 2017/2395 of 12 December 2017.

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

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

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

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

First-time adoption of IFRS 16 "Leases"

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

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

The method of recognising the various elements in the income statement has also changed as a result: while for IAS 17 (to which these contracts were subject before the new standard came into force) lease instalments were recognised under "Other administrative costs", on the basis of IFRS 16 requirements, charges accrued on the lease payable are recorded under "Interest and similar expense" and depreciation charges for the right of use under "Net adjustments to property, plant and equipment/intangible assets". It follows that the impact on the income statement in the first few years will be higher under IFRS 16 than under IAS 17: the depreciation charges are in fact constant over time, whereas interest charges are higher in the first few years, after which they tend to decrease over time.

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

For further details, please refer to the following paragraph "Basis of preparation" of this Report.

Presentation of comparative figures

For the purpose of preparing this consolidated quarterly financial report, **the comparative figures for the balance sheet (at 31 December 2018) and income statement (at 30 September 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 reporting period 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.

Results of the period

Key figures and ratios

Table 1 – Balance sheet

Amounts in thousands of Euro	30.09.2019	31.12.2018	Change amount	%
Total assets	14,558,446	13,608,036	950,410	7.0%
Financial assets	3,318,388	3,081,430	236,958	7.7%
Due from banks [1]	1,000,359	285,314	715,045	250.6%
Loans to customers [1]	9,572,584	9,616,700	-44,116	-0.5%
of which: Loans to ordinary customers	*9,557,682*	*9,616,700*	*-59,018*	*-0.6%*
of which: Loans to institutional customers	*14,902*		*14,902*	
Property, plant and equipment [2]	229,849	179,418	50,431	28.1%
Intangible assets	18,045	17,701	344	1.9%
Due to banks	1,628,401	1,620,824	7,577	0.5%
Due to customers [3]	9,451,188	9,254,591	196,597	2.1%
Debt securities in issue	1,826,787	1,426,213	400,574	28.1%
Shareholders' equity (including Net profit/loss for the period) [4]	958,057	892,054	66,003	7.4%
Own Funds	1,036,281	1,056,921	-20,640	-2.0%
Total indirect deposits	15,230,529	14,092,711	1,137,818	8.1%
of which: Indirect deposits from ordinary customers	*9,569,707*	*8,952,340*	*617,367*	*6.9%*
of which: Indirect deposits from institutional customers	*5,660,822*	*5,140,371*	*520,451*	*10.1%*

Table 2 – Income statement [5]

Amounts in thousands of Euro	30.09.2019	30.09.2018	Change amount	%
Operating income	298,304	302,924	-4,620	-1.5%
of which: Net interest income	*159,347*	*158,784*	*563*	*0.4%*
Operating costs	211,564	208,646	2,918	1.4%
Result of operations	86,740	94,278	-7,538	-8.0%
Profit (loss) from continuing operations after tax	33,814	22,703	11,111	48.9%
Non-recurring profit (loss) after tax	-154	721	-875	-121.4%
Profit for the period [4]	33,660	23,275	10,385	44.6%

[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 54.4 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 September 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.

Table 3 – Key figures and ratios

	30.09.2019	31.12.2018	Change Amount
Capital/Total assets	6.6%	6.6%	0.0%
Capital/Loans to customers	10.0%	9.3%	0.7%
Capital/Due to customers	10.1%	9.6%	0.5%
Capital/Debt securities in issue	52.4%	62.5%	-10.1%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) [(6) (7)]	12.7%	12.1%	0.6%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) [(6) (7)]	12.7%	12.3%	0.4%
Total Own Funds/Risk-weighted assets (Total capital ratio) [(6) (7)]	13.5%	13.6%	-0.1%
Financial assets/Total assets	22.8%	22.6%	0.2%
Due from banks/Total assets	6.9%	2.1%	4.8%
Loans to customers/Total assets	65.8%	70.7%	-4.9%
Loans to customers/Direct customer deposits	84.9%	90.0%	-5.1%
Due to banks/Total assets	11.2%	11.9%	-0.7%
Due to customers/Total assets	64.9%	68.0%	-3.1%
Debt securities in issue/Total assets	12.5%	10.5%	2.0%
Direct customer deposits/Total assets	77.5%	78.5%	-1.0%
	30.09.2019	**30.09.2018**	**Change Amount**
Cost/Income ratio	70.9%	68.9%	2.0%
Net interest income/Operating income	53.4%	52.4%	1.0%
Result of operations/Operating income	29.1%	31.1%	-2.0%
Profit (loss) from continuing operations after tax/Capital [(8) (9)]	4.9%	4.2%	0.7%
ROE [(8)] - annualised [(9) (10)]	4.9%	4.3%	0.6%
Profit (loss) from operations before tax/Total assets (ROA) [(9)]	0.5%	0.3%	0.2%
	30.09.2019	**31.12.2018**	**Change Amount**
Net doubtful loans/Loans to customers	1.3%	1.3%	0.0%
Net non-performing loans/Loans to customers	3.8%	4.2%	-0.4%
% Coverage of doubtful loans [(11)]	61.0%	59.3%	1.7%
% Coverage of doubtful loans, gross of cancellations [(11)]	63.5%	64.5%	-1.0%
% Total coverage of non-performing loans [(11)]	44.9%	42.2%	2.7%
% Coverage of non-performing loans, gross of cancellations [(11)]	46.7%	45.6%	1.1%
% Coverage of performing loans	0.49%	0.54%	-0.05%

Table 4 – Structure and productivity ratios

	30.09.2019	31.12.2018	Change Amount	Change %
Number of employees	2.207	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)]	4.335	4.263	72	1,7%
Direct deposits from customers per employee [(12)]	5.108	4.734	374	7,9%
	30.09.2019	**30.09.2018**	**Change Amount**	**Change %**
Operating income per employee (12) - annualised (9)	180	177	3	1,7%
Result of operations per employee (12) - annualised (9)	52	55	-3	-5,5%

[(6)] Consolidated capital ratios for Banco Desio. The ratios for the scope of consolidation for regulatory purposes at Brianza Unione level at 30 September 2019 are: Common Equity Tier1 9.6%; Tier 1 10.3%; Total capital ratio 11.6%.

