



**Report on operations
and consolidated financial
statements as at 31 December 2017**

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and financial statements
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 **Banco Desio**
Gruppo Banco Desio

 **Banca Popolare di Spoleto**
Gruppo Banco Desio

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Consolidated Financial Statements



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

Board of Directors

<u>Chairman</u>	Stefano Lado
<u>Deputy Chairman</u>	Tommaso Cartone**
<u>Directors</u>	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

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

General Management

<u>General Manager</u>	Angelo Antoniazzi*
<u>Senior Deputy General Manager</u>	Mauro Walter Colombo
<u>Deputy General Manager "Corporate Affairs"</u>	Maurizio Ballabio

* from 19 July 2017

Financial Reporting Manager as per art. 154-bis CFA

<u>Financial Reporting Manager</u>	Mauro Walter Colombo
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Independent Auditors

<u>Independent Auditors</u>	Deloitte & Touche S.p.A.
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The Banco Desio Group

The scope of consolidation of the Banco Desio Group at 31 December 2017 includes the following companies:



(*) 30 June 2017 was the expiration date for the exercise of the "Banca Popolare di Spoleto S.p.A. Warrants 2015-2017" (the "BPS Warrants") that had been issued in accordance with a resolution adopted by the Extraordinary Shareholders' Meeting of BPS held on 30 March 2015 (of up to a maximum of 11,104,626) and which were allocated free of charge to the holders of BPS ordinary shares, other than Banco Desio. During the exercise period, from 30 June 2015 to 30 June 2017, 72,898 BPS Warrants were converted into the same number of Conversion Shares, taking the equity interest held by Banco di Desio e della Brianza to 81.67%.

(**) In connection with the structuring of the covered bond issue programme, on 29 June 2017, Banco di Desio e della Brianza completed the acquisition of a controlling interest in the SPV "Desio OBG S.r.l.", which had been set up ad hoc and which was included in the Banco Desio Group as of the same date.

2017 Consolidated Report on Operations

Introduction

The figures and ratios included in this Consolidated Report on Operations, as well as the comments on the composition of the captions and the related changes, where due, refer to the balance sheet included in the consolidated financial statements and to the consolidated reclassified income statement, as disclosed in the appropriate paragraph, that, in turn has been prepared from the consolidated financial statements.



1 - Key figures and ratios

Balance sheet

	31.12.2017	31.12.2016		Change	
		amount	amount	amount	%
Total assets	13,995,822	12,365,903	1,629,919		13.2%
Financial assets	2,281,149	1,870,808	410,341		21.9%
Due from banks	1,218,060	112,838	1,105,222		979.5%
Loans to customers	9,861,862	9,720,108	141,754		1.5%
Property, plant and equipment	180,566	181,201	-635		-0.4%
Intangible assets	17,946	17,843	103		0.6%
Due to banks	1,705,928	962,245	743,683		77.3%
Due to customers	9,272,337	8,729,591	542,746		6.2%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,708,320	1,409,792	298,528		21.2%
Shareholders' equity (including Net profit/loss for the period) ⁽¹⁾	927,056	868,120	58,936		6.8%
Own Funds	1,089,121	1,084,987	4,134		0.4%
Total indirect deposits	14,148,878	13,474,129	674,749		5.0%
of which: Indirect deposits from ordinary customers	8,946,523	8,415,302	531,221		6.3%
of which: Indirect deposits from institutional customers	5,202,355	5,058,827	143,528		2.8%

Income statement ⁽²⁾

	31.12.2017	31.12.2016		Change	
		amount	amount	amount	%
Operating income	432,550	423,828	8,722		2.1%
of which: Net interest income	231,242	236,192	-4,950		-2.1%
Operating costs	280,791	277,046	3,745		1.4%
Result of operations	151,759	146,782	4,977		3.4%
Profit (loss) from operations after tax	47,415	37,807	9,608		25.4%
Non-recurring profit (loss) after tax	-2,456	-12,270	9,814		n.s.
Profit for the period ⁽¹⁾	43,698	25,551	18,147		71.0%

⁽¹⁾ pertaining to the Parent Company;

⁽²⁾ from the reclassified income statement.

Key figures and ratios

	31.12.2017	31.12.2016	Change amount	
Capital/Total assets	6.6%	7.0%	-0.4%	
Capital/Loans to customers	9.4%	8.9%	0.5%	
Capital/Due to customers	10.0%	9.9%	0.1%	
Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss	54.3%	61.6%	-7.3%	
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	11.5%	10.9%	0.6%	
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)	11.6%	11.0%	0.6%	
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.6%	13.5%	0.1%	
Financial assets/Total assets	16.3%	15.1%	1.2%	
Due from banks/Total assets	8.7%	0.9%	7.8%	
Loans to customers/Total assets	70.5%	78.6%	-8.1%	
Loans to customers/Direct customer deposits	89.8%	95.9%	-6.1%	
Due to banks/Total assets	12.2%	7.8%	4.4%	
Due to customers/Total assets	66.3%	70.6%	-4.3%	
Debt securities in issue and financial liabilities designated at fair value through profit and loss/Total assets	12.2%	11.4%	0.8%	
Direct customer deposits/Total assets	78.5%	82.0%	-3.5%	
	31.12.2017	31.12.2016	Change amount	
Cost/Income ratio	64.9%	65.4%	-0.5%	
Net interest income/Operating income	53.5%	55.7%	-2.2%	
Result of operations/Operating income	35.1%	34.6%	0.5%	
Profit (loss) from operations after tax/Capital ⁽³⁾	5.4%	4.5%	0.9%	
ROE ⁽³⁾	5.1%	3.0%	2.1%	
Profit (loss) from operations before tax/Total assets (ROA)	0.5%	0.4%	0.1%	
	31.12.2017	31.12.2016	Change amount	
Net doubtful loans/Loans to customers	5.0%	4.9%	0.1%	
Net impaired loans/Loans to customers	8.4%	9.4%	-1.0%	
% Coverage of doubtful loans	57.2%	56.3%	0.9%	
% Coverage of doubtful loans, gross of cancellations ⁽⁴⁾	61.1%	60.9%	0.2%	
% Total coverage of impaired loans ⁽⁴⁾	49.0%	46.2%	2.8%	
% Coverage of impaired loans, gross of cancellations ⁽⁴⁾	52.4%	50.0%	2.4%	
% Coverage of performing loans	0.45%	0.54%	-0.09%	

Structure and productivity ratios

	31.12.2017	31.12.2016	Change amount %	
Number of employees ⁽⁵⁾	2,303	2,356	-53	-2.2%
Number of branches	265	271	-6	-2.2%
<i>Amounts in thousands of Euro</i>				
Loans and advances to customers per employee ⁽⁶⁾	4,233	4,113	120	2.9%
Direct deposits from customers per employee ⁽⁶⁾	4,714	4,290	424	9.9%
	31.12.2017	31.12.2016	Change amount %	
Operating income per employee ⁽⁶⁾	186	179	7	3.9%
Result of operations per employee ⁽⁶⁾	65	62	3	4.8%

⁽³⁾ excluding net profit (loss) for the period;

⁽⁴⁾ also considering non-performing loans of the subsidiary Banca Popolare di Spoleto S.p.A., shown gross of write-downs;

⁽⁵⁾ number of employees at the reference date

⁽⁶⁾ based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.



