Gruppo Banco Desio

PRESS RELEASE

CONSOLIDATED RESULTS AT 30 SEPTEMBER 2018

The Board of Directors of Banco di Desio e della Brianza S.p.A. has approved the "Consolidated Quarterly Financial Report at 30 September 2018"

- ✓ **CONSOLIDATED NET PROFIT (pertaining to the Parent Company) Euro 23.3 million (Euro 26.9 million at 30 September 2017), influenced by the charge deriving from the securitisation of doubtful loans through the GACS scheme for a nominal value of about Euro 1.0 billion**

- ✓ **SIGNIFICANT REDUCTION in the percentage of NPLs**
  "Gross non-performing loans/Gross loans ratio" at 7.5% (from 15.1% at 31.12.2017)
  "Net non-performing loans/Net loans ratio" at 4.2% (from 8.4%)
  "Gross doubtful loans/Gross loans ratio" at 3.5% (from 10.8%)
  "Net doubtful loans/Net loans ratio" at 1.3% (from 5.0%)

- ✓ **LEVELS OF COVERAGE of non-performing loans after the GACS operation**
  Coverage ratio of doubtful loans at 63.4%, 68.3% gross of write-offs (57.2% and 61.1% at 31.12.2017)
  Coverage ratio of non-performing loans at 45.8%, 49.5% gross of write-offs (previously 49.0% and 52.4%)

- ✓ ***LEVELS OF COVERAGE of performing loans[1] at 0.57% (previously 0.45%)***

- ✓ **CAPITAL REQUIREMENTS [2]**

Capital ratios	Calculated as of 30 September 2018 [3]			
	Banco di Desio e della Brianza	Banca Popolare di Spoleto	Banco Desio Group	Brianza Unione Group
CET 1 Ratio	**17.50%**	**10.57%**	**11.65%**	**8.80%**
TIER 1 Ratio	**17.55%**	**10.57%**	**11.78%**	**9.66%**
Total Capital Ratio	**19.64%**	**11.32%**	**13.28%**	**11.48%**

The consolidated ratios at the level of Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A., the parent company that controls 52.084% 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.

During the quarter the business models that affected the investment financial assets were changed (with accounting effective date from 1 October 2018) based on the pursuit of a stable policy of mitigation of the risks and of the strengthening capital ratios. Simulating at the reference date of 30 September 2018 the capital and supervisory effects deriving from this change, the following pro-forma ratios have been estimated:

Banco Desio Group: 12.1% (CET 1 ratio), 12.3% (Tier 1 ratio) and 13.8% (Total capital ratio)

Brianza Unione Group: 9.1% (CET 1 ratio), 9.9% (Tier 1 ratio) and 11.7% (Total capital ratio)

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

[2] Based on the Bank of Italy's instructions sent to the Parent Company, which contained the minimum capital requirements to be met at consolidated level following completion of the Supervisory Review and Evaluation Process (SREP): CET1 ratio of 6.625%, binding - pursuant to art. 67-ter TUB - for 4.8% (minimum regulatory requirement of 4.5% and additional requirements of 0.3%) with the difference represented by the capital conservation buffer, Tier 1 ratio of 8.225%, binding - pursuant to art. 67-ter TUB - for 6.4% (minimum regulatory requirement of 6.0% and additional requirements of 0.4%) with the difference represented by the capital conservation buffer, and Total Capital Ratio of 10.375%, binding - pursuant to art. 67-ter TUB - for 8.5% (minimum regulatory requirement of 8% and additional requirements of 0.5%) with the difference represented by the capital conservation buffer.

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

- ✓ **LOANS TO ORDINARY CUSTOMERS: Euro 9.4 billion (-4.9% compared with the stock outstanding at the end of the previous year) mainly due to the sale of NPLs and the impact of First-Time Adoption of IFRS 9 *"Financial Instruments"***

- ✓ **TOTAL CUSTOMER DEPOSITS: Euro 25.0 billion (-0.5%), of which DIRECT DEPOSITS Euro 10.8 billion (-1.8%), with a ratio of Ordinary customer loans to Direct deposits of 87.0% (previously 89.8%) and INDIRECT DEPOSITS of Euro 14.2 billion (+0.5 compared with the end of the previous year)**

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The Board of Directors of Banco di Desio e della Brianza S.p.A. met on 8 November 2018 and approved the *Consolidated Quarterly Financial Report at 30 September 2018*, prepared in compliance with the applicable international accounting standards recognised in the European Community pursuant to the EC Regulation no. 1606 of 19 July 2002, as well as the provisions of the Bank of Italy issued with Circular no. 262 of 22 December 2005 (5th update).

