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Consolidated Quarterly Report
at 30 September 2018

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

Board of Directors

Chairman	Stefano Lado
Deputy Chairman	Tommaso Cartone**
Directors	Graziella Bologna* Marina Brogi Nicolò Dubini Cristina Finocchi Mahne Agostino Gavazzi* Egidio Gavazzi* Paolo Gavazzi* Tito Gavazzi* Gerolamo Pellicanò Gigliola Zecchi Balsamo

** Members of the Executive Committee*
*** Director responsible for the Internal Control and Risk Management System*

Board of Statutory Auditors

Chairman	Giulia Pusterla
Acting Auditors	Rodolfo Anghileri Franco Fumagalli Romario
Substitute Auditors	Elena Negonda Erminio Beretta Massimo Celli

General Management

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

Financial Reporting Manager as per art. 154-bis CFA

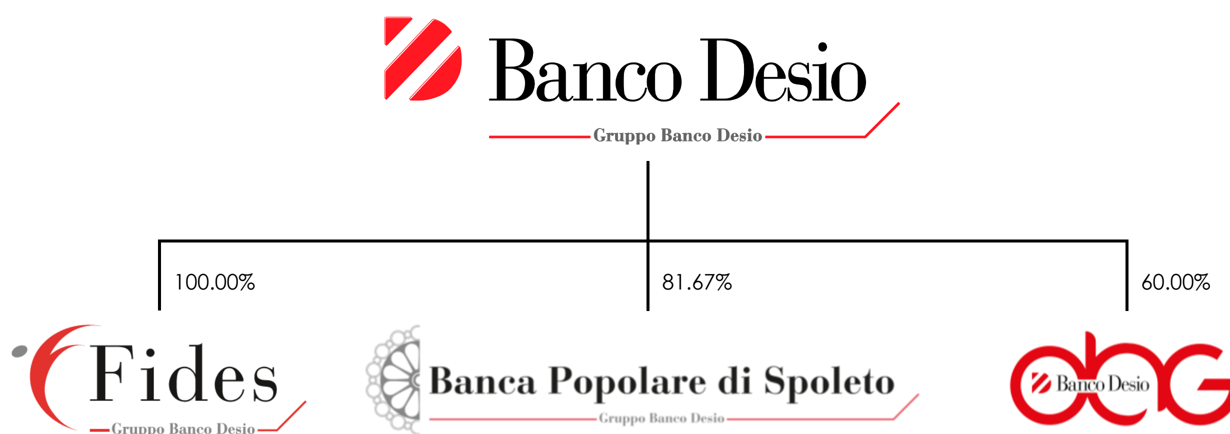
Financial Reporting Manager	Mauro Walter Colombo

Independent Auditors

Independent Auditors	Deloitte & Touche S.p.A.

The Banco Desio Group

The scope of consolidation at 30 September 2018 of the Banco Desio Group, to which this Consolidated quarterly report refers, includes the following companies:



Introduction

This Consolidated quarterly report of the Banco Desio Group at 30 September 2018, made up of the *Interim report on operations* and the *Condensed quarterly financial statements*, has been prepared pursuant to art. 154-ter of Legislative Decree 58/1998 ("Consolidated Finance Act" or CFA), implementing Legislative Decree 195 of 6 November 2007 (the so-called "Transparency Directive"). It has also been prepared for the determination of the profit for the period in order to calculate own funds and drawn up in accordance with International Financial Reporting Standards as endorsed by the European Community under Regulation 1606 of 19 July 2002 and in particular IAS 34 "Interim Financial Statements", as well as the provisions issued by the Bank of Italy in its Circular 262 of 22 December 2005 and subsequent updates.

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

IFRS 9 *Financial instruments*, which replaced IAS 39, came into force on 1 January 2018 with an impact on the classification and measurement of financial instruments and on the logic and methods of calculating adjustments. For the purpose of preparing this consolidated quarterly report, the comparative figures for the balance sheet (at 31 December 2017) and income statement (at 30 September 2017) have been conventionally restated in the financial statement schedules required by the fifth update of Circular 262, as reported in the chapter "Basis of preparation".

In particular, in September the business models that affect the financial assets held for investment purposes by Group banks were changed (as explained in the paragraph "Significant events"). The financial report at 30 September 2018 was prepared in compliance 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 of this change in business models.

Note that, pursuant to IFRS 5 *Assets held for sale* include loans classified as doubtful, for which the steps are being taken to sell them, which will result in their derecognition.

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

First-time adoption of IFRS 9 and IFRS 15

IFRS 9 *Financial instruments*

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

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

The following table records the IFRS 9's effects on the balance sheet at 1 January 2018.

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

*Including the effect on minority interests for Euro 9.7 million

The most significant effects of FTA of IFRS 9 *Financial Instruments* concern the new impairment models, namely:

- for Euro 19.8 million, before tax, from application of the staging model for the allocation of performing loans to stages 1 and 2 and from the calculation of the expected credit loss at 12 months (for loans in stage 1) and over the entire lifetime (for loans in stage 2);
- for Euro 77.1 million, before tax, from the introduction of sales scenarios in the valuation of non-performing loans (stage 3), with different weightings in the determination of the expected loss based on the subdivision of NPLs at 31 December 2017, based on the strategic decision whether to manage them or sell them.

Own funds and capital were first recorded following the IFRS'ratio,on the 31 March 2018, in application of the transitional regime and the rules applicable "when fully operational" in 2023, for which reference should be made to the "Consolidated Quarterly Financial Report of the Banco Desio Group at 31 March 2018".

IFRS 15 *Revenue from contracts with customers*

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

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

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

Presentation of comparative figures

For the purpose of preparing this consolidated quarterly financial report, **the comparative figures of the balance sheet (at 31 December 2017) and income statement (at 30 September 2017) have been conventionally restated in the financial statement schedules required by the fifth update of Circular 262**, continuing to represent and measure the balance sheet and income statement figures determined in application of the accounting standards in force at the time (in particular IAS 39 "Financial instruments: recognition and measurement"). Consequently:

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

Interim report on operations at 30 September 2018

Key figures and ratios

Balance sheet

Amounts in thousands of Euro	30.09.2018	31.12.2017	Change amount	Change %
Total assets	13,666,052	13,995,822	-329,770	-2.4%
Financial assets	3,184,817	2,281,149	903,668	39.6%
Due from banks [1]	232,537	1,218,060	-985,523	-80.9%
Loans to customers [1] [2]	9,590,939	9,861,862	-270,923	-2.7%
of which: Loans to ordinary customers [2]	*9,380,106*	*9,861,862*	*-481,756*	*-4.9%*
of which: Loans to institutional customers	*210,833*		*210,833*	
Property, plant and equipment	178,284	180,566	-2,282	-1.3%
Intangible assets	17,561	17,946	-385	-2.1%
Non-current assets and disposal groups held for sale	2,652		2,652	
Due to banks	1,650,409	1,705,928	-55,519	-3.3%
Due to customers	9,210,421	9,272,337	-61,916	-0.7%
Debt securities in issue	1,570,089	1,708,320	-138,231	-8.1%
Shareholders' equity (including Net profit/loss for the period) [3]	846,342	927,056	-80,714	-8.7%
Own Funds [5] [6]	1,013,974	1,089,121	-75,147	-6.9%
Total indirect deposits	14,220,117	14,148,878	71,239	0.5%
of which: Indirect deposits from ordinary customers	*9,046,927*	*8,946,523*	*100,404*	*1.1%*
of which: Indirect deposits from institutional customers	*5,173,190*	*5,202,355*	*-29,165*	*-0.6%*

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

[2] considered net of 2.7 million of doubtful loans classified under assets held for sale at 30 September 2018

Income statement [4]

Amounts in thousands of Euro	30.09.2018	30.09.2017	Change amount	Change %
Operating income	302,924	310,367	-7,443	-2.4%
of which: Net interest income	*159,682*	*171,206*	*-11,524*	*-6.7%*
Operating costs	208,646	209,693	-1,047	-0.5%
Result of operations	94,278	100,674	-6,396	-6.4%
Profit (loss) from operations after tax	22,703	34,390	-11,687	-34.0%
Non-recurring profit (loss) after tax	721	-6,872	7,593	n.s.
Profit for the period [3]	23,275	26,860	-3,585	-13.3%

[3] pertaining to the Parent Company;

[4] from the Reclassified Income Statement.

Key figures and ratios

	30.09.2018	31.12.2017	Change amount
Capital/Total assets	6,2%	6,6%	-0,4%
Capital/Loans to customers	8,8%	9,4%	-0,6%
Capital/Due to customers	9,2%	10,0%	-0,8%
Capital/Debt securities in issue	53,9%	54,3%	-0,4%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) [5] [6] [7]	11,6%	11,5%	0,1%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) [5] [6] [7]	11,8%	11,6%	0,1%
Total Own Funds/Risk-weighted assets (Total capital ratio) [5] [6] [7]	13,3%	13,6%	-0,3%
Financial assets/Total assets	23,3%	16,3%	7,0%
Due from banks/Total assets	1,7%	8,7%	-7,0%
Loans to customers/Total assets	70,2%	70,5%	-0,3%
Loans to customers/Direct customer deposits	89,0%	89,8%	-0,8%
Due to banks/Total assets	12,1%	12,2%	-0,1%
Due to customers/Total assets	67,4%	66,3%	1,1%
Debt securities in issue/Total assets	11,5%	12,2%	-0,7%
Direct customer deposits/Total assets	78,9%	78,5%	0,4%
	30.09.2018	**30.09.2017**	**Change amount**
Cost/Income ratio	68,9%	67,6%	1,3%
Net interest income/Operating income	52,7%	55,2%	-2,5%
Result of operations/Operating income	31,1%	32,4%	-1,3%
Profit (loss) from operations after tax/Capital [8] - annualised [9]	3,7%	5,4%	-1,7%
ROE [8] - *annualised* [10] [11]	3,8%	5,1%	-1,3%
Profit (loss) from operations before tax/Total assets (ROA) - annualised [9]	0,3%	0,5%	-0,2%
	30.09.2018	**31.12.2017**	**Change amount**
Net doubtful loans/Loans to customers [12]	1,3%	5,0%	-3,7%
Net non-performing loans/Loans to customers [12]	4,2%	8,4%	-4,2%
% coverage of doubtful loans [12]	63,4%	57,2%	6,2%
% Coverage of doubtful loans, gross of cancellations [12] [13]	68,3%	61,1%	7,2%
% Total coverage of non-performing loans [12] [13]	45,8%	49,0%	-3,2%
% Coverage of non-performing loans, gross of cancellations [12] [13]	49,5%	52,4%	-2,9%
% Coverage of performing loans [12]	0,57%	0,45%	0,12%

Structure and productivity ratios

	30.09.2018	31.12.2017	Change amount	Change %
Number of employees [14]	2,288	2,303	-15	-0.7%
Number of branches	265	265	0	0.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee [15]	4,178	4,233	-55	-1.3%
Direct deposits from customers per employee [15]	4,696	4,714	-18	-0.4%
	30.09.2018	**30.09.2017**	**Change amount**	**%**
Operating income per employee [15] - annualised [8]	176	186	-10	-5.4%
Result of operations per employee [15] - annualised [8]	55	65	-10	-15.4%

[5] own funds and capital ratios are calculated at Banco Desio level. The ratios for the scope of consolidation for regulatory purposes at Brianza Unione level at 30 September 2018 are: Common Equity Tier1 8.8%; Tier 1 9.7%; Total capital ratio 11.5%.

[6] own funds and capital ratios at 30.09.2018 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 10.8%; Tier 1 10.9%; Total capital ratio 12.3%.

[7] simulating the effects of reclassification of the business models at the reference date, the following pro-forma coefficients have been estimated: 12.1% (CET 1 ratio), 12.3% (Tier 1 ratio) and 13.8% (Total capital ratio)

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

[9] the amount reported at 30.09.2017 is the final figure at the end of 2017;

[10] the amount reported at 30.09.2017 is the final figure at the end of 2017; ROE recalculated at the end of 2017 taking into account the effects of FTA of IFRS 9 is equal to 5.4%.

[11] the annualised ROE at 30.09.2018 does not take into consideration the annualisation of the Net non-recurring operating profit;

[12] the indicators for credit quality and coverage of non-performing loans and performing loans at 30.09.2018 reflect the impact of applying IFRS 9 in force from 1 January 2018 and are shown net of the doubtful loans classified as assets held for sale.

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

[14] number of employees at the reference date

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

The macroeconomic scenario

The figures for the second quarter and information on the summer months reflect a marked slowdown in the Italian economy. Compared with 1.6% at the end of 2017, the growth in the second quarter of the year fell to 1.2% and all of the economic indicators, from industrial output which fell in July (-1.8% compared with June) to household and business confidence, suggest that in the best case scenario GDP will be flat compared with the second quarter; this would imply a further slowdown in annual terms. In other words, the rate of growth has apparently halved over the last nine months. Nevertheless, we should not overlook the traits that are common to the entire Eurozone in this phase of the economy, characterised by a general cooling of the cycle and a rise in the price of oil, which compresses purchasing power to the detriment of consumption. Household spending also suffers from the general uncertainty that financial markets are going through, Europe and Italy in particular, reducing the value of financial wealth.

As regards the banking sector, at September the year-on-year trend in customer deposits was positive and rising on a monthly basis as well (+0.6%). Analysing this, the principal components were in line with previous postings: deposits are up (+3.6%, compared with +4.1% in December), whereas bonds as down (-16.2%, compared with -16.9% in December). The overall remuneration of funding has continued to decline (0.71%, down from 0.76% 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 (+2.4%, compared with +1.8% in December): this was led by loans to households (+2.7%, compared with +2.8% in December) and loans to businesses (+1.2%, -0.5% in December). 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 of return on new loans to households and businesses reached a new all-time low (2.58%): within this figure, the rates on loans to both households (1.79%) and companies (1.41%) also hit new all-time lows.

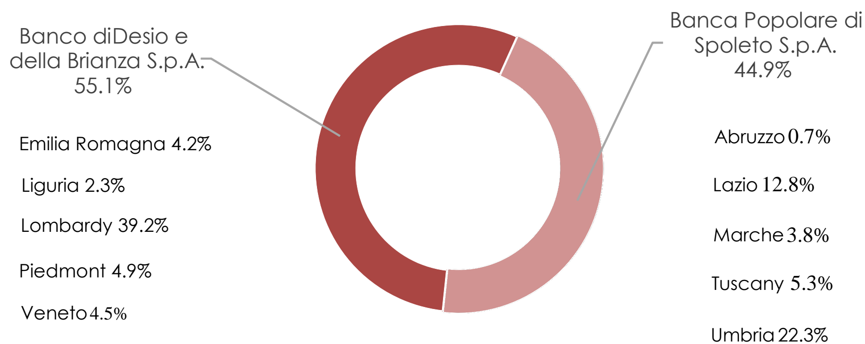
The distribution network

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 and 119 of Banca Popolare di Spoleto.

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

The following chart gives a breakdown at 30 September 2018 of the overall distribution network by Group company with the percentage represented by the region.

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



Significant events

Non-performing loans (NPL) disposal programme

On 27 March 2018, in execution of its capital management strategy defined in the last few months of 2018 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%.

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

In compliance with IFRIC 21, Group banks already recorded at 31 March 2018 the current year's ordinary contribution to the Single Resolution Mechanism of Euro 3.9 million (of which Euro 2.7 million by the Parent Company and Euro 1.2 million by Banca Popolare di Spoleto), due to the occurrence of 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 September.

Last May, 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 2016; as a result, an additional cost was incurred to support the banking system for Euro 1.5 million (Euro 1.0 million for Banco Desio and Euro 0.5 million for the subsidiary Banca Popolare di Spoleto).

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 demand by the end of the current year, amounting to approximately Euro 4.2 million, of which Euro 2.2 million for Banco Desio and Euro 2.0 million for Banca Popolare di Spoleto.

Tax audit

On 12 September 2018, the Lombardy Regional Tax Office (Controls Sector - Large Tax Payers Office) initiated a tax audit at Banco di Desio e della Brianza on fiscal year 2015, for the purposes of Direct Taxes, IRAP, VAT and the obligations of the withholding agent.

Inspections on transparency

On 13 September 2018 the Bank of Italy delivered the inspection report on the checks carried out at certain branches of Banca Popolare di Spoleto with regard to the rules on transparency and fairness of relations between intermediaries and customers. These checks revealed certain aspects worth attention, for which the Bank has taken the necessary organisational and procedural steps, some of which have already been completed. These steps will be reported to the Supervisory Body by the deadline mentioned in the report, showing that remedial action has been taken.

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.

The 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 initiatives 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, take place on 1 October 2018 (the "reclassification date"), for which the conditions established by IFRS 9 in the case of a change in business models are satisfied (in terms of rarity of occurrence, decision taken by senior management following external or internal changes, materiality for operations in general and the fact that they can be demonstrated to third parties).

The financial instruments involved in the change of business model from HTC&S to HTC are mainly represented by sovereign debt securities, as well as corporate bonds for a total nominal value of Euro 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)

Development of the network of financial advisors authorised to provide doorstep banking services

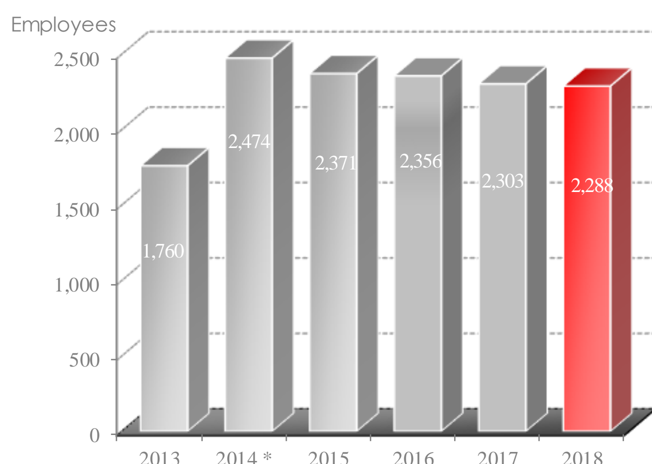
In line with the indications of the 2018-2020 Business Plan on the evolution of the distribution model through an integrated multi-channel approach, in the third quarter of 2018 Consob was informed of the start-up of doorstep banking by Banco di Desio e della Brianza with the hiring of the first authorised financial advisors for the Parent Company, also reinforcing the consultants already working for Banca Popolare di Spoleto.

Human resources

At 30 September 2018, the Group had 2,288 employees, a decrease of 15 people (-0.6%) compared with the end of the previous period.

The chart below shows the trend of the Group's workforce in recent years.

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



* Banca Popolare di Spoleto joined the Banco Desio Group in 2014

The following table provides a breakdown of employees by level at the end of the first reference period of the year compared with the figure at the end of 2017.

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

					Change	
No. of Employees	**30.09.2018**	**%**	**31.12.2017**	**%**	**Amount**	**%**
Managers	32	1.4%	31	1.3%	1	3.2%
3rd and 4th level middle managers	479	20.9%	474	20.6%	5	1.1%
1st and 2nd level middle managers	609	26.6%	604	26.2%	5	0.8%
Other personnel	1,168	51.1%	1,194	51.9%	-26	-2.2%
Group employees	**2,288**	**100.0%**	**2,303**	**100.0%**	**-15**	**-0.7%**

Results of operations

Savings deposits: customer funds under management

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%).

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

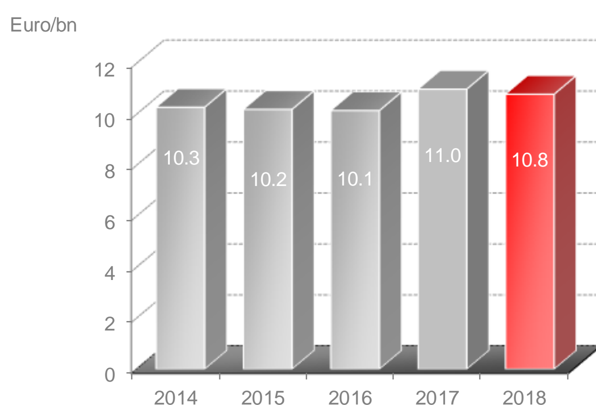
Table no. 2 - **TOTAL CUSTOMER DEPOSITS**

Amounts in thousands of Euro	**30.09.2018**	**%**	**31.12.2017**	**%**	**Change** **Amount**	**%**
Due to customers	9,210,421	36.8%	9,272,337	36.9%	-61,916	-0.7%
Debt securities in issue	1,570,089	6.3%	1,708,320	6.8%	-138,231	-8.1%
Direct deposits	**10,780,510**	**43.1%**	**10,980,657**	**43.7%**	**-200,147**	**-1.8%**
Ordinary customer deposits	9,046,927	36.2%	8,946,523	35.7%	100,404	1.1%
Institutional customer deposits	5,173,190	20.7%	5,202,355	20.7%	-29,165	-0.6%
Indirect deposits	**14,220,117**	**56.9%**	**14,148,878**	**56.3%**	**71,239**	**0.5%**
Total customer deposits	**25,000,627**	**100.0%**	**25,129,535**	**100.0%**	**-128,908**	**-0.5%**

Direct deposits

As mentioned previously, direct deposits at the end of the period amounted to Euro 10.8 billion, a decrease of 1.8% which comes from the decline in amounts due to customers of Euro 0.1 billion (-0.7%) and the reduction in debt securities in issue of Euro 0.1 billion (-8.1%). The trend in direct deposits in recent years is shown in the following chart.

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



Indirect deposits

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

Table no. 3 - **INDIRECT DEPOSITS**

Amounts in thousands of Euro	**30.09.2018**	**%**	**31.12.2017**	**%**	**Change Amount**	**Change %**
Assets under administration [1]	**3,120,711**	**21.9%**	**3,216,089**	**22.7%**	**-95,378**	**-3.0%**
Assets under management	**5,926,216**	**41.7%**	**5,730,434**	**40.5%**	**195,782**	**3.4%**
of which: Mutual funds and Sicavs	*2,613,568*	*18.4%*	*2,405,696*	*17.0%*	*207,872*	*8.6%*
Managed portfolios	*931,767*	*6.6%*	*967,212*	*6.8%*	*-35,445*	*-3.7%*
Bancassurance	*2,380,881*	*16.7%*	*2,357,526*	*16.7%*	*23,355*	*1.0%*
Ordinary customer deposits [1]	**9,046,927**	**63.6%**	**8,946,523**	**63.2%**	**100,404**	**1.1%**
Institutional customer deposits [2]	**5,173,190**	**36.4%**	**5,202,355**	**36.8%**	**-29,165**	**-0.6%**
Indirect deposits [1] [2]	**14,220,117**	**100.0%**	**14,148,878**	**100.0%**	**71,239**	**0.5%**

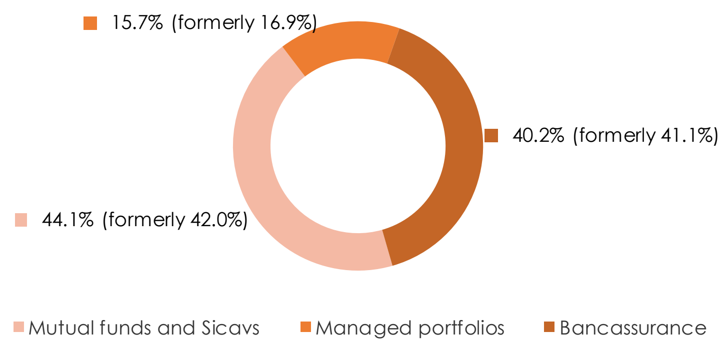
[1] the totals at 30.09.2018 are stated net of bonds issued by the Parent Company and placed with the customers of Banca Popolare di Spoleto S.p.A. totalling Euro 31.8 million (Euro 43.0 million at 31.12.2017);

[2] institutional customer deposits at 30.09.2018 include securities of the Bancassurance segment of ordinary customers of the Parent Company and of Banca Popolare di Spoleto S.p.A. for Euro 2.2 billion (Euro 2.1 billion at 31.12.2017).