[(7)] Capital ratios at 30.09.2019 are calculated in application of the transitional provisions introduced by EU Regulation 2017/2395; the ratios calculated without application of these provisions are the following: Common Equity Tier1 12.1%; Tier 1 12.1%; Total capital ratio 12.9%.

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

[(9)] the amount reported at 30.09.2018 is the final figure at the end of 2018;

[(10)] the annualised ROE at 30.09.2019 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.

Consolidated income statement

The *net profit attributable to the Parent Company* is around Euro 33.7 million at 30 September 2019, up by 44.6% compared with the prior period profit of Euro 23.3 million, which was affected by the negative effect on the cost of credit linked to the sale of doubtful loans by means of a GACS.

Table 5 – Reclassified consolidated income statement

Captions				Change	
Amounts in thousands of Euro		**30.09.2019**	**30.09.2018**	**Amount**	**%**
10+20	Net interest income	159,347	158,784	563	0.4%
70	Dividends and similar income	1,049	3,196	-2,147	-67.2%
40+50	Net commission income	124,446	123,422	1,024	0.8%
80+90+100 +110	Net result of financial assets and liabilities	6,101	8,328	-2,227	-26.7%
230	Other operating income/expense	7,361	9,194	-1,833	-19.9%
	Operating income	**298,304**	**302,924**	**-4,620**	**-1.5%**
190 a	Payroll costs	-128,506	-129,830	1,324	-1.0%
190 b	Other administrative costs	-75,277	-70,533	-4,744	6.7%
210+220	Net adjustments to property, plant and equipment and intangible assets	-7,781	-8,283	502	-6.1%
	Operating costs	**-211,564**	**-208,646**	**-2,918**	**1.4%**
	Result of operations	**86,740**	**94,278**	**-7,538**	**-8.0%**
130a+100a	Cost of credit	-38,024	-60,699	22,675	-37.4%
130 b	Net adjustments to securities owned	2,631	-3,348	5,979	n.s.
140	Profit/losses from contractual changes without write-offs	-161	-1	-160	n.s.
200 a	Net provisions for risks and charges - commitments and guarantees given	-569	-158	-411	n.s.
200 b	Net provisions for risks and charges - other	291	406	-115	-28.3%
	Profit (loss) from continuing operations before tax	**50,908**	**30,478**	**20,430**	**67.0%**
300	Income taxes on continuing operations	-17,094	-7,775	-9,319	119.9%
	Profit (loss) from continuing operations after tax	**33,814**	**22,703**	**11,111**	**48.9%**
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	-78	1,085	-1,163	n.s.
	Non-recurring result before tax	**-338**	**1,085**	**-1,423**	**n.s.**
	Income taxes from non-recurring items	184	-364	548	n.s.
	Non-recurring profit (loss) after tax	**-154**	**721**	**-875**	**n.s.**
330	**Net profit (loss) for the period**	**33,660**	**23,424**	**10,236**	**43.7%**
340	Minority interests	0	-149	149	n.s.
350	**Profit (Loss) for the period pertaining to the Parent Company**	**33,660**	**23,275**	**10,385**	**44.6%**

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

Operating income

Core revenues decreased by about Euro 4.6 million compared with the previous period (-1.5%), coming in at Euro 298.3 million. This is mainly due to the decrease in the *net result of financial assets and liabilities* for Euro 2.2 million, of dividends for Euro 2.1 million and of *other operating income/expense* for Euro 1.8 million (-19.9%), partly offset by the positive contribution of *net commission income* for Euro 1.0 million (+0.8%) and by the stability in *net interest income* which has increased by Euro 0.6 million (+0.4%).

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 211.6 million and have increased, with respect to the comparative period, by Euro 2.9 million (+1.4%).

In particular, other administrative expenses have increased by Euro 4.7 million (+6.7%). The balance includes Euro 8.8 million of the ex-ante gross ordinary contributions to the resolution fund ("Contribution SRM - Single Resolution Mechanism") and the estimate of the contribution to the fund for the protection of guaranteed deposits ("DGS contributions - Deposit Guarantee Scheme"), compared with Euro 8.1 million in the prior period. This balance also includes Euro 8.9 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 0.9 million and to item "210. Net adjustments to property, plant and equipment" for Euro 8.0 million; in the prior period, the charges incurred on these contracts were recorded in item "190 b) Other administrative costs". Application of the new accounting standard involved recognising higher charges for Euro 0.4 million (before tax) during the period.

Payroll costs have decreased by 1.0% on the prior period, whereas the balance of net adjustments to property, plant and equipment and intangible assets came to Euro 7.8 million (-6.1%).

Results of operations

The *result of operations* at 30 September 2019, therefore came to Euro 86.7 million, a decrease of Euro 7.5 million on the same period last year (-8.0%).

Net profit (loss) from operations after tax

The *result of operations* of Euro 86.7 million leads to a *net profit (loss) from operations after tax* of Euro 33.8 million, 48.9% up on the Euro 22.7 million in the comparative period, mainly because of:

– lower cost of credit (*net impairment adjustments to loans and advances from customers* plus *gains (losses) on disposal or repurchase of loans*) of Euro 38.0 million, compared with Euro 60.7 million in the prior 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;
– positive net adjustments to proprietary securities of Euro 2.6 million (negative for Euro 3.3 million in the comparative period);
– *net provisions for risks and charges* of Euro 0.3 million (positive balance of Euro 0.2 million euro in the prior period);
– income taxes on continuing operations of Euro 17.1 million (vs Euro 7.8 million).

Non-recurring profit (loss) after tax

At 30 September 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 of works of art at fair value, which was negative for Euro 0.3 million, net of the related positive tax effects of Euro 0.2 million.

The positive result of Euro 0.7 million in the prior period is mainly made up of:

- the revenue component of Euro 2.6 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 0.4 million).

Profit for the period pertaining to the Parent Company

The sum of the *profit (loss) from operations after tax* and *non-recurring profit (loss) after tax* leads to a *profit for the period pertaining to the Parent Company* at 30 September 2019 of Euro 33.7 million.

Consolidated financial position

Deposits

Total customer funds under management at 30 September 2019 reached Euro 26.5 billion, an increase with respect to the 2018 year end balance (+7.0%).