In particular, the Report is prepared in accordance with IAS 34 *"Interim financial statements"* so that 1 October 2018 qualifies as the "reclassification date" (according to the definition in IFRS 9 *"Financial instruments"*) for the recognition of the accounting effects due to the change in the business models that in September affected the financial assets held for investment purposes by Banco Desio Group banks, as explained in the Report; the *Consolidated Quarterly Financial Report at 30 September 2018* of the Banco Desio Group and the *Separate Quarterly Financial Report at 30 September 2018* of Banca Popolare di Spoleto will therefore be published soon on their respective institutional websites.

The *Consolidated Quarterly Financial Report at 30 September 2018* has also been prepared in order to determine the result for the period, so that own funds and prudential coefficients can be calculated.

Consolidated balance sheet

Total customer *funds under management* at 30 September 2018 reached Euro 25.0 billion, a decrease of some Euro 0.1 billion (-0.5%) with respect to the 2017 year end balance, due to the trend in direct deposits (-1.8%), partially offset by indirect deposits (+0.5%).

Direct deposits at the end of the period amounted to Euro 10.8 billion, a decrease of 1.8% which comes from the lower amounts due to customers of Euro 0.1 billion (-0.7%) and the reduction in debt securities in issue for Euro 0.1 billion (-8.1%).

Overall, at 30 September 2018 *indirect deposits* posted an increase of 0.5% compared with the end of the previous year, rising to Euro 14.2 billion. In particular, this was attributable to deposits from ordinary customers, up by Euro 0.1 billion (+1.1%), due to the trend in assets under management (+3.4%), partially offset by a decrease in assets under administration (-3.0%). Institutional customer deposits posted a slight decrease of 0.6%, coming in at Euro 5.2 billion.

The total amount of *loans to customers* at the end of the period amounted to Euro 9.6 billion, a decrease compared with the balance at the end of 2017 (-2.7%), mainly due to the transactions in non-performing loans.

At 30 September 2018, the Group's total investment *financial assets* amounted to Euro 3.2 billion, an increase of Euro 0.9 billion compared with the end of 2017 (+39.6%). During the period, the "held to collect" portfolio of securities valued at amortised cost, consisting of government securities and bonds diversified by issuer, geographical area and type of interest rate, increased to Euro 1.6 billion at 30 September 2018[4]. This category of financial instruments also includes Euro 0.3 billion of senior securities of the "2Worlds s.r.l." securitisation subscribed by the Group following the sale of doubtful loans through the "GACS" scheme; on 3 October 2018 the Group received a formal communication that the Minister of Economy and Finance had granted the State guarantee for these securities on 5 September 2018.

The Group's *net interbank position* at 30 September 2018 is negative for Euro 1.4 billion, compared with the position at the end of the previous year which was also negative for Euro 0.5 billion. The balance at the reporting period reflects almost totally the funding facility assigned by ECB as part of the "TLTRO" operation.

Shareholders' equity pertaining to the Parent Company at 30 September 2018, including net profit for the period, amounts to Euro 846.3 million, compared with Euro 927.1 million at the end of 2017. The negative change of Euro 80.8 million is due to FTA of IFRS 9 for Euro 54.4 million, to payment of the 2017 dividend for Euro 13.3 million and to the negative other comprehensive income for the period of Euro 13.0 million.

On 23 January and 25 January 2018, taking account of a best estimate available at the time of the higher adjustments for expected losses on performing and non-performing loans on first-time application of the standard, the Boards of Directors of Banca Popolare di Spoleto and Banco Desio resolved to join the transitional regime introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of the new standard on own funds and capital ratios, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time adoption of the standard and the increase in expected losses on performing loans compared with the date of first-time adoption of the standard.

Against *risk-weighted assets* (RWA) that are down by Euro 0.4 billion, essentially due to the sale of doubtful loans under the "GACS" scheme, at 30 September 2018 consolidated *Own funds* of the Banco Desio Group amounted to Euro 1,014.0 million (CET1 + AT1 Euro 899.7 million + T2 Euro 114.3 million), while the *Common Equity Tier 1 ratio* (the ratio between *Tier 1 capital (CET1)* and Risk-weighted assets) came to 11.6%. The *Tier 1 ratio* (T1/Risk-weighted assets) came to 11.8%, while the *Total capital ratio* (Total Own Funds/Risk-weighted assets) was 13.3%.