The graph below shows the breakdown of indirect deposits from ordinary customers by sector at 30 September 2018. The subsequent chart focuses on the composition of assets under management in the same period, highlighting how, although the "life" bancassurance component constitutes the largest share, mutual funds and Sicavs also increase.

Chart no. 4 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 30.09.2018**

Chart no. 5 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 30.09.2018**



Loans to customers

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.

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

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

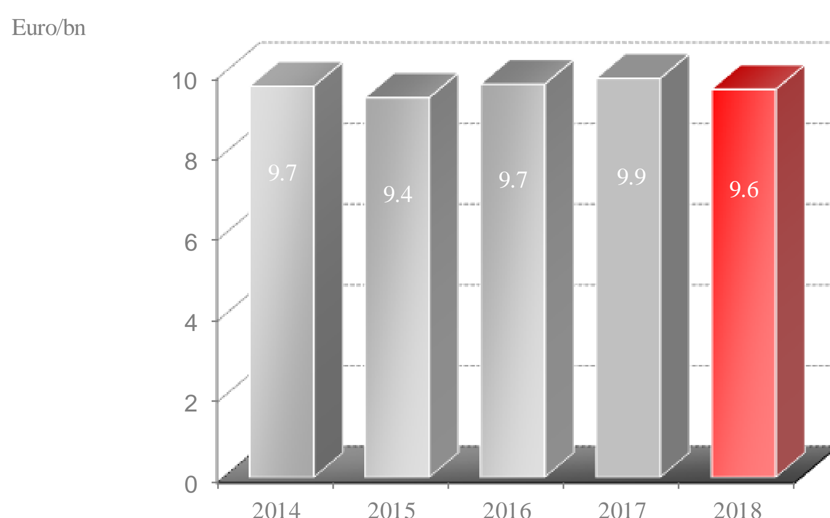


Table no. 4 - **LOANS TO CUSTOMERS**

Amounts in thousands of Euro	**30.09.2018**	**%**	**31.12.2017**	**%**	**Change Amount**	**%**
Current accounts	1,553,260	16.2%	1,687,778	17.1%	-134,518	-8.0%
Mortgages and other long-term loans	6,737,183	70.2%	6,971,633	70.7%	-234,450	-3.4%
Other	1,091,654	11.4%	1,202,451	12.2%	-110,797	-9.2%
Loans to ordinary customers	**9,382,097**	**97.8%**	**9,861,862**	**100.0%**	**-479,765**	**-4.9%**
Repurchase agreements	208,842	2.2%	0	0.0%	208,842	n.s.
Loans to institutional customers	**208,842**	**2.2%**	**0**	**0.0%**	**208,842**	**n.s.**
Loans to customers	**9,590,939**	**100.0%**	**9,861,862**	**100.0%**	**-270,923**	**-2.7%**

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

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

Number of customers [1]	**30.09.2018**	**31.12.2017**
First 10	1.24%	1.12%
First 20	1.97%	1.93%
First 30	2.62%	2.62%
First 50	3.77%	3.81%

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

In this regard, it should be noted that, pursuant to IFRS 5 *Assets held for sale* include Euro 2.7 million of loans classified as doubtful, for which steps are being taken to sell them, which will result in their derecognition.

As a result of the sale of doubtful loans under the "GACS" scheme and first-time adoption of "IFRS 9 – Financial Instruments" (the effects of which are explained in the section "First-time adoption of IFRS 9 and IFRS 15" in this report) the total amount of net non-performing loans at 30 September 2018 consisting of doubtful loans, unlikely to pay loans and non-performing past due and/or overdrawn exposures came to Euro 404.9 million, net of adjustments for Euro 342.4 million, with a decrease of Euro 419.0 million compared with 31 December 2017.

In particular, net doubtful loans totalled Euro 128.0 million, unlikely to pay loans Euro 270.1 million and non-performing past due and/or overdrawn exposures Euro 6.8 million.

The following table summarises the gross and net indicators of credit risk, where due to the reclassification of non-performing loans subject to the sale of doubtful loans under the "GACS" scheme, there has been a significant reduction in the ratio of "gross non-performing loans/gross loans" to 7.5% and "net non-performing loans/net loans" to 4.2%, below their respective targets of 10% and 5% forecast at the end of the 2018-2020 Business Plan, while the ratio of "gross doubtful loans/gross loans" has fallen to 3.5% and "net doubtful loans/net loans" to 1.3%.

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

% of gross loans (1)	**30.09.2018**	**31.12.2017**
Gross non-performing loans to customers	7.48%	15.11%
of which:		
- gross doubtful loans	3.50%	10.80%
- unlikely to pay, gross	3.90%	4.22%
- non-performing past due and/or overdrawn exposure	0.08%	0.09%

% of net loans	**30.09.2018**	**31.12.2017**
Net non-performing loans to customers	4.22%	8.35%
of which:		
- net doubtful loans	1.33%	5.01%
- unlikely to pay, net	2.82%	3.26%
- non-performing past due and/or overdrawn exposure	0.07%	0.09%

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

The main indicators for the coverage of non-performing loans are shown below, also considering the amount of direct write-downs made over the years, and those of performing loans, highlighting a trend in the levels of coverage that reflects the facts previously described with reference to the stock of NPLs and first-time adoption of "IFRS 9 - Financial Instruments".

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

% Coverage of non-performing and performing loans (1)	**30.09.2018**	**31.12.2017**
% Coverage of doubtful loans	63.39%	57.22%
% Coverage of doubtful loans, gross of cancellations	68.32%	61.12%
% Total coverage of impaired loans	45.82%	49.03%
% Coverage of impaired loans, gross of cancellations	49.50%	52.44%
% Coverage of performing loans	0.57%	0.45%

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

The securities portfolio and interbank position

Securities portfolio

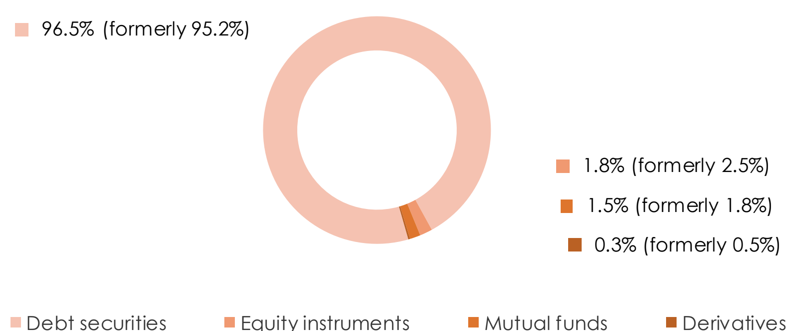
At 30 September 2018, the Group's total investment financial assets amounted to Euro 3.2 billion, an increase of Euro 0.9 billion compared with the end of 2017 (+39.6%).

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. 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.

As better described in paragraph on "Significant events", the classification of securities in the "held to collect" and "held to collect & sell" portfolios on the reference date does not reflect yet the change in business models which took place in September, since the reclassification date according to IFRS 9 was identified as 1 October 2018.

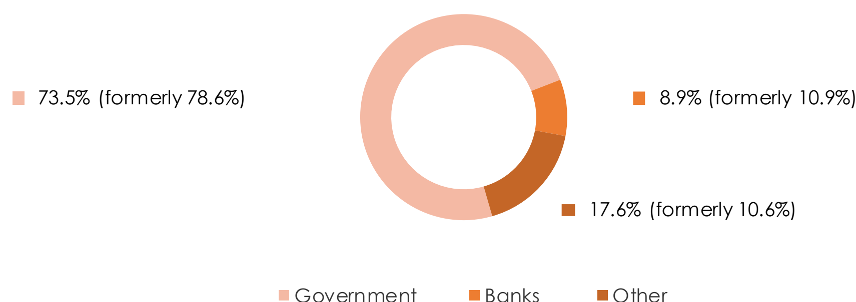
The portfolio's breakdown by type of security is shown in the following graph, which shows that almost all (95.9%) of the investments still consist of debt securities.

Chart no. 7 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.09.2018 BY TYPE OF SECURITIES**



With reference to the issuers of securities, at the end of the first reference period the total of the portfolio included 73.5% relates to government securities, 8.9% to securities issued by banks and the remainder to other issuers, as shown in the following chart.

Chart no. 8 - **BREAKDOWN OF FINANCIAL ASSETS AT 30.09.2018 BY TYPE OF ISSUER**



Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA), concerning disclosures about sovereign risk to be included in the annual and quarterly reports prepared by listed companies adopting IAS/IFRS, the positions at 30.09.2018 are reported below. It's worth bearing in mind that, according to the guidelines of this European Supervisory Authority, bonds issued by central and local governments and government bodies, as well as any loans granted to them have to be meant as "sovereign debt".

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

Amounts in thousands of Euro		30.09.2018					31.12.2017				
		Italy	Portugal	Spain	Portugal	Total	Italy	France	Spain	USA	Total
Financial assets designated at fair value through profit or loss	Nominal value	2,371		-	-	2,371	2,307	0	0	0	2,307
	Book value	1,448		-	-	1,448	1,533	0	0	0	1,533
Financial assets designated at fair value through other comprehensive income	Nominal value	1,280,921		-	-	1,280,921	1,216,147	0	0	8,338	1,224,485
	Book value	1,237,640		-	-	1,237,640	1,218,637	0	0	8,225	1,226,862
Financial assets measured at amortised cost	Nominal value	1,050,000	0	15,000	25,000	1,090,000	320,000	80,000	160,000	0	560,000
	Book value	1,060,132	0	15,257	27,464	1,102,853	321,699	79,917	162,050	0	563,666
Sovereign debt	**Nominal value**	**2,333,292**	**0**	**15,000**	**25,000**	**2,373,292**	**1,538,454**	**80,000**	**160,000**	**8,338**	**1,786,792**
	Book value	**2,299,220**	**0**	**15,257**	**27,464**	**2,341,942**	**1,541,869**	**79,917**	**162,050**	**8,225**	**1,792,061**

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

Amounts in thousands of Euro		Italy	Spain	Portugal	30.09.2018	
					Nominal value	Book value
Financial assets designated at fair value through profit or loss	up to 1 year	-	-	-	-	-
	1 to 3 years	1	-	-	1	1
	3 to 5 years	-	-	-	-	0
	over 5 years	2,370	-	-	2,370	1,447
	Total	2,371	-	-	2,371	1,448
Financial assets designated at fair value through other comprehensive income	up to 1 year	180,000	-	-	180,000	180,220
	1 to 3 years	440,000	-	-	440,000	432,791
	3 to 5 years	502,500	-	-	502,500	477,663
	over 5 years	158,421	-	-	158,421	146,966
	Total	1,280,921	-	-	1,280,921	1,237,640
Financial assets measured at amortised cost	up to 1 year	-	-	-	-	0
	1 to 3 years	315,000	15,000	25,000	355,000	359,412
	3 to 5 years	205,000		-	205,000	207,131
	over 5 years	530,000	-	-	530,000	536,310
	Total	1,050,000	15,000	25,000	1,090,000	1,102,853
Sovereign debt	**up to 1 year**	**180,000**	**-**	**-**	**180,000**	**180,220**
	1 to 3 years	**755,001**	**15,000**	**25,000**	**795,001**	**792,204**
	3 to 5 years	**707,500**	**-**	**-**	**707,500**	**684,794**
	over 5 years	**690,791**	**-**	**-**	**690,791**	**684,723**
	Total	**2,333,292**	**15,000**	**25,000**	**2,373,292**	**2,341,942**

Net interbank position

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 date reflects almost entirely the TLTRO debt owed to the ECB.

Shareholders' equity and capital adequacy

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 the negative result for the period of Euro 13.0 million.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 30 September 2018, also explaining the financial and economic effects related to the consolidation of subsidiaries and associated companies.

Table no. 10 - **RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES AT 30.09.2018**

Amounts in thousands of Euro	**Shareholders' equity**	***of which: net profit (loss) for the period***
Parent Company balances at 30 September 2018	***881,174***	***25,806***
Effect of consolidation of subsidiaries	-34,832	5,569
Dividends declared during the period	-	-8,100
Consolidated balances at 30 September 2018	**846,342**	**23,275**

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%[1].

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;
- 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;

[1] For more information on Own Funds and the consolidated prudential requirements at the reference date of 30 September 2018 that are the subject of transmission to the Bank of Italy in relation to supervisory reports (COREP) and statistical reports (FINREP), please refer to the explanation given in the attachment "Information on consolidated shareholders' equity".

- 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.

Reclassified income statement

To allow readers to see figures that better reflect the results of operations, we have prepared a reclassified version of the income statement with respect to the one in the *Condensed quarterly financial statements*, which forms the point of reference for the notes.

The presentation criteria for this table are as follows:

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

The "Profit (loss) from operations after tax" is 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. "Non-recurring profit (loss) after tax", on the other hand, benefits 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).

Table no. 11 - **RECLASSIFIED 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.

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

Table no. 12 - RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 30.09.2018

Captions		As per financial statements	Reclassifications							Reclassified income statement
Amounts in thousands of Euro		**30.09.2018**	Measurement effects on non-performing loans	Tax/expense recoveries	Expected loss on securities at amortized cost	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes	**30.09.2018**
10+20	Net interest income	164,544	-4,862							159,682
70	Dividends and similar income	3,196								3,196
40+50	Net commission income	122,524								122,524
80+90+100 +110	Net results on financial assets and liabilities	-15,631					23,959			8,328
230	Other operating income/expense	32,792		-25,040		1,442				9,194
	Operating income	**307,425**	**-4,862**	**-25,040**	**0**	**1,442**	**23,959**	**0**	**0**	**302,924**
190 a	Payroll costs	-127,281						-2,549		-129,830
190 b	Other administrative costs	-97,037		25,040				1,464		-70,533
210+220	Net adjustments to property, plant and equipment and intangible assets	-6,841				-1,442				-8,283
	Operating costs	**-231,159**	**0**	**25,040**	**0**	**-1,442**	**0**	**-1,085**	**0**	**-208,646**
	Result of operations	**76,266**	**-4,862**	**0**	**0**	**0**	**23,959**	**-1,085**	**0**	**94,278**
130a+100a	Cost of credit	-43,724	4,862		2,035		-23,959	87		-60,699
130 b	Net adjustments to securities owned	-1,313			-2,035					-3,348
140	Profit/losses from contractual changes without write-offs	-1								-1
200 a	Net provisions for risks and charges - commitments and guarantees given	-158								-158
200 b	Net provisions for risks and charges - other	493						-87		406
	Profit (loss) from operations before tax	**31,563**	**0**	**0**	**0**	**0**	**0**	**-1,085**	**0**	**30,478**
300	Income taxes on current operations	-8,139							364	-7,775
	Net profit (loss) from operations after tax	**23,424**	**0**	**0**	**0**	**0**	**0**	**-1,085**	**364**	**22,703**
250+280	Profit (loss) from investments and disposal of investments	-			0					0
	Net provisions for risks and charges, other provisions and expenses		0		0			1,085		1,085
	Non-recurring result before tax	**0**	**0**	**0**	**0**	**0**	**0**	**1,085**	**0**	**1,085**
	Income taxes from non-recurring items								-364	-364
	Non-recurring result after tax	**0**	**0**	**0**	**0**	**0**	**0**	**1,085**	**-364**	**721**
330	**Net profit (loss) for the period**	**23,424**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23,424**
340	Minority interests	-149								-149
350	**Profit (Loss) for the period pertaining to the Parent Company**	**23,275**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23,275**

CONSOLIDATION - RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME STATEMENT AT 30.09.2017

	Captions	**As per financial statements**	**Riclassifiche**							**Reclassified income statement**
	Amounts in thousands of Euro	**30.09.2017**	Tax/expense recoveries	Profit (Losses) from associates	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Impairment adjustments to financial assets	Income taxes	**30.09.2017**
10+20	Net interest income	171,206								171,206
70	Dividends and similar income	614								614
	Profit (loss) from equity investments in associates			0						0
40+50	Net commission income	120,245								120,245
80+90+100 +110	Net results on financial assets and liabilities	6,632				2		1,527		8,161
230	Other operating income/expense	34,118	-25,659		1,682					10,141
	Operating income	**332,815**	**-25,659**	**0**	**1,682**	**2**	**0**	**1,527**	**0**	**310,367**
190 a	Payroll costs	-132,711					50			-132,661
190 b	Other administrative costs	-94,076	25,659				432			-67,985
210+220	Net adjustments to property, plant and equipment and intangible assets	-7,365			-1,682					-9,047
	Operating costs	**-234,152**	**25,659**	**0**	**-1,682**	**0**	**482**	**0**	**0**	**-209,693**
	Result of operations	**98,663**	**0**	**0**	**0**	**2**	**482**	**1,527**	**0**	**100,674**
130a+100a	Cost of credit	-45,552				-2	1,500			-44,054
130 b	Net adjustments to securities owned	-9,606						6,446		-3,160
200 a	Net provisions for risks and charges - commitments and guarantees given	518						1,179		1,697
200 b	Net provisions for risks and charges - other	-1,979					-1,500			-3,479
	Profit (loss) from operations before tax	**42,044**	**0**	**0**	**0**	**0**	**482**	**9,152**	**0**	**51,678**
300	Income taxes on current operations	-14,567							-2,721	-17,288
	Net profit (loss) from operations after tax	**27,477**	**0**	**0**	**0**	**0**	**482**	**9,152**	**-2,721**	**34,390**
250+280	Profit (loss) from investments and disposal of investments	41		0						41
	Net provisions for risks and charges, other provisions and expenses						-482	-9,152		-9,634
	Non-recurring profit (loss) before tax	**41**	**0**	**0**	**0**	**0**	**-482**	**-9,152**	**0**	**-9,593**
	Income taxes from non-recurring items								2,721	2,721
	Non-recurring profit (loss) after tax	**41**	**0**	**0**	**0**	**0**	**-482**	**-9,152**	**2,721**	**-6,872**
330	**Net profit (loss) for the period**	**27,518**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**27,518**
340	Net profit (loss) pertaining to minority interests	-658								-658
350	**Profit (Loss) for the period pertaining to the Parent Company**	**26,860**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**26,860**

The net profit pertaining 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 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, considering 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 reach 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 have to be 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 bank 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 (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.

Performance of consolidated companies

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

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

Balance sheet

Amounts in thousands of Euro	30.09.2018	31.12.2017	Change amount	Change %
Total assets	10,224,432	10,459,327	-234,895	-2.2%
Financial assets	2,702,582	1,972,882	729,700	37.0%
Due from banks [1]	617,051	1,562,664	-945,613	-60.5%
Loans to customers [1] [2]	6,218,072	6,251,542	-33,470	-0.5%
of which: Loans to ordinary customers [2]	*6,009,230*	*6,251,542*	*-242,312*	*-3.9%*
of which: Loans to institutional customers	*208,842*		*208,842*	
Property, plant and equipment	133,773	135,293	-1,520	-1.1%
Intangible assets	2,530	3,044	-514	-16.9%
Non-current assets and disposal groups held for sale	2,652		2,652	
Due to banks	1,693,753	1,760,234	-66,481	-3.8%
Due to customers	5,970,248	5,988,799	-18,551	-0.3%
Debt securities in issue	1,479,481	1,602,047	-122,566	-7.7%
Shareholders' equity (including Net profit/loss for the period)	881,174	912,371	-31,197	-3.4%
Own Funds	983,871	1,037,014	-53,143	-5.1%
Total indirect deposits	12,196,653	12,222,163	-25,510	-0.2%
of which: Indirect deposits from ordinary customers	*7,061,543*	*7,057,209*	*4,334*	*0.1%*
of which: Indirect deposits from institutional customers	*5,135,110*	*5,164,954*	*-29,844*	*-0.6%*

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

[2] considered net of 2.7 million of doubtful loans classified under assets held for sale at 30 September 2018

Income statement [3]

Amounts in thousands of Euro	30.09.2018	30.09.2017	Change amount	Change %
Operating income	190,014	196,277	-6,263	-3.2%
of which: Net interest income	*90,335*	*97,572*	*-7,237*	*-7.4%*
Operating costs	129,285	130,085	-800	-0.6%
Result of operations	60,729	66,192	-5,463	-8.3%
Profit (loss) from operations after tax	24,893	31,365	-6,472	-20.6%
Non-recurring profit (loss) after tax	913	-5,754	6,667	n.s.
Profit for the period	25,806	25,611	195	0.8%

[3] from the Reclassified income statement

Key figures and ratios

	30.09.2018	31.12.2017	Change amount
Capital/Total assets	8.6%	8.7%	-0.1%
Capital/Loans to customers	14.2%	14.6%	-0.4%
Capital/Due to customers	14.8%	15.2%	-0.4%
Capital/Debt securities in issue	59.6%	57.0%	2.6%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) [4] [5]	17.5%	17.1%	0.4%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)[4] [5]	17.6%	17.2%	0.4%
Total Own Funds/Risk-weighted assets (Total capital ratio) [4] [5]	19.6%	19.9%	-0.3%
Financial assets/Total assets	26.4%	18.9%	7.5%
Due from banks/Total assets	6.0%	14.9%	-8.9%
Loans to customers/Total assets	60.8%	59.8%	1.0%
Loans to customers/Direct customer deposits	83.5%	82.4%	1.1%
Due to banks/Total assets	16.6%	16.8%	-0.2%
Due to customers/Total assets	58.4%	57.3%	1.1%
Debt securities in issue/Total assets	14.5%	15.3%	-0.8%
Direct customer deposits/Total assets	72.9%	72.6%	0.3%
	30.09.2018	**30.09.2017**	**Change amount**
Cost/Income ratio	68.0%	66.3%	1.7%
Net interest income/Operating income	47.5%	49.7%	-2.2%
Result of operations/Operating income	32.0%	33.7%	-1.7%
Profit (loss) from operations after tax/Capital [6] - annualised [7]	3.6%	4.7%	-1.1%
ROE [6] - annualised [8] [9]	3.7%	4.3%	-0.6%
Profit (loss) from operations before tax/Total assets (ROA) - annualised [7]	0.4%	0.6%	-0.2%
	30.09.2018	**31.12.2017**	**Change amount**
Net doubtful loans/Loans to customers [10]	1.1%	3.9%	-2.8%
Net non-performing loans/Loans to customers [10]	3.4%	6.5%	-3.1%
% Coverage of doubtful loans [10]	64.2%	57.7%	6.5%
% Coverage of doubtful loans, gross of cancellations [10]	72.4%	64.8%	7.6%
% Total coverage of non-performing loans [10]	47.2%	50.2%	-3.0%
% Coverage of non-performing loans, gross of cancellations [10]	53.6%	56.4%	-2.8%
% Coverage of performing loans [10]	0.48%	0.40%	0.08%

Structure and productivity ratios

	30.09.2018	31.12.2017	Change amount	Change %
Number of employees	1,360	1,371	-11	-0.8%
Number of branches	146	146	0	0.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee [11]	4,554	4,496	58	1.3%
Direct deposits from customers per employee [11]	5,456	5,459	-3	-0.1%
	30.09.2018	**30.09.2017**	**Change amount**	**%**
Operating income per employee [11] - annualised [7]	186	198	-12	-6.1%
Result of operations per employee [11] - annualised [7]	59	72	-13	-18.1%

[4] capital ratios at 30.09.2018 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 17.1%; Tier 1 17.2%; Total capital ratio 19.3%.

[5] simulating the effects of reclassification of the business models at the reference date, the following pro-forma coefficients have been estimated:
18.2% (CET 1 ratio), 18.2% (Tier 1 ratio) and 20.3% (Total capital ratio)

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

[7] *the amount reported at 30.09.2017 is the final figure at the end of 2017;*

[8] the amount reported at 30.09.2017 is the final figure at the end of 2017; ROE recalculated at the end of 2017 taking into account the effects of FTA of IFRS 9 is equal to 4.4%.