Direct deposits at 30 September 2019 amounted to Euro 11.3 billion, up 5.6% compared with 31 December 2018, due to the trend in both amounts, due to customers (+2.1%) and debt securities in issue (+28.1%), following the placement in July of covered bonds for a nominal amount of Euro 500 million, maturing in 7 years.

Indirect deposits at 30 September 2019 totalled Euro 15.2 billion (+8.1%). Deposits from ordinary customers amounted to Euro 9.6 billion, up 6.9% compared with the end of the previous year, attributable to the trend in assets under management (+10.8%).

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

Table 6 – Customer deposits

					Change	
Amounts in thousands of Euro	**30.09.2019**	**%**	**31.12.2018**	**%**	**Amount**	**%**
Due to customers	9,451,188	35.7%	9,254,591	37.3%	196,597	2.1%
Debt securities in issue	1,826,787	6.9%	1,426,213	5.8%	400,574	28.1%
Direct deposits	**11,277,975**	**42.5%**	**10,680,804**	**43.1%**	**597,171**	**5.6%**
Ordinary customer deposits	9,569,707	36.1%	8,952,340	36.2%	617,367	6.9%
Institutional customer deposits	5,660,822	21.4%	5,140,371	20.7%	520,451	10.1%
Indirect deposits	**15,230,529**	**57.5%**	**14,092,711**	**56.9%**	**1,137,818**	**8.1%**
Total customer deposits	**26,508,504**	**100.0%**	**24,773,515**	**100.0%**	**1,734,989**	**7.0%**

Table 7 – Indirect deposits from customers

					Change	
Amounts in thousands of Euro	**30.09.2019**	**%**	**31.12.2018**	**%**	**Amount**	**%**
Assets under administration (1)	**3,145,677**	**20.7%**	**3,154,614**	**22.4%**	**-8,937**	**-0.3%**
Assets under management	**6,424,030**	**42.2%**	**5,797,726**	**41.1%**	**626,304**	**10.8%**
of which: Mutual funds and Sicavs	*2,960,249*	*19.4%*	*2,525,826*	*17.9%*	*434,423*	*17.2%*
Managed portfolios	*959,883*	*6.3%*	*892,092*	*6.3%*	*67,791*	*7.6%*
Bancassurance	*2,503,898*	*16.4%*	*2,379,808*	*16.9%*	*124,090*	*5.2%*
Ordinary customer deposits (1)	**9,569,707**	**62.8%**	**8,952,340**	**63.5%**	**617,367**	**6.9%**
Institutional customer deposits (2)	**5,660,822**	**37.2%**	**5,140,371**	**36.5%**	**520,451**	**10.1%**
Indirect deposits (1) (2)	**15,230,529**	**100.0%**	**14,092,711**	**100.0%**	**1,137,818**	**8.1%**

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

Loans and coverage

The total value of *loans to customers* at 30 September 2019 came in at Euro 9.6 billion.

The main indicators relating to the levels of coverage of performing and non-performing loans are reported below, showing an increase compared with 31 December 2018, with particular reference to non-performing loans.

Table 8 – Credit quality at 30 September 2019

	30.09.2019					
Amounts in thousands of Euro	**Gross exposure**	**% of total loans and receivables**	**Write-downs**	**Coverage ratio**	**Net exposure**	**% of total loans and receivables**
Doubtful loans	319.908	3,2%	(195.050)	61,0%	124.858	1,3%
Unlikely to pay	327.897	3,3%	(97.052)	29,6%	230.845	2,4%
Past due non-performing loans	4.541	0,1%	(569)	12,5%	3.972	0,1%
Total non-performing loans	**652.346**	**6,6%**	**(292.671)**	**44,9%**	**359.675**	**3,8%**
Exposures in stage 1	8.222.607	83,0%	(22.449)	0,3%	8.200.158	85,7%
Exposures in stage 2	1.035.641	10,4%	(22.890)	2,2%	1.012.751	10,5%
Performing exposure	**9.258.248**	**93,4%**	**(45.339)**	**0,49%**	**9.212.909**	**96,2%**
Total loans to customers	**9.910.594**	**100,0%**	**(338.010)**	**3,4%**	**9.572.584**	**100,0%**

Table 8-bis – Credit quality at 31 December 2018

	31.12.2018					
Amounts in thousands of Euro	**Gross exposure**	**% of total loans and receivables**	**Write-downs**	**Coverage ratio**	**Net exposure**	**% of total loans and receivables**
Doubtful loans	301.125	3,0%	(178.674)	59,3%	122.451	1,3%
Unlikely to pay	389.085	3,9%	(114.305)	29,4%	274.780	2,9%
Past due non-performing loans	4.763	0,1%	(622)	13,1%	4.141	0,0%
Total non-performing loans	**694.973**	**7,0%**	**(293.601)**	**42,2%**	**401.372**	**4,2%**
Exposures in stage 1	8.212.680	82,5%	(23.392)	0,3%	8.189.288	85,1%
Exposures in stage 2	1.052.378	10,5%	(26.338)	2,5%	1.026.040	10,7%
Performing exposure	**9.265.058**	**93,0%**	**(49.730)**	**0,54%**	**9.215.328**	**95,8%**
Total loans to customers	**9.960.031**	**100,0%**	**(343.331)**	**3,4%**	**9.616.700**	**100,0%**

Lastly, the following table shows the breakdown of loans to customers by type at 30 September 2019 (compared with 31 December 2018), which shows a decrease in loans to ordinary customer of 0.6% compared with the prior period, entirely due to the decrease in the stock of non-performing loans after the disposals carried out during the period. The trend in medium/long-term loans is positive (+1.5%).