2 - Underlying scenario

2.1 - The macroeconomic scenario

International scenario

The trend in the world economy has consolidated the dynamics of a moderate recovery. The figures confirm that there is a widespread recovery in industrial production (+3.3% on average, +1.9% in 2016) and in international trade volumes (+3.9% on average, +1.4% in 2016).

The statistics gave positive indications in the last few months of 2017, especially for Emerging Markets, whereas Developed Economies are unlikely to grow by much more next year. Economic activity in the United States is expanding, but it will have to be sustainable to avoid inflationary pressures, with a positive contribution coming from services and manufacturing. The US Administration recently announced the outlines of an expansionary tax reform. Growth has stabilized in Japan, whereas it is expected to contract in the United Kingdom along with the Brexit negotiations. The Euro Area continues along its path of moderate growth similar to the Emerging Market Economies. Due to the stimulus provided by economic policy, the Chinese economy has started to benefit from an upturn in foreign demand, with growth rates that have been slightly better than forecast, overshadowing concerns about the high level of debt and the excesses of the property market.

However, the current phase of economic expansion presents other peculiarities besides the moderate level of growth rates: it seems to have undertaken a long cycle, featuring low inflation in Developed Countries, reduced elasticity of international trade with respect to GDP growth, and, on average, a low propensity to invest. At present, it seems that there are none of the factors that usually put an end to periods of expansion: in fact, no inflationary pressures have been seen that have caused the central banks to impose restrictive monetary policies, fiscal policies have remained neutral and the symptoms of financial imbalance or of overvaluation of the property market remain essentially confined to China. In the first part of the year, the recovery in oil prices and expectations of more robust growth pushed up global inflation expectations, but the overall dynamics remained, and continue to remain, moderate. Consumer price inflation is affected by global factors, but also by domestic determinants: it is still very low in Japan and Europe, whereas it is on a rising projection in the United States. As far as the main Emerging Markets are concerned, the increase in prices has remained low in China, in line with the objectives of the Central Bank in India, and high in Brazil and Russia. Monetary policy institutions maintain an accommodating approach, although they make it clear that they are ready or just about to reduce the stimuli that they have been giving to date. In any case, low inflation and moderate credit dynamics are allowing central banks to manage this phase gradually.

The scenario described above could hold particular complications: a delicate electoral cycle in Italy, an uncertain government structure in the United States, monetary policy that is struggling more and more to influence aggregate demand, a slowdown in the world economy due to China, the trend in oil prices or the very process of normalising monetary policies.

United States

Even if the American economy is characterised by lower levels of cyclical development compared with previous occasions, it still continues to grow: in the fourth quarter the indicators maintained a positive trend, anticipating a year-end GDP of around +2.3%.

Private consumption (+2.5%) still has the support of good fundamentals: a solid labour market, growth in net wealth, expansionary financial conditions, high confidence. The recent revision of the national accounts has significantly lowered the household savings rate (3.5%, formerly 4.1%), limiting margins for a possible acceleration of future spending. The current positive trend in the American economy is one of the longest since the World War II and signs of maturity are beginning to show, even if they are hidden by the peculiar characteristics of this cycle: a slowdown in the upward trend of employment (+4.3%, +4.9% in 2016), closure of the output gap (difference between actual and potential GDP), a moderate recovery in inflation (+2.0%) and in wages (+2.5%). Non-residential fixed investments continue to rise in many places, while the volatility of the mining industry has decreased with the normalisation of oil prices. Surveys of manufacturing industry and the trend in orders continue to give positive indications, over and above the fluctuations probably caused by post-hurricane reconstruction. The expectations of growth in domestic and global demand, the diminished strength of the dollar and the financial conditions that remain expansionary are also keeping business confidence high. The growth in residential investment should then stabilise at around +2.2% in 2017 and remain the same in 2018.

Inflation continues to be the most uncertain variable in the US economy. Some of the brakes seen in recent months have turned out to be transient and the effect of adverse weather conditions increases forecasting uncertainty: on the other hand, the increase in the price of petrol and the scarcity of certain goods and services in high demand for the reconstruction could create upward pressure. In short, the return of inflation to 2.0% remains uncertain, leading to increased caution on the part of the Federal Reserve ("Fed") with regard to a rate hike.

The conclusion, therefore, is that the current state of the real economy is consistent with a prudent continuation of the normalisation of monetary policy, while the Fed is expected to act with two rate hikes during 2018, at the same time starting the so-called "tapering" of quantitative easing (i.e. reducing monetary stimuli). Another unknown is increased political risk: the Trump administration suffers from a "reputational crisis" and is encountering numerous difficulties in implementing its programme on the domestic front, while acting somewhat unpredictably on the international front. In the coming months, the focus will be on the budget and the recently announced tax reform, but the expected effects of the manoeuvre, which could generate support for the Republicans in the mid-term elections, are still uncertain, not only because of a foreseeable reduction overall in federal revenues, but also, and above all, in distribution among income classes.

Japan

The Japanese economy continues to grow above its potential; the definitive GDP figure at the end of 2017 is expected to come in at +1.7% thanks to positive contributions from all of the main components of aggregate demand and support from economic, monetary and fiscal policy. Rising consumption, higher non-residential investments, more public spending, and support from exports are the main contributors to this positive trend. On the consumer demand side, the forecast is of moderate expansion, even though the trend in income from work is improving, with limited wage increases. The unemployment rate has fallen to 2.8% and the accumulation of savings shows no signs of slowing down, whether to cope with another fiscal tightening, which may be on the cards, or because of low inflation expectations. As regards the demand for private and public fixed investments, the expected weakening of the yen should have a positive impact on profits and capital expenditure, more than on the trade balance. Overall, however, the critical nature of the scenario is characterised by at least three important elements of fragility: low economic growth with the output gap diminishing, reduced capital expenditure, dependence on demand from Asian economies and inflation, net of food consumption, around zero. The turning point is expected to come from a combination of pro-cyclical fiscal and monetary policies. The Japanese



government has outlined a series of measures (increase in public expenditure and subsidies for businesses and households) to stimulate short-term growth, while at the same time boosting structural development.

Emerging Economies

The economic situation is improving in the main Emerging Markets. The situation of the large oil producers is less worrisome following a recovery in prices which is tending to consolidate around 60 dollars a barrel. With the normalisation of the US economy, Emerging Economies will have to deal with a situation that will become less and less favourable.

In China, the latest PMI indices for the manufacturing and services sectors have confirmed the ongoing improvement in economic activity generally, which is still supported by fiscal and monetary policy.

The third quarter of 2017 posted GDP growth (+6.8%) in line with previous quarters, thanks to positive contributions from exports (+0.2%), consumption (+4.5%) and investments (+2.3%). But the latter are continuing to slow down in both the private and public sectors. Industrial production is still growing modestly compared with the past (around +6%), while retail sales are continuing to decelerate, mainly sustained by the trend in wages. These slowdowns were reflected in imports, bringing their real growth from double-digit figures in the first quarter of the year to rates of +7-8% in more recent months. Monetary policy is maintaining a neutral-restrictive approach in order to balance the need to control excesses in some sectors (e.g. construction) with that of granting access to credit to other operators, such as small businesses and farms, discouraging the use of "shadow banking" and increasing the stability of the credit system. At the end of November, the Communist Party congress made a series of important announcements, with various openings for the financial sector in the sense of more and more internationalisation and liberalisation; nevertheless, existing regulations still appear very hostile to the expansion programmes of foreign operators in the short term.

In India, GDP at the end of the third quarter was up by +6.3%, supported by an acceleration in consumption (+6.5%) and a still positive contribution from foreign trade. Fixed investments fell year on year, mainly because of difficulties in the construction sector, where the effect of demonetisation and the fight against payments under the table are being felt more and more. The foreign sector continues to put a brake on real growth: while exports continue at a very modest pace, imports have also shown slower growth in recent months, effectively reducing the negative impact of the net balance of trade. On the domestic front, consumption is supported by a good performance by the agricultural sector with successful crops and by an increase in pensions and salaries for public employees; credit to the service sector and personal credit has continued to accelerate, whereas credit to industry has contracted. The increase in problem loans and the difficulties of bank recapitalisation point to a credit slowdown; the prospects for a recovery in private investments are still weak and uncertain, whereas public investments are expected to accelerate moderately. Despite the persistence of core inflation (i.e. net of unprocessed food and energy goods), total inflation should remain under control, in line with the Central Bank's objectives (lower than +4%).

In the latest survey, Russia's GDP maintained its upward trend, but less intensely compared with previous surveys (+1.8%, having been +2.5%). To a certain extent, however, the slowdown was expected as there were no longer the exceptional factors that had maintained the second quarter trend at higher levels: development of infrastructures, services, tourism, catering, transport and all those sectors related to the next FIFA World Cup (2018). Investment is still the weakest component as the construction industry is more or less stationary, whereas retail sales are maintaining a fairly good upward trend based on good growth in real wages, better conditions for access to credit and very low inflation. Monetary policy remains restrictive with a further decline in official rates (8.25%, formerly 10.0%). The major elements of uncertainty are still linked to developments in the price of oil and the geopolitical picture, which could however turn positive if the ongoing system of sanctions and counter-sanctions is cancelled.

In Brazil, the recovery seen in the first half of the year gained strength in the second half: in fact, in the third quarter of 2017, GDP grew (+1.4%), exports benefited from the robustness of international trade and a rise in raw material prices in dollars increased the resources available for growth. Household consumption grew (+2.2%), helped by an improvement in the labour market (unemployment fell to 12.2%, against the peak of 13.7% at the end of the first quarter). Inflation (2.0%) remains well below the Central Bank's target (3.0%), thanks to the decline in food prices since July; as a result, the Central Bank has further reduced official interest rates (7%, having been 13% at the beginning of the year), fostering business confidence, even if companies have still not joined in the recovery. Political uncertainty remains high, fuelled by the fear that Parliament's attention will be diverted from the reforms currently in progress to focus on the run for next year's presidential elections.

Europe

The dispersion of growth between "core" and peripheral countries is expected to be less pronounced and the economic situation will remain on a growth trend of more than +2%. From the second half of this year and until the end of 2019, GDP will grow at a slower pace, though it should still be higher than the trend in recent years. Overall, even if there is no longer a strong downward trend in energy prices and the contribution from fiscal policy will remain minimal, an increase in foreign demand, growth in employment and the accommodating financial conditions should continue to drive economic growth in the Eurozone: at the end of the third quarter, GDP was growing by +2.4%. Domestic demand did better than expected thanks to the fact that consumption held up, while there was the start to a new investment cycle. This expansion involves practically all sectors of the economy and the positive cycle is associated with personal incomes growing faster than expected for those with jobs and a decline in the rate of unemployment which is expected to be at its lowest level for the last nine years or more. The construction sector is doing better than expected, thanks to contributions from Germany, Spain and the Netherlands. Confidence surveys suggest that job creation will remain robust, but that there is still plenty room before full employment is reached: unemployment is put at around 9.5% and this explains, at least in part, the lack of wage pressures and, indirectly, why inflation is so weak.

Political risk and, in particular, the risk of a drift towards populist positions has fallen considerably, but it has not been eliminated completely. The recent elections in Germany should not jeopardize the possibility of forming a coalition government, but confirm the growth of Euro-sceptical political movements, while the outcome of the elections in Italy, to be held in March this year, is more uncertain. Risks also include those relating to the negotiations for the United Kingdom's exit from the EU; on the other hand, the overall political and economic picture is creating a unique opportunity to relaunch the dialogue on reform of the Monetary Union and to reinforce citizens' trust in European democratic values, after years when growth and social cohesion in the Eurozone have been supported almost exclusively by the policies of the European Central Bank.

Higher growth in the economy has not yet generated inflationary pressures on domestic prices and the estimates are still of inflation around 1.6% at the end of 2019, with a current trend of 1.2%. Uncertainty about the return of "core" inflation is being held back by the increase in the exchange rate and by the fact that there are considerable margins of unused production and employment capacity. Uncertainty about the return of inflation also makes it plausible to continue the ECB's ultra-accommodating monetary policy and its commitment to normalise it with the greatest possible caution. It is expected that quantitative easing will continue until the autumn of 2018 and that interest rates will remain steady at least until the beginning of 2019. If the programme closes in 2018, the portion of Italy's or Portugal's public debt that was 'sterilized' because transferred to the ECB's balance sheet will still be too small to have a decisive impact on the sustainability of the debt.



Italy

As already mentioned in relation to the Eurozone, annualised GDP growth in Italy was again significant during the third quarter (+1.7%). All components of GDP provided positive contributions to overall growth, with the exception of inventories. Consumption provided the main support for the improvement in economic activity, thanks to the contribution made by households (+0.2%), together with gross fixed capital formation (+0.5%) and net foreign demand (+0.2%). The latest available survey (October) shows that the seasonally adjusted index of industrial output went up (+3.1% p.a.) and the indices adjusted for calendar effects show increases in almost all groupings: operating assets (+5.3%), intermediate goods (+3.5%) and consumer goods (+3.8%). New orders also rose (+4.5% p.a.), while retail sales were broadly flat. The consumer confidence index was slightly down in November, while the business confidence index decreased less. As for the labour market, in October unemployment was substantially unchanged (11.1%), as opposed to youth unemployment which fell (34.7%, formerly 37.2%), while still remaining very high. The harmonised index of consumer prices remains particularly low (+1.08%), in line with core inflation (+0.50%). Expected developments in the fourth quarter of 2017 envisage a further improvement in economic activity and this trend should close 2017 with a higher level of growth (+1.4%) than in 2016 (+1.1%).

2.2 - Capital markets and the banking system in Italy

Financial and monetary markets

The ECB kept its policy rates unchanged in October (reference rate of zero, -0.40% on deposits). The ECB has confirmed that it has reduced its quantitative easing for purchases of securities to 30 billion a month starting from January 2018, continuing up to September, emphasising that it could go back to increasing it or to further lengthening purchases of securities beyond September 2018, if the situation still requires it. The Fed, on the other hand, after raising interest rates by 0.25 percentage points in June (in a range between 1.00% and 1.25%), it raised the reference range by a further 0.25 percentage points in December (now between 1.25% and 1.50%) and plans to make two further increases during the course of 2018.

In the first ten days of December, the 3-month Euribor was negative again and at an all-time low (-0.33%); the 10-year IRS rate, on the other hand, stood at +0.80%, 5 bps higher than at the end of 2016 (+0.75%). On the bond market, 10-year benchmark rates rose in the USA (2.36%, having been 2.15% at the end of 2016) and in the Eurozone; in Germany, the benchmark rate came to 0.37% (from 0.16% at the end of 2016), while in Italy it fell to 1.75% (from 1.94% at the end of 2016).

International share prices maintained positive dynamics: Standard & Poor's 500 index rose by +1.4% (+19.7% y/y), Dow Jones Euro Stoxx index fell by -0.6% m/m (+13.7% y/y), Nikkei 225 index increased by +6.1% (+27.4% y/y). The major European stock market indices improved during the month: in France the CAC40 index grew by +0.2% (+19.8% y/y), in Germany, the DAX30 index rose by +1.1% (+24.2% y/y), while the FTSE MIB index remained more or less the same (+35.7% y/y). With reference to the main banking indices, the indicators showed contrasting monthly trends, albeit with growth on an annual basis: Italy's FTSE Banks index went down by -2.6% m/m (+44.2% y/y), the Dow Jones Euro Stoxx Banks by -2.5% m/m (+26% y/y) and the S&P 500 Banks rose by +0.2% m/m (+25.9% y/y).

Banking markets

With regard to the banking market, the annual trend in deposits from resident customers in November was positive (+0.4% compared with -0.5% at the end of 2016). Analysing this, the principal components were in line with previously readings: short-term deposits rose (+4.4%, compared with +4.9% at the end of 2016) and bonds fell again (-15.6%, compared with -17.9% in at the end of 2016). The rise in volumes was

accompanied by a slight fall in the overall remuneration (+0.89%, compared with +0.98% at the end of 2016). In terms of lending, the latest available data confirms the recovery in loans to the private sector (+1.0%, compared with +0.4% at the end of 2016); this was led by loans to households (+2.8%, compared with +1.9% in December 2016), while loans to businesses were essentially unchanged (-0.5%, zero at the end of 2016). Lending to the productive sector continues to be influenced by the trend in investments and the economic cycle that, although recovering, remains muted. In November, rates on new loans to households and businesses reached their historical minimum (2.73%). Within this, the mortgage rate for home loans was 1.95%, while the rate for business loans was 1.45%: the market has reached an all-time low in both sectors.



3 – Regional market presence and corporate issues

3.1 - The distribution network

The Group's distribution network at 31 December 2017 consists of 265 branches, including 146 of 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 organisational model, which is the same for both Banco Desio and Banca Popolare di Spoleto, provides in particular for:

- a distribution network divided into Territorial Areas, each of which is supervised by an Area Manager, who acts as the principal commercial representative in the area, with clearer hierarchical and functional reporting lines by specialised professional figures (Corporate Bankers, Private Bankers, etc.) and the Branch Network;
- the assignment of specific roles to the resources working at branch level in order to guarantee a more targeted and specialised service to customers, as well as to promote career paths for employees based on their professional characteristics and management potential.

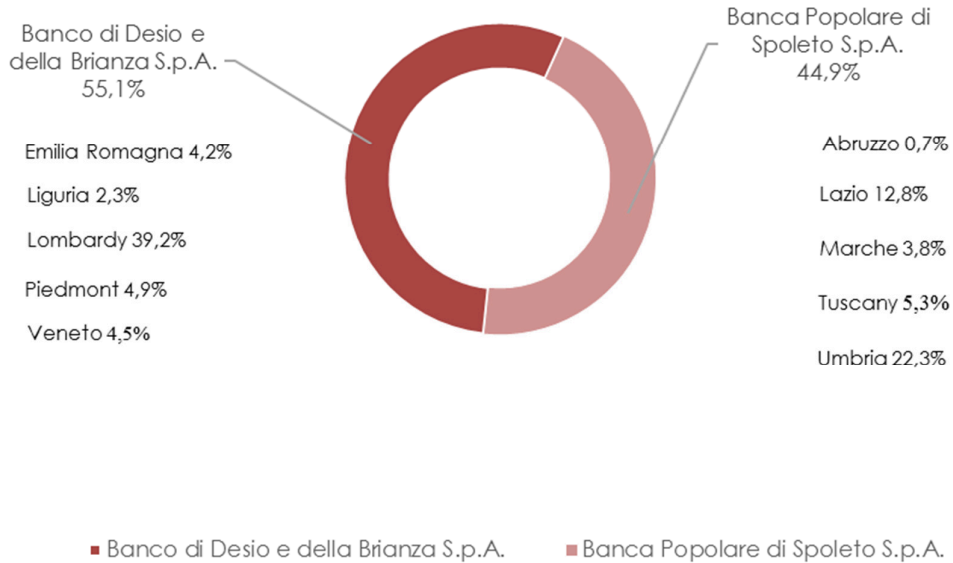
As part of the measures to rationalise and improve the efficiency of the distribution network:

- Banco Desio closed four branches on 20 March 2017, specifically Milan-Mauri, Brembate, Cinisello Lincoln and Desio Volta;
- the subsidiary Banca Popolare di Spoleto closed the branches in Perugia - Castel del Piano and Rome - Corso Trieste on 24 July, and the Terni branch - Viale Trento on 15 December.

The Parent Company opened a new branch in Como on 9 January 2017.

The following chart analyses by region the companies that form part of the distribution network at 31 December 2017.

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



3.2 - Significant events

Increase in capital and renewal of the corporate bodies of Fides S.p.A.

On 21 March 2017, the Extraordinary Shareholders' Meeting of the subsidiary authorised an increase in share capital for payment from Euro 25 million to Euro 35 million by the issue of 10,000,000 ordinary shares, par value Euro 1.00 each, that were subscribed for in full by the Parent Company (sole shareholder).

On the same date, the Ordinary Shareholders' Meeting renewed the Board of Directors for a three-year period (the Board of Statutory Auditors was renewed for three years in the prior year).

Renewal of the corporate bodies of Banca Popolare di Spoleto S.p.A.

On 30 March 2017, the Ordinary Shareholders' Meeting of the subsidiary appointed the Board of Directors and the Board of Statutory Auditors for the years 2017-2019.

On 17 July 2017, the Board of Directors of Banca Popolare di Spoleto approved the appointment of Ippolito Fabris as General Manager with effect from 19 July 2017. Ippolito Fabris, previously Deputy General Manager of BPS, has been identified in a logic of management continuity (from 2014 to 2016 he had already acted as Deputy General Manager of Corporate Affairs of the Parent Company Banco di Desio e della Brianza and, prior to that, he had held senior positions in other banks of a comparable size). At the same time, Massimo Barazzetta was appointed as Deputy General Manager of BPS, having previously headed up the Parent Company's Organisation and Systems Department (prior to that, he had held the position of head of the Internal Audit Department). Ippolito Fabris replaces Angelo Antoniazzi who has been appointed as General Manager of Banco di Desio e della Brianza.



On 24 October 2017, the Board of Directors of the subsidiary resolved to appoint Giorgio Federico Rossin (Manager in charge of the Planning, Management Control and Equity Investments Department at the Parent Company) as a new Director, in line with the "theoretical profile" and in accordance with the Supervisory Authority's recommendations in this area; Giorgio Federico Rossin was also appointed as a member of the subsidiary's Executive Committee. At the same time, the Board decided to appoint Argante Del Monte, Independent Director and Chairman of the Risk Control Committee since 2014, as the Deputy Chairman of Banca Popolare di Spoleto.

Renewal of directors and officers of Banco di Desio e della Brianza S.p.A.

On 6 April 2017, the Ordinary Shareholders' Meeting of the Parent Company appointed the Board of Directors and the Board of Statutory Auditors for the years 2017-2019. The composition of these bodies - after appropriate resolutions had been passed by the Board that met at the end of the Shareholders' Meeting - is that reported in the initial part of this document and reflects the events mentioned below.

On 11 July 2017, the Board of Directors of the Parent Company approved the appointment of Angelo Antoniazzi as General Manager of Banco di Desio e della Brianza, effective as of 19 July 2017, thus taking over from Luciano Camagni, who, in accordance with a termination agreement entered into on 11 July, has ceased to act as General Manager and to hold all the positions held with and on behalf of Banco Desio Group.

The professional profile of Angelo Antoniazzi is characterised by extensive experience in banking and finance gained in senior positions at Group banks, and also as General Manager of Banca Popolare di Spoleto from 2014 when the bank became part of the Banco Desio Group.

Guaranteed bank bonds issue programme (OBG)

In connection with the structuring and implementation of the covered bonds issue programme approved by the Board of Directors pursuant to art. 7-bis of Law 130/99 (the "Programme"), on 29 June 2017, the Parent Company completed the acquisition of a 60% equity interest in the SPV "Desio OBG S.r.l.", which had been set up ad hoc and which was included in the Banco Desio Group as of the same date.

The Programme, which was aimed at obtaining benefits in terms of funding (diversification of deposits, reduction of the cost thereof and lengthening of the maturity of sources of funding), is multi-seller in nature with the consequence that, in addition to Banco di Desio e della Brianza, it is also envisaged that the subsidiary Banca Popolare di Spoleto will assume a role as seller and lender to the SPV. The Parent Company may thus issue covered bonds for a total amount that does not exceed, from time to time, Euro 3 billion. The above maximum amount may be increased as envisaged by the Programme.

The two banks entered into agreements relating to the sale to the SPV of residential mortgage loans originated by the former.

On 21 July, Banco di Desio e della Brianza obtained approval for the Programme's "Basic Prospectus". On 5 September 2017, it made a first issue of fixed-rate Guaranteed Bank Bonds (OBG or covered bonds) for Euro 500 million with a 7-year maturity, receiving a strong interest from investors, with a final order book of over Euro 1.6 billion and the participation of around 100 institutional investors.

Given the particularly favourable market conditions, on 31 October the Bank increased its total issue of OBG to Euro 575 million.

The "Warrant Banca Popolare di Spoleto S.p.A. 2015 – 2017" exercise period ended

30 June 2017 was the expiration date for the exercise of the "Banca Popolare di Spoleto S.p.A. Warrants 2015-2017" (the "BPS Warrants") that had been issued in accordance with a resolution adopted by the Extraordinary Shareholders' Meeting of BPS held on 30 March 2015 (of up to a maximum of 11,104,626) and which were allocated free of charge to the holders of BPS ordinary shares - other than Banco Desio – at a ratio of 12 BPS Warrants for every 31 BPS ordinary shares held; the BPS Warrants granted the right to subscribe newly issued BPS ordinary shares (the "Conversion Shares") at a ratio of 1 ordinary share for every 1 BPS Warrant exercised at a subscription price of Euro 1.812 per share. During the exercise period, from 30 June 2015 to 30 June 2017, 72,898 BPS Warrants were converted into the same number of Conversion Shares, taking the equity interest held by Banco di Desio e della Brianza to 81.67%.

Inspections by the Bank of Italy on Anti-Money Laundering (AML)

On 3 August, the Bank of Italy informed the Bank of the positive outcome of its AML inspection, which involved both Group banks, aimed at verifying compliance with the anti-money laundering legislation, with particular reference to the methods for identifying "Politically Exposed Persons" (PEP) and related procedures for the correct fulfilment of the tighter verification requirements.

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

Being that the "binding event" has taken place, according to the interpretation of IFRIC 21, the Group has recorded:

- the current year's ordinary contribution to the Single Resolution Mechanism (SRM) of Euro 3.5 million gross (Euro 2.4 million by the Banco Desio and Euro 1.1 million by Banca Popolare di Spoleto). The contribution was paid in June;
- current year's standard contribution to the Deposit Guarantee Scheme (DGS) of about Euro 3.9 million gross (Euro 2.1 million for Banco Desio and Euro 1.8 million for Banca Popolare di Spoleto). The contribution was paid in December.

Voluntary Intervention Scheme (VIS) of the Interbank Deposit Protection Fund (FITD)

On 18 September, the banks of the Banco Desio Group reported to the Voluntary Intervention Scheme that they wanted to exercise their right of withdrawal pursuant to art. 47 paragraph 8 of the FITD's by-laws; this communication was sent following the contrary vote by the General Meeting of the Volunteer Intervention Scheme of 7 September, at which, while expressing a positive assessment of the motion (and agreeing entirely with the systemic reasoning behind it), the Meeting did not accept the proposal made by the banks of the Banco Desio Group to postpone the General Meeting so that a change could be made to the provisions of the FITD's by-laws relating to the Voluntary Scheme as concerns (i) the removal of any time limitation on exercising the right of withdrawal (subject to reasonable notice), (ii) the possibility of exercising the right of withdrawal also on the additional contributions submitted to the General Meetings in which the motion is voted against and not only on the subsequent contributions, (iii) the introduction of a quantitative limit on the amount of contributions.

On 21 December 2017, the FITD's Voluntary Intervention Scheme completed:

- the recapitalisation of Cassa di Risparmio di Rimini (Carim), Cassa di Risparmio of Cesena (Caricesena) and Cassa di Risparmio of San Miniato (Carismi) by the VIS for a total of 470 million euro;



- the sale to Crédit Agricole Cariparma of the controlling interests in the three banks for a total of 130 million euro;
- the subscription of 158 million euro of junior tranches and 12 million euro of mezzanine tranches of the securitisation of non-performing loans of the three banks sold.

To finalise the transaction, two contributions were requested (in September and December respectively) for a total of Euro 2.5 million to Banco Desio and Euro 1.5 million to Banca Popolare di Spoleto, which are added to the values already held at 31 December 2016 (1.0 million euro by Banco Desio and 0.7 million euro by Banca Popolare di Spoleto). Consequently, the Group has:

- recognised in the income statement under item 100.b "Losses on disposal or repurchase of financial assets available for sale" both the contribution for the increase in capital of the three banks and the loss on sale to Crédit Agricole Cariparma with respect to the book value of 4.4 million euro (2.7 million euro Banco Desio and 1.7 million euro Banca Popolare di Spoleto);
- recorded a financial asset in the "AFS" portfolio for the payments made to the VIS to subscribe the tranches of the securitisation for Euro 1.3 million (Euro 0.8 million Banco Desio and Euro 0.5 million Banca Popolare di Spoleto);
- recognised in the income statement an impairment loss on this financial asset based on the valuation at 31 December 2017 provided by the VIS on 19 January 2018 of Euro 1.0 million (euro 0.6 million Banco Desio and Euro 0, 4 million Banca Popolare di Spoleto).

Delisting the ordinary shares of Banca Popolare di Spoleto

On 25 September 2017, Borsa Italiana S.p.A. announced that it had decided to delist the ordinary shares of Banca Popolare di Spoleto S.p.A. on the MTA (screen-based equities market) from 3 October 2017, with the result that it would lose its status as a listed company, only keeping that of a "Widespread Issuer" (i.e. "an issuer of financial instruments widely distributed among the public" within the meaning of articles 2-bis and 108 (4) of the Issuers Regulation); consequently, the disclosure requirements imposed on the subsidiary have become less stringent, except for the sector regulations applicable to bank, among other things. So having lost the status of Listed Issuer, the subsidiary no longer has to comply with the provisions of Part IV, Title III, Chapter II, Section V-bis (Financial Information) of the CFA and the statutory requirement to "appoint a financial reporting manager" pursuant to art. 154-bis of the CFA.

On 30 November 2017, the Board of Directors of the Parent Company approved the guidelines for amendments to the statute and simplification measures for the subsidiary's corporate governance which, pursuant to Art. 56 of the TUB and Circular no. 285 of the Bank of Italy, were approved by the Board of Directors of Banca Popolare di Spoleto on 19 December 2017; on 22 December, the related request was sent to the Bank of Italy which, on 12 January 2018, notified the Parent Company of the start of the procedure concerning the application for amendments to the statute.

Rovere Société de Gestion S.A. in liquidation (closure of the procedure)

On 29 September 2017, there was an Extraordinary General Meeting which closed the procedure, approving the final liquidation accounts with the related distribution plan in favour of the shareholders. This shows that Banco di Desio e della Brianza should collect the entire amount due to it. In 2016 Banco di Desio e della Brianza considered the investment definitively disposed of as a result of losing control over it; consequently it was derecognised from the balance sheet, at the same time recording a claim from the Liquidator. On 4 October 2017, the Liquidator made the first repayment for an amount of Euro 0.4 million, equal to the nominal value of the shares. The company was cancelled from the Luxembourg "Registre de

Commerce ed des Sociétés" (Companies Register) on 27 October 2017. To date, there is a receivable of Euro 0.2 million still to be collected.

Early closing of the Spoleto Mortgages 2011 securitisation of loans

Following the resolution adopted by the Board of Directors of Banca Popolare di Spoleto on 24 October 2017, early closure of the Spoleto Mortgages 2011 securitisation was completed on last 23 November, with the purchase without recourse of all the loans transferred to Spoleto Mortgage 2011 Società per la Cartolarizzazione S.r.l., except for the loans fully repaid at 31 October 2017 (included). The operation commenced in December 2011 and completed in March 2012 as a self-securitisation with all of the notes issued by the SPV being subscribed by Banca Popolare di Spoleto, which is why the loans were not derecognised. These loans therefore remained on the books of the originator bank.

Compliance with non-financial declarations

With reference to the provisions of Legislative Decree no. 254 of 30 December 2016, on 30 November 2017, the Board of Directors of Banco di Desio e della Brianza S.p.A., as the parent company, decided to publish a consolidated non-financial report as a separate document from the consolidated financial statements entitled "Sustainability Report of the Banco Desio Group", which contains the information required by this Decree; consequently, on 19 December 2017, the Board of Directors of Banca Popolare di Spoleto resolved to take advantage of the exemption provided for in art. 6, paragraph 1 of this Decree, with the result that the subsidiary does not prepare a separate report of a non-financial nature as the information required is included in the consolidated non-financial report of the Banco Desio Group.

FSI becomes a shareholder of Cedacri S.p.A.

On 22 December 2017 a binding contract was signed for the purchase of 27% of the share capital of Cedacri S.p.A. by "FSI mid market growth equity fund", a closed-end private equity fund managed by FSI and promoted by Cassa Depositi e Prestiti. The other 73% remains in the hands of some of the banks currently present (the so-called "stable shareholders"), including Banco Desio and Banca Popolare di Spoleto, which maintain a total of around 10%, remaining among the first shareholders not to have sold any of their shares. The operation is geared, among other things, to favouring stabilisation of the outsourcer's governance through specific shareholder agreements, also laying down rules for circulation of shares in the coming years. The agreements also envisage strengthening the company from an operational point of view (especially in terms of the residual duration of existing service agreements and related way-out), considering the possibility of a project to list the shares of Cedacri S.p.A. on a regulated market.

In consideration of the purchase price of the shares of Cedacri S.p.A. within this transaction, which saw several shareholders as sellers, the Banco Desio Group recognised a revaluation of Euro 23.2 million in an equity reserve (Euro 16.4 million, Banco Desio and Euro 6.8 million, Banca Popolare di Spoleto) of the minority investment held in the AFS portfolio.

Declaration of bankruptcy of Spoleto Credito and Servizi S.C.

On 29 December 2017, the declaration of bankruptcy issued by the Court of Spoleto was filed against Spoleto Credito e Servizi S.C. (SCS), a former majority shareholder and up to now the holder of 9.00% of Banca Popolare di Spoleto (BPS). As regards the tax credit of 2,363 thousand euro accrued by BPS and



requested to be repaid by SCS under the mandate in the tax consolidation agreement existing at the time, in light of the investigations carried out regarding the possible implications and consequences of the sentence mentioned above, as well as the indications received from its tax and legal advisors, management opinion is that the ownership of the rights and positions with respect to this receivable has not been jeopardised.

Fondo Atlante

At the reporting date of 31 December 2017, the Parent Company had paid an amount of Euro 6.5 million relating to calls received from time to time, against a total commitment assumed of Euro 7.0 million.

In view of recent developments concerning the principal equity investments held by the Fund, by applying "look through" measurement logic, an impairment loss was recognised in the period of Euro 3.6 million, gross of the tax effect. This amount, together with the impairment loss recognised in the prior period of Euro 2.1 million, reflects a complete write-down of the carrying amount of the above equity investments in the two Veneto banks as a consequence of their having been subjected to a compulsory administration liquidation procedure.

Participation in "TLTRO II" refinancing operation

During the first quarter of 2017, the Group participated in the recent "TLTRO II" operation, by which the Eurosystem made long-term liquidity available (4 years at a fixed rate equal to that for MRO - Main Refinancing Operations - at the date of each TLTRO II auction - equal to zero - with the possibility of rate reductions linked to the volume of approved net lending), in order to facilitate private sector access to loans and stimulate the offer of loans to the real economy. The Banco Desio Group was assigned Euro 800 million in addition to the Euro 800 million obtained at the time of the first auction in June 2016.

Given the credit policies implemented during the year by the Banco Desio Group in order to achieve a higher credit net lending than the target needed to benefit fully from negative interest expense at a rate of 0.40%, in December 2017, Banco recorded negative interest for a total of 7.2 million euro (of which 2.6 million euro attributable to Banca Popolare di Spoleto).

Sales of non-performing loan (NPL) portfolios

In line with the pro-active strategy for the management of non-performing loans previously disclosed by Banco Desio Group as part of the prior year financial reporting process and in compliance with the guidelines issued by the European Central Bank, during the year, a number of transactions had been entered for the sale to specialist intermediaries of loan portfolios consisting of non-performing loans:

- the Banco Desio portfolios, with a total nominal value of about Euro 44.5 million, sold for about Euro 20.8 million;
- the Banca Popolare di Spoleto portfolios, with a total nominal value of about Euro 65.5 million, sold for about Euro 25.2 million.

As a result of these sales, taking account of doubtful items, total losses of Euro 0.9 million were recorded, gross of the related tax effect.

Transitional provisions to mitigate the impact of introducing IFRS 9 on own funds

Regulation (EU) 2395 of 12 December 2017 (the "Regulation") amended Regulation (EU) 575/2013 regarding the transitional provisions to mitigate the impact of introducing IFRS 9 on own funds; if the opening balance sheet of a bank on the date when it first applies IFRS 9 shows a decrease in Common Equity Tier 1 capital due to the increase in adjustments for expected losses on performing and non-performing loans, the Regulation offers a chance to include part of these higher loan adjustments in Tier 1 capital gradually, year after year, over a five-year transition period.

Taking into account the fact that adjustments for expected losses on performing loans incurred after the date of first-time application of the standard could increase unexpectedly due to a worsening of the macroeconomic prospects, banks are also given a chance to make use of this benefit later on in the transition period, also in the event of an increase in expected losses on performing loans compared with the date of first-time application of the standard.

The regulation envisages an obligation to communicate the decision by each bank that decides to apply the transitional regime (in full or exclusively for increased provisions on first-time application of the standard) to the competent supervisory authority by 1 February 2018. If the bank has received prior authorisation from the competent authority, the initial decision can be revoked during the transition period.

On 23 January and 25 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 the standard, resolved to join the transitional regime for the determination of own funds and capital ratios, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time application of the standard and to the increase in expected losses on performing loans compared with the date of first-time application of the standard.

Approval of the 2018-2020 Group Business Plan

On 11 January 2018, Banco Desio's Board of Directors approved the Group Business Plan for 2018-2020: in a particularly complex and competitive market scenario, it lays down a strategy aimed at reaffirming the commercial bank model, at the service of private customers and small-medium businesses, according to a process of continuous streamlining of business lines and a gradual reorientation of the model in order to profitably support a range of banking services more and more linked to the technological and behavioural evolution of customers.

The Plan envisages a significant evolution in the distribution model to be realised through an integrated "omnichannel" approach with an off-site offering leading to a steady increase in revenues from the financial advisory channel and the online channel compared with that of the branches; as far as the financial advisors are concerned, over the three years of the Plan the development programme envisages the creation of a network of 100 consultants with a specific investment plan and a target of more than 700 million euro in additional assets under management.

With particular reference to non-performing loans, in line with the market context, including implementation of the Supervisory guidelines, the Business Plan envisages the development of a programme for further sales, also having recourse to GACS (*Garanzia Cartolarizzazione Sofferenze*, a State guarantee for the securitisation of NPL), with a view to reducing the ratio of non-performing loans to gross loans to 10% over the three-year period and the ratio of non-performing loans to net loans ratio to nearly 5%, with a average coverage ratio at the end of the three-year period of around 50%.



4 - Legislative Decree no. 231/2001

With reference to measures implemented concerning the administrative liability of companies for offences committed by their officers and/or employees, in 2004 the Board of Directors of the Parent Company approved the adoption of an Organisation and Management Model for the prevention of criminal offences contemplated by Legislative Decree no. 231/2001 (hereinafter "Model 231"). This Model has been implemented over time in compliance with subsequent provisions of the law.

Further information on Model 231 and on the Supervisory Body pursuant to the aforementioned Decree 231/2001 (a role performed by the Board of Statutory Auditors since 2012) is provided in the Annual Report on Corporate Governance (particularly in paragraph 7), which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

Model 231, together with the Code of Ethics, has been published on the Group's website.

5 - Human resources

5.1 - Management and breakdown of resources

The activities that characterised management of human resources during the year were geared to:

- the new territorial structure of Banco Desio's Commercial Network with a view to more effective commercial action on the territory, which led to the establishment of the new Genoa Area consisting of 8 branches previously belonging to the Turin Area, now reorganised for 15 branches. Consequently, it was necessary to structure the new Area with the same professional figures that feature in all of the Bank's Territorial Areas;
- the introduction in some Territorial Areas of Banca Popolare di Spoleto of the new role of "Developer" for SMEs/Small Businesses and Corporate entities, with the aim of increasing the customer base and ensuring more effective commercial promotion in the area;
- the opening of a new branch of Banco Desio in Como and the closure of four branches (Brembate, Cinisello - via Lincoln, Desio - via Volta and Milan - via Mauri) and three branches of Banca Popolare di Spoleto (Rome - Corso Trieste, Perugia - Castel del Piano and Terni - Viale Trento), redistributing the staff around the network and at head office, bearing in mind their professional careers and growth potential;
- closure in the afternoon of cashier operations at another 26 branches of Banco Desio (involving a total of 46 branches) and 49 branches of Banca Popolare di Spoleto, redistributing the staff around the network;
- revision of the Parent Company's General Management structure with the introduction of:
 - a) a Product and Market Department, reporting directly to the Deputy General Manager of the Business Affairs Department;
 - b) an NPL department, reorganising debt recovery activities with the creation of new offices dedicated to specific activities using personnel with adequate specialised skills to improve their efficiency and effectiveness;
 - c) a Network Governance Support Department that pursues - among other things - the launch of a new Financial Advisors Office with the specific objective of creating an alternative distribution channel to the traditional one represented by the branch network; the new Financial Advisors channel will consist of freelancers with particular experience in fund-raising activities (acquisition of new customers, development of their investment portfolios, etc.). This Department is also divided into three new Organisational Functions represented by the Coordinators in the three customer segments, "Business", "Private Banking" and "Retail", with specific skills acquired through training and experience.
- harmonisation of the organisational structure of Banca Popolare di Spoleto with the Parent Company's Model through the following interventions:
 - a) setting up an NPL department, reorganising debt recovery activities with the creation of new offices dedicated to specific activities using personnel with adequate specialised skills to improve their efficiency and effectiveness;
 - b) setting up a Network Governance Department to which report the new Coordinators of the "Business", "Private Banking" and "Retail" segments, with specific skills acquired through training and experience;
 - c) secondment of the Financial Advisors Office to the Parent Company.



- activation from October 2017 of the first "window" of voluntary access to the Solidarity Fund for 39 members of staff of Banco Desio and 2 of Banca Popolare di Spoleto (who terminated their employment on 30 November 2017), as defined by the agreement with the Trade Unions of 29 November 2016 (140 members of staff involved at Group level) and which took the form of signing a conciliation report at the offices of ABI, as a neutral location.

At 31 December 2017, the Group had 2,303 employees, 53 fewer (-2.2%) than at the end of the previous year.

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

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



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

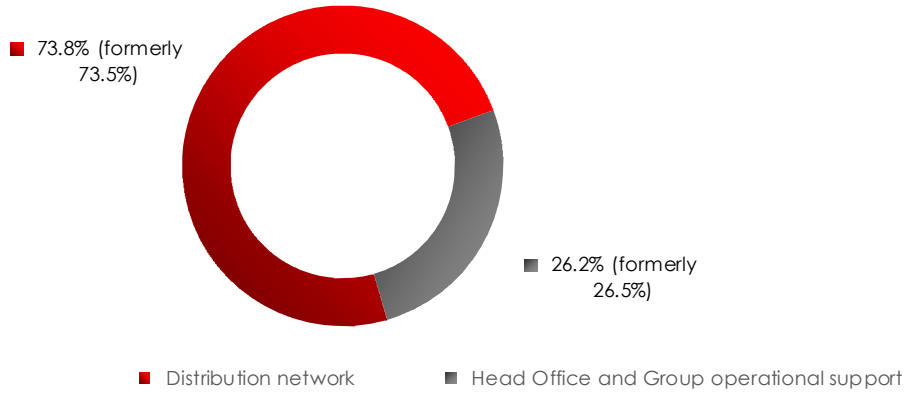
The following table provides a breakdown of employees by level at the end of 2017, compared with the previous year.

Table no. 1 - BREAKDOWN OF GROUP EMPLOYEES BY LEVEL

No. of Employees	31.12.2017		31.12.2016		Change	
	Amount	%	Amount	%	Amount	%
Managers	31	1.3%	36	1.5%	-5	-13.9%
3rd and 4th level middle managers	474	20.6%	477	20.0%	-3	-0.6%
1st and 2nd level middle managers	604	26.2%	616	26.1%	-12	-1.9%
Other personnel	1,194	51.9%	1,227	52.1%	-33	-2.7%
Group employees	2,303	100.0%	2,356	100.0%	-53	-2.2%

The following chart provides a breakdown of the workforce at the year end between Head Office and operational support and the distribution network.

Chart no. 3 - BREAKDOWN OF GROUP EMPLOYEES BY AREA





5.2 - Training

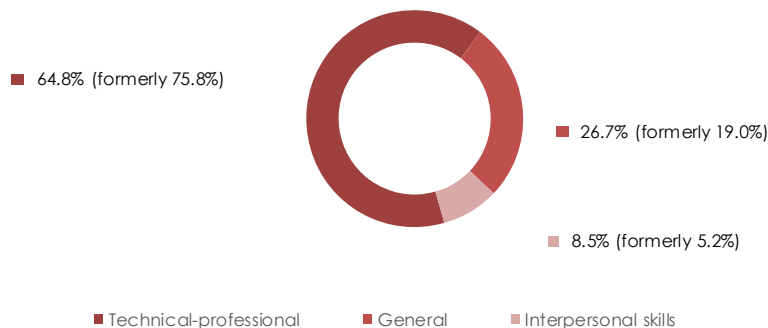
Training activities continued in line with the directives and procedures envisaged at Group level, in the awareness that personnel growth and development is extremely important.

A total of 149,605 man/hours of training were delivered during the