[9] *the annualised ROE at 30.09.2018 does not take into consideration the annualisation of the net non-recurring operating profit and of the dividends from subsidiaries;*

[10] the indicators for credit quality and coverage of non-performing loans and performing loans at 30.09.2018 reflect the impact of applying IFRS 9 in force from 1 January 2018 and are shown net of the doubtful loans classified as assets held for sale.

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

The "Profit (loss) from operations after tax" is down by 6.5 million (- 20.6%) compared with 30 September 2017, mainly due to the negative effect on the cost of credit linked to the GACS sale of doubtful loans of Euro 13.4 million. "Non-recurring profit (loss) after tax", on the other hand, benefits 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).

Loans to customers increased from 6,251.5 million euro at the end of 2017 to Euro 6,009.3 million at the reference date, which is 3.4% of the NPL portfolio (formerly 6.5%). At the reporting date, Euro 2.7 million of doubtful loans were reclassified to assets held for sale.

Shareholders' equity at 30 September 2018, including the result for the period, amounts to Euro 881.2 million, compared with Euro 912.4 million at the end of 2017. The negative change of Euro 31.2 million is due to first-time adoption of IFRS 9 (so-called "first time adoption" or "FTA") of Euro 11.1 million, payment of the dividend for 2017 of Euro 13.3 million and the negative result for the period of Euro 6.8 million.

Shareholders' equity calculated in accordance with the new regulatory provisions defined as *Own Funds*, after the pay-out of 40%, amounts to Euro 983.9 million (CET1 + ATI of Euro 879.4 million + T2 of Euro 104.5 million), compared with Euro 1,037.0 million at the end of the previous year.

The Total Capital Ratio, consisting of total Own Funds as a ratio of risk-weighted assets, came to 19.6%.

Banca Popolare di Spoleto S.p.A.

Balance sheet

Amounts in thousands of Euro	**30.09.2018**	**31.12.2017**	**Change** amount	**%**
Total assets	4,116,555	4,158,011	-41,456	-1.0%
Financial assets	483,205	310,397	172,809	55.7%
Due from banks	96,208	87,319	8,889	10.2%
Loans to customers (1)	3,306,122	3,535,603	-229,481	-6.5%
Property, plant and equipment	41,310	42,042	-732	-1.7%
Intangible assets	8,331	8,428	-97	-1.2%
Non-current assets and disposal groups held for sale	0		0	
Due to banks	435,990	377,707	58,283	15.4%
Due to customers	3,239,471	3,283,099	-43,628	-1.3%
Debt securities in issue	91,020	108,447	-17,427	-16.1%
Shareholders' equity (including Net profit/loss for the period)	219,315	273,497	-54,182	-19.8%
Own Funds	268,778	280,588	-11,810	-4.2%
Total indirect deposits	2,055,579	1,970,253	85,326	4.3%
of which: Indirect deposits from ordinary customers	*2,017,499*	*1,932,852*	*84,647*	*4.4%*
of which: Indirect deposits from institutional customers	*38,080*	*37,401*	*679*	*1.8%*

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

Income statement [1]

Amounts in thousands of Euro	30.09.2018	30.09.2017	Change amount	Change %
Operating income	*106,444*	*110,987*	-4,543	-4.1%
of which: Net interest income	*59,982*	*66,084*	*-6,102*	*-9.2%*
Operating costs	75,609	76,233	-624	-0.8%
Result of operations	30,835	34,754	-3,919	-11.3%
Profit (loss) from operations after tax	4,721	11,392	-6,671	-58.6%
Non-recurring profit (loss) after tax	-192	-1,118	926	n.s.
Profit for the period	4,529	10,274	-5,745	-55.9%

[1] from the Reclassified Income Statement.

Key figures and ratios

	30.09.2018	31.12.2017	Change %
Capital/Total assets	5.3%	6.6%	-1.3%
Capital/Loans to customers	6.6%	7.7%	-1.1%
Capital/Due to customers	6.8%	8.3%	-1.5%
Capital/Debt securities in issue	241.0%	252.2%	-11.2%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) [1] [2]	10.6%	9.9%	0.7%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) [1] [2]	10.6%	9.9%	0.7%
Total Own Funds/Risk-weighted assets (Total capital ratio) [1] [2]	11.3%	10.7%	0.6%
Financial assets/Total assets	11.7%	7.5%	4.2%
Due from banks/Total assets	2.3%	2.1%	0.2%
Loans to customers/Total assets	80.3%	85.0%	-4.7%
Loans to customers/Direct customer deposits	99.3%	104.2%	-4.9%
Due to banks/Total assets	10.6%	9.1%	1.5%
Due to customers/Total assets	78.7%	79.0%	-0.3%
Debt securities in issue/Total assets	2.2%	2.6%	-0.4%
Direct customer deposits/Total assets	80.9%	81.6%	-0.7%

	30.09.2018	30.09.2017	Change %
Cost/Income ratio	71.0%	68.7%	2.3%
Net interest income/Operating income	56.4%	59.5%	-3.1%
Result of operations/Operating income	29.0%	31.3%	-2.3%
Profit (loss) from operations after tax/Capital [3] - annualised [4]	2.9%	5.4%	-2.5%
ROE [3] - annualised [5] [6]	2.8%	5.5%	-2.7%
Profit (loss) from operations before tax/Total assets (ROA) - annualised [4]	0.2%	0.5%	-0.3%

	30.09.2018	31.12.2017	Change %
Net doubtful loans/Loans to customers	1.9%	7.0%	-5.1%
Net non-performing loans/Loans to customers	5.9%	11.6%	-5.7%
% Coverage of doubtful loans [7]	62.5%	56.7%	5.8%
% Total coverage of non-performing loans [7]	44.4%	48.0%	-3.6%
% Coverage of performing loans [7]	0.76%	0.54%	0.22%

Structure and productivity ratios

	30.09.2018	31.12.2017	Change amount	Change %
Number of employees	884	889	-5	-0.6%
Number of branches	119	119	0	0.0%
Amounts in thousands of Euro				
Loans and advances to customers per employee [8]	3,729	3,944	-215	-5.5%
Direct deposits from customers per employee [8]	3,757	3,783	-26	-0.7%
	30.09.2018	**30.09.2017**	**Change amount**	**Change %**
Operating income per employee [8] - annualised [4]	160	169	-9	-5.3%
Result of operations per employee [8] - annualised [4]	46	56	-10	-17.9%

[1] simulating the effects of reclassification of the business models at the reference date, the following pro-forma coefficients have been estimated: 10.9% (CET 1 ratio), 10.9% (Tier 1 ratio) and 11.6% (Total capital ratio)

[2] capital ratios at 30.09.2018 are calculated in application of the transitional provisions introduced by EU Regulation 2017/2395; the ratios calculated without application of these provisions are the following: 8.1% (CET 1 ratio); 8.1% (Tier 1 ratio); 8.9% (Total capital ratio).

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

[4] the amount reported at 30.09.2017 is the final figure at the end of 2017;

[5] the amount reported at 30.09.2017 is the final figure at the end of 2017; ROE recalculated at the end of 2017 taking into account the effects of FTA of IFRS 9 is equal to 6.8%.

[6] the annualised ROE at 30.09.2018 does not take into consideration the annualisation of the Net non-recurring operating profit;

[7] the coverage ratios of non-performing and performing loans at 30.09.2018 reflect the impact of applying IFRS 9 in force from 1 January 2018

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

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

The reference period ended with a *net profit for the period* of Euro 4.5 million, down by 55.9% with respect to the profit of Euro 10.3 million in the comparative period; note in particular the lower contribution from *net interest income* (Euro 6.1 million), the higher *cost of credit* (Euro 7.8 million), including losses of Euro 10.5 million related to the sale of doubtful loans by means of a GACS as described below, offset by lower *net provisions for risks and charges* (Euro 1.6 million) and a lower tax burden (Euro 4.1 million).

Loans to customers increased from Euro 3,535.6 million at the end of 2017 to Euro 3,306.1 million at the reporting date, which is 5.9% of the NPL portfolio (formerly 11.6%).

Shareholders' equity at 30 September 2018, including the result for the period, amounts to Euro 219.3 million, compared with Euro 273.5 million at the end of 2017. The negative change of Euro 54.2 million is due to first-time adoption (FTA) of IFRS 9 of Euro 49.6 million, payment of the dividend for 2017 of Euro 2.9 million and the negative result for the period of Euro 1.7 million.

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

Fides S.p.A.

Balance sheet

Amounts in thousands of Euro	30.09.2018	31.12.2017	Change amount	Change %
Total assets	692,005	641,380	50,625	7.9%
Financial assets	15	15	0	0.0%
Due from banks	2,718	2,481	237	9.6%
Loans to customers	687,000	636,940	50,060	7.9%
Property, plant and equipment	112	101	11	10.5%
Intangible assets	1,172	947	225	23.8%
Due to banks	632,795	580,676	52,119	9.0%
of which: Due to Group Banks	*630,781*	*580,420*	*50,361*	*8.7%*
Due to customers	2,881	2,622	260	9.9%
Shareholders' equity (including Net profit/loss for the period)	49,685	50,144	-459	-0.9%
Own Funds	44,251	43,433	818	1.9%

Income statement [1]

Amounts in thousands of Euro	30.09.2018	30.09.2017	Change amount	Change %
Operating income	12,755	12,839	-84	-0.7%
of which: Net interest income	*10,869*	*10,184*	*685*	*6.7%*
Operating costs	-5,070	-4,551	-519	11.4%
Result of operations	7,685	8,287	-602	-7.3%
Profit (loss) from operations after tax	5,331	5,451	-120	-2.2%
Non-recurring profit (loss) after tax	0	0	0	n.s.
Profit for the period	5,331	5,451	-120	-2.2%

[1] *from the reclassified income statement*

Key figures and ratios

	30.09.2018	31.12.2017	Change amount
Capital/Total assets	7.2%	7.8%	-0.6%
Capital/Loans to customers	7.2%	7.9%	-0.7%
Capital/Due to Banks	7.9%	8.6%	-0.7%
Total Own Funds/Risk-weighted assets (Total capital ratio)	7.8%	8.2%	-0.4%
Loans to customers/Total assets	99.3%	99.3%	0.0%
Due to banks/Total assets	91.4%	90.5%	0.9%
	30.09.2018	**30.09.2017**	**Change amount**
Cost/Income ratio	39.7%	35.4%	4.3%
Net interest income/Operating income	85.2%	79.3%	5.9%
Result of operations/Operating income	60.3%	64.5%	-4.2%
Profit (loss) from operations after tax/Capital [(2)] - annualised [(3)]	16.0%	16.8%	-0.8%
ROE [(2)] - annualised [(3)]	16.0%	16.8%	-0.8%
Profit (loss) from operations before tax/Total assets (ROA) - annualised [(3)]	1.0%	1.6%	-0.6%
	30.09.2018	**31.12.2017**	**Change amount**
Net doubtful loans/Loans to customers	0.1%	0.1%	0.0%
Net non-performing loans/Loans to customers	0.4%	0.5%	-0.1%
% Coverage of doubtful loans	63.8%	63.4%	0.4%
% Total coverage of non-performing loans	38.0%	36.6%	1.4%
% Coverage of performing loans	0.07%	0.07%	0.0%

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

Structure and productivity ratios

	30.09.2018	31.12.2017	Change amount	%
Number of employees [(4)]	44	43	1	2.3%
Amounts in thousands of Euro	**30.09.2018**	**31.12.2017**	**Change amount**	**%**
Loans and advances to customers per employee [(3) (5)]	15,793	14,987	806	5.4%
Amounts in thousands of Euro	**30.09.2018**	**30.09.2017**	**Change amount**	**%**
Operating income per employee [(3) (5)]	391	401	-10	-2.5%
Result of operations per employee [(3) (5)]	236	257	-21	-8.2%

[(3)] the amount reported at 30.09.2017 is the final figure at the end of 2017;
[(4)] *number of employees at the reference date;*
[(5)] based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.

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

The net profit at 30 September 2018 amounted to Euro 5.3 million, a slight decrease on the comparative period (-2.2%); operating income amounted to Euro 12.8 million, substantially in line with the period to 30 September 2017 (-0.7%), while operating costs totalled Euro 5.1 million (versus Euro 4.6 million), and the results of operations amounted to Euro 7.7 million (versus Euro 8.3 million). Net impairment adjustments to loans and advances, positive for Euro 0.03 million (negative for Euro 0.2 million in the comparative period), net provisions for risks and charges of Euro 0.1 million (versus Euro 0.3 million) and taxes of Euro 2.3 million (versus Euro 2.4 million) lead to the result for the period.

Loans to customers have gone from Euro 636.9 million at the end of 2017 to Euro 687.0 million at the reporting date.

Book shareholders' equity went from Euro 50.1 million at 31 December 2017 to Euro 49.7 million at the reporting date (due to the distribution of dividends, partly offset by the result for the period). Own Funds for supervisory purposes have risen from Euro 43.4 million at the end of 2017 to Euro 44.3 million.

Other information

Ratings

On 13 June 2018, following its annual review, the international agency Fitch Ratings Ltd confirmed all of the ratings assigned to Banco di Desio and Brianza SpA.

The latest ratings are therefore as follows:

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

Existence of the conditions of arts. 36 and 37 of "Consob's market regulations"

The conditions laid down in arts. 36 and 37 of "Consob's Market Regulations" (Resolution 16191 of 29 October 2007) continue to apply, in this case with reference to the "non-EU" company CPC S.A. in liquidation and to Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.a., the holding company of the Parent Company, as reported in the Group's "Annual Report on Corporate Governance and Corporate Structure" required by art. 123-bis of the CFA and made available on the website www.bancodesio.it, Banco Desio - Corporate Governance Section.

Transactions with related parties

For a description of the procedures governing transactions with related parties (pursuant to art. 2391-bis of the Italian Civil Code) and/or with associated persons (pursuant to art. 53 of the Consolidated Banking Act), reference should be made to paragraph 5 of the "Annual Report on Corporate Governance", which is available on the Group's website pursuant to art. 123-*bis* of the CFA in the section on "Corporate Governance", as well as on the website of the subsidiary Banca Popolare di Spoleto S.p.A. for the provisions that specifically apply thereto. For further information, please refer to the specific section of the Condensed quarterly financial statements.

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

Based on the figures at 30 September 2017, it is reasonable to assume that the result for the current year will be positive, substantially in line with that of the previous year, providing the macro economic scenario does not suffer unforeseen critical circumstances.

As regards the principal risks and uncertainties, this consolidated quarterly report at 30 September 2018 has been prepared on a going-concern basis, as there is no plausible reason to believe the opposite in the foreseeable future.

Quarterly condensed consolidated financial statements at 30 September 2018

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets	30.09.2018	31.12.2017	Change amount	%
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	%
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".

CONSOLIDATED INCOME STATEMENT

Captions		30.09.2018	30.09.2017	Change amount	%
10.	Interest and similar income	204,783	209,324	(4,541)	-2.2%
20.	Interest and similar expense	(40,239)	(38,118)	(2,121)	5.6%
30.	**Net interest income**	**164,544**	**171,206**	**(6,662)**	**-3.9%**
40.	Commission income	132,285	128,865	3,420	2.7%
50.	Commission expense	(9,761)	(8,620)	(1,141)	13.2%
60.	**Net commission income**	**122,524**	**120,245**	**2,279**	**1.9%**
70.	Dividends and similar income	3,196	614	2,582	420.5%
80.	Net trading income	(31)	3,253	(3,284)	n.s.
90.	Net hedging gains (losses)	76	31	45	145.2%
100.	Gains (losses) on disposal or repurchase of:	(13,957)	3,356	(17,313)	n.s.
	a) financial assets measured at amortised cost	(23,552)	*(2)*	(23,550)	n.s.
	b) financial assets designated at fair value through other comprehensive income	10,038	*3,973*	6,065	152.7%
	c) financial liabilities	(443)	*(615)*	172	-28.0%
110.	Net result of other financial assets and liabilities designated at fair value through profit and loss	(1,719)	(8)	(1,711)	n.s.
	a) financial assets and liabilities designated at fair value		(8)	8	-100.0%
	b) other financial assets that have to be measured at fair value	(1,719)		(1,719)	n.s.
120.	**Net interest and other banking income**	**274,633**	**298,697**	**(24,064)**	**-8.1%**
130.	Net value adjustments/write-backs for credit risk relating to:	(45,037)	(55,158)	10,121	-18.3%
	a) financial assets measured at amortised cost	(43,724)	*(45,552)*	1,828	-4.0%
	b) financial assets designated at fair value through other comprehensive income	(1,313)	*(9,606)*	8,293	-86.3%
140.	Profit/losses from contractual changes without write-offs	(1)		(1)	n.s.
150.	**Net profit from financial activities**	**229,595**	**243,539**	**(13,944)**	**-5.7%**
180.	**Net profit from financial and insurance activities**	**229,595**	**243,539**	**(13,944)**	**-5.7%**
190.	Administrative costs:	(224,318)	(226,787)	2,469	-1.1%
	a) payroll costs	(127,281)	*(132,711)*	5,430	-4.1%
	b) other administrative costs	(97,037)	*(94,076)*	(2,961)	3.1%
200.	Net provisions for risks and charges	335	(1,461)	1,796	n.s.
	a) commitments for guarantees given	(158)	518	(676)	n.s.
	b) other net provisions	493	(1,979)	2,472	n.s.
210.	Net adjustments to property, plant and equipment	(5,447)	(5,824)	377	-6.5%
220.	Net adjustments to intangible assets	(1,394)	(1,541)	147	-9.5%
230.	Other operating charges/income	32,792	34,118	(1,326)	-3.9%
240.	**Operating costs**	**(198,032)**	**(201,495)**	**3,463**	**-1.7%**
280.	Gains (losses) on disposal of investments		41	(41)	-100.0%
290.	**Profit (loss) from current operations before tax**	**31,563**	**42,085**	**(10,522)**	**-25.0%**
300.	Income taxes on current operations	(8,139)	(14,567)	6,428	-44.1%
310.	**Profit (loss) from current operations after tax**	**23,424**	**27,518**	**(4,094)**	**-14.9%**
330.	**Net profit (loss) for the period**	**23,424**	**27,518**	**(4,094)**	**-14.9%**
340.	Net profit (loss) pertaining to minority interests	(149)	(658)	509	-77.4%
350.	**Parent Company net profit (loss)**	**23,275**	**26,860**	**(3,585)**	**-13.3%**

	30.09.2018	30.09.2017
Basic earnings per share (Euro)	0.18	0.20
Diluted earnings per share (Euro)	0.18	0.20

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) have been transferred to caption "200. a) Provisions for risks and charges – commitments and guarantees given".

In order to facilitate the comparability of caption "10. Interest and similar income", it should be noted that the balance of the caption at 30 September 2018 includes the release of the time value component of non-performing financial assets of Euro 7,048 thousand, as well as the interest write-downs on NPLs for Euro 2,186 thousand.

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Captions	30.09.2018	30.09.2017
10.	**Net profit (loss) for the period**	**23,424**	**27,518**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Equity instruments designated at fair value through other comprehensive income	3	-
70.	Defined-benefit pension plans	81	171
	Other elements of income, net of income taxes with reversal to income statement		
120.	Cash-flow hedges	63	653
140.	Financial assets (other than equities) designated at fair value through other comprehensive income	(37,178)	4,824
170.	**Total other elements of income (net of income taxes)**	**(37,031)**	**5,648**
180.	**Total comprehensive income (Captions 10+170)**	**(13,607)**	**33,166**
190.	Total comprehensive income pertaining to minority interests	672	(1,038)
200.	**Total consolidated comprehensive income pertaining to Parent Company**	**(12,935)**	**32,128**

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

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.09.2018

	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
						Changes in reserves	Transactions on shareholders' equity							Comprehensive income at 30.09.2018		
				Reserves	Dividends and other allocations		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			
Share capital:																
a) ordinary shares	118,592		118,592												60,840	57,752
b) other shares	6,865		6,865												6,865	
Share premium reserve	31,594		31,594												16,145	15,449
Reserves:																
a) from profits	721,430	(72,293)	649,137	31,138		(48)									715,231	(35,004)
b) other	17,612		17,612												13,796	3,816
Valuation reserves:	38,840	8,146	46,986											(37,031)	10,190	(235)
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	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 to recognise the effects on the balance sheet at 1 January 2018 of FTA of IFRS 9 "Financial instruments".