Table 9 – Breakdown of loans to customers

Amounts in thousands of Euro	30.09.2019	%	31.12.2018	%	Change Amount	Change %
Current accounts	1,486,094	15.6%	1,589,497	16.5%	-103,403	-6.5%
Mortgages and other long-term loans	6,996,489	73.1%	6,895,602	71.7%	100,887	1.5%
Other	1,075,099	11.2%	1,131,601	11.8%	-56,502	-5.0%
Loans to ordinary customers	**9,557,682**	**99.8%**	**9,616,700**	**100.0%**	**-59,018**	**-0.6%**
Repurchase agreements	14,902	0.2%	0	0.0%	14,902	n.s.
Loans to institutional customers	**14,902**	**0.2%**	**0**	**0.0%**	**14,902**	**n.s.**
Loans to customers	**9,572,584**	**100.0%**	**9,616,700**	**100.0%**	**-44,116**	**-0.5%**
- of which non-performing loans	*359,675*	*3.8%*	*401,372*	*4.2%*	*-41,697*	*-10.4%*
- of which performing loans	*9,212,909*	*96.2%*	*9,215,328*	*95.8%*	*-2,419*	*0.0%*

Securities portfolio and the net interbank position

At 30 September 2019, the Bank's total *financial assets* amounted to Euro 3.3 billion, an increase of 7.7% compared with the end of the previous year. With reference to the issuers of securities, the total portfolio at 30 September 2019 relates for 77.1% to government securities, 9.1% to securities issued by banks and the remainder to other issuers.

The following table gives information on sovereign risk, i.e. on the bonds issued by central and local governments and government agencies.

Table 10 – Exposure in sovereign debt securities

Amounts in thousands of Euro		30.09.2019 Italy	30.09.2019 Total	31.12.2018 Italy	31.12.2018 Spain	31.12.2018 Portugal	31.12.2018 Total
Financial assets held for trading	Nominal value		-	2,371	-	-	2,371
	Book value		-	1,521	-	-	1,521
Financial assets designated at fair value through other comprehensive income	Nominal value	505,000	505,000	240,000	-	-	240,000
	Book value	507,697	507,697	241,492	-	-	241,492
Financial assets measured at amortised cost	Nominal value	2,035,921	2,035,921	1,940,921	15,000	25,000	1,980,921
	Book value	2,050,874	2,050,874	1,950,485	15,260	27,451	1,993,196
Sovereign debt	**Nominal value**	**2,540,921**	**2,540,921**	**2,183,292**	**15,000**	**25,000**	**2,223,292**
	Book value	**2,558,571**	**2,558,571**	**2,193,498**	**15,260**	**27,451**	**2,236,209**

The *net interbank position* is negative for Euro 0.6 billion, compared with the position at the end of the previous year, which was also negative for Euro 1.3 billion.

Shareholders' equity

Shareholders' equity pertaining to the Parent Company at 30 September 2019, including net profit for the period, amounts to Euro 958.1 million (Euro 892.1 million at 31 December 2018). The positive change is attributable to the inclusion of *minority interests* at 31 December 2018, amounting to Euro 44.3 million, following the absorption of the former subsidiary Banca Popolare di Spoleto (BPS) in the Parent Company's balances, as well as to the comprehensive income for the period, equal to Euro 33.6 million, which more than offset the distribution of dividends for Euro 11.9 million.

As described in the following paragraphs "Frame of reference" and "Basis of preparation", the absorption of BPS did not have any impact on the consolidated figures and only entailed "Minority interests" being absorbed by "Group shareholders' equity".

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. 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).

Table 11 – Own Funds and consolidated ratios of the financial Parent Company Brianza Unione with and without application of the transitional regime

	30.09.2019	
	Application of the transitional regime	Without application of the transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	734,812	
Common Equity Tier 1 - CET1 without application of the transitional provisions		*702,426*
Tier 1 capital	791,591	
Tier 1 capital without application of the transitional provisions		*758,536*
Total own funds	890,559	
Total own funds without application of the transitional provisions		*857,788*
RISK ASSETS		
Risk-weighted assets	7,660,867	
Risk-weighted assets without application of the transitional provisions		*7,577,343*
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	9.592%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional provisions		*9.270%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	10.333%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional provisions		*10.011%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	11.625%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional provisions		*11.320%*

The consolidated own funds calculated by the financial parent company amount to Euro 890.6 million at 30 September 2019 (CET1 + AT1 of Euro 791.6 million, T2 of Euro 99.0 million), compared with Euro 934.0 million at the end of the previous year.

At 30 September 2019, the Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 9.6% (9.4% at 31 December 2018). The Tier 1 ratio (T1/Risk-weighted assets) was 10.3% (10.3% at 31 December 2018), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 11.6% (12.0% at 31 December 2018).

In this regard, it should be remembered that on 25 January 2018, the Board of Directors of the Bank resolved to join the transitional regime introduced by Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of IFRS 9 on own funds and capital ratios.

It should be noted that the Bondholders' Meeting of the Parent Company took place on 30 September 2019, approving the amendments to the Regulation of the bond loan currently in issue, mainly to introduce a capital conversion option clause. On the same date, the Extraordinary Shareholders' Meeting approved the increase in capital designed to service conversion of the bonds.
Simulating the effects of the capital increase deriving from the bonds converted to date as at 30 September 2019, there has been an improvement in the capital ratios (CET1 capital ratio, Additional Tier 1 Ratio and Total Capital Ratio) of 25 bps, calculated in application of the transitional provisions introduced by Regulation (EU) 2017/2395.

Table 11 bis – Own Funds and consolidated ratios of the Banco Desio Group with and without application of the transitional regime

	30.09.2019	
	Application of the transitional regime	Without application of the transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	973,366	
Common Equity Tier 1 - CET1 without application of the transitional provisions		914,525
Tier 1 capital	974,505	
Tier 1 capital without application of the transitional provisions		915,664
Total own funds	1,036,282	
Total own funds without application of the transitional provisions		977,441
RISK ASSETS		
Risk-weighted assets	7,662,792	
Risk-weighted assets without application of the transitional provisions		7,579,268
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	12.702%	
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional provisions		12.066%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	12.717%	
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional provisions		12.081%
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.524%	
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional provisions		12.896%

Consolidated Own Funds calculated at the Banco Desio Group level, after the pay out of 40%, amounted to Euro 1,036.3 million at 30 September 2019 (CET1 + AT1 Euro 974.5 million + T2 Euro 61.8 million), compared with Euro 1,056.9 million at the end of the previous year.

At 30 September 2019, the Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 12.7% (12.1% at 31 December 2018). The Tier 1 ratio (T1/Risk-weighted assets) was 12.7% (12.3% at 31 December 2018), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 13.5% (13.6% at 31 December 2018).