Note that the Bank of Italy's minimum requirements at consolidated level (based on the SREP) are as follows:

- 6.625% for the Common Equity Tier 1 ratio, binding - pursuant to art. 67-ter TUB - to the extent of 4.8% (of which 4.5% for the minimum regulatory requirements and 0.3% for additional requirements) and the capital conservation buffer for the remainder;

[4] The classification of securities in the "held to collect" and "held to collect & sell" portfolios on the reference date does not yet reflect the change in business models which took place in September, as the reclassification date according to IFRS 9 was identified as 1 October 2018.

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

As a result, at 30 September 2018 the Banco Desio Group again had capital ratios above the established minimum requirements.

Consolidated income statement

The *Net profit attributable to the Parent Company* at 30 September 2018 comes to Euro 23.3 million, a decrease of 13.3% compared with the profit for the comparative period of Euro 26.9 million.

The *Profit (loss) from operations after tax* is down by around 11.7 million (-34.0%) compared with 30 September 2017, mainly due to the negative effect on the cost of credit linked to the sale of doubtful loans by means of a GACS as mentioned previously. The *Non-recurring profit (loss) after tax*, on the other hand, benefited from non-recurring revenue components due to an adjustment of the liabilities provided for under the current redundancy plan, compared with the prior period, which included the adjustment of certain investments classified in financial assets available for sale (in application of IAS 39, which was in force at the time).

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

Operating income
Core revenues decreased by about Euro 7.4 million compared with the previous period (-2.4%), coming in at Euro 302.9 million. The trend is mainly attributable to *net interest income* which, in consideration of the persistent effects of the expansive monetary policy that heavily compresses interest income, shows a reduction of Euro 11.5 million (-6.7%), partially offset by the positive contribution from *net commissions*, up by Euro 2.3 million (+1.9%) and *dividends*, which came to Euro 3.2 million (formerly Euro 0.6 million).
The *net results on financial assets and liabilities* were Euro 8.3 million (formerly Euro 8.2 million); the item includes capital losses on *mutual funds that are mandatorily measured at fair value* for Euro 2.1 million (in the comparative period, the positive valuation effect of Euro 1.0 million was recognised in other comprehensive income in accordance with IAS 39).
Other operating income/expense has fallen by Euro 0.9 million.

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 208.6 million and have decreased, with respect to the comparative period, by Euro 1.0 million (-0.5%).
In particular, *other administrative expenses* have increased by Euro 2.5 million (+3.7%). The balance includes Euro 8.1 million for the ex-ante ordinary gross contributions to the Single Resolution Mechanism (SRM) and to the Deposit Guarantee Scheme (DGS) (Euro 7.4 million in the prior year).
Payroll costs have decreased by 2.1% on the prior period, whereas the balance of *net adjustments to property, plant and equipment and intangible assets* came to Euro 8.3 million (-8.4%).

Results of operations
The *results of operations* at 30 September 2018 therefore amounted to Euro 94.3 million, Euro 6.4 million down on the prior period (-6.4%).

Net profit (loss) from operations after tax
The *result of operations* of Euro 94.3 million leads to a *net profit (loss) from operations after tax* of Euro 22.7 million, 34.0% down on the Euro 34.4 million in the comparative period, mainly because of:
- the *cost of credit* (*net impairment adjustments to financial assets measured at amortised cost plus gains (losses) on disposal or repurchase of loans*) of Euro 60.7 million (formerly Euro 44.1 million), affected by:
  - losses from the sale of loans on completion of the securitisation transaction under the GACS scheme, which involves an Italian State guarantee on the senior securities issued following the securitisation of doubtful loans pursuant to Decree Law 18/2016;

  - application of the new models for the determination of the expected loss on loans adopted by the Group in application of IFRS 9 starting from 1 January 2018, and therefore not fully comparable with the prior period figure;
- *net adjustments to proprietary securities* of Euro 3.3 million (formerly Euro 3.2 million), which during the period includes the adjustments deriving from application of the new models for the determination of the expected loss on the proprietary securities portfolio in accordance with IFRS 9 starting from 1 January 2018 and therefore not comparable with the previous period;
- *net provisions for risks and charges,* including commitments and guarantees given, of Euro 0.2 million (previously Euro 1.8 million);
- *income taxes on current operations* of Euro 7.8 million (previously Euro 17.3 million).