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30.09.2017

	Balance at 31.12.2016	Changes in opening balances	Balance at 01.01.2017	Allocation of prior year results		Changes during the year									Group shareholders' equity at 30.09.2017	Minority interests at 30.09.2017
						Changes in reserves	Transactions on shareholders' equity							Comprehensive income at 30.09.2017		
				Reserves	Dividends and other allocations		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			
Share capital:																
a) ordinary shares	118,482		118,482										110		60,840	57,752
b) other shares	6,865		6,865												6,865	
Share premium reserve	31,570		31,570										24		16,145	15,449
Reserves:																
a) from profits	707,638		707,638	14,298		(476)							(30)		747,405	(25,975)
b) other	17,612		17,612												13,796	3,816
Valuation reserves:	10,848		10,848											5,648	17,023	(527)
Equity instruments																
Treasury shares	(51)		(51)													(51)
Net profit (loss) for the period	25,537		25,537	(14,298)	(11,239)									27,518	26,860	658
Group shareholders' equity	**868,120**		**868,120**		**(11,239)**	**(80)**							**5**	**32,128**	**888,934**	
Minority interests	**50,381**		**50,381**			**(396)**							**99**	**1,038**		**51,122**

CONSOLIDATED CASH FLOW STATEMENT

	30.09.2018	30.09.2017
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**96,537**	**115,654**
- interest received (+)	199,630	205,190
- interest paid (-)	(42,080)	(39,796)
- dividends and similar income (+)	3,196	614
- net commission income (+/-)	122,524	121,372
- payroll costs (-)	(119,211)	(124,544)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(96,866)	(75,798)
- other revenues (+)	37,483	43,183
- taxation (-)	(8,139)	(14,567)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**269,061**	**(1,475,174)**
- financial assets held for trading	6,208	(12,105)
- financial assets designated at fair value through profit and loss		
- other financial assets that are necessarily measured at fair value	(10,675)	
- financial assets designated at fair value through other comprehensive income	(73,891)	(124,532)
- financial assets measured at amortised cost	399,495	(1,391,940)
- other assets	(52,076)	53,403
3. Cash generated (absorbed) by financial liabilities	**(360,998)**	**1,369,107**
- financial liabilities measured at amortised cost	(253,820)	1,368,901
- financial liabilities held for trading	1,820	(273)
- financial liabilities designated at fair value through profit and loss		(15,908)
- other liabilities	(108,998)	16,387
Net cash generated/absorbed by operating activities (A)	**4,600**	**9,587**
B. INVESTING ACTIVITIES		
1. Cash generated by	**70**	**198**
- sale of equity investments		
- dividends collected on equity investments		
- sale of property, plant and equipment	70	198
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(4,244)**	**(6,269)**
- purchase of equity investments		
- purchase of property, plant and equipment	(3,235)	(4,658)
- purchase of intangible assets	(1,009)	(1,611)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	**(4,174)**	**(6,071)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(13,821)	(11,635)
- sale/purchase of third party control		
Net cash generated/absorbed by financing activities (C)	**(13,821)**	**(11,635)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(13,395)**	**(8,119)**

Note: **the balances of the comparative period have been restated conventionally** in the tables required by Circular 262 – fifth update

RECONCILIATION

	30.09.2018	30.09.2017
Cash and cash equivalents at beginning of period	**59,413**	**50,472**
Net increase (decrease) in cash and cash equivalents	(13,395)	(8,119)
Cash and cash equivalents: effect of changes in exchange rates	2,197	1,951
Cash and cash equivalents at end of period	**48,215**	**44,304**

CONSOLIDATED INCOME STATEMENT – QUARTER BY QUARTER

Captions	3rd quarter 2018	2nd quarter 2018	1st quarter 2018	3rd quarter 2017	2nd quarter 2017	**1st quarter 2017**
10. Interest and similar income	68,470	66,047	70,266	68,428	70,280	70,616
20. Interest and similar expense	(12,247)	(13,648)	(14,344)	(12,298)	(12,571)	(13,249)
30. Net interest income	**56,223**	**52,399**	**55,922**	**56,130**	**57,709**	**57,367**
40. Commission income	44,623	46,081	41,581	42,521	44,081	42,263
50. Commission expense	(3,445)	(3,343)	(2,973)	(2,296)	(2,745)	(3,579)
60. Net commission income	**41,178**	**42,738**	**38,608**	**40,225**	**41,336**	**38,684**
70. Dividends and similar income	4	2,734	458	4	150	460
80. Net trading income	210	(221)	(20)	893	789	1,571
90. Net hedging gains (losses)	80	(2)	(2)	281	(41)	(209)
100. Gains (losses) on disposal or repurchase of:	(23,621)	4,113	5,551	1,044	1,542	770
a) financial assets measured at amortised cost	(23,451)	-	(101)	(97)	95	-
b) financial assets designated at fair value through other comprehensive income	(143)	4,349	5,832	1,382	1,625	966
c) financial liabilities	(27)	(236)	(180)	(241)	(178)	(196)
110. Net result of other financial assets and liabilities designated at fair value through profit and loss	(450)	(199)	(1,070)	-	-	(8)
a) financial assets and liabilities designated at fair value	-	-	-	-	-	(8)
b) other financial assets that have to be measured at fair value	(450)	(199)	(1,070)	-	-	-
120. Net interest and other banking income	**73,624**	**101,562**	**99,447**	**98,577**	**101,485**	**98,635**
130. Net value adjustments/write-backs for credit risk relating to:	5,541	(33,468)	(17,110)	(16,312)	(20,912)	(17,934)
a) financial assets measured at amortised cost	6,391	(32,998)	(17,117)	(15,714)	(15,200)	(14,638)
b) financial assets designated at fair value through other comprehensive income	(850)	(470)	7	(598)	(5,712)	(3,296)
140. Profit/losses from contractual changes without write-offs	(1)	-	-	-	-	-
150. Net profit from financial activities	**79,164**	**68,094**	**82,337**	**82,265**	**80,573**	**80,701**
160. Net premiums	-	-	-	-	-	-
170. Net other insurance income/expense	-	-	-	-	-	-
180. Net profit from financial and insurance activities	**79,164**	**68,094**	**82,337**	**82,265**	**80,573**	**80,701**
190. Administrative costs:	(74,025)	(74,856)	(75,437)	(76,120)	(74,535)	(76,132)
a) payroll costs	(42,055)	(42,049)	(43,177)	(43,305)	(44,989)	(44,417)
b) other administrative costs	(31,970)	(32,807)	(32,260)	(32,815)	(29,546)	(31,715)
200. Net provisions for risks and charges	680	1,973	(2,318)	(987)	(1,727)	1,253
a) commitments for guarantees given	(248)	41	49	(1,698)	58	2,158
b) other net provisions	928	1,932	(2,367)	711	(1,785)	(905)
210. Net adjustments to property, plant and equipment	(1,775)	(1,827)	(1,845)	(1,878)	(1,969)	(1,977)
220. Net adjustments to intangible assets	(330)	(531)	(533)	(541)	(501)	(499)
230. Other operating charges/income	9,882	11,638	11,272	10,322	12,587	11,209
240. Operating costs	**(65,568)**	**(63,603)**	**(68,861)**	**(69,204)**	**(66,145)**	**(66,146)**
250. Profit (loss) from equity investments	-	-	-	-	-	-
260. Net result of the measurement at fair value of property, plant and equipment and intangible assets	-	-	-	-	-	-
270. Adjustments to goodwill	-	-	-	-	-	-
280. Gains (losses) on disposal of investments	-	-	-	-	41	-
290. Profit (loss) from current operations before tax	**13,596**	**4,491**	**13,476**	**13,061**	**14,469**	**14,555**
300. Income taxes on current operations	(3,720)	(522)	(3,897)	(4,174)	(4,782)	(5,611)
310. Profit (loss) from current operations after tax	**9,876**	**3,969**	**9,579**	**8,887**	**9,687**	**8,944**
320. Net profit (loss) of discontinued operations, net of taxes	-	-	-	-	-	-
330. Net profit (loss) for the period	**9,876**	**3,969**	**9,579**	**8,887**	**9,687**	**8,944**
340. Net profit (loss) pertaining to minority interests	(203)	146	(92)	(184)	(174)	(300)
350. Parent Company net profit (loss)	**9,673**	**4,115**	**9,487**	**8,703**	**9,513**	**8,644**

EXPLANATORY NOTES

BASIS OF PREPARATION AND ACCOUNTING POLICIES

GENERAL INFORMATION

Declaration of compliance with International Financial Reporting Standards

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

In particular, as indicated in the introduction to this report, the contents of the condensed quarterly financial statements comply with *IAS 34 - Interim financial statements* and with the enabling regulations for art. 9 of Legislative Decree 38/2005, including the provisions of the Bank of Italy's Circular 262 of 22 December 2005 (5th update).

Basis of preparation

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

For the preparation of the financial statements and the contents of the explanatory notes, reference was made to the provisions contained in Circular 262 "*Bank financial statements: schedules and rules for preparation*" of 22 December 2005, as subsequently updated on 22 December 2017. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The condensed quarterly consolidated financial statements have been prepared in a clear manner to give a true and fair view of the balance sheet, financial position and result for the period of the Banco Desio Group on a going-concern basis, complying with the principle of recognition on an accruals basis and giving preference to economic substance over form in the recognition and representation of transactions.

The accounting standards applied in preparing this document for the classification, recognition, measurement and derecognition of financial assets and liabilities, as well as the methods for recognising revenues and costs, are different from those applied in preparing the 2017 financial statements of the Banco Desio Group. These changes derive essentially from the mandatory application, from 1 January 2018, of the following international accounting standards:

- *IFRS 9 Financial Instruments*, approved by the European Commission through Regulation no. 2067/2016, which replaced IAS 39 as regards the rules for classifying and measuring financial instruments, as well as the related impairment process;
- *IFRS 15 Revenues from contracts with customers*, approved by the European Commission through Regulation no. 1905/2016, which involved the cancellation and replacement of IAS 18 and IAS 11.

In light of the above, these condensed quarterly consolidated financial statements explain in detail the Banco Desio Group's updated accounting policies and provide an analysis of the main items in the financial statements.

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

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

Scope of consolidation and methodology

1. Investments in subsidiaries

Name	Head office	Type of relationship	Nature of holding	
			Parent company	% held
Banca Popolare di Spoleto S.p.A.	Spoleto	1	Banco Desio	81.673
Fides S.p.A.	Rome	1	Banco Desio	100.000
Desio OBG S.r.l.	Conegliano	1	Banco Desio	60.000

Key

Type of relationship:

1 = majority of votes at the ordinary shareholders' meeting

There have been no changes in the scope of consolidation with respect to the situation at 31 December 2017.

2. Significant assessments and assumptions in determining the scope of consolidation

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

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

3. Investments in subsidiaries with significant minority interests

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

Name	Minority interests %	Dividends paid to third parties
Banca Popolare di Spoleto S.p.A.	18.327	523
Desio OBG S.r.l.	40.000	-

3.2 Investments with significant minority interests: accounting information

Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Net interest and other banking income	Operating costs	Profit (loss) from current operations before tax	Profit (loss) from current operations after tax	Profit (loss) after tax on non-current assets held for sale	Net profit (loss) for the period (1)	Other elements of income, net of income taxes (2)	Comprehensive income (3) = (1) + (2)
Banca Popolare di Spoleto S.p.A.	4,116,556	26,144	205,023	49,642	6,538	219,315	62,095	94,768	(72,069)	5,567	4,529	-	4,529	(6,261)	(1,732)
Desio OBG S.r.l.	60	-	-	2	-	10	-	51	(51)	-	-	-	-	-	-

4 Significant restrictions

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

5 Other information

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

– *subsidiaries:* assets, liabilities, shareholders' equity, "off-balance sheet" transactions, costs and revenues are included in the relevant items of the consolidated financial statements on a line-by-line basis.

– Any positive difference emerging from a comparison of the book value of each investment and the relevant portion of the subsidiary's shareholders' equity, left over after any allocation to a specific balance sheet captions, is recognised as goodwill and subjected to impairment testing;

– *associates*: investments in associates are consolidated using the equity method (this policy was not applicable at the date of the quarterly consolidated financial statements as the Parent Company does not have any investments in associates).

Other aspects

IFRS 16 – Leases

From 1 January 2019, IFRS 16 *Leases* will replace IAS 17 *Leases*, as well as interpretations IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC- 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 was published by the IASB on 13 January 2016 and was approved at European Community level when the Official Journal of the European Union published EU Regulation no. 2017/1986 of 31 October 2017.

The new 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 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.

The standard establishes a single model for the recognition and assessment of leasing contracts for the lessee. This involves recording the leased asset, including those under operating leases, on the assets side of the balance sheet with a financial payable as the contra-entry. It also offers the possibility of not recognising as leases contracts involving low-value assets and leases with a contract term of 12 months or less. Assuming the same level of profitability and cash flow, this would result in an increase in the assets recorded in the balance sheet (leased assets), an increase in liabilities (the debt payable for the leased assets), a reduction in operating costs (lease instalments) and an increase in financial costs (for the repayment and remuneration of the debt). There are no particular changes for lessors, on the other hand, apart from some more disclosure requirements, as the current distinction between operating and financial leases is maintained for them.

The Banco Desio Group has launched a specific project to analyse the main changes introduced by the new standard by examining the contracts stipulated as lessor and as lessee, which would fall under the definition of a lease according to IFRS 16. This would then be followed by a design and implementation phase to be completed by the end of 2018, with a view to applying the new standard from 2019.

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

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

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

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

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

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

Comparability of the quarterly condensed consolidated financial statements

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

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

As regards the effects of first-time adoption of IFRS 9, the Banco Desio Group has decided to take the option provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of *IFRS 1 First-time Adoption of International Financial Reporting Standards*, according to which mandatory restatement of the comparative figures in the first financial statements after FTA is not envisaged, without prejudice to retrospective application of the new measurement and presentation rules required by the new standard. Without changing the figures, we have prepared reconciliations to show how the comparative figures reconcile back to how they were shown in the financial statements at 31 December 2017 as part of the new formats envisaged by the 5th update of Circular no. 262 of the Bank of Italy, in force since 1 January 2018. In particular:

- the previous items for *Loans to customers, Due from banks* and *Financial assets held to maturity* have all been transferred to *Financial assets measured at amortised cost*;

- the securities previous shown under *Financial assets available for sale* have all been reclassified to *Financial assets measured at fair value through other comprehensive income*, while the securities previously shown under *Financial assets held to maturity* have been allocated to *Financial assets valued at amortised cost* (regardless of the choice made for their subsequent allocation, with effect from 1 January 2018, to the business models defined by the Banco Desio Group in application of IFRS 9);
- the previous items for *Due to banks, Due to customers* and *Debt securities in issue* have all been allocated to *Financial liabilities valued at amortised cost*;
- the previous item *Impairment adjustments to other financial transactions* has been allocated entirely to *Net provisions for risks and charges - commitments and guarantees given*.

In this regard, it should be noted that, pursuant to IFRS 5, *Assets held for sale* include loans classified as doubtful, for which the steps taken to sell them are currently in progress, leading to their derecognition.

Domestic tax group election

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

Audit

This quarterly condensed consolidated financial statements has been subjected to a limited audit by Deloitte & Touche S.p.A.

MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

The accounting policies explained below, which were used in preparing these quarterly condensed consolidated financial statements, comply with the IAS/IFRS in force on the reference date and have been applied on a going-concern basis.

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

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

Classification

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

- financial assets held for trading, essentially represented by debt and equity securities and the positive value of derivative contracts held for trading purposes;
- financial assets mandatorily at fair value, represented by financial assets that do not meet the requirements for valuation at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not provide exclusively for repayments of principal and payments of interest on the principal to be repaid (i.e. failed to pass the SPPI test) or

that are not held as part of a business model whose objective is to hold the assets with a view to collecting the contractual cash flows (Hold To Collect or "HTC") or whose objective is achieved both through the collection of contractual cash flows and through the sale of financial assets (Hold To Collect and Sell or "HTCS");

- financial assets designated at fair value, i.e. the financial assets defined as such at the time of initial recognition when the right conditions exist. In these circumstances, an entity can irrevocably designate a financial asset as being measured at fair value through profit or loss, but only if doing so eliminates or significantly reduces an inconsistency in measurement.

In particular, the following are recognised in this item:

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

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

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

Recognition

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

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

Measurement

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

Market prices are used to determine the fair value of financial instruments quoted on an active market. In

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

Derecognition

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

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

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

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

Classification

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

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

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

In particular, the following are recognised in this item:

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

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

in the valuation reserve is adjusted to reflect the fair value of the financial asset at the date of the reclassification. On the other hand, in the case of reclassification to the category of fair value through profit or loss, the cumulative gain (loss) previously recorded in the valuation reserve is reclassified from equity to profit (loss) for the year.

Recognition

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

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

Measurement

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

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

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

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

Derecognition

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

Financial assets measured at amortised cost

Classification

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

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

In particular, the following are recognised in this item:

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

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

Recognition

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

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

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

Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In certain cases, the original contractual conditions are subject to modification by the contract parties

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

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

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

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

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

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

Hedging transactions

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

Classification

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

The type of hedge used may be:

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

Recognition

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

The recognition of hedging transactions assumes:

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

Measurement

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

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

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

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

Recognition of items affecting the income statement – Fair value hedges

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

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

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

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

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

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

Derecognition

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

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

Equity investments

Classification

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

The companies in which the Banco Desio Group holds at least 20% of the voting rights (including "potential" voting rights) or in which, despite having a lower share of rights, it has the power to participate in the determination of the financial and management policies of the investee by virtue of particular legal links

such as participation in syndicated agreements, are considered companies subject to significant influence (i.e. associates).

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

Recognition

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

Measurement

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

Property, plant and equipment

Classification

Property, plant and equipment include land, buildings, equipment, furniture and fittings and other office equipment. These consist of tangible fixed assets held for use in the provision of services (used for business purposes) and for rental to third parties (investment property) and for which it is deemed that they will be used for more than one financial year.

Recognition

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

On first-time adoption of IAS/IFRS, we made use of the exemption provided by art. 16 of IFRS 1, opting to assess property at fair value as the deemed cost at 1 January 2004. After that date, buildings have been valued at cost.

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

In application of IAS 17, financial leases are recognised in the financial statements in accordance with the financial method. Assets leased to others are therefore shown under receivables. Conversely, assets held under finance lease contracts are included in this caption, even though the lessor retains legal title.

Measurement

Property, plant and equipment are shown at purchase cost, including ancillary expenses, less accumulated depreciation and any impairment losses.

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

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

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

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

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

Intangible assets

Classification

Intangible assets include goodwill, compensation for abandonment of leasehold premises and software purchase costs. Restructuring costs of properties not owned (i.e. "leasehold improvements") are recorded under *Other assets*.

Recognition

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

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

benefits and reliable measurability of cost.

Measurement

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

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

Non-current assets/liabilities and disposal groups held for sale

Recognition

Non-current assets and disposal groups held for sale are measured at the time of initial recognition at the lower of book value and fair value less costs to sell.

Classification

These captions include non-current assets and groups of assets held for sale, when the book value will be recovered principally through a sale transaction that is considered highly probable, rather than through continued use.

In accordance with IFRS 5, so-called "discontinued operations" (i.e. assets sold or held for sale) are also recognised in this caption, if they:

– represent a significant line of business or geographical area of operations;
– form part of a single coordinated plan to dispose of a significant separate line of business or geographical area of operations;
– involve a subsidiary acquired solely with a view to reselling it.

Measurement and recognition of items affecting the income statement

Subsequent to initial recognition, non-current assets and disposal groups held for sale are valued at the lower of book value and fair value less costs to sell. The related income and expenses (net of taxes) are presented in the income statement under a separate item called "Profit (loss) after tax on non-current assets held for sale" when they relate to discontinued operations.

Derecognition

Non-current assets and groups of assets held for sale are eliminated from the balance sheet on disposal.

Current and deferred taxation

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

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

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

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

Provision for termination indemnities

Measurement

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

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

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

Recognition of items affecting the income statement

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

Provisions for risks and charges

Provisions for risks and charges for commitments and guarantees given

The sub-item of provisions for risks and charges in question includes the credit risk provisions to cover commitments to disburse funds and guarantees issued that fall within the scope of application of the impairment rules under IFRS 9. In these cases, in principle, we adopt the same methods of allocation between the three stages of credit risk and the same methods of calculation of expected loss with reference to financial assets measured at amortised cost or at fair value through other comprehensive income.

Other provisions for risks and charges

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

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

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

Recognition of items affecting the income statement

Provisions are charged to the income statement.

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

Financial liabilities measured at amortised cost

Classification

Due to banks, Due to customers and *Debt securities in issue* include the various forms of interbank and customer funding, repurchase agreements with the obligation to repurchase in the future and deposits made through certificates of deposit, bonds and other instruments collection fund, net of any repurchased amounts.

Recognition

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

Measurement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Exceptions to this are short-term liabilities, for which the time factor is negligible, which remain recorded for the amount collected.

Derecognition

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

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

Financial liabilities held for trading

Recognition and classification

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

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

Measurement and recognition of items affecting the income statement

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

Derecognition

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

Currency transactions

Recognition

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

Measurement

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

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

Recognition of items affecting the income statement

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

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

Other information

Valuation reserves

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

Recognition of revenues and costs

Revenues are recognised:

- at a specific moment when the entity fulfils the obligation to transfer the promised asset or service to the customer, or
- over time, as the entity fulfils its obligation to transfer the promised asset or service to the customer.

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

- interest expense is recognised on a pro-rata basis at the contractual interest rate or, in the case of application of amortised cost, at the effective interest rate. Interest income (expense) also includes positive (negative) differentials or margins on financial derivatives accrued at the date of the financial statements:
  a) hedging assets and liabilities that generate interest;
  b) classified in the balance sheet in the trading book, but operationally linked to assets and/or liabilities measured at fair value (fair value option);
  c) operationally linked to assets and liabilities classified as held for trading and providing for the settlement of differentials or margins on several maturities.

  Note that interest income (or interest expense) in the consolidated financial statements also includes amortisation for the year of the fair value differences measured with reference to business combinations, due to the greater or lesser profitability accorded to assets classified as receivables and liabilities classified as payables and debt securities in issue. However, in the event of termination of these loans (acquired as the result of a business combination), any higher book value recorded in the financial statements on initial recognition gets fully released through profit and loss in the year that the loan is repaid (as *Net adjustments for credit risk relating to financial assets measured at amortised cost*);
- default interest, which may be provided by contract, is recognised in the income statement only when actually collected;
- dividends are recognised in the income statement when distribution has been approved;
- commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;
- revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent observable transactions in the same market where the instrument is traded (Level 1 and Level 2 of the fair value hierarchy). If these values cannot be easily determined or have a reduced level of liquidity (Level 3), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;
- gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
- revenues from the sale of non-financial assets are recognised on completion of the sale, i.e. when the

obligation towards the customer is fulfilled.

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

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

Finance leases

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

Securitisations

Exposures to the securitisation (in the form of junior securities or deferred purchase price) are allocated to *Financial assets measured at fair value through profit or loss.* However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control[2] introduced by IFRS 10, it is included in the Group's scope of consolidation.

According to the breakdown by type, *Financial assets measured at amortised cost* include loans to customers involved in securitisations subsequent to 1 January 2004, which do not have the requisites under IFRS 9 for derecognition from the financial statements, or transactions with which loans are assigned to the special purpose vehicle and in which, even if there is formal transfer of legal title to the loans, control over the cash flows deriving from them and the substantial risks and benefits are maintained.

Against these loans and receivables, the consideration received for their sale, net of securities issued by the special purpose vehicle and repurchased by the originator, is allocated to *Financial liabilities measured at amortised cost.*

[2] Under this definition, an investor controls an entity subject to investment when the investor has power over its key assets, is exposed to variable returns resulting from the relationship with the entity and has the ability to affect those returns by exercising power over it.

INFORMATION ON FAIR VALUE

Qualitative information

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

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

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

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

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

Fair value measurement with use of Level 1 inputs

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

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

The fundamental elements are the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

- for loans and receivables, the fair value is calculated for performing positions beyond the short term using the valuation technique that envisages the discounting of expected cash flows, considering, at the free risk rate, the credit risk of the relationship (in terms of PD and LGD measured by the internal rating models in use), while for non-performing and short-term performing positions, the carrying amount is considered a reasonable approximation of the fair value. In general, they are classified in Level 3, except in the case where the significance of the observable inputs compared with the entire assessment is higher than a predetermined threshold (Level 2), or in the event of assets held for sale or transactions being completed at the reference date (Level 1) Taking into account the current context of the credit market, with particular reference to non-performing loans, this fair value (Level 2 and 3),

determined taking into account multi-scenario assumptions that provide for the combination between internal management and so-called "disposal scenarios", may not represent the potential exit price because of a certain margin of uncertainty, which is in any case inherent in the various components making up the price considered by a potential third-party purchaser;

- debt and certificates of deposit issued by Group banks are measured at book value, which represents a reasonable approximation of their fair value (Level 3);
- for bonds issued by Group banks, the fair value is measured according to the discounting of future cash flows and applying a credit spread (Level 2);
- investment property: fair value is estimated through the use of property market information sources, appropriately adjusted based on parameters such as location, size, age, intended use and maintenance and based on value estimates performed by external independent experts (*Level* 3).

Process and sensitivity of valuations

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

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

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

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

Fair value hierarchy

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

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

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

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

Other information

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

<u>Quantitative information</u>

Fair value hierarchy

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

	30.09.2018			31.12.2017		
Financial assets/liabilities designated at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets designated at fair value through profit or loss	42,673	3,681	16,466	8,665	7,771	4,545
a) Financial assets held for trading	4,768	2,860	6,346	8,665	7,771	4,545
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	37,905	821	10,120	-	-	-
2. Financial assets designated at fair value through other comprehensive income	1,240,291	246,415	5,225	1,254,556	241,401	15,510
3. Hedging derivatives	-	3	-	-	5	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**1,282,964**	**250,099**	**21,691**	**1,263,221**	**249,177**	**20,055**
1. Financial liabilities held for trading	-	3,139	6,657	-	3,450	4,526
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	4,346	-	-	4,724	-
Total	**-**	**7,485**	**6,657**	**-**	**8,174**	**4,526**

Key

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

The comparative figure for item "2. Financial assets valued at fair value through other comprehensive income" includes the reclassification of "Assets available for sale", the caption previously adopted in application of IAS 39. In particular, from 1 January 2018 mutual funds have been recorded in item "2.c. Financial assets mandatorily at fair value" because by their very nature they would not pass the SPPI test (solely payments of principal and interest) required by IFRS 9 "Financial instruments".

Investments, valued through unobservable inputs (Level 3), are a very limited share of financial assets measured at fair value (1.40% compared with 1.31% at end-2017).

These investments are made up principally of mutual funds that are mandatorily measured at fair value (caption 1.c of the table) and non-controlling interests (caption 2. of the table).

At 30 September 2018, the impact of applying the Credit Value Adjustment to derivatives with a positive mark-to-market amounts to Euro 1 thousand (relating to trading derivatives); as regards instruments with a negative mark-to-market adjustment, there is no impact from applying the Debit Value Adjustment.