These figures are above the minimum requirements according to the Bank of Italy (SREP) provision communicated on 27 June 2019, which requires the Brianza Unione Group for CRR purposes to comply with the following minimum capital requirements at a consolidated level:

- ***7.25% for the Common Equity Tier 1 ratio***, binding - pursuant to art. 67-ter TUB - to the extent of 4.75% (of which 4.5% for the minimum regulatory requirements and 0.25% for additional requirements) and the capital conservation buffer for the remainder;
- ***8.85% for the Tier 1 ratio***, binding - pursuant to art. 67-ter TUB - to the extent of 6.35% (of which 6.0% for the minimum regulatory requirements and 0.35% for additional requirements) and the capital conservation buffer for the remainder;
- ***11.0% for the Total Capital ratio***, binding - pursuant to art. 67-ter TUB - to the extent of 8.5% (of which 8% for the minimum regulatory requirements and 0.5% for additional requirements) and the capital conservation buffer for the remainder.

Performance of consolidated companies

Performance of the Parent Company Banco di Desio e della Brianza S.p.A.[3]

The *Profit (loss) from operations after tax* at 30 September 2019 stood at around Euro 35.5 million, up 44.0% on the prior 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; worth noting, in particular, are the decrease in the *Result of operations* which amounts to Euro 80.4 million (despite a higher contribution from *Net interest income* of Euro 0.4 million and the increase in *Net commission income* of Euro 1.4 million, more than offset by a fall in *Net results on financial assets and liabilities* of Euro 2.2 million and the increase in *Operating costs* of Euro 2.7 million), compared with Euro 87.4 million in the comparative period, *Dividends from equity investments in subsidiaries* of Euro 5.7 million (vs Euro 5.8 million), the decline in *Cost of credit* which came to Euro 37.8 million (vs Euro 60.9 million), the positive balance of *Net impairment adjustments to proprietary securities* of Euro 2.6 million, the negative balance of *Net provisions for risks and charges* of Euro 0.2 million (positive for Euro 0.5 million in the prior period) and higher *Income taxes on continuing operations* for Euro 9.4 million.
Loans to customers rose from Euro 9,562.5 million at the end of 2018 to Euro 9,520.9 million at the reference date.
Shareholders' equity at 30 September 2019, including the result for the period, amounts to Euro 946.9 million. The positive change is substantially attributable to the trend in comprehensive income for the period of Euro 35.5 million, partially offset by the distribution of dividends. After a payout of 40%, capital for supervisory purposes, otherwise known as Own Funds, at 30 September 2019 amounts to Euro 1,031.9 million (CET 1 + AT1 Euro 970.1 million + T2 Euro 61.8 million). At 30 September 2019, the Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 14.18%. The Tier 1 ratio, consisting of total class 1 capital (T1)/Risk-weighted assets, came to 14.19%, while the Total capital ratio, consisting of total Own Funds/Risk-weighted assets, amounted to 15.10%.

Performance of the subsidiary Fides S.p.A.

At the reference date, the Parent Company Banco di Desio e della Brianza S.p.A. held an investment of 100%.
The *Profit (loss) from operations after tax* at 30 September 2019 comes to Euro 4.8 million, a decrease of 10.1% compared with the prior period; *operating income* amounted to Euro 12.6 million, down by Euro 0.2 million compared with the period to 30 September 2018, while operating costs totalled Euro 5.3 million (comparative Euro 5.1 million), and the *results of operations* amounted to Euro 7.3 million (comparative Euro 7.7 million). The *Cost of credit*, amounting to approximately Euro 0.3 million, and *taxes* for Euro 2.2 million (vs Euro 2.3 million) lead to the result for the period.
Loans to customers increased from Euro 704.4 million at the end of 2018 to Euro 769.4 million at the reference date, an increase of 9.2% or Euro 65.0 million.
Book *Shareholders' equity* at 30 September 2019, including net profit for the period, amounts to Euro 50.6 million, compared with Euro 51.5 million at the end of 2018 (due to the result for the period more than offset by the distribution of dividends). *Own Funds* for supervisory purposes have risen from Euro 44.7 million at the end of 2018 to Euro 45.5 million.

[3] In order to provide a consistent comparison between the reporting period and the prior period, and thus being able to better represent the figures and the ratios accompanied by specific comments on performance, pro-forma balance sheet figures at 31 December 2018 have been prepared as though the absorption of BPS (which took place on 1 July 2019 with accounting effect as of 1 January 2019) and the related effects on the share capital and shareholders' equity had already been completed and the income statement figures at 30 September 2018 as an aggregate among the two banks considering the elimination of intercompany balances with BPS and the inclusion of the economic effects linked to the PPA (purchase price allocation) which emerged in the separate financial statements of Banco Desio as a result of the merger.

Frame of reference

Inspection of the Banco Desio Group by the Bank of Italy

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

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).

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 Nominations Committee and with the favourable opinion of the Board of Statutory Auditors.

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

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

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

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

Absorption of Banca Popolare di Spoleto S.p.A. by Banco di Desio e della Brianza S.p.A.

On 1 July 2019 the merger (the "Merger" or the "Transaction") of Banca Popolare di Spoleto S.p.A. ("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 completed the operational and business integration that has been in progress for some time between the Parent Company and BPS, making it possible to achieve important benefits in terms of cost and revenue synergies, simplification and overall rationalisation of the Banco Desio Group's organisational structure. The synergies resulting from the Merger make it possible, among other things, to allocate additional resources to the commercial development of the Banco Desio Group, in order to refine the quality of the products and services offered to customers.

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

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

In approving the Merger project, the Boards of Directors of the two banks decided on an Exchange Ratio of 1 Banco Desio ordinary share for every 5 BPS ordinary shares.

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

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

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

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

Sales of non-performing loan (NPL) portfolios

The following transactions have been completed in continuity with the proactive management strategy for non-performing loans and in line with the guidelines issued by the European Central Bank:

- two sales to specialist intermediaries of loan portfolios consisting of mortgage and unsecured loans classified as doubtful, as follows:
  a) a nominal value of Euro 45.7 million on 28 June 2019 sold for Euro 2.1 million;
  b) a nominal value of Euro 1.3 million on 27 September 2019 sold for Euro 0.8 million
- a sale of receivables classified as unlikely to pay and doubtful on 25 September 2019 with a nominal value of Euro 12.8 million to a closed-end private debt investment fund against the investment in shares of the same fund for a value of Euro 7.8 million.