Result of non-recurring items after tax
At 30 September 2018 there was a non-recurring profit after tax of Euro 0.7 million. This item basically consists 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).

In the comparative period there was a *non-recurring loss after tax* of Euro 6.9 million, made up principally of:
- impairment adjustments (net of the use of provisions) recognised:
  - for Euro 1.6 million on a minority bank shareholding that has been sold in the meantime
  - for Euro 3.6 million on the Atlas Fund following the write-off of the value of the banking interests held by the fund

  both reclassified from net adjustments to securities owned;
- the negative income components linked to participation in the Interbank Deposit Protection Fund's Voluntary Intervention Scheme (VIS), in particular:
  - Euro 0.4 million of contributions paid to the VIS during the year, reclassified from other administrative expenses;
  - Euro 0.6 million of impairment on the participatory interest held by the VIS in Caricesena, reclassified from net adjustments to securities owned;
  - Euro 3.3 million of write-downs on the irrevocable commitment to allocate funds to the VIS reclassified from net impairment adjustments to other financial assets;

and the related (positive) tax effects of Euro 2.7 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 pertaining to minority interests, leads to a *profit for the period pertaining to the Parent Company* at 30 September 2018 of Euro 23.3 million.

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The Group's distribution network at 30 September 2018 consists of 265 branches, including 146 in the Parent Company Banco di Desio e della Brianza S.p.A. and 119 of Banca Popolare di Spoleto S.p.A.

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At 30 September 2018, the Group had 2,288 *employees*, a decrease of 15 people (-0.7%) compared with the end of the previous period.

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Non-performing loans (NPL) disposal programme
On 27 March 2018, in execution of its capital management strategy defined in the last few months of 2017 and included in the 2018-2020 Business Plan approved on 11 January 2018, the Board of Directors of Banco di Desio e della Brianza resolved a plan for the sale of NPLs for a gross value of Euro 1.1 billion. This includes a securitisation that makes use of the Italian State guarantee on the senior securities issued following a securitisation of doubtful loans pursuant to Decree Law 2018/2020 ("GACS") aimed at deconsolidating Banco Desio Group loans for a gross value of Euro 1.0 billion (the "Transaction").
The Transaction was structured in order to carry out the significant transfer of the credit risk associated with the securitised loans ("SRT") pursuant to art. 243 et seq. of Regulation (EU) no. 575/2013; the NPL portfolio sold on 12 June to "2Worlds

s.r.l." (the special purpose vehicle or "SPV") set up specifically for this purpose, consists of mortgage or unsecured loan contracts granted by Banco di Desio e della Brianza and by Banca Popolare di Spoleto in favour of secured customers, i.e. with relationships guaranteed by mortgages, and unsecured customers, i.e. with relationships that do not have any collateral.
On 25 June, the SPV issued the following types of asset-backed securities (ABS):

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

At the date of issue all of these securities (senior, mezzanine and junior) were subscribed by the Banco Desio Group, which on 4 July 2018 then submitted a request to obtain the guarantee on the securitisation of non-performing loans pursuant to Decree Law 18/2016 ("GACS").
At the end of a competitive process that saw the participation of several international institutional investors, on 11 July, the Banco Desio Group accepted the final binding agreement for the sale of 95% of the mezzanine and junior securities, which was finalised on 23 July 2018 by settling the transaction, which in turn permitted deconsolidation (or "derecognition") of the NPLs concerned.
On 3 October 2018, the Banco Desio Group received a formal communication that the Minister of Economy and Finance, with the provision of 5 September, had granted the State guarantee on senior securities issued by the SPV with effect from the date of adoption of this provision, as the conditions laid down in Decree Law 18/2016 had already been fulfilled.
In this quarterly report at 30 September 2018, in addition to the economic effects of the Transaction, the related supervisory benefits are fully reflected due to application of the SRT and the benefit of the State guarantee.
At the same date, there was also a significant reduction in the "gross non-performing loans/gross loans" ratio to 7.5% and in the "net non-performing loans/net loans" ratio to 4.2%, below their respective targets of 10% and 5% foreseen at the end of the 2018-2020 Business Plan, as well as in the "gross doubtful loans/gross loans" ratio to 3.5% and in the "net doubtful loans/net loans" ratio to 1.3%.