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

	Financial assets designated at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily at fair value				
1. Opening balance	**4,545**	**4,545**	**-**	**-**	**15,510**	**-**	**-**	**-**
2. Increases	**17,355**	**6,346**	**-**	**11,009**	**332**	**-**	**-**	**-**
2.1. Purchases	-	-	-	-	332	-	-	-
2.2. Profits posted to:	6,346	6,346	-	-	-	-	-	-
2.2.1. Income statement	6,346	6,346	-	-	-	-	-	-
- of which: capital gains	6,346	6,346	-	-	-	-	-	-
2.2.2. Shareholders' equity					-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	11,009	-	-	11,009	-	-	-	-
3. Decreases	**5,434**	**4,545**	**-**	**889**	**10,617**	**-**	**-**	**-**
3.1. Sales	-	-	-	-	142	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3. Losses posted to:	5,434	4,545	-	889	-	-	-	-
3.3.1. Income statement	5,434	4,545	-	889	-	-	-	-
- of which: capital losses	5,434	4,545	-	889	-	-	-	-
3.3.2. Shareholders' equity					-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	10,475	-	-	-
4. Closing balance	**16,466**	**6,346**	**-**	**10,120**	**5,225**	**-**	**-**	**-**

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

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Hedging derivatives
1. Opening balance	**4,526**	**-**	**-**
2. Increases	**6,657**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses posted to:	6,657	-	-
2.2.1. Income statement	6,657	-	-
- of which: capital losses	6,657	-	-
2.2.2. Shareholders' equity		-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**4,526**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits posted to:	4,526	-	-
3.3.1. Income statement	4,526	-	-
- of which: capital gains	4,526	-	-
3.3.2. Shareholders' equity		-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**6,657**	**-**	**-**

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.09.2018				31.12.2017			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	11,453,539	1,035,790	6,055,382	4,426,699	11,828,618	570,327	5,709,733	5,765,988
2. Investment property	1,822	-	-	2,182	1,136	-	-	1,035
3. Non-current assets and disposal groups held for sale	2,652	2,652	-	-	-	-	-	-
Total	**11,458,013**	**1,038,442**	**6,055,382**	**4,428,881**	**11,829,754**	**570,327**	**5,709,733**	**5,767,023**
1. Financial liabilities measured at amortised cost	12,430,919	-	1,540,755	10,879,579	12,686,585	-	1,705,960	11,001,712
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**12,430,919**	**-**	**1,540,755**	**10,879,579**	**12,686,585**	**-**	**1,705,960**	**11,001,712**

Key

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

INFORMATION ON "DAY ONE PROFIT/LOSS"

IFRS 9 – Financial Instruments requires a financial instrument upon initial recognition to be measured at fair value, which is normally the transaction price (that is, the amount paid for the financial assets and the amount received for the financial liabilities). The foregoing holds true for exchanges of instruments quoted in an active market. If the market for a financial instrument is not active, then valuation techniques are used to determine its fair value. If a difference arises (so-called "day one profit/loss") between the transaction price and the amount determined at the time of initial recognition through the use of valuation techniques and this difference is not recognised immediately in the income statement, then disclosure needs to be provided as per paragraph 28 of IFRS 7, by indicating the accounting policy adopted for the income statement recognition, subsequent to initial recognition of the instrument, of the difference.

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

MAIN BALANCE SHEET AND INCOME STATEMENT CAPTIONS

ASSETS

Cash and cash equivalents – caption 10

1.1 Cash and cash equivalents: breakdown

	30.09.2018	31.12.2017
a) Cash	48,215	59,413
b) Demand deposits with central banks	-	-
Total	**48,215**	**59,413**

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

2.1 Financial assets held for trading: breakdown

Captions/Amounts	30.09.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	3	1,459	-	3	2,158	-
1.1 Structured securities	1	-	-	1	-	-
1.2 Other debt securities	2	1,459	-	2	2,158	-
2. Equity instruments	4,639	-	-	4,642	-	-
3. Mutual funds	-	-	-	3,839	-	-
4. Loans	-	-	-	-	-	-
4.1. Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**4,642**	**1,459**	**-**	**8,484**	**2,158**	**-**
B. Derivatives	-	-	-	-	-	-
1. Financial derivatives	126	1,401	6,346	181	5,613	4,545
1.1 for trading	126	1,401	6,346	181	5,613	4,545
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**126**	**1,401**	**6,346**	**181**	**5,613**	**4,545**
Total (A+B)	**4,768**	**2,860**	**6,346**	**8,665**	**7,771**	**4,545**

Key

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

Caption "Financial assets held for trading" comprises:

a) Cash assets held for trading;
b) Positive value of derivatives held for trading.

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

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

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

Captions/Amounts	30.09.2018	31.12.2017
A. Cash assets		
1. Debt securities	**1,462**	**2,161**
a) Central Banks	-	1,533
b) Public administrations	1,448	-
c) Banks	14	628
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**4,639**	**4,642**
a) Banks	646	1,131
b) Other financial companies	1,538	735
of which: insurance companies	-	-
c) Non-financial companies	2,455	2,776
d) Other issuers	-	-
3. Mutual funds	**-**	**3,839**
4. Loans	**-**	**-**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**6,101**	**10,642**
B. Derivatives		
a) Central counterparties	-	9,753
b) Other	7,873	586
Total (B)	**7,873**	**10,339**
Total (A+B)	**13,974**	**20,981**

2.5 Other financial assets mandatorily at fair value: breakdown

Captions/Amounts	30.09.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**821**	**-**	**-**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	821	-	-	-	-
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Mutual funds	**37,905**	**-**	**10,120**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**37,905**	**821**	**10,120**	**-**	**-**	**-**

Key

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

The item "Financial assets mandatorily at fair value" includes the mutual fund units that are not held for trading purposes; these instruments, previously classified under item 40 "Assets available for sale" in application of the IAS 39, by their very nature do not pass the SPPI test ("solely payments of principal and interests") foreseen in IFRS 9 "Financial Instruments". The comparative figure of Euro 38,171 thousand has been conventionally restated under item 30. "Financial assets measured at fair value through other comprehensive income".

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

	30.09.2018	31.12.2017
1. Equity instruments	**-**	**-**
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	**821**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	821	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Mutual funds	**48,025**	**-**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**48,846**	**-**

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

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

Captions/Amounts	30.09.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,240,291	199,149	-	1,226,860	194,134	-
1.1 Structured securities	-	3,714	-	-	2,033	-
1.2 Other debt securities	1,240,291	195,435	-	1,226,860	192,101	-
2. Equity instruments	-	47,266	5,225	-	47,267	5,035
3. Loans	-	-	-	-	-	-
4. Mutual funds	-	-	-	27,696		10,475
Total	**1,240,291**	**246,415**	**5,225**	**1,254,556**	**241,401**	**15,510**

Key

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

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

- the bond portfolio not intended for trading purposes and not held with the exclusive intent of collecting contractual cash flows;
- shares of minority holdings other than those in associated companies or joint ventures for which the so-called "FVOCI option" was adopted.

The comparative figure includes the reclassification of item "40. Assets available for sale", the caption previously adopted in application of IAS 39. In particular, from 1 January 2018 mutual funds have been recorded in item "20.c. Financial assets mandatorily at fair value" because by their very nature they would not pass the SPPI test (solely payments of principal and interest) required by IFRS 9 "Financial Instruments".

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

Captions/Amounts	30.09.2018	31.12.2017
1. Debt securities	**1,439,440**	**1,420,994**
a) Central banks	-	1,226,861
b) Public administrations	1,237,640	-
c) Banks	99,312	101,151
d) Other financial companies	72,067	92,982
of which: insurance companies	-	-
e) Non-financial companies	30,421	-
2. Equity instruments	**52,491**	**52,302**
a) Banks	10,000	10,141
b) Other issuers:	42,491	42,161
- other financial companies	3,808	3,808
of which: insurance companies	-	-
- non-financial companies	38,671	38,341
- other	12	12
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
4. Mutual funds		**38,171**
Total	**1,491,931**	**1,511,467**

Financial assets measured at amortised cost - caption 40

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

Type of transaction/Amounts	30.09.2018					31.12.2017				
	Book value		Fair value			Book value		Fair value		
	First and second stage	Third stage	L1	L2	L3	First and second stage	Third stage	L1	L2	L3
A. Due from central banks	**43,743**	**-**	**-**	**-**	**43,743**	**1,097,955**	**-**	**-**	**-**	**1,097,955**
1. Time deposits	-	-				-	-			
2. Reserve requirement	43,743	-				1,097,955	-			
3. Repurchase agreements	-	-				-	-			
4. Other	-	-				-	-			
B. Due from banks	**361,252**	**-**	**-**	**171,265**	**188,204**	**120,105**	**-**	**-**	**125,934**	**120,105**
1. Loans	188,794	-	-	-	188,204	120,105	-	-	-	120,105
1.1 Current accounts and demand deposits	51,727	-				30,305	-			
1.2. Time deposits	10,955	-				35,435	-			
1.3. Other loans:	126,112	-				54,365	-			
- Repurchase agreements	-	-				-	-			
- Finance leases	-	-				-	-			
- Other	126,112	-				54,365	-			
2. Debt securities	172,458	-	-	171,265	-	124,492	-	-	125,934	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	172,458	-	-	171,265	-	124,492	-	-	125,934	-
Total	**404,995**	**-**	**-**	**171,265**	**231,947**	**1,342,552**	**-**	**-**	**125,934**	**1,218,060**

Key

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

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

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

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

The Group's commitment to maintain the reserve requirement amounts to Euro 92.4 million at 30 September 2018 (versus Euro 90.2 million at December 2017) of which Euro 59.4 million by Banco Desio and Euro 33.0 million by Banca Popolare di Spoleto S.p.A. In particular, the change in the balance on this caption compared with the end of the previous year is due to the increase in the portfolio of securities owned and the trend in returns offered by the repo market, which began to be more profitable in the third

quarter, when it was possible to take advantage of investment opportunities also in this sense, decreasing the stock at the Bank of Italy as a result.

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

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows. The value of debt securities is shown net of adjustments deriving from the application of the new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments" starting from 1 January 2018. This category refers to all financial assets to which a Level 2 fair value is assigned.

The comparative period includes the balances conventionally restated from the captions previously adopted in application of IAS 39:

- "60. Due from banks";
- "50. Financial assets held to maturity ", limited to securities issued by banking counterparties.

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

Type of transaction/Amounts	30.09.2018					31.12.2017				
	Book value		Fair value			Book value		Fair value		
	First and second stage	Third stage	L1	L2	L3	First and second stage	Third stage	L1	L2	L3
1. Loans	**9,185,999**	**404,940**	**-**	**5,529,585**	**4,194,752**	**9,037,938**	**823,924**	**-**	**5,522,929**	**4,547,928**
1.1. Current accounts	1,444,116	109,144	-	-	-	1,491,290	196,488	-	-	-
1.2. Repurchase agreements	208,842	-	-	-	-	-	-	-	-	-
1.3. Mortgage loans	5,566,571	269,495	-	-	-	5,479,861	595,277	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary	697,714	3,831	-	-	-	652,144	4,796	-	-	-
1.5. Finance leases	186,431	13,141	-	-	-	223,325	16,230	-	-	-
1.6. Factoring	22,678	184	-	-	-	24,781	934	-	-	-
1.7. Other loans	1,059,647	9,145	-	-	-	1,166,537	10,199	-	-	-
2. Debt securities	**1,457,605**	**-**	**1,035,790**	**354,532**	**-**	**624,204**	**-**	**570,327**	**60,870**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	1,457,605	-	1,035,790	354,532	-	624,204	-	570,327	60,870	-
Total	**10,643,604**	**404,940**	**1,035,790**	**5,884,117**	**4,194,752**	**9,662,142**	**823,924**	**570,327**	**5,583,799**	**4,547,928**

Gross loans totalled Euro 9,986,366 thousand (Euro 10,694,965 thousand last year), including the loans acquired in 2014 by means of a business combination with Banca Popolare di Spoleto S.p.A., recorded in the financial statements in accordance with IFRS 3. Total write-downs relating to these loans amount to Euro 395,427 thousand (Euro 833,103 thousand in December 2017).

Note that, pursuant to IFRS 5, this table does not include doubtful loans of Euro 2.7 million included in Assets held for sale; steps are being taken to sell them, which will result in their derecognition.

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

The table also includes the amounts of receivables sold which have not been derecognised, constituting eligible assets for the Covered Bond programme; at 30 September 2018 these receivables amounted to Euro 713,283 thousand (formerly Euro 785,238 thousand).

Sub-caption "Mortgage loans" also includes collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 1,681,296 thousand (Euro 1,817,251 thousand at the end of last year).

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

With reference to the stock of non-performing loans (in the "Third stage" column), there is a significant reduction in the amount at the reference date compared with the end of the previous year due to the securitisation of receivables classified as doubtful through the use of the State guarantee (GACS).

This caption includes the interest accrued at 30 September 2018 that is recoverable from 1 March of the following year, due to application of the new rules for the calculation of interest on banking transactions established in MEF Decree no. 343/2016, which implements art. 120, para. 2, of the Consolidated Banking Law (T.U.B.).

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

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows. The value of debt securities is shown net of adjustments deriving from the application of the new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments" starting from 1 January 2018. This category includes financial assets to which a fair value of Level 1 or Level 2 is assigned. This portfolio includes Euro 288,849 thousand of senior notes issued by the "2Worlds s.r.l." SPV following the sale of doubtful loans through use of the "GACS" scheme.

The comparative period includes the balances conventionally restated from the captions previously adopted in application of IAS 39:

- "70. Loans to customers";
- "50. Financial assets held to maturity", limited to securities issued by non-banking counterparties.

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

Type of transaction/Amounts	30.09.2018		31.12.2017	
	First and second stage	Third stage	First and second stage	Third stage
1. Debt securities	**1,457,605**	**-**	**624,204**	**-**
a) Public administrations	1,102,853	-	563,667	-
b) Other financial companies	354,752	-	60,537	-
of which: insurance companies	-	-	-	-
c) Non-financial companies	-	-	-	-
2. Loans to:	**9,185,999**	**404,940**	**9,037,938**	**823,924**
a) Public administrations	32,393	422	24,420	9
b) Other financial companies	343,015	4,308	101,326	7,616
of which: insurance companies	4,702	-	3,687	-
c) Non-financial companies	5,249,871	271,571	5,765,780	604,580
d) Households	3,560,720	128,639	3,146,412	211,719
Total	**10,643,604**	**404,940**	**9,662,142**	**823,924**

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

		Gross value				Total write-downs			
		First stage		Second stage	Third stage	First stage	Second stage	Third stage	Total partial write-offs
			of which: Instruments with low credit risk						
Debt securities		1,623,086	1,333,774	9,601	-	2,550	74	-	-
Loans		8,348,205	-	1,123,323	747,375	23,096	29,896	342,435	26,994
Total	**30.09.2018**	**9,971,291**	**1,333,774**	**1,132,924**	**747,375**	**25,646**	**29,970**	**342,435**	**X**
Total	**31.12.2017**	**11,045,357**	**-**	**-**	**1,616,365**	**40,662**	**-**	**792,441**	**X**

The table shows the distribution of the exposures measured at amortised cost (both to banks and to customers) and the related adjustments in the three stages with increasing level of credit risk (due to the evolution over time) envisaged by IFRS 9 "Financial Instruments", applied from 1 January 2018. Stage segmentation takes place in compliance with the following requirements:

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

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

c) stage 3 for non-performing exposures.

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

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

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

All performing exposures to banks and customers valued at amortised cost in the comparative period (and the related value adjustments determined in application of the IAS 39 in force at the time) are conventionally allocated in the first stage; non-performing exposures and write-downs, on the other hand, are included in the third stage.

Hedging derivatives - caption 50

5.1 Hedging derivatives: breakdown by type and level

	30.09.2018				31.12.2017			
	FV			NV	FV			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	3	-	5,813	-	5	-	6,455
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**3**	**-**	**5,813**	**-**	**5**	**-**	**6,455**

Key

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

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

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

6.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets / Components of the Group	30.09.2018	31.12.2017
1. Positive adjustments	**626**	**875**
1.1 of specific portfolios:	626	875
a) financial assets measured at amortised cost	626	875
b) financial assets designated at fair value through other comprehensive income	-	-
1.2 total	-	-
2. Negative adjustments	**-**	**-**
2.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets designated at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**626**	**875**

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

Property, plant and equipment - caption 90

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

Assets/Amounts	30.09.2018	31.12.2017
1. Own assets	**176,462**	**179,430**
a) land	52,778	53,108
b) property	104,831	107,179
c) furniture	4,611	5,097
d) electronic systems	3,424	4,031
e) other	10,818	10,015
2. Land and property under finance lease	**-**	**-**
a) land	-	-
b) property	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**176,462**	**179,430**
of which: obtained through enforcement of the guarantees	-	-

There are no assets held under finance leases at the reporting date.

Land and buildings are measured at the amount revalued as of 1 January 2004 on first-time application of IAS/IFRS. Otherwise, all property, plant and equipment, including other tangible fixed assets, are measured at cost, except for tangible assets acquired through business combinations and shown in the consolidated financial statements at fair value, pursuant to the IFRS 3.

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

9.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	30.09.2018				31.12.2017			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,822**	**-**	**-**	**2,182**	**1,136**	**-**	**-**	**1,035**
a) land	828	-	-	826	498	-	-	426
b) property	994	-	-	1,356	638	-	-	609
2. Land and property under finance lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) property	-	-	-	-	-	-	-	-
Total	**1,822**	**-**	**-**	**2,182**	**1,136**	**-**	**-**	**1,035**
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

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

Intangible assets - caption 100

10.1 Intangible assets: breakdown by type

Assets/Amounts	30.09.2018		31.12.2017	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		**15,322**		**15,322**
A.1.1 pertaining to the Group		15,322		15,322
A.1.2 pertaining to minority interests		-		-
A.2 Other intangible assets	**2,239**	**-**	**2,624**	**-**
A.2.1 Carried at cost	2,239	-	2,624	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	2,239	-	2,624	-
A.2.2 Carried at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**2,239**	**15,322**	**2,624**	**15,322**

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

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

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

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

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

Deferred tax assets are recognised when their recovery is probable.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	30.09.2018	31.12.2017
A) With contra-entry to the income statement:				
Tax losses	31,526	1,453	32,979	1,342
Tax deductible goodwill	3,888	788	4,676	5,168
Write-down of loans to customers	120,373	15,426	135,799	148,608
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994	1		1	1
Statutory depreciation of property, plant and equipment	201		201	208
Provision for guarantees and commitments and country risk	583		583	589
Provisions for personnel costs	5,425	922	6,347	9,281
Provision for lawsuits	3,060	47	3,107	3,923
Provision for claw-backs	194	39	233	296
Provision for sundry charges	462	14	476	425
Tax provision for termination indemnities	251		251	346
Other general expenses deductible in the following year	560	249	809	262
Other	1,667	499	2,166	1,132
Total A	**168,496**	**19,437**	**187,933**	**171,886**
B) With contra-entry to shareholders' equity:				
Tax provision for termination indemnities	916		916	947
Write-down of securities valued at FVOCI	14,231	2,880	17,111	3,417
Other	966	196	1,162	1,180
Total B	**16,113**	**3,076**	**19,189**	**5,544**
Total (A+B)	**184,609**	**22,513**	**207,122**	**177,430**

The comparative balance of the "Write-down of securities classified as AFS" has been conventionally restated under "Write-down of securities valued at FVOCI".

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	30.09.2018	31.12.2017
A) With contra-entry to the income statement:				
Tax depreciation of buildings	6,692	871	7,563	7,563
Tax depreciation of property, plant and equipment		15	15	15
Tax amortisation of goodwill	475	96	571	571
Tax amortisation of deferred charges (software)	1	5	6	6
Tax provision as per art. 106, paragraph 3	20		20	20
Tax provision for termination indemnities	581		581	
Other	4,651	773	5,424	8,801
Total A	**12,420**	**1,760**	**14,180**	**16,976**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	533	108	641	606
Revaluation of securities valued at FVOCI	5,667	1,509	7,176	7,866
Revaluation of equity investments	268	1,085	1,353	1,353
Tax provision for termination indemnities				
Total B	**6,468**	**2,702**	**9,170**	**9,825**
Total (A+B)	**18,888**	**4,462**	**23,350**	**26,801**

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

The comparative balance of the "AFS securities revaluation" has been conventionally restated under "Revaluation of securities valued at FVOCI".

Non-current assets and disposal groups held for sale associated liabilities - Asset caption 120 and Liability caption 70

In this regard, it should be noted that, pursuant to IFRS 5, *Assets held for sale* include loans classified as doubtful, for which steps are being taken to sell them, which will result in their derecognition.
The value of loans and receivables that are included in this item is in line with their realisable value on completion of the aforementioned transactions.

Other assets - caption 130

13.1 Other assets: breakdown

	30.09.2018	31.12.2017
Tax credits - capital	7,475	8,641
Amounts recoverable from the tax authorities for advances paid	25,013	33,321
Cheques negotiated to be cleared	20,825	26,384
Invoices issued to be collected	1,630	1,307
Items being processed and in transit with branches	45,135	24,094
Currency spreads on portfolio transactions	223	2,903
Investments of the supplementary fund for termination indemnities	237	315
Leasehold improvement expenditure	12,071	13,462
Accrued income and prepaid expenses	4,120	1,450
Other items	50,830	51,547
Total	**167,559**	**163,424**

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

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

- a receivable for withholding tax on interest on deposits and current accounts of Euro 1,177 thousand;
- a receivable for virtual stamp duty of Euro 22,744 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 1,092 thousand, as per art. 2, para. 5, of Decree Law no. 133 of 30 November 2013.

The "Items being processed and in transit with branches" principally include security transactions, Euro 20,553 thousand, settled afterwards; the F24 tax payment forms accepted through internet and home banking instructions that will be debited to accounts on the due date, Euro 5,712 thousand, and the recovery of commissions on lines of credit made available to customers, Euro 8,122 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new reference period.

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

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

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

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

- commissions and taxes awaiting collection for Euro 13,638 thousand;
- consideration receivable of Euro 13,736 thousand arising from transactions carried out in 2017 for the sale to specialist intermediaries of non-performing loans;
- Euro 10,448 thousand due following currency transactions;
- invoices to be issued for Euro 3,628 thousand.

LIABILITIES

Financial liabilities measured at amortised cost - caption 10

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

Type of transaction/Components of the group	30.09.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**1,587,980**	X	X	X	**1,592,800**	X	X	X
2. Due to banks	**62,429**	X	X	X	**113,128**	X	X	X
2.1 Current accounts and demand deposits	37,212	X	X	X	27,077	X	X	X
2.2 Time deposits	-	X	X	X	2,593	X	X	X
2.3 Loans	25,217	X	X	X	83,205	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	25,217	X	X	X	83,205	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Other payables	-	X	X	X	253	X	X	X
Total	**1,650,409**	**-**	**-**	**1,650,409**	**1,705,928**	**-**	**-**	**1,705,928**

The "Due to central banks" caption reflects the funding facility assigned to the Group by the Eurosystem as part of the "TLTRO II" operation. As a guarantee for this loan, Group banks have lodged collateralised mortgage loans with the ECB (via the A.Ba.Co. procedure).

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

Type of transaction/Components of the group	30.09.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1 Current accounts and demand deposits	8,014,231	X	X	X	7,738,397	X	X	X
2. Time deposits	1,128,898	X	X	X	1,471,738	X	X	X
3. Loans	25,789	X	X	X	24,045	X	X	X
3.1 repurchase agreements	-	X	X	X	-	X	X	X
3.2 Other	25,789	X	X	X	24,045	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Other payables	41,503	X	X	X	38,157	X	X	X
Total	**9,210,421**	**-**	**-**	**9,210,421**	**9,272,337**	**-**	**-**	**9,272,337**

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

The main components of "Other payables" relate to: cashier's cheques for Euro 38,055 thousand and cheques for Euro 536 thousand (cashier's cheques for Euro 34,970 thousand and cheques for Euro 535 thousand respectively at the end of the previous year).