As a result of these sales, taking account of all doubtful items identified since last year, pre-tax gains of Euro 1.0 million have been realized overall.

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 contracts have been signed relating to a further sale of residential mortgage loans 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 Euro 1.075 million.

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

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

In compliance with IFRIC 21, the Bank already recorded at 31 March 2019 the current year's ordinary contribution to the Single Resolution Mechanism of Euro 4.4 million, 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.

Again in accordance with IFRIC 21, at 30 September 2018 the Bank booked the estimated ordinary contribution that the Interbank Fund's Deposit Guarantee Scheme (DGS) will request by the end of the current year, amounting to approximately Euro 4.5 million.

Distribution network

The Group's distribution network at 30 September 2019 consists of 264 branches. As part of the measures to rationalise and improve the efficiency of the distribution network, during the period the Assisi Torchiagina and Rome Via XX Settembre branches were closed, while a branch was opened in Fano. The Fara in Sabina branch was also closed on 4 October.

Lastly, the Board approved the closure of a further 7 branches (Milan Porta Venezia, Chiusi, Perugia Elce, Pontedera, Rieti, San Giustino and Trevi Cannaiola) and the opening of a new branch (Pisa).

Outlook

Macroeconomic scenario

The protectionist orientation of American trade policies has begun to affect the trend of world commerce, business confidence and manufacturing activity. The reaction by the services index was better. The short-term outlook for the global economy remains favourable overall, with a reduction in growth forecasts. The general weakness of inflation remains. World trade, while continuing to expand, is decelerating. The expansion phase is starting to mature, but the risk of a global recession still appear to be remote. The economic cycle has remained expansive in the United States, whereas it has weakened in the Eurozone and stabilised in Japan. In emerging countries generally, growth is held back by the strength of the US dollar. The figures for the second quarter and information on the summer months reflect a substantial stagnation in the Italian economy. GDP has risen by only +0.1% in annualised quarterly terms, thanks to the contribution of the net investments that offset and exceeded the negative contributions of the foreign component and stocks. Consumer and business confidence indicators continue to be negative. Inflation has been declining even more. The harmonised index of consumer prices, in July 2019, fell to +0.3% (+0.7% the previous month); "core" inflation, which in July was +0.4% (+0.5% the previous month) also decreased (net of unprocessed food and energy products).

As regards the banking market, at September the year-on-year trend in customer deposits was positive and rising on a monthly basis as well (+0.9%). Analysing this, the principal components were in line with previous postings: deposits are up (+6.6%, compared with +2.6% in December), whereas bonds as down (-3.3%, compared with -12.3% in December). The overall remuneration of funding remained substantially unchanged (0.60%, from 0.61% in December), due to a monetary context where the cost of money is still essentially zero. With regard to loans, in September loans to the private sector maintained the previous growth trend (+1.0%, compared with +1.9% in December), albeit with lower intensity: the sector is driven by loans to households (+2.5%), which offset the dip in loans to businesses (-0.4%). Lending to the productive sector continues to be influenced by the trend in investments and the economic cycle that, although recovering, remains muted. In September, the rate on new loans to households and businesses reached a new all-time low (2.52%): within this figure, the rates on loans to both households (1.69%) and companies (1.25%) also hit new all-time lows.

In the second quarter of 2019, industrial production in Lombardy recorded an annual decrease (-0.9%) due to the declines recorded by the clothing industry (-9.7%), leather (-2.7%) , mechanics (-1.6%), textiles (-1.3%) and means of transport (-1.2%). On the other hand, growth was recorded only in wood (+1.7%), food (+1.7%) and the steel industry (+1.0%). From a geographical point of view, the most dynamic provinces in Lombardy were Lodi (+4.9%) and Sondrio (+4.5%); the largest declines were in Lecco (-4.6%), Mantua (-3.0%), Bergamo (-2.4%) and Monza (-1.9%). The trend in industrial production was reflected in the turnover which was substantially unchanged on an annual basis, showing a decline on the domestic market (-0.1%) and a deceleration on foreign markets (+0.3%, vs +5.8% in the same quarter of 2018).

Outlook for the current year

Based on the figures at 30 September 2019, it is reasonable to assume that the final result for the year will be positive, substantially up on that of the previous year, providing the macro economic scenario or the Group's key markets do not suffer critical circumstances, which at present are unforeseen.

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

Basis of preparation

This *"Consolidated quarterly report at 30 September 2019 - Press release"* has been prepared on a voluntary basis, in order to ensure continuity of information with the previous quarterly reports, given that only the annual and half-yearly reports are now compulsory based on the wording of art. 154-*ter*, paragraph 5, of Legislative Decree no. 58/1998 ("Consolidated Finance Act" or "TUB") introduced by Legislative Decree no. 25/2016 implementing Directive 2013/50/EU.

As regards the recognition and measurement criteria, this Report has been prepared in accordance with the applicable IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as explained in the "Accounting policies" section of the explanatory notes to the consolidated financial statements at 31 December 2018.

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

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

First-time adoption of IFRS 16 Leases

As already mentioned in "Part A - Accounting Policies" of the notes to the financial statements at 31 December 2018, in the Consolidated quarterly report at 31 March 2019 and in the Consolidated interim financial statements at 30 June 2019, the accounting standard IFRS 16 - Leases came into force on 1 January 2019, making it necessary to approve the overall framework of the rules of application adopted when calculating the "Right of Use Asset" and the "Lease Liability".

The main change, for the lessee, 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".

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.

Change in the method of accounting for the Banco Desio 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 valuable 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".

At Banco Desio Group consolidation level, 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, capital losses were recognized in the income statement for an amount of Euro 224 thousand before tax.

Accounting treatment of the absorption of BPS by BDB

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

The Merger can be substantially considered a corporate reorganisation of companies belonging to the same group that does not determine the transfer of control of the merged company (BPS) and that does not have a significant influence on the cash flows of the companies involved in the Merger; for this reason, the most appropriate accounting treatment for this transaction appears to be the "continuity of book values" principle. According to this principle, the net assets of the merged company (BPS) have to be assumed by the merging company (BDB) emphasising the pre-existing control that BDB had over BPS, as well as the acquisition values expressed by the latter in the consolidated financial statements (see the document "Preliminary ASSIREVI Guidelines with regard to IFRS - OPI No. 2 (Revised) - Accounting treatment of mergers in the financial statements" with reference to holding company-subsidiary mergers with the nature of a restructuring). Consequently, the merger transaction did not have any impact on the consolidated accounting values and only involved a re-absorption of "Minority interests" within "Group shareholders' equity".