Change in the business models with which financial instruments in the proprietary portfolio are managed
According to IFRS 9 "Financial instruments", a business model represents the way in which groups (or portfolios) of financial assets are managed collectively to pursue certain strategic corporate objectives, i.e. the collection of contractual cash flows, earning profits by selling them, or a combination of the two, which in relation to the contractual characteristics of the cash flows of the financial assets in question (SPPI test - Solely Payments of Principal and Interest) determines the measurement at amortised cost, at fair value through profit or loss or at fair value recognised in equity. The business model does not therefore depend on management's intentions with respect to a single financial instrument, but at a higher level of aggregation (the portfolio) and is determined by management according to the scenarios that are reasonably expected to occur, also taking into account the methods for measuring the performance of financial assets held under the model, the methods of communication (and remuneration) of performance to managers with strategic responsibilities and of the risks that affect the performance of the business model (and therefore of the financial assets held within the ambit of the business model) and the way in which these risks are managed.
On first-time adoption of IFRS 9, in order to allocate the financial instruments to the business models, for the loan portfolio, if the conditions apply, only the Held to Collect (or HTC) business model was defined. This model reflects the operating mode that is always followed by the members of the Banco Desio Group in managing loans granted to retail and corporate customers. For the proprietary portfolio of financial instruments, on the other hand, three business models have been defined: Held to Collect (HTC), Held to Collect and Sell (HTC&S) and Trading (FVTPL), with limited cases in which a change in management's intentions was chosen with respect to the accounting categories envisaged by IAS 39, for which the prevailing destination for bond instruments (mainly Italian government securities) held for investment purposes has been identified by the Banco Desio Group in the categories HTC and HTC&S to a more or less equal extent.
This decision was taken following a specific analysis of the performance and management of the securities portfolio over the previous two years, with the aim of ensuring periodic cash flows through the HTC&S category, while reserving the possibility of taking advantage of market opportunities to sell securities before their maturity (but not on a regular basis); this business model was seen as the main category to which financial investments should be allocated, while reflecting the exposure to market risk by measuring them at fair value with an impact on comprehensive profitability in each reporting period.
Considering the evolution of the reference context, during the year the Board of Directors of Banco di Desio e della Brianza monitored the effects of the operational decisions made with particular attention (including the "2Worlds" securitisation, for which the GACS was obtained) in order to achieve the strategic objectives defined in the Group's 2018-2020 business plan. In fact, the above plan reiterated the centrality of the credit chain as the main driver of profitability, while pursuing a reduction in the overall risk exposure, accompanied by prudent and conservative management of the proprietary securities portfolio.

Analysis of the results at 30 June 2018 then gave further impetus to the implementation of initiatives designed to protect the Group's assets. These included a specific assessment, with the help of an independent external advisor, relating to the overall strategic management of the Group's investment activities to identify the ways in which the business models of the proprietary securities portfolio could be redefined. The Board of Directors of Banco di Desio e della Brianza and of Banca Popolare di Spoleto (the "Group Banks") therefore met on 26 September 2018 to discuss, among other things, the results of this assessment; in this context, the rationale underlying the work of the Finance Department has been critically reviewed with particular regard to the risk profile expressed by the groups of financial assets allocated to the various business models.
The analysis showed how the Group's investment policies led to situations of sometimes considerable misalignment with respect to the objectives and strategic lines defined in the business plan, based on the pursuit of a stable policy of strengthening capital ratios. In light of the conclusions reached, while reiterating the need to maintain a particularly prudent risk profile in managing the securities portfolio, the Group Banks opted for a more decisive management strategy aimed at favouring stability in the collection of medium-long term financial flows of the securities portfolio and therefore mitigation of the risks of weakening the capital ratios (albeit at the expense of taking advantage of any market opportunities).
Operationally, this necessarily involves a change of approach in the overall management of financial assets:

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

In order to ensure consistent management of the new business models, it was necessary to change the organisational structure of the Parent Company's Finance Department: it is now divided into three separate sectors (respectively "ALM" for medium-long term investments, "Trading" and "Treasury", the last two being only for the needs of Banco di Desio e della Brianza in a centralised Group logic). The change in the business models therefore led to a redefinition/integration of the operating limits previously established at Group level and for each individual bank with a view to the new financial asset management processes that have been defined and a review by the Finance Department of the reports produced and integration of the primary indicators included in the Risk Appetite Framework.
Again from an operational point of view, the management objectives and drivers associated with the new business models have determined a need to review the allocation of financial assets among the various portfolios, according to the characteristics of each financial instrument with respect to the new reasons for holding them, i.e. approximately 74% of the HTC&S portfolio outstanding at the date when the change in business models was approved was associated with the HTC/ALM portfolio.
In order to make the new investment management models immediately operational, the amendments to the internal regulations of the Banco Desio Group of the highest level were approved on 26 September 2018 (e.g. the methodological framework of IFRS 9, Group risk management policies, operating policy limits, etc.).
It should be noted that the accounting effects of this operation, which only affect the balance sheet, took place on 1 October 2018, in consideration of the specific circumstances identified, for which the conditions established by IFRS 9 in the case of a change in business models are satisfied (in particular in terms of rarity of occurrence, decision taken by senior management following external or internal changes, significance for operations and the fact that it is demonstrable to third parties).
The financial instruments involved in the change of business model from HTC&S to HTC are mainly represented by sovereign debt securities, as well as corporate bonds for a total nominal value of Euro 1,093 million. The relative accumulated loss on the reclassification date of Euro 51.5 million (gross of the related tax effect), previously recognised in the other components of comprehensive income (valuation reserve), is eliminated from equity against the fair value of the same financial instruments, which are therefore recognised as if they had always been valued at amortised cost.
Simulating the accounting effects of the change of business model in question at the reference date of 30 September 2018, the following pro-forma ratios have been estimated:
Banco Desio Group: 12.15% (CET 1 ratio), 12.28% (Tier 1 ratio) and 13.78% (Total capital ratio)
Brianza Unione Group: 9.05% (CET 1 ratio), 9.91% (Tier 1 ratio) and 11.74% (Total capital ratio)

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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, 8 November 2018

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

Financial Reporting Manager
Mauro Walter Colombo

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The tables relating to the consolidated balance sheet and reclassified income statement at 30 September 2018 are attached.

The *Consolidated Quarterly Financial Report at 30 September 2018* is subject to a limited audit by Deloitte & Touche S.p.A., which is currently being completed.

Desio, 8 November 2018

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

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Gruppo Banco Desio

Consolidated balance sheet

Assets	30.09.2018	31.12.2017	Change amount	Change %
10. Cash and cash equivalents	48,215	59,413	(11,198)	-18.8%
20. Financial assets at fair value through profit and loss	62,820	20,981	41,839	199.4%
a) Financial assets held for trading	13,974	20,981	(7,007)	-33.4%
c) Other financial assets mandatorily at fair value	48,846		48,846	
30. Financial assets at fair value through other comprehensive income	1,491,931	1,511,467	(19,536)	-1.3%
40. Financial assets at amortised cost	11,453,539	11,828,618	(375,079)	-3.2%
a) Due from banks	404,995	1,342,552	(937,557)	-69.8%
b) Loans to customers	11,048,544	10,486,066	562,478	5.4%
50. Hedging derivatives	3	5	(2)	-40.0%
60. Adjustment to financial assets with generic hedge (+/-)	626	875	(249)	-28.5%
90. Property, plant and equipment	178,284	180,566	(2,282)	-1.3%
100. Intangible assets	17,561	17,946	(385)	-2.1%
of which:				
- goodwill	15,322	15,322		
110. Tax assets	242,862	212,527	30,335	14.3%
a) current	35,740	35,097	643	1.8%
b) deferred	207,122	177,430	29,692	16.7%
120. Non current assets and disposal groups classified as held for sale	2,652		2,652	
130. Other assets	167,559	163,424	4,135	2.5%
Total assets	**13,666,052**	**13,995,822**	**(329,770)**	**-2.4%**

Liabilities and shareholders' equity	30.09.2018	31.12.2017	Change amount	Change %
10. Financial liabilities measured at amortised cost	12,430,919	12,686,585	(255,666)	-2.0%
a) Due to banks	1,650,409	1,705,928	(55,519)	-3.3%
b) Due to customers	9,210,421	9,272,337	(61,916)	-0.7%
c) Debt securities in issue	1,570,089	1,708,320	(138,231)	-8.1%
20. Financial liabilities held for trading	9,796	7,976	1,820	22.8%
40. Hedging derivatives	4,346	4,724	(378)	-8.0%
60. Tax liabilities	24,332	30,226	(5,894)	-19.5%
a) current	982	3,425	(2,443)	-71.3%
b) deferred	23,350	26,801	(3,451)	-12.9%
80. Other liabilities	243,526	210,961	32,565	15.4%
90. Provision for termination indemnities	28,456	28,962	(506)	-1.7%
100. Provisions for risks and charges	36,459	46,547	(10,088)	-21.7%
a) commitments and guarantees given	2,121		2,121	
c) other provisions for risks and charges	34,338	46,547	(12,209)	-26.2%
120. Valuation reserves	10,190	38,307	(28,117)	-73.4%
150. Reserves	729,027	761,201	(32,174)	-4.2%
160. Share premium reserve	16,145	16,145		
170. Share capital	67,705	67,705		
190. Minority interests (+/-)	41,876	52,785	(10,909)	-20.7%
200. Net profit (loss) for the period (+/-)	23,275	43,698	(20,423)	-46.7%
Total liabilities and shareholders' equity	**13,666,052**	**13,995,822**	**(329,770)**	**-2.4%**

Note: **the balances of the comparative period have been restated conventionally** in the financial statement schedules required by Circular 262 – fifth update. In particular, the securities previously recorded under IAS 39 as "Financial assets available for sale" have been entirely classified as "Financial assets at fair value through comprehensive income".

Reclassified consolidated income statement

Captions *Amounts in thousands of Euro*		30.09.2018	30.09.2017	change Amount	 %
10+20	Net interest income	159,682	171,206	-11,524	-6.7%
70	Dividends and similar income	3,196	614	2,582	420.5%
40+50	Net commission income	122,524	120,245	2,279	1.9%
80+90+100+110	Net results on financial assets and liabilities	8,328	8,161	167	2.0%
230	Other operating income/expense	9,194	10,141	-947	-9.3%
	Operating income	**302,924**	**310,367**	**-7,443**	**-2.4%**
190 a	Payroll costs	-129,830	-132,661	2,831	-2.1%
190 b	Other administrative costs	-70,533	-67,985	-2,548	3.7%
210+220	Net adjustments to property, plant and equipment and intangible assets	-8,283	-9,047	764	-8.4%
	Operating costs	**-208,646**	**-209,693**	**1,047**	**-0.5%**
	Result of operations	**94,278**	**100,674**	**-6,396**	**-6.4%**
130a+100a	Cost of credit	-60,699	-44,054	-16,645	37.8%
130 b	Net adjustments to proprietary securities	-3,348	-3,160	-188	5.9%
140	Profit/losses from contractual changes without write-offs	-1		-1	n.s.
200 a	Net provisions for risks and charges - commitments and guarantees given	-158	1,697	-1,855	n.s.
200 b	Net provisions for risks and charges - other	406	-3,479	3,885	n.s.
	Profit (loss) from operations before tax	**30,478**	**51,678**	**-21,200**	**-41.0%**
300	Income taxes on current operations	-7,775	-17,288	9,513	-55.0%
	Net profit (loss) from operations after tax	**22,703**	**34,390**	**-11,687**	**-34.0%**
250+280	Profit (loss) from investments and disposal of investments	0	41	-41	-100.0%
	Net provisions for risks and charges, other provisions and expenses	1,085	-9,634	10,719	n.s.
	Non-recurring result before tax	**1,085**	**-9,593**	**10,678**	**n.s.**
	Income taxes from non-recurring items	-364	2,721	-3,085	n.s.
	Non-recurring result after tax	**721**	**-6,872**	**7,593**	**n.s.**
330	**Net profit (loss) for the period**	**23,424**	**27,518**	**-4,094**	**-14.9%**
340	Minority interests	-149	-658	509	n.s.
350	**Profit (Loss) for the period pertaining to the Parent Company**	**23,275**	**26,860**	**-3,585**	**-13.3%**

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

"Net interest income" at 30 September 2018 is shown net of the release of the time value component of impaired financial assets, equal to Euro 7,048 thousand, and net of adjustments on interest related to non-performing loans for Euro 2,186 thousand, both reclassified to "Cost of credit" for Euro 4,862 thousand.