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

Type of security/Amounts	30.09.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	1,551,340	-	1,540,755	-	1,684,873	-	1,705,960	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,551,340	-	1,540,755	-	1,684,873	-	1,705,960	-
2. Other securities	18,749	-	-	18,749	23,447	-	-	23,447
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	18,749	-	-	18,749	23,447	-	-	23,447
Total	**1,570,089**	**-**	**1,540,755**	**18,749**	**1,708,320**	**-**	**1,705,960**	**23,447**

Key

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

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

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

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 17,820 thousand were issued with a short term maturity and Euro 905 thousand were issued with a longer than short term maturity. The remainder consists of certificates of Euro 24 thousand that have reached maturity and which are due to be redeemed.

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

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

Bonds	Issue date	Maturity date	Currency	Interest rate	30.09.2018	31.12.2017
Issued by the Parent Company						
ISIN code IT0004921166	03.06.2013	03.06.2018	EUR	FR	-	12,485
ISIN code IT0005038085	28.08.2014	28.08.2019	EUR	FR	49,003	47,873
ISIN code IT0005070179	22.12.2014	22.12.2019	EUR	FR	50,123	48,097
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,641	79,382
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	50,028	49,481
Issued by the subsidiary						
ISIN code IT0004331598	15.04.2008	15.04.2018	EUR	FR	-	7,286
ISIN code IT0004344278	18.04.2008	18.04.2018	EUR	FR	-	9,480
Total					**228,795**	**254,084**

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

Financial liabilities held for trading - caption 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	30.09.2018					31.12.2017				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	X	-	3,139	6,657	X	X	-	3,450	4,526	X
1.1 For trading	X	-	3,139	6,657	X	X	-	3,450	4,526	X
1.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**3,139**	**6,657**	**X**	**X**	**-**	**3,450**	**4,526**	**X**
Total (A+B)	**X**	**-**	**3,139**	**6,657**	**X**	**X**	**-**	**3,450**	**4,526**	**X**

Key

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

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

Hedging derivatives - caption 40

4.1 Hedging derivatives: breakdown by type and level

	30.09.2018				31.12.2017			
	NV	Fair value			NV	Fair value		
		L1	L2	L3		L1	L2	L3
A) Financial derivatives	**137,991**	**-**	**4,346**	**-**	**138,260**	**-**	**4,724**	**-**
1) Fair value	7,991	-	3,027	-	8,260	-	3,310	-
2) Cash flows	130,000	-	1,319	-	130,000	-	1,414	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**137,991**	**-**	**4,346**	**-**	**138,260**	**-**	**4,724**	**-**

Key

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

Other liabilities - caption 80

8.1 Other liabilities: breakdown

	30.09.2018	31.12.2017
Due to tax authorities	1,137	497
Amounts payable to tax authorities on behalf of third parties	20,646	25,457
Social security contributions to be paid	3,778	6,145
Dividends due to shareholders	11	27
Suppliers	15,717	10,750
Amounts available to customers	21,234	20,865
Interest and dues to be credited		20
Payments against bill instructions	153	1,215
Early payments on loans not yet due	17	630
Items being processed and in transit with branches	71,901	100,345
Currency differences on portfolio transactions	14,046	12,683
Due to personnel	13,929	14,297
Sundry creditors	68,564	13,105
Provisions for guarantees given and commitments		2,144
Accrued expenses and deferred income	12,393	2,781
Total	**243,526**	**210,961**

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

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

- bank transfers being processed of Euro 41,593 thousand (Euro 87,785 thousand at the prior year end),
- items connected to transactions in securities subsequently settled for Euro 4,272 thousand (Euro 227 thousand last year)
- transitory items for the settlement of purchase orders of customers of asset management products (funds and bancassurance) for Euro 7,458 thousand (Euro 1,373 thousand last year)
- MAV (payment by advice) and RAV collections of Euro 6,206 thousand (Euro 2,907 thousand at the prior end year).

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

"Due to personnel" includes the payable relating to early retirement incentives of Euro 11,210 thousand (Euro 11,537 thousand at the end of last year) and the amount due for holiday pay of Euro 2,096 thousand (Euro 2,029 thousand at the prior year end).

The main items included under caption "Sundry creditors" refer to: sundry creditors for bank transfers to be settled in the clearing house, Euro 54,188 thousand; sundry creditors for currency transactions, Euro 3,288 thousand (Euro 2,171 thousand last year); creditors for bills paid of Euro 957 thousand (Euro 1,632 thousand last year) and liabilities recognised for Euro 4,219 against system contributions to be paid by the end of the year.

The provision for guarantees given and commitments determined in application of IAS 39 is shown in the comparative period; in this regard, it should be noted that in application of IFRS 9 - Financial Instruments, starting from 1 January 2018 the provision for risks related to financial commitments and guarantees given,

determined by applying the models for calculating the expected loss defined at the time of first-time adoption, is recorded under item "100. Provisions for risks and charges".

Provisions for risks and charges - caption 100

10.1 Provisions for risks and charges: breakdown

Items/Components	30.09.2018	31.12.2017
1. Credit risk provisions relating to commitments and financial guarantees given	2,121	-
2. Provisions for other commitments and other guarantees given		-
3. Pensions and similar commitments		-
4. Other provisions for risks and charges	34,338	46,547
4.1 Legal and tax disputes	11,682	15,386
4.2 Personnel expenses	19,929	28,863
4.3 Other	2,727	2,298
Total	**36,459**	**46,547**

In caption "1. Provisions for credit risk relating to commitments and financial guarantees given", the risk provision is determined by applying the models for calculating the expected loss defined on first-time adoption of "IFRS 9 Financial Instruments" (1 January 2018). In the comparison period, the provision for guarantees issued and commitments determined in application of the accounting standard IAS 39 is classified under item "80. Other liabilities".

The "Legal disputes" caption includes provisions made for losses expected to arise from disputes, of which Euro 10,976 thousand relates to legal disputes (Euro 14,491 thousand at the end of last year) and Euro 706 thousand relates to bankruptcy clawback actions (Euro 895 thousand at the end of 2017).

"Personnel expenses" mainly include estimated liabilities regarding the Solidarity fund, Euro 9,066 thousand (Euro 15,003 thousand last year); the bonus system, Euro 6,370 thousand (Euro 7,167 thousand last year), and the long-service and additional holiday awards, Euro 3,455 thousand (Euro 3,387 thousand last year).

The caption "Other" includes provisions for charges pertaining to other operating risks, including provisions for contractual indemnities due to financial advisors of Euro 433 thousand (Euro 374 thousand at the prior year end) and those relating to tax risks for Euro 392 thousand (Euro 417 thousand at the prior year end).

For further details of disputes, reference should be made to "Information on risks and hedging policies".

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

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

	30.09.2018	31.12.2017
A. Share capital	**67,705**	**67,705**
A.1 Ordinary shares	60,840	60,840
A.2 Savings shares	6,865	6,865
A.3 Preference shares		
B. Treasury shares		
B.1 Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	**67,705**	**67,705**

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

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

No Group company holds or held any treasury shares during the period.

Minority interests - caption 190

16.1 Details of caption 210 "Minority interests"

	30.09.2018	31.12.2017
Equity investments in consolidated companies with significant minority interests	**41,876**	**52,785**
Banca Popolare di Spoleto S.p.A.	41,872	52,781
Desio OBG S.r.l.	4	4
Other equity investments		
Total	**41,876**	**52,785**

INCOME STATEMENT

Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	30.09.2018	30.09.2017
1. Financial assets designated at fair value through profit or loss	108	-	-	108	174
1.1 Financial assets held for trading	77	-	-	77	174
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	31	-	-	31	-
2. Financial assets designated at fair value through other comprehensive income	5,437	-	X	5,437	9,707
3. Financial assets measured at amortised cost	4,854	189,562	X	194,416	199,436
3.1 Due from banks	885	529	X	1,414	802
3.2 Loans to customers	3,969	189,033	X	193,002	198,634
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	2	2	7
6. Financial liabilities	X	X	X	4,820	-
Total	**10,399**	**189,562**	**2**	**204,783**	**209,324**

Interest on "Loans to customers" is recognised net of default interest accrued and not collected in the reference period on non-performing loans, since this is only recorded in the financial statements when collected. The caption therefore includes default interest relating to prior periods and collected during the period of Euro 534 thousand (Euro 508 thousand in September last year).

Caption "3. Financial assets valued at amortised cost" of the comparative period includes interest accrued on securities classified as "held to maturity" on the basis of IAS 39 in force up to 31 December 2017, for Euro 361 thousand under "loans to banks" and for Euro 1,130 thousand under "loans to customers".

The balance of item "3.2 Loans to customers" at 30 September 2018 is shown net of the release of the time value component of non-performing financial assets of Euro 7,048 thousand and of the negative adjustments on interest related to non-performing loans for approximately Euro 2,186 thousand, which in the comparative period are shown under item "130.a Net adjustments for credit risk relating to financial assets measured at amortised cost".

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

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	30.09.2018	30.09.2017
1. Financial liabilities measured at amortised cost	(19,200)	(17,851)	X	(37,051)	(37,197)
1.1 Due to central banks	-	X	X	-	(874)
1.2 Due to banks	(492)	X	X	(492)	(259)
1.3 Due to customers	(18,708)	X	X	(18,708)	(17,929)
1.4 Debt securities in issue	X	(17,851)	X	(17,851)	(18,135)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	(47)
4. Other liabilities and provisions	X	X	(163)	(163)	(70)
5. Hedging derivatives	X	X	(984)	(984)	(804)
6. Financial assets	X	X	X	(2,041)	-
Total	**(19,200)**	**(17,851)**	**(1,147)**	**(40,239)**	**(38,118)**

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

1.5 Differentials on hedging transactions

Captions	30.09.2018	30.09.2017
A. Positive differentials on hedging transactions:	48	277
B. Negative differentials on hedging transactions:	(1,032)	(1,081)
C. Balance (A-B)	**(984)**	**(804)**

Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	30.09.2018	30.09.2017
a) guarantees given	2,148	2,295
b) credit derivatives	-	-
c) management, brokerage and consulting services	47,716	44,202
1. trading in financial instruments	-	-
2. trading in foreign exchange	1,170	1,205
3. portfolio management	5,573	5,426
3.1 individual	5,187	4,991
3.2 collective	386	435
4. custody and administration of securities	920	1,384
5. custodian bank	-	-
6. placement of securities	16,826	15,938
7. order taking	4,207	4,375
8. advisory services	-	-
8.1 regarding investments	-	-
8.2 regarding financial structuring	-	-
9. distribution of third-party services	19,020	15,874
9.1 asset management	311	355
9.1.1 individual	311	355
9.1.2 collective	-	-
9.2 insurance products	12,839	12,394
9.3 other products	5,870	3,125
d) collection and payment services	21,834	21,122
e) servicing related to securitisation	51	69
f) services for factoring transactions	86	87
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	52,889	53,796
j) other services	7,561	7,294
Total	**132,285**	**128,865**

Commissions relating to the "distribution of third-party services" (sub-caption 9.3) are mainly commissions for the distribution of personal loans.

Commissions for "other services" include commission income for transactions for the assignment of one fifth of salary and loans with delegation of payment for Euro 1,874 thousand, recoveries of expenses on customer collection and payments for Euro 707 thousand, fees for the Internet banking service of Euro 1,268 thousand and recoveries of expenses on mortgage instalments for Euro 1,013 thousand.

2.3 Commission expense: breakdown

Services/Amounts	30.09.2018	30.09.2017
a) guarantees received	(424)	(237)
b) credit derivatives	-	-
c) management and brokerage services:	(1,709)	(1,143)
1. trading in financial instruments	(58)	(69)
2. trading in foreign exchange	-	-
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	(717)	(970)
5. placement of financial instruments	-	(104)
6. offer of securities, financial products and services through financial promoters	(934)	-
d) collection and payment services	(2,578)	(2,652)
e) other services	(5,050)	(4,588)
Total	**(9,761)**	**(8,620)**

Commissions for "other services" include fees relating to remuneration of the network of financial advisors for Euro 4,272 thousand (Euro 3,434 thousand last year).

Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	30.09.2018		30.09.2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	102	0	21	0
B. Other financial assets that have to be measured at fair value	0	0	0	0
C. Financial assets valued at fair value through other comprehensive income	3,094	0	593	0
D. Equity investments	0	0	0	0
Total	**3,196**	**0**	**614**	**0**

The table shows dividend income from non-controlling interests classified as financial assets available for sale.

Net trading income - caption 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**6**	**1,341**	**(774)**	**(669)**	**(96)**
1.1 Debt securities	-	222	(177)	(417)	(372)
1.2 Equity instruments (other than banking investments)	6	409	(597)	(194)	(376)
1.3 Mutual funds	-	526	-	-	526
1.4 Loans	-	-	-	-	-
1.5 Other	-	184	-	(58)	126
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**2,196**
4. Derivatives	**372**	**6,416**	**(417)**	**(8,503)**	**(2,131)**
4.1 Financial derivatives:	372	6,416	(417)	(8,503)	(2,131)
- On debt securities and interest rates	312	3,880	(192)	(5,059)	(1,059)
- On equities and equity indices	60	1,284	(225)	(1,832)	(713)
- On currency and gold	X	X	X	X	1
- Other	-	1,252	-	(1,612)	(360)
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**378**	**7,757**	**(1,191)**	**(9,172)**	**(31)**

The captions "1. Financial assets held for trading" and "4. Derivatives" include income from financial assets held for trading.

Caption "3. Other financial assets and liabilities: exchange differences" includes the gains (or losses) arising from the translation of foreign currency assets and liabilities that differ from those held for trading.

Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	30.09.2018	30.09.2017
A. Income relating to:		
A.1 Fair value hedges	281	515
A.2 Hedged financial assets (fair value)	1	26
A.3 Hedged financial liabilities (fair value)	-	218
A.4 Cash flow hedges	-	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activity (A)	**282**	**759**
B. Charges relating to:		
B.1 Fair value hedges	(2)	(197)
B.2 Hedged financial assets (fair value)	(204)	(507)
B.3 Hedged financial liabilities (fair value)	-	(24)
B.4 Cash flow hedges	-	-
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activity (B)	**(206)**	**(728)**
C. Net hedging gains (losses) (A-B)	**76**	**31**

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

Gains (Losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	30.09.2018			30.09.2017		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	3,847	(27,399)	(23,552)	2,616	(2,618)	(2)
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	3,847	(27,399)	(23,552)	2,616	(2,618)	(2)
2. Financial assets designated at fair value through other comprehensive income	11,709	(1,671)	10,038	8,085	(4,112)	3,973
2.1 Debt securities	11,709	(1,671)	10,038	4,094	(2,255)	1,839
2.2 Loans	-	-	-	-	-	-
2.3 Equity instruments	-	-	-	-	(1,529)	(1,529)
2.4 Mutual funds	-	-	-	3,991	(328)	3,663
Total assets	**15,556**	**(29,070)**	**(13,514)**	**10,701**	**(6,730)**	**3,971**
Financial liabilities measured at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	51	(494)	(443)	59	(674)	(615)
Total liabilities	**51**	**(494)**	**(443)**	**59**	**(674)**	**(615)**

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

The "1.2 Loans to customers" caption includes the net gain (loss) on the disposal of loans and securities, among which the figure relating to the completion of the securitisation of doubtful loans through use of the State guarantee.

The caption "2. Financial assets designated at fair value through other comprehensive income" includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect. With reference to the comparative period, the profit/loss component generated by financial instruments classified as "available for sale" has been conventionally shown in this item in accordance with IAS 39, including:

- mutual funds which, starting from 1 January 2018 with first-time adoption of "IFRS 9 Financial Instruments" have been classified as financial assets that are mandatorily valued at fair value, the economic effects of which are all shown under item 110.b) Net result of financial assets mandatorily at fair value;
- equities which, starting from the same date, have been designated at fair value through other comprehensive income (FVOCI option) and without reversal to the income statement in the event of sale of the realisable component.

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

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

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**44**	**425**	**(2,188)**	**-**	**(1,719)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 Mutual funds	44	425	(2,188)	-	(1,719)
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**44**	**425**	**(2,188)**	**-**	**(1,719)**

This item consists of the result of financial instruments which, with the introduction of "IFRS 9 - Financial Instruments" from 1 January 2018, must be valued at fair value through profit or loss, even if they are not held for trading, as they fail to pass the SPPI test foreseen in the new standard. At 30 September 2018 this item is made up entirely of mutual funds, which by their very nature do not have characteristics compatible with passing the test. These instruments were previously classified as "available for sale" as required by IAS 39; so, with reference to the comparative period:

- the valuation component (gain/loss) of this type of instrument, positive for 978 thousand euro, is reflected in other comprehensive income;
- the realisable component (profit/loss), which is positive for Euro 3,663 thousand, is conventionally re-stated under item "100.b Profit/loss from sale or repurchase of financial assets measured at fair value through other comprehensive income".

Net adjustments for credit risk - caption 130

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

Transactions/Income components	Write-downs (1)			Write-backs (2)		30.09.2018	30.09.2017
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Due from banks	**(218)**	**-**	**-**	**-**	**-**	**(218)**	**-**
- loans	-	-	-	-	-	-	-
- debt securities	(218)	-	-	-	-	(218)	-
B. Loans to customers	**(3,228)**	**(2,076)**	**(76,033)**	**2,337**	**35,494**	**(43,506)**	**(45,552)**
- loans	(1,412)	(2,076)	(76,033)	2,337	35,494	(41,690)	(45,552)
- debt securities	(1,816)	-	-	-	-	(1,816)	-
Total	**(3,446)**	**(2,076)**	**(76,033)**	**2,337**	**35,494**	**(43,724)**	**(45,552)**

This caption includes impairment write-downs and write-backs recognised in connection with loans to customers.

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

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

- Doubtful loans for Euro 29,149 thousand (Euro 56,824 thousand in September 2017);
- Unlikely to pay loans for Euro 46,007 thousand (Euro 44,587 thousand in September 2017);
- Past due loans for Euro 877 thousand (Euro 1,301 thousand in September 2017).

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

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

- collections of loans previously written down Euro 14,217 thousand
- write-backs Euro 19,887 thousand
- doubtful loans amortised in previous years and with actual recoveries higher than expected: Euro 1,390 thousand.

The adjustments to loans at 30 September 2018 are determined by applying the new models for the calculation of the expected credit losses adopted by the bank in application of "IFRS 9 Financial Instruments" starting from 1 January 2018, and are therefore not fully comparable with the prior period.

The adjustments to debt securities classified in the first/second stage were determined for the first time on application of the new accounting standard and do not therefore have a comparative figure.

It should be noted that the comparative figure includes the release of the time value component of impaired financial assets and value adjustments on interest relating to non-performing loans, which at the reporting date are included in item "10. Interest and similar income".

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

Transactions/Income components	Write-downs (1)			Write-backs (2)		30.09.2018	30.09.2017
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Debt securities	(1,313)	-	-	-	-	(1,313)	-
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
C. Equity instruments	-	-	-	-	-	-	(2,279)
D. Mutual funds	-	-	-	-	-	-	(7,327)
Total	**(1,313)**	**-**	**-**	**-**	**-**	**(1,313)**	**(9,606)**

This item includes the adjustments deriving from application of the new models for determining the expected loss on the "held to collect & sell" debt securities portfolio in application of "IFRS 9 - Financial Instruments" starting from 1 January 2018, and therefore not comparable with the prior period.

The comparative figure conventionally includes the adjustments to all instruments classified as available-for-sale financial assets on the basis of IAS 39, in particular mutual funds and equity securities, and is therefore not comparable on a like-for-like basis with the balance at the reporting date. In particular, item "D. Mutual funds" includes the adjustments to the Atlante fund for Euro 4,165 thousand (of which Euro 557 thousand offset by use of an equivalent amount of the provision for the payment commitment previously set up).

Administrative expenses - caption 190

12.1 Payroll costs: breakdown

Type of expense/Amounts	30.09.2018	30.09.2017
1) Employees	(123,855)	(129,152)
(a) wages and salaries	(86,958)	(88,207)
b) social security charges	(23,055)	(23,332)
c) termination indemnities	-	-
d) pension expenses	-	-
e) provision for termination indemnities	(216)	(300)
f) provision for post-retirement benefits and similar commitments:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(8,021)	(8,174)
- defined contribution	(8,021)	(8,174)
- defined benefit	-	-
h) equity-based payments	-	-
i) other personnel benefits	(5,605)	(9,139)
2) Other active employees	(328)	(325)
3) Directors and auditors	(3,098)	(3,234)
4) Retired personnel	-	-
Total	**(127,281)**	**(132,711)**

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

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

12.4 Other personnel benefits

	30.09.2018	30.09.2017
Provision for sundry charges	(4,163)	(5,091)
Contributions to healthcare fund	(1,549)	(1,562)
Training and instruction costs	(221)	(609)
Rent expense of property used by employees	(236)	(212)
Redundancy incentives	2,549	243
Other	(1,985)	(1,908)
Total	**(5,605)**	**(9,139)**

The revenue component under "redundancy incentives" refers to the adjustment of the liabilities recorded to cover the redundancy plan at the end of 2016.

The main components of "Other" include the cost of meal vouchers given to employees of Euro 1,558 thousand and the cost of insurance premiums of Euro 340 thousand.

12.5 Other administrative costs: breakdown

	30.09.2018	30.09.2017
Indirect taxes and duties:		
- Stamp duty	(19,626)	(19,162)
- Other	(4,604)	(4,473)
Other costs:		
- IT expenses	(13,612)	(12,995)
- Lease of property and other assets	(9,942)	(10,244)
- Maintenance of buildings, furniture and equipment	(4,677)	(4,478)
- Post office and telegraph	(2,222)	(2,103)
- Telephone and data transmission	(4,473)	(4,277)
- Electricity, heating, water	(3,225)	(2,980)
- Cleaning services	(1,046)	(1,054)
- Printed matter, stationery and consumables	(655)	(878)
- Transport costs	(972)	(975)
- Surveillance and security	(1,815)	(2,030)
- Advertising	(1,564)	(1,172)
- Information and surveys	(1,609)	(1,694)
- Insurance premiums	(720)	(785)
- Legal fees	(3,990)	(3,479)
- Professional consulting fees	(5,673)	(6,082)
- Various contributions and donations	(233)	(222)
- Sundry expenses	(16,379)	(14,993)
Total	**(97,037)**	**(94,076)**

Sundry expenses include the contribution to the Single Resolution Mechanism (SRM) for Euro 3,905 thousand (Euro 3,489 thousand before), the extraordinary contribution to the same resolution fund for Euro 1,463 thousand (not present in the comparative period), the estimate of the ordinary contribution to the fund to protect depositors for Euro 4,219 thousand (previously Euro 3,870 thousand), reimbursements to employees for travel expenses, mileage reimbursements for Euro 995 thousand (Euro 1,133 thousand in September 2017), expenses for registration of mortgage, injunctions and assignment of receivables for Euro 1,177 thousand (Euro 1,487 thousand in September 2017), membership fees for Euro 1,252 thousand (Euro 864 thousand in September 2017) and subscriptions to newspapers and magazines for Euro 233 thousand (Euro 232 thousand in September 2017).

Net provisions for risks and charges - caption 200

13.1 Net provisions for risks and charges: breakdown

	Provision	Utilisations	30.09.2018	30.09.2017
commitments for guarantees given	(158)		(158)	518
charges for legal disputes	(2,250)	2,662	412	(1,350)
other		81	81	(629)
Total	**(2,408)**	**2,743**	**335**	**(1,461)**

The item "Commitments for guarantees given" represents the provision/use of the provision for risks determined by applying the models for calculating the expected loss defined in application of "IFRS 9 Financial Instruments" (1 January 2018). The comparative figure conventionally includes the net accrual to the provision for guarantees given and commitments determined in application of IAS 39.