Declaration of the Financial Reporting Manager

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

Desio, 30 October 2019 BANCO DI DESIO E DELLA BRIANZA S.p.A.

Financial Reporting Manager
Mauro Walter Colombo

***

The attached consolidated financial schedules at 30 September 2019 are an integral part of the consolidated quarterly report at 30 September 2019. Deloitte & Touche S.p.A., the independent auditors, are completing their limited audit tests with a view to issuing the report needed for inclusion of the profit for the period in the Bank's own funds.

Desio, 30 October 2019 BANCO DI DESIO E DELLA BRIANZA S.p.A.

The Chairman
Stefano Lado

***

Investor Relator
Giorgio Federico Rossin

Tel. 0362/613.469
Mobile 335/7764435
Fax 0362/613.219
g.rossin@bancodesio.it

General and
Corporate Secretariat

Tel. 0362/613.214
Fax 0362/613.219
segreteriag@bancodesio.it

Marco Rubino di Musebbi
Community Srl
Consulenza nella comunicazione
Tel. 02.89404231
Mobile 335/6509552
Fax 02.8321605
marco.rubino@communitygroup.it

ATTACHMENT

Table A 1 – Consolidated balance sheet

Assets	30.09.2019	31.12.2018	Change amount	Change %
10. Cash and cash equivalents	52,376	69,219	(16,843)	-24.3%
20. Financial assets designated at fair value through profit or loss	41,943	60,188	(18,245)	-30.3%
a) Financial assets held for trading	8,979	8,186	793	9.7%
c) Other financial assets that are necessarily measured at fair value	32,964	52,002	(19,038)	-36.6%
30. Financial assets designated at fair value through other comprehensive income	564,501	296,421	268,080	90.4%
40. Financial assets measured at amortised cost	13,284,887	12,626,834	658,053	5.2%
a) Due from banks	1,280,895	555,965	724,930	130.4%
b) Loans to customers	12,003,992	12,070,869	(66,877)	-0.6%
50. Hedging derivatives	-	1	(1)	-100.0%
60. Adjustment to financial assets with generic hedge (+/-)	639	684	(45)	-6.6%
90. Property, plant and equipment	229,849	179,418	50,431	28.1%
100. Intangible assets	18,045	17,701	344	1.9%
of which:				
- goodwill	15,322	15,322		
110. Tax assets	204,648	226,537	(21,889)	-9.7%
a) current	21,685	29,227	(7,542)	-25.8%
b) deferred	182,963	197,310	(14,347)	-7.3%
130. Other assets	161,558	131,033	30,525	23.3%
Total assets	**14,558,446**	**13,608,036**	**950,410**	**7.0%**

Liabilities and shareholders' equity	30.09.2019	31.12.2018	Change amount	Change %
10. Financial liabilities measured at amortised cost	12,961,200	12,301,628	659,572	5.4%
a) Due to banks	1,628,401	1,620,824	7,577	0.5%
b) Due to customers	9,506,012	9,254,591	251,421	2.7%
c) Debt securities in issue	1,826,787	1,426,213	400,574	28.1%
20. Financial liabilities held for trading	12,090	6,046	6,044	100.0%
40. Hedging derivatives	2,938	5,175	(2,237)	-43.2%
60. Tax liabilities	17,718	23,313	(5,595)	-24.0%
a) current	921	1	920	n.s.
b) deferred	16,797	23,312	(6,515)	-27.9%
80. Other liabilities	552,175	273,634	278,541	101.8%
90. Provision for termination indemnities	26,161	25,175	986	3.9%
100. Provisions for risks and charges	28,103	36,745	(8,642)	-23.5%
a) commitments and guarantees given	2,950	2,377	573	24.1%
c) other provisions for risks and charges	25,153	34,368	(9,215)	-26.8%
120. Valuation reserves	45,085	43,920	1,165	2.7%
150. Reserves	792,474	729,024	63,450	8.7%
160. Share premium reserve	16,145	16,145	-	
170. Share capital	70,693	67,705	2,988	4.4%
190. Minority interests (+/-)	4	44,266	(44,262)	-100.0%
200. Net profit (loss) for the period (+/-)	33,660	35,260	(1,600)	-4.5%
Total liabilities and shareholders' equity	**14,558,446**	**13,608,036**	**950,410**	**7.0%**

Note: the caption "90. Property, plant and equipment" at 30 September 2019 includes the recognition of the right of use asset ("RoU Asset") for Euro 54,427 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 September 2019 includes Euro 54,824 thousand of lease liabilities recognized on the same contracts in application of IFRS 16.