Charges for legal disputes include provisions made in the year for expected losses arising from legal disputes and bankruptcy clawback actions.

Other provisions include provisions for other operating risks, including tax litigation.

Net adjustments to property, plant and equipment - caption 210

13.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	**Depreciation (a)**	**Impairment adjustments (b)**	**Write-backs (c)**	**Net result (a + b + c)**
A. Property, plant and equipment				
A.1 Owned	(5,445)	-	-	(5,445)
- For business purposes	(5,430)	-	-	(5,430)
- For investment purposes	(15)	-	-	(15)
- Inventories	X	-	-	-
A.2 Held under finance leases	-	-	(2)	(2)
- For business purposes	-	-	-	-
- For investment purposes	-	-	(2)	(2)
Total	**(5,445)**	**-**	**(2)**	**(5,447)**

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

Net adjustments to intangible assets - caption 220

14.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c)
A. Intangible assets				
A.1 Owned	(1,394)	-	-	(1,394)
- Generated internally	-	-	-	-
- Other	(1,394)	-	-	(1,394)
A.2 Held under finance leases	-	-	-	-
Total	**(1,394)**	**-**	**-**	**(1,394)**

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

Other operating charges/income - caption 230

16.1 Other operating charges: breakdown

	30.09.2018	30.09.2017
Amortisation of leasehold improvements	(1,449)	(1,702)
Losses on disposal of property, plant and equipment	(208)	
Charges on non-banking services	(1,405)	(2,060)
Total	**(3,062)**	**(3,762)**

16.2 Other operating income: breakdown

	30.09.2018	30.09.2017
Recovery of taxes from third parties	21,687	21,251
Recharge of costs of current accounts and deposits	5,920	7,188
Rental and leasing income	51	43
Other expense recoveries	7,675	8,616
Gains on disposal of property, plant and equipment		3
Other	521	779
Total	**35,854**	**37,880**

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 3,705 thousand and other recoveries for various communications to customers of Euro 2,068 thousand.

"Other expense recoveries" include, in particular, recoveries of legal costs relating to various doubtful loans for a total of Euro 1,755 thousand, the recovery of investigation costs of various loans for Euro 1,656 thousand, recovery of appraisals in connection with mortgage loans of Euro 231 thousand and the recovery of sundry expenses relating to lease applications of Euro 210 thousand.

Gains (losses) on disposal of investments - caption 280

20.1 Gains (losses) on disposal of investments: breakdown

Income item/Amounts	30.09.2018	30.09.2017
A. Property	-	41
- Gains on disposal	-	41
- Losses on disposal	-	-
B. Other assets	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
Net result	**-**	**41**

Income taxes on current operations - caption 300

21.1 Income taxes on current operations: breakdown

Income items/Segments	30.09.2018	30.09.2017
1. Current taxes (-)	(2,270)	(6,640)
2. Change in prior period income taxes (+/-)	-	2
3. Reduction in current taxes (+)	-	-
3.bis Reduction in current taxes for tax credits under Law 214/2011(+)	-	-
4. Change in deferred tax assets (+/-)	(7,419)	(10,263)
5. Change in deferred tax liabilities (+/-)	1,550	2,334
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(8,139)**	**(14,567)**

Earnings per share

	30.09.2018		30.09.2017	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Net profit of the Group attributable to the various classes of shares (thousands of euro)	20,499	2,776	23,657	3,203
Average number of shares outstanding	117,000,000	13,202,000	117,000,000	13,202,000
Average number of potentially dilutive shares	-	-	-	-
Average number of diluted shares	117,000,000	13,202,000	117,000,000	13,202,000
Earnings per share (Euro)	**0.18**	**0.21**	**0.20**	**0.24**
Diluted earnings per share (Euro)	**0.18**	**0.21**	**0.20**	**0.24**

INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

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

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

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

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

SECTION 1 – RISKS OF THE ACCOUNTING CONSOLIDATION

Quantitative information

Credit quality

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/Quality		Doubtful loans	Unlikely to pay loans	Past due non-performing loans	Past due performing loans	Other performing exposures	Total
1. Financial assets measured at amortised cost		128,037	270,095	6,808	209,775	10,838,824	11,453,539
2. Financial assets designated at fair value through other comprehensive income		-	-	-	-	1,439,440	1,439,440
3. Financial assets designated at fair value		-	-	-	-	-	-
4. Other financial assets that have to be measured at fair value		-	-	-	-	821	821
5. Financial assets being sold		2,652	-	-	-	-	2,652
Total	**30.09.2018**	**130,689**	**270,095**	**6,808**	**209,775**	**12,279,085**	**12,896,452**
Total	**31.12.2017**	**494,173**	**321,341**	**8,410**	**215,547**	**12,210,141**	**13,249,612**

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net amounts)

Portfolio/Quality		Non-performing			Performing			Total (Net exposure)
		Gross exposure	Total write-downs	Net exposure	Gross exposure	Total write-downs	Net exposure	
1. Financial assets measured at amortised cost		701,989	(297,049)	404,940	11,104,215	(55,616)	11,048,599	11,453,539
2. Financial assets designated at fair value through other comprehensive income		-	-	-	1,441,825	(2,385)	1,439,440	1,439,440
3. Financial assets designated at fair value		-	-	-	X	X	-	-
4. Other financial assets that have to be measured at fair value		-	-	-	X	X	821	821
5. Financial assets being sold		4,704	(2,052)	2,652	-	-	-	2,652
Total	**30.09.2018**	**706,693**	**(299,101)**	**407,592**	**12,546,040**	**(58,001)**	**12,488,860**	**12,896,452**
Total	**31.12.2017**	**1,463,061**	**(639,137)**	**823,924**	**12,466,350**	**(40,662)**	**12,425,688**	**13,249,612**

Portfolio/Quality		Assets with an obviously poor credit quality		Other assets
		Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading		1	43	9,292
2. Hedging derivatives		-	-	3
Total	**30.09.2018**	**-**	**43**	**9,295**
Total	**31.12.2017**	**1**	**13**	**12,492**

The portfolio of Assets measured at amortised cost includes non-performing loans acquired through the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) booked to the consolidated financial statements in accordance with IFRS 3. In the table, the gross value of these loans is expressed at purchase cost. The difference between the nominal amount of the loans and their purchase price at 30 September 2018 amounted to Euro 45,386 thousand. This difference essentially represents the write-downs made by the subsidiary BPS on non-performing loans prior to the acquisition of control.

For a more accurate calculation of the credit risk indicators (coverage ratio), it should be noted that the total amount of gross non-performing assets valued at amortised cost at 30 September 2018 - considering non-performing loans of the subsidiary BPS with their write-downs - amounted to Euro 747 million and total write-downs to Euro 342 million.

SECTION 2 – RISKS OF THE CONSOLIDATION FOR REGULATORY PURPOSES

1.1 CREDIT RISK

Qualitative information

1. *General aspects*

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

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

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

2. *Credit risk management policies*

2.1. Organisational aspects

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

The Group's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Company's Board of Directors has exclusive power to lay down guidelines that have an impact on the running of the Group's affairs and, in this context, to make decisions on strategic lines and operations, business and financial plans as well as those relating - again at the level of strategic supervision - to the Internal Control and Risk Management System in compliance with the Capital Requirements in force at the time. In this context, at least once a year, the Board of Directors approves the Group's "Risk Appetite Framework (RAF)" and the "Policy for Risk Management"; taking into account the nature and size of the activities being carried on, they define the risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks, identifying the functions that are responsible for specific control mechanisms, establishing specific information flows. In line with the provisions of Bank of Italy circular 285/2013, the Group has formalised within the Risk Management Department the activities of verification and supervision of the monitoring and debt collection activities carried out by the competent company departments, providing for the right to intervene, where necessary, with regard to the classification of anomalous credit and provisional accruals and postings.

2.2. Systems for managing, measuring and monitoring credit risk

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

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

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

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

2.3. Methods of measuring expected losses

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

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

- Stage 1: this bucket includes assets that have not suffered a significant deterioration in credit risk. This stage provides for the calculation of the expected loss at one year on a collective basis;
- Stage 2: this bucket classifies assets that show a significant deterioration in credit quality between the reporting date and the date of initial recognition. For this bucket the expected loss must be calculated from a lifetime perspective, i.e. over the entire duration of the instrument, on a collective basis.

2.4. Credit risk mitigation techniques

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

For all loans, the main type of real guarantee is the mortgage, primarily related to the technical form of mortgage loans (particularly on residential properties). To a lesser extent, but for significant amounts, there are also pledges on securities and/or cash.

Guarantees received by the Group are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions. The process of collateral management

provides for monitoring and specific controls to check their eligibility, in line with the requirements of supervisory regulations.

3. *Non-performing loans*

3.1 Management strategies and policies

The current regulatory framework provides for the classification of non-performing financial assets according to their risk status. Three categories are foreseen: "doubtful loans", "unlikely to pay" and "non-performing past due and/or overdrawn exposures".

- Doubtful loans: exposure to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations, regardless of the loss forecasts made by the intermediary.
- Unlikely to pay: exposures for which the intermediary considers full compliance by the debtor unlikely without recourse to actions such as collection of guarantees, regardless of the presence of amounts due and/or overdrawn.
- Past due and/or overdrawn non-performing exposures: exposures, other than those classified as doubtful or unlikely to pay, with amounts that are past due and/or overdrawn continuously for more than 90 days.

"Exposures subject to forbearance" are also envisaged as a category, referring to the exposures subject to renegotiation and/or refinancing due to the customer's financial difficulties (manifest or in the process of manifestation). These exposures may constitute a subset of non-performing loans (exposures subject to forbearance on non-performing positions) rather than performing loans (exposures subject to forbearance on performing positions). The management of these exposures, in compliance with regulatory provisions with respect to timing and classification procedures, is assisted through specific work processes and IT tools.

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

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

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

Consistent with the Group's objectives for the reduction of the Group's non-performing loans indicated in the business plan and with a view to maximising recoveries, the competent corporate functions identify the best management strategy for non-performing exposures, which, based on the subjective characteristics of the individual counterparty/exposure and internal policies, can be identified in a revision

of the contractual terms (forbearance), assignment to an internal recovery unit rather than to a specialised third-party operator, sale to third parties in the credit sector (at single exposure level or within a set of positions with homogeneous characteristics).

In execution of its capital management strategy, the Group has envisaged a programme of sales of NPLs for a gross value of Euro 1.1 billion, within which a securitisation transaction is also envisaged, for around Euro 1.0 billion, with recourse to the procedure for the issuance of a guarantee by the Italian State on the securitisation of non-performing loans on senior securities pursuant to Legislative Decree 18/2016 ("GACS") aimed at deconsolidating Banco Desio Group loans, while the remainder, approximately Euro 100 million, will be disposed of during the year through a traditional sale. These disposals of non-performing loans bring the Group's NPL ratio (ratio of gross non-performing loans/gross loans) below 8%. Following the significant reduction underway in the current year, in line with the policy of lowering the NPL ratio, disposals and write-offs of positions classified as non-performing will enable a further improvement in the NPL ratio already achieved.

3.2 Write-off

Non-performing exposures for which there is no possibility of recovery (either total or partial) are subject to write-offs from accounting entries in accordance with the policies in force from time to time, subject to approval by the Group's Board of Directors. Among the strategies identified for the containment of non-performing loans, a distinction between the "going" and "gone concern" approach was envisaged for unlikely to pay loans, thereby allowing for the assessment of single-name assignments for those loans managed with a view to liquidation or total repayment ("gone concern").

3.3 Impaired financial assets acquired or originated

As indicated in "IFRS 9 – Financial Instruments", in some cases, a financial asset is considered non-performing at the time of initial recognition as the credit risk is very high and, in the case of purchase, is purchased at a significant discount (compared with the initial value). In the event that the financial assets in question, based on the application of classification drivers (i.e. SPPI test and business model), are classified among assets valued at amortised cost or at fair value through other comprehensive income, they qualify as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to a specific treatment. Adjustments equal to the lifetime expected credit loss (ECL) are recorded against them, from the date of initial recognition and throughout their life. In light of the above, POCI financial assets are initially registered in stage 3, without prejudice to the possibility of being subsequently transferred to performing loans, in which case a lifetime ECL (stage 2) will continue to be recorded. A "POCI" therefore qualifies as such in the reporting processes and in the calculation of the expected loss.

4. Financial assets subject to commercial renegotiations and exposures subject to forbearance

In the face of financial difficulties on the part of the debtor, exposures may be subject to changes in the contractual terms in favour of the debtor in order to make their repayment sustainable. Depending on the subjective characteristics of the exposure and the reasons for the debtor's financial difficulties, the changes may act in the short term (temporary suspension from payment of the loan principal or an extension of a due date) or in the long term (lengthening the duration of a loan, revision of the interest rate) and lead to classification of the exposure (both performing and non-performing) as "forborne". "Forborne" exposures are subject to specific forecasts with a view to classification, as indicated in the ITS EBA 2013-35 implemented by the Group's credit policies; if the forbearance measures are applied to performing exposures, these are taken into account in the process of assigning the internal management rating and are part of the exposures in stage 2. All exposures classified as "forborne" are included in specific monitoring processes by the relevant company departments.

It is the faculty of the commercial network to proceed, if they see the opportunity, to a review of the conditions applied to customer exposures even in the absence of financial difficulties, within the limits of their autonomy in force from time to time.

Quantitative information

Credit quality

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

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. CASH EXPOSURES					
a) Doubtful loans	-	X	-	-	
- of which: exposures subject to forbearance	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
c) Past due non-performing loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
d) Past due performing loans	X	-	-	-	-
- of which: exposures subject to forbearance	X	-	-	-	-
e) Other performing exposures	X	504,900	571	504,329	-
- of which: exposures subject to forbearance	X	-	-	-	-
TOTAL A	**-**	**504,900**	**571**	**504,329**	**-**
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing	-	X	-	-	-
b) Performing	X	29,634	-	29,634	-
TOTAL B	**-**	**29,634**	**-**	**29,634**	**-**
TOTAL A+B	**-**	**534,534**	**571**	**533,963**	**-**

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

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. CASH EXPOSURES					
a) Doubtful loans	315,197	X	184,508	130,689	27,027
- of which: exposures subject to forbearance	60,886	X	33,455	27,431	-
b) Unlikely to pay	383,685	X	113,590	270,095	-
- of which: exposures subject to forbearance	190,733	X	46,043	144,690	-
c) Past due non-performing loans	7,810	X	1,002	6,808	-
- of which: exposures subject to forbearance	2,391	X	373	2,018	-
d) Past due performing loans	X	214,104	4,329	209,775	-
- of which: exposures subject to forbearance	X	23,249	1,140	22,109	-
e) Other performing exposures	X	11,829,328	53,102	11,776,226	-
- of which: exposures subject to forbearance	X	131,452	5,156	126,297	-
TOTAL A	**706,692**	**12,043,432**	**356,531**	**12,393,593**	**27,027**
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing	50,479	X	793	49,686	-
b) Performing	X	3,265,393	1,328	3,264,065	-
TOTAL B	**50,479**	**3,265,393**	**2,121**	**3,313,751**	**-**
TOTAL A+B	**757,171**	**15,308,825**	**358,652**	**15,707,344**	**27,027**

The gross exposure and the related specific adjustments of non-performing loans acquired through the business combination (acquisition of control of Banca Popolare di Spoleto S.p.A.) are shown net of differences between the nominal value and the purchase price of such loans at 30 September 2018; details are provided below:

a) Doubtful loans: Euro 39,206 thousand;

b) Unlikely to pay loans: Euro 6,180 thousand.

Classification of exposures on the basis of external and internal rating

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

Exposures	External rating class						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**2,436**	**625,901**	**2,413,610**	**764,823**	**106,402**	**55,027**	**7,868,344**	**11,836,543**
- First stage	2,436	610,062	2,323,906	628,098	68,801	22,243	6,172,837	9,828,383
- Second stage	-	15,839	85,613	117,137	26,588	21,685	995,591	1,262,453
- Third stage	-	-	4,091	19,588	11,013	11,099	699,916	745,707
B. Financial assets designated at fair value through other comprehensive income	**2,651**	**11,036**	**1,239,038**	**25,417**	**4,985**	**-**	**158,697**	**1,441,824**
- First stage	2,651	11,036	1,239,038	24,407	2,971	-	158,196	1,438,299
- Second stage	-	-	-	1,010	2,014	-	501	3,525
- Third stage	-	-	-	-	-	-	-	-
Total financial assets	**5,087**	**636,937**	**3,652,648**	**790,240**	**111,387**	**55,027**	**8,027,041**	**13,278,367**
of which: impaired financial assets acquired or originated	-	-	-	-	73	17	16,613	16,703
C. Commitments to disburse funds and financial guarantees issued								
- First stage	1,451	408,437	523,982	170,861	20,395	4,246	2,268,058	3,397,430
- Second stage	-	166	6,725	4,160	334	1,279	15,271	27,935
- Third stage	-	-	2,419	5,804	841	2,353	38,853	50,270
Total commitments to disburse funds and financial guarantees issued	**1,451**	**408,603**	**533,126**	**180,825**	**21,570**	**7,878**	**2,322,182**	**3,475,635**
Total	**3,636**	**228,334**	**3,119,522**	**609,415**	**89,817**	**47,149**	**5,704,859**	**9,802,732**

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

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

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

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

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

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

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

Exposures at 30.09.2018	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
Cash exposures	64.47%	27.85%	6.18%	1.50%	100%
Off-balance sheet exposures	82.16%	14.39%	2.78%	0.67%	100%

Large exposures

With reference to current supervisory regulations, the situation at 30 September 2018 is reported below:

Description	*Nominal amount*	*Weighted amount*	*Number of positions*
Large exposures	3,119,597	315,812	4

The positions indicated mainly relate to exposures towards the Ministry of Economy and Finance, concerning securities in portfolio and tax assets, Cassa di Compensazione e Garanzia, the Guarantee Fund as per Law 662/1996 and BNP Paribas.

1.2 MARKET RISK

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

Qualitative information

A. General aspects

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

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

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

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

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

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

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

For the quantification of generic risks, the Group has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum probable loss of a static portfolio with reference to a specific time horizon and at a specific confidence level under normal market conditions. This method has the advantage of allowing the aggregation of positions involving heterogeneous risk factors; it also provides a summary number which, being a monetary expression, is easily used by the organisational structure involved. The VaR model uses involves the Monte Carlo simulation technique which, after appropriate assumptions and correlations, estimates the value of the portfolio by calculating a number of possible revaluations and, given the vector of expected portfolio returns, determines the ideal percentile for distribution. The model uses a confidence interval of 95% with a period of 1 day. The application used to calculate the VaR is provided by Bloomberg.

The internal model is not used in the calculation of capital requirements for market risk.

Quantitative information

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

The monitoring of the "trading portfolio reported for supervisory purposes" performed up to the third quarter of 2018 shows a structure with limited market risk. Related VaR at 30.09.2018 amounted to Euro 0.44 million, with a percentage of 0.93% of the trading portfolio.

1.2.2. INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

Qualitative information

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

The measurement of interest rate risk is performed by the Parent Company's risk management function. This activity is carried out for the Group's banks, which cover almost all of the banking book. The whole of the Group's business associated with the transformation of maturities of assets and liabilities, portfolio securities, treasury operations and the respective hedging derivatives are monitored with Asset and Liability Management (ALM) methods using ALMpro/ERMAS3.

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

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

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

Quantitative information

Banking book - internal models and other methodologies for the analysis of sensitivity

The Group's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value of own funds.

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date

has, however, some peculiarities arising from the current market environment, which sees an increase in demand and short-term deposits; this has led to a physiological decrease in the average duration of liabilities, whereas assets have not undergone any substantial changes in terms of average duration.

The following table shows the results of the impact on the interest margin - from a static perspective and in the absence of behavioural models for demand items - of the analyses carried out at 30 September 2018, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 30.09.2018

	+100 bps	***-100 bps***
% of the expected margin	*3.40%*	*-26.01%*
% of net interest and other banking income	*1.96%*	*-14.99%*
% of the result of the year	*17.05%*	*-130.41%*
% of shareholders' equity	*0.62%*	*-4.71%*

With regard to the economic value, the estimated impact of the change with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, showed a risk exposure that has been maintained at levels that do not result in significant impacts on total capital.

The following table shows the changes in the economic value analysed by applying deterministic approaches with parallel shifts in the yield curve.

Risk ratios: parallel shifts in the yield curve at 30.09.2018

	+100 bps	***-100 bps***
% of the economic value	*-22.40%*	*17.56%*

1.2.3. EXCHANGE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

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

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

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

B. Hedging of exchange risk

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

Quantitative information

Internal models and other methodologies or the analysis of sensitivity

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

1.3 HEDGING POLICIES

A. Fair value hedges

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

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

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

B. Cash flow hedges

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

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

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

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

1.4. LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

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

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

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

The counterbalancing capacity model allows us to integrate the report with all of the free assets that can readily be used, both to be eligible for refinancing with the ECB and to be sold. Next to the application of haircuts determined by the ECB for eligible securities, appropriate discount factors are prepared (divided

by type of security, rating and currency), also for all securities not eligible, but still considered marketable if appropriately positioned in time buckets.

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

Operations are measured using Asset and Liability Management (ALM) methods through the ALMpro application: by developing all of the cash flows generated by operations, it allows us to evaluate and manage in the various time periods any liquidity requirement that the Bank may encounter due to imbalances between inflows and outflows.

The analysis of the overall structural liquidity is developed on a monthly basis using the technique, i.e. showing imbalances by date of liquidation of capital flows over a set time horizon.

In order to evaluate the impact of the negative events on the risk exposure, stress tests are performed at consolidation level. In particular, the events considered are:

- outflow from overdrafts repayable on demand considered non core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) due to unpaid instalments;
- decrease in value of the owned securities portfolio;
- repurchase of Bonds issued by the Group;
- use of available facilities for revocable lines of credit (call risk).

On completion of the analysis, three types of scenarios are created:

1. Idiosyncratic, defined as a loss of confidence by the Group's market;
2. Market, defined as a loss arising from exogenous events and from the impact of a general economic downturn;
3. Combined, being a combination of scenarios 1 and 2.

The time horizon for the simulation of all scenarios is 1 month, a period in which the Group would have to cope with the crisis before commencing structural interventions.

Particular attention is paid to funding policy, which is coordinated by the Finance Department of the Parent Company by organising bond issues on the retail market and on the Euromarket. The financing strategies adopted by the Group are focused on a subdivision of funding sources, with a preference for retail as opposed to wholesale customers, as well as on a significant number of counterparties and thus ensuring an adequate diversification of the residual maturities of liabilities.

1.4. OPERATIONAL RISK

<u>Qualitative information</u>

A. General aspects, management and measurement of operational risk

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

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

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

- Identification: recognition, collection and classification of information relating to operational risks;

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

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

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

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

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

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

As regards the management of risks impacting business continuity, a Business continuity plan has been prepared: measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), a Business Continuity site was prepared and maintained in Bologna, as an alternative to that for normal business operations, to be used in the event of an emergency and for testing purposes. The measures adopted for business continuity management and for the oversight of the IT provider were updated.

For risk management of criminal offences pursuant to Legislative Decree 231/2001 "Regulation of the administrative liability of legal entities, companies and associations with or without legal personality", Group companies have adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned to specific internal bodies.

Risk related to outstanding legal disputes

The Banco Desio Group, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions. The following table summarises the outstanding disputes at the end of the period, together with the related provisions:

	Number	***Claim***	***Provisions***
Claw-back suits	19	€ 12.139 million	€ 0.697 million
Other lawsuits	719	€ 71.145 million	€ 10.721 million

The main disputes (with claims of more than Euro 1 million) outstanding at 30 September 2018 summarised by individual Group companies and by length of time of the related legal proceedings are described below.

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

- Claim of Euro 2.0 million. By writ of summons, the counterparty brought legal proceedings against the Bank to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered the Bank to return an amount that was lower than the claim. The counterparty lodged an appeal. The Bank paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree. The Supreme Court has not yet set the date for the hearing;
- Claim of Euro 1.103 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by the Bank and leased to the counterparty plus amounts paid into a current account. The receiver contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court, which has not yet set a date for the hearing. The receivership has served notice of an injunction for a sum of Euro 1,240,712 and the Bank has opposed the injunction, mainly by reason of the legitimacy of the request, including the stance that an appeal had been made to the Supreme Court. The judge competent to decide on the opposition to the injunction, however, pending the outcome of the Supreme Court's decision, has ordered the Bank to pay a sum of Euro 1,219,537 million and, at the same time, has obliged the receivership not to take delivery of the sum, until the outcome of the decision by the court of third instance (Supreme Court) concerning the appeal lodged by the Bank against the Court of Appeal's decision;
- Claim of Euro 3.052 million. The plaintiff has filed suit concerning a loss of capital deriving from operations in financial instruments deemed inconsistent with the risk profile thereof. The Bank appeared before the court to request that the claims be dismissed, given that the contractual documentation had been signed and that the operations appeared to be consistent with the risk profile. The case is at the preliminary stage with the completion of an expert appraisal for the accounting verification of all purchase and sale orders; the case was postponed to 27 November 2018 in anticipation of the filing of the expert report;

B) Banca Popolare di Spoleto

- Claim of Euro 1.933 million. The receivership summoned Banca Popolare di Spoleto to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the bank to refrain from granting credit, so the Bank's operations allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank appeared in court to defend itself, arguing that the credit lines granted were very low (maximum Euro 60 thousand), so lacking any causal link for the allegation of abusive concession of credit. The investigation authorised by the judge did not address conduct attributable to the Bank. With a ruling in 2017, the Court of Terni rejected the request submitted by the Receivership and the appeal was served on 16 January 2018. At the first hearing before the Court of Appeal of Perugia, scheduled for 26 April 2018, the Court reserved the right to decide on whether the means of investigation were admissible;

- Claim of Euro 4.7 million. The Receivership summoned the Bank before the Court of Perugia for it to be ordered to refund Euro 4.7 million. The Receiver assumes that the Bank permitted an abnormal transaction to be carried out by a person not entitled to do so on behalf of the company. The Bank is disputing the legitimacy of the Receiver, the total groundlessness of the claims, as well as the existence of a causal link between the conduct of the Bank and the bankruptcy of the company. During 2017 the expert appraisal was filed, stating that the Bank was not responsible. At the hearing on 17 May 2018 the case was assumed for a decision;
- Claim of Euro 1.526 million. By writ notified in 2015, the counterparty summoned Banco di Desio e della Brianza and Banca Popolare di Spoleto before the Court of Prato to obtain reimbursement of the capital invested in a series of securities and, alternatively, the amount of the loss incurred during the course of the investment. The Bank has stated that it is not involved, given the contribution to Banca Popolare di Spoleto of the relationship concerned, as part of the special transaction that transferred the line of business consisting of 32 branches; Banca Popolare di Spoleto has objected to the merits of the application. At the hearing of 19 April 2018, the counterparty was formally interrogated. The Judge ordered an expert appraisal by a graphologist, scheduling the hearing for 29 November 2018 to make the appointment;
- Claim of Euro 2.305 million. The receivership summoned the Bank before the Court of Perugia seeking an order, jointly with the directors of the bankrupt company and a subsidiary, to pay the amount of (a) Euro 1.9 million as penalty for the corporate and accounting crimes perpetrated by former officers and (b) Euro 0.4 million for alleged abusive lending by granting a mortgage for the same amount. The inclusion of the Bank in point a) appears to be an error, as the brief does not contain anything that involves the Bank in the acts for which the other defendants (former directors) are called upon to pay the above amount; moreover, the question made to the Bank would seem in any case to be unfounded, as there seems to be no causal link between the loan and the instrumental use that the company made of it while it was operating; and, in any case, there is no evidence of a state of economic difficulty to justify the action in question. The judge scheduled the hearing for 22 February 2018 for the assignment of the expert appraisal and for the performance of the witness testimony, which did not, however, refer to circumstances related to the Bank's activities. The next hearing is scheduled for 13 December 2018 for the swearing in of the court appointed expert witness;
- Claim of Euro 7.310 million. With a writ notified in 2013, the Receivership summoned the Bank together with Banca delle Marche and Monte dei Paschi di Siena before the Court of Perugia to hear ascertained and declared invalid and/or ineffective and/or unenforceable as the receiver of the sale of the loan and, therefore, to hear them condemned, jointly and severally, to pay the sum. The application seems totally unfounded as confirmed by the counsel that we appointed to appear in court. On 2 December 2009 (about three years before the declaration of bankruptcy with judgement on 21 March 2013), the Bank, together with the two other banks, granted a line of credit to the bankrupt company, usable in the technical form of an advance on contracts to public entities and/or the public administration, for an amount of Euro 1 million for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. The Judge rejected all of the preliminary enquiries proposed by the Receivership and scheduled the hearing for 21 November 2018 for clarification of the conclusions without carrying out any investigation work;
- Claim of Euro 1.744 million. A customer company and the guarantors sued the Bank before the Court of Spoleto in order to hear, ascertain and declare the application of usurious interest, asking the Court for payment by the Bank of Euro 338 thousand for interest allegedly not due, in addition to Euro 169 thousand by way of damages for the company and Euro 730 thousand for each guarantor in

compensation for damages for breach of the principles of fairness and good faith. This case appears to be unfounded, given the favourable jurisprudence regarding similar situations and the general nature of the application for damages. The Judge admitted the testimony of the court-appointed expert witness and the expert's contribution to the case is currently in progress. The next hearing is scheduled for 6 March 2019;

- Claim of Euro 1.136 million. One of the founding members of a cooperative, which is now in liquidation, has alleged that it had obtained, via the cooperative, various loans granted by other banks, upon the issue of guarantees by the cooperative. In July 2013, the founding member claims it had agreed with the cooperative to fully settle the loans obtained from the latter; as a consequence, the cooperative should have arranged for the member to be freed of its guarantee commitments that had been assumed towards the other banks. This, according to the founding member, had not occurred, so he summoned all of the members of the Board of Directors before the Court of Perugia with effect from 23 May 2013 (including a former officer of Banca Popolare di Spoleto) and asked that they be convicted, jointly and severally among them and the cooperative, to pay the sum of Euro 1.1 million as compensation for damages. The next hearing is scheduled for 6 November 2018 for investigative measures. The Bank appealed by claiming its total lack of involvement in the claims made by the counterparty;
- Claim of Euro 1.0 million. In a preventive summons, the counterparty contends that the Bank, by exploiting its bargaining power, refused to grant a mortgage loan requested by the company in 2011 of Euro 1 million for a building project in Frascati, demanding a different form of facility be taken out, namely, a mortgage current account, with an undertaking to convert the financing to a mortgage loan on completion of the project. According to the counterparty's defence, the failure to convert the facility to a mortgage loan, in breach of the alleged agreement, would have given rise to severe financial difficulties for the company. The case presented by the adversary, which is totally unfounded, appears to be somewhat pretentious. The Judge admitted the witness's evidence requested by the counterparty, as well as the bank's witness's testimony as counter-evidence, postponing performance of the test to 27 March 2019;
- Claim of Euro 3.0 million. The receivership summoned the Bank to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, so the Bank's operations allowed the party to remain on the market and delay the declaration of bankruptcy. The Court of Terni rejected the plaintiff's claim, which was challenged before the Court of Appeal of Perugia. The Court of Appeal upheld the first-instance decision. On 8 March 2018, notice was served of the appeal to the Supreme Court. The Bank is therefore waiting for the hearing to be scheduled.

Action for damages against former corporate officers of Banca Popolare di Spoleto S.p.A.

For completeness, it should be noted that, under article 72, paragraph 5, of the CBA, after approval has been obtained from the Bank of Italy, the Extraordinary Commissioners of in charge of special administration of the subsidiary Banca Popolare di Spoleto, at the end of their mandate, had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager. On 7 April 2016, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto resolved, among other things, confirmation of the action of responsibility already taken by the Extraordinary Commissioners and its extension against the former Statutory Auditors. It should be noted that this action contains a request for the defendants to be sentenced to pay damages of approximately Euro 30 million, broken down according to their respective responsibilities. The proceedings relating to admission of the evidence and the case brought against the former auditors have been combined; on 11 January 2018 a hearing was held during which the magistrate reserved judgement on how to investigate

the case. By releasing the reserve with a provision of 20 June 2018, the Judge invited the parties to file a list of the documents that they asked to exhibit, also scheduling a hearing for discussion on this matter for 22 November 2018, when the case will be again reserved for decision on the preliminary investigations (including the expert witness).

Quantitative information

The number of detrimental events recorded by the Group at 30 September 2018 comes to 1,532. The result of the process of collecting adverse events is summarised in the table below:

Event type	% events	% gross loss of total	% net loss of total	% recoveries
INTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination), involving at least one member of the bank	0.07%	0.20%	0.20%	0.00%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	1.31%	4.17%	4.17%	0.00%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	0.20%	2.51%	2.51%	0.00%
RELATIONAL ACTIVITY CONNECTED TO CUSTOMERS, PRODUCTS AND CHANNELS Losses due to inability (not intentional or negligent) to fulfil professional commitments taken with customers (including fiduciary requirements and adequate information on investments)	22.13%	57.42%	57.44%	0.00%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	0.59%	0.44%	0.45%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.39%	0.08%	0.08%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	75.33%	35.16%	35.14%	0.10%
TOTAL Banco Desio e della Brianza Group	**100.00%**	**100.00%**	**100.00%**	**0.04%**

The gross operating loss comes to Euro 2.767 million, for which provisions were made during the period of Euro 1.580 million; recoveries were recorded for Euro 1 thousand, so the net operating loss amounted to Euro 2.766 million.

TRANSACTIONS WITH RELATED PARTIES

TRANSACTIONS WITH RELATED PARTIES

Information on the remuneration of directors and managers

For information on the remuneration paid to directors and managers with strategic responsibilities, please refer to the "Report on the Group's Remuneration Policies" at 31 December 2017 prepared in accordance with art. 123-ter CFA.

Related party disclosures

The internal procedure ("Internal Regulations") for the management of transactions with related parties and entities included in the scope of application of art. 136 of the CBA, adopted in accordance with Consob Regulation no. 17221/2010 and supplemented in accordance with the Minimum Capital Requirement in respect of risk assets and conflicts of interest with respect to persons linked to Banco Desio or the Banking Group pursuant to art. 53 TUB, is explained in the Annual Report on Corporate Governance at 31 December 2017. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents/Related Parties" section.

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

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

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

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

there have been no transactions worth mentioning.

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

The comparison with equivalent conditions to those of the market or standard ones is indicated in the periodic reporting of transactions carried out to the Board of Directors and Board of Statutory Auditors.

In this context, there are no transactions outstanding at 30 September 2018 that present particular risk profiles compared with those considered part of the normal course of banking business and related financial activity or that present profiles of atypical/unusual features worthy of note.

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

Parent Company

At the end of the period, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado SapA amounted to Euro 142.0 million, of which Euro 139.3 million relating to securities portfolios. There are no outstanding payables held by the same Company.

[3] With respect to the level of significance of the transactions with related parties, the Internal Regulations refer to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised for Banco Desio at the date of adoption of the Procedure)

During the period, there were no other transactions entered into with this company (under art. 136 CBA by virtue of the positions held in it by certain officers referred to in paragraph below).

Transactions with Officers and parties related to them

As for the granting of credit lines approved in the first reference period pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of the Group and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 39 positions existing at 30 September 2018 comes to some Euro 9.5 million and the related utilisations amount in total to some Euro 5.9 million.

As regards funding relationships held by Group banks directly with Officers, as well as parties related to them, it should be also noted that the total balances at 30 September 2018 amounted to Euro 135.4 million in amounts due to customers (including approximately Euro 102.5 million in securities portfolios).

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

	Balance at 30.09.2018 (in €/million)
Lending transactions:	
Amount granted	9.5
Amount drawn down	5.9
Funding transactions:	
C/c and d/r amount (a)	32.9
Amount of securities portfolios (b)	102.5
Total (A+B)	135.4

In accordance with Consob Resolution no. 15519 of 27 July 2006, it should be noted that the overall incidence of the balances shown in the previous paragraphs, in terms of equity, financial and economic results, is more or less insignificant.

SEGMENT REPORTING

SEGMENT REPORTING

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

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

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

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

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

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

Income statement	Banking	Near-banking	Consolidation adjustments	Total 30.09.2018
Net profit from financial and insurance activities (1)	309,215	12,757	- 14,547	307,425
Fixed costs (2)	- 231,767	- 5,071	5,679	- 231,159
Provisions and adjustments (3)	- 44,616	- 87	-	- 44,703
Profit (loss) from equity investments carried at equity	-		-	-
Gains (losses) on disposal of investments				-
Profit (loss) from current operations before tax	**32,832**	**7,599**	**(8,868)**	**31,563**

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

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 30.09.2018
Financial assets	3,185,786	15	(984)	3,184,817
Due from banks (4)	713,307	2,719	(483,489)	232,537
Loans to customers (4) (5)	9,534,720	687,000	(630,781)	9,590,939
Non-current assets and disposal groups held for sale	2,652			2,652
Due to banks	2,129,743	632,795	(1,112,129)	1,650,409
Due to customers	9,209,719	2,881	(2,179)	9,210,421
Debt securities in issue	1,570,501		(412)	1,570,089
Indirect deposits, under administration and management	**14,252,232**		**(32,115)**	**14,220,117**

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

Income statement	Banking	Near-banking	Consolidation adjustments	Total 30.09.2017
Net profit from financial and insurance activities (1)	332,450	12,839	(12,474)	332,815
Fixed costs (2)	(234,723)	(4,551)	5,122	(234,152)
Provisions and adjustments (3)	(56,141)	(478)		(56,619)
Profit (loss) from equity investments carried at equity	-			-
Gains (losses) on disposal of investments	41			41
Profit (loss) from current operations before tax	**41,627**	**7,810**	**(7,352)**	**42,085**

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

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 31.12.2017
Financial assets	2,283,277	15	(2,143)	2,281,149
Due from banks	1,650,034	2,481	(434,455)	1,218,060
Loans to customers	9,805,343	636,940	(580,421)	9,861,862
Due to banks	2,137,940	580,676	(1,012,688)	1,705,928
Due to customers	9,271,898	2,622	(2,183)	9,272,337
Debt securities in issue	1,710,172		(1,852)	1,708,320
Indirect deposits, under administration and management	**14,192,416**		**(43,538)**	**14,148,878**

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

ATTACHMENT:

INFORMATION ON THE CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY (BANCO DESIO BANKING GROUP)

A. Qualitative information

The Banco Desio Group pays a great deal of attention to its own capital, being well aware both of its function as a factor in defence of the trust of external funders, as it can be used to absorb losses, and of its importance for purely operational and business development purposes. The policy of the Banco Desio Group is therefore to assign a considerable priority to capital to use it in the best way possible in expanding the business. A good level of capitalisation allows us to address the question of business development with the necessary degree of autonomy and to preserve the stability of the Group. The concept of book equity used by the Group is given by the sum of the following liability captions: share capital, valuation reserves, other reserves, share premium reserve and net profit (loss) for the period.

B. Quantitative information

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 the negative result for the period of Euro 13.0 million.

Captions	Banking Group *	Insurance companies	Other businesses	Consolidation adjustments and eliminations	30.06.2018
1. Share capital	125,457				125,457
2. Share premium reserve	31,594				31,594
3. Reserves	697,839				697,839
4. Equity instruments					
5. (Treasury shares)	(51)				(51)
6. Valuation reserves:	9,955				9,955
7. Net profit (loss) of the year (+/-) pertaining to the Group and minority interests	23,424				23,424
Shareholders' equity	**888,218**				**888,218**

* Including minority interests for a total of Euro 41.9 million

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

Assets/Amounts	Regulatory consolidation		Insurance companies		Other businesses		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	431	(34,712)							431	(34,712)
2. Equity instruments	24,109								24,109	
3. Loans										
Total 30.09.2018	**24,540**	**(34,712)**							**24,540**	**(34,712)**
Total 30.12.2017	**26,978**	**(7,663)**							**26,978**	**(7,663)**

The comparative figure includes the total positive and negative reserves of the mutual fund units classified under assets available for sale in compliance with IAS 39; these valuation reserves were reclassified to profit reserves (in particular, the IFRS9 FTA reserve) on 1 January 2018. In fact, starting from that date mutual funds were reclassified to item "20.c. Financial assets mandatorily at fair value" since by their very nature they are not compatible with passing the SPPI test (solely payments of principal and interests) foreseen in IFRS 9 "Financial Instruments" for the classification of financial assets measured at fair value through other comprehensive income.

SECTION 2 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS (BANCO DESIO BANKING GROUP)

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

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

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

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

2.1 Consolidated Own Funds

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

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

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

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

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

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

Regulation; d) for entities that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of EU Regulation no. 575/2013, the positive amounts, gross of the related tax effect, resulting from the computation in accordance with articles 158 and 159 up to 0.6% of the risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of the Regulation.

The Consolidated Own Funds of the Banco Desio Group calculated in this way amount to Euro 1,014.0 million at 30 September 2018 (CET 1 + AT1 of Euro 899.7 million + T2 of Euro 114.3 million).

In January 2018, the Boards of Directors of Banca Popolare di Spoleto and Banco di Desio e della Brianza, taking account of a best estimate of the higher adjustments for expected losses on performing and non-performing loans on first-time application of IFRS 9, resolved to join the transitional regime for the determination of own funds and capital ratios, introduced by Regulation (EU) 2017/2395 of 12 December 2017 with a view to reducing the impact of first-time application, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time application of the standard and to the increase in expected losses on performing loans compared with the date of first-time application of the standard.

The table below shows the breakdown of Banco Desio Group's consolidated own funds calculated with and without applying the transitional provisions.

Euro/1000	With transitional regime	Without transitional regime
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	859,901	859,018
of which: CET 1 capital instruments subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	(1)	(1)
C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)	859,900	859,017
D. Items to be deducted from CET 1	48,513	48,513
E. Transitional provisions – Impact on CET 1 (+/-)	591	591
E.bis. Adjustments due to IFRS 9 transitional provisions (Transitional regime 95%)	77,555	-
F. Total Common Equity Tier 1 (CET 1) (C – D +/-E)	**889,533**	**811,095**
G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions	**14,261**	**14,044**
of which: AT1 capital instruments subject to transitional provisions	6,865	6,865
H. Items to be deducted from AT1	-	-
I. Transitional provisions – Impact on AT1 (+/-)	(4,119)	(4,119)
L. Total Additional Tier 1 (AT1) (G - H +/- I)	10,142	9,925
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions	114,299	109,390
of which: T2 capital instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional provisions – Impact on T2 (+/-)	-	-
P. Total Tier 2 (T2) (M - N +/- O)	114,299	109,390
Q. Total Own Funds (F + L + P)	**1,013,974**	**930,410**

2.2 Consolidated regulatory requirements

Following the periodic review and prudential assessment process (SREP), on 4 April 2017, the Bank of Italy notified Banco di Desio e della Brianza the minimum prudential requirements for the banking group it controls. Taking into account the 1,875% capital conservation reserve applicable to Italian banking groups in 2018, they presuppose compliance with the minimum limits indicated below, applicable to the regulatory scope of consolidation of Brianza Unione:

- **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;
- **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 of the CBA - to the extent of 8.5% (of which 8% for the minimum regulatory requirements and 0.5% for additional requirements) and for the remainder from the capital conservation buffer.

The following table shows the consolidated regulatory requirements of the Banco Desio Group calculated with and without applying the transitional provisions.

Euro/000	With transitional regime	Without transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	889,533	811,095
Tier 1 capital (AT1)	899,675	821,020
Total own funds	1,013,974	930,410
RISK ASSETS		
Risk-weighted assets	7,636,217	7,537,222
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	11.649%	10.761%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	11.782%	10.893%
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.278%	12.344%

At 30 September 2018 the Banco Desio Group ratios[4] are above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority through the SREP procedure:

	SREP	With transitional regime	Without transitional regime
Common Equity Tier 1 ratio (CET 1 ratio)	6.625%	**11.649%**	10.761%
Tier 1 ratio	8.225%	**11.782%**	10.893%
Total capital ratio	10.375%	**13.278%**	12.344%

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

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

The calculation of Own Funds and of the consolidated prudential requirements at 30 September 2018, which are transmitted to the Bank of Italy in relation to the prudential supervisory reports (COREP) and statistical reports (FINREP), was therefore made with reference to Brianza Union di Luigi Gavazzi e Stefano Lado S.A.p.A. as it is the financial parent company of the banking group according to European legislation. This section therefore presents the results of this calculation, relating to the regulatory scope of the consolidated financial statements drawn up by Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. (the financial parent company).

3.1. Consolidated Own Funds

The consolidated own funds calculated by the financial parent company amount to Euro 876.4 million at 30 September 2018 (CET1 + AT1 of Euro 737.3 million, T2 of Euro 139.1 million).

The following table shows the composition of the consolidated own funds of the financial parent company with and without applying the transitional provisions.

[4] Simulating the effects of reclassification of the business models at 30 September 2018, the following pro-forma coefficients have been estimated, applying the transitional provisions: 12.15% (CET 1 ratio), 12.28% (Tier 1 ratio) and 13.78% (Total capital ratio)

	With transitional regime	Without transitional regime
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	679,597	677,191
of which: CET 1 capital instruments subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	-1	-1
C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)	679,596	677,190
D. Items to be deducted from CET 1	48,513	48,513
E. Transitional provisions – Impact on CET 1 (+/-)	308	308
E.bis. Adjustments due to IFRS 9 transitional provisions	40,394	
F. Total Common Equity Tier 1 (CET 1) (C – D +/-E)	671,785	628,985
G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions	65,553	61,808
of which: AT1 capital instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	-
I. Transitional provisions – Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 (AT1) (G - H +/- I)	65,553	61,808
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions	139,067	125,059
of which: T2 capital instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional provisions – Impact on T2 (+/-)	-	-
P. Total Tier 2 (T2) (M - N +/- O)	139,067	125,059
Q. Total Own Funds (F + L + P)	876,405	815,852

3.2. Consolidated regulatory requirements

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

Euro/000	With transitional regime	Without transitional regime
OWN FUNDS		
Common Equity Tier 1 - CET 1	671,785	628,985
Tier 1 capital (AT1)	737,338	690,793
Total own funds	876,405	815,852
RISK ASSETS		
Risk-weighted assets	7,636,220	7,537,225
CAPITAL RATIOS		
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	8.797%	8.345%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	9.656%	9.165%
Total Own Funds/Risk-weighted assets (Total capital ratio)	11.477%	10.824%

At 30 September 2018 the consolidated ratios calculated for the financial parent company[5] are above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority through the SREP procedure previously referred to:

	With transitional regime	Without transitional regime
Common Equity Tier 1 ratio (CET 1 ratio)	**8.797%**	8.345%
Tier 1 ratio	**9.656%**	9.165%
Total capital ratio	**11.477%**	10.824%

[5] Simulating the effects of reclassification of the business models at 30 September 2018, the following pro-forma coefficients have been estimated, applying the transitional provisions: 9.05% (CET 1 ratio), 9.91% (Tier 1 ratio) and 11.74% (Total capital ratio)