Table A 2 – Consolidated income statement

Captions		30.09.2019	30.09.2018	Change amount	Change %
10.	Interest and similar income	198,798	204,783	(5,985)	-2.9%
20.	Interest and similar expense	(33,795)	(40,239)	6,444	-16.0%
30.	**Net interest income**	**165,003**	**164,544**	**459**	**0.3%**
40.	Commission income	134,628	132,285	2,343	1.8%
50.	Commission expense	(11,814)	(9,761)	(2,053)	21.0%
60.	**Net commission income**	**122,814**	**122,524**	**290**	**0.2%**
70.	Dividends and similar income	1,049	3,196	(2,147)	-67.2%
80.	Net trading income	1,113	(31)	1,144	n.s.
90.	Net hedging gains (losses)	(551)	76	(627)	n.s.
100.	Gains (losses) on disposal or repurchase of:	3,967	(13,957)	17,924	n.s.
	a) financial assets measured at amortised cost	2,347	(23,552)	25,899	n.s.
	b) financial assets designated at fair value through other comprehensive income	1,742	10,038	(8,296)	-82.6%
	c) financial liabilities	(122)	(443)	321	-72.5%
110.	Net result of other financial assets and liabilities designated at fair value through profit or loss	(34)	(1,719)	1,685	-98.0%
	b) other financial assets that have to be measured at fair value	(34)	(1,719)	1,685	-98.0%
120.	**Net interest and other banking income**	**293,361**	**274,633**	**18,728**	**6.8%**
130.	Net value adjustments/write-backs for credit risk relating to:	(38,512)	(45,037)	6,525	-14.5%
	a) financial assets measured at amortised cost	(38,479)	(43,724)	5,245	-12.0%
	b) financial assets designated at fair value through other comprehensive income	(33)	(1,313)	1,280	-97.5%
140.	Profit/losses from contractual changes without write-offs	(161)	(1)	(160)	n.s.
150.	**Net profit from financial activities**	**254,688**	**229,595**	**25,093**	**10.9%**
180.	**Net profit from financial and insurance activities**	**254,688**	**229,595**	**25,093**	**10.9%**
190.	Administrative costs:	(220,050)	(224,318)	4,268	-1.9%
	a) payroll costs	(128,438)	(127,281)	(1,157)	0.9%
	b) other administrative costs	(91,612)	(97,037)	5,425	-5.6%
200.	Net provisions for risks and charges	(528)	335	(863)	n.s.
	a) commitments for guarantees given	(569)	(158)	(411)	260.1%
	b) other net provisions	41	493	(452)	-91.7%
210.	Net adjustments to property, plant and equipment	(13,414)	(5,447)	(7,967)	146.3%
220.	Net adjustments to intangible assets	(958)	(1,394)	436	-31.3%
230.	Other operating charges/income	31,092	32,792	(1,700)	-5.2%
240.	**Operating costs**	**(203,858)**	**(198,032)**	**(5,826)**	**2.9%**
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**	**50,570**	**31,563**	**19,007**	**60.2%**
300.	Income taxes on current operations	(16,910)	(8,139)	(8,771)	107.8%
310.	**Profit (loss) from current operations after tax**	**33,660**	**23,424**	**10,236**	**43.7%**
330.	**Net profit (loss) for the period**	**33,660**	**23,424**	**10,236**	**43.7%**
340.	Net profit (loss) pertaining to minority interests	-	(149)	149	-100.0%
350.	**Parent Company net profit (loss)**	**33,660**	**23,275**	**10,385**	**44.6%**

To ease comparison, note that the balances at 30 September 2019 include Euro 951 thousand in the caption "20. Interest expense and similar charges" and Euro 7,965 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".

Table A 3 – Statement of Consolidated Comprehensive Income

	Captions	30.09.2019	30.09.2018
10.	**Net profit (loss) for the period**	**33,660**	**23,424**
	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)	3
50.	Property, plant and equipment	46	-
70.	Defined-benefit pension plans	(952)	81
	Other elements of income, net of income taxes with reversal to income statement		
120.	Cash-flow hedges	(582)	63
140.	Financial assets (other than equities) designated at fair value through other comprehensive income	1,563	(37,178)
170.	**Total other elements of income (net of income taxes)**	**(11)**	**(37,031)**
180.	**Total comprehensive income (Captions 10+170)**	**33,649**	**(13,607)**
190.	Total comprehensive income pertaining to minority interests	-	672
200.	**Total consolidated comprehensive income pertaining to Parent Company**	**33,649**	**(12,935)**

Table A 4 – Statement of changes in consolidated shareholders' equity for the period 1 January – 30 September 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 30.09.2019	Minority interests at 30.09.2019
							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 30.09.2019		
Share capital:																
a) ordinary shares	60,840		60,840				2,988								63,828	
b) other shares	6,865		6,865												6,865	
Share premium reserve	16,145		16,145												16,145	
Reserves:																
a) from profits	748,003		748,003	19,810											767,813	
b) other	22,982		22,982	4,840			(2,988)						(169)		24,661	4
Valuation reserves:	44,927		44,927										169	(11)	45,085	
Equity instruments																
Treasury shares																
Net profit (loss) for the perioc	36,558		36,558	(24,650)	(11,908)									33,660	33,660	
Group shareholders' equity	**892,054**		**892,054**		**(11,908)**								**44,262**	**33,649**	**958,057**	
Minority interests	**44,266**		**44,266**										**(44,262)**			**4**

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

Table A 5 – Statement of changes in consolidated shareholders' equity for the period 1 January – 30 September 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 30.09.2018	Minority interests at 30.09.2018
							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 30.09.2018		
Share capital:																
a) ordinary shares	60,840		60,840												60,840	
b) other shares	6,865		6,865												6,865	
Share premium reserve	16,145		16,145												16,145	
Reserves:																
a) from profits	742,328	(18,972)	723,356	24,697		(48)									748,005	
b) other	69,864	(53,321)	16,543	6,441											(18,978)	41,962
Valuation reserves:	38,840	8,146	46,986											(37,031)	10,190	(235)
Equity instruments																
Treasury shares																
Net profit (loss) for the perioc	44,959		44,959	(31,138)	(13,821)									23,424	23,275	149
Group shareholders' equity	**927,056**	**(54,432)**	**872,624**		**(13,299)**	**(48)**								**(12,935)**	**846,342**	
Minority interests	**52,785**	**(9,715)**	**43,070**		**(522)**									**(672)**		**41,876**

Note: the column "Changes in opening balances" includes the changes made to the closing balances of the previous year in order to recognise the effects on the balance sheet at 1 January 2018 of FTA of IFRS 9 "Financial instruments".
Note: the column "balance at 31.12.2017" has been restated with respect to the table in the financial statements published to reflect a different allocation between "reserves – revenue reserves" and "reserves – other" of the Group's net equity and an allocation to "reserves – other" of minority interests not directly attributable to other items.

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

Amounts in thousands of Euro	**Shareholders' equity**	***of which: net profit (loss) for the period***
Balances of the Parent Company Banco Desio	***946,884***	***35,453***
Effect of consolidation of subsidiaries	11,173	3,947
Dividends declared during the period	-	-5,740
Consolidated balance of the Banco Desio Group	**958,057**	**33,660**

Table A 7 – Statement of reconciliation between the profit shown in the consolidated income statement of the Banco Desio Group, used for the purpose of calculating the capital for supervisory purposes of the Banco Desio Group

Amounts in thousands of Euro	**Amount**
Profit of the Group	**33,660**
Elements deducted	14,181
- proposed dividends to shareholders of the Bank (40% pay-out)	*14,181*
Net profit attributable to Tier 1 capital in Own Funds	**19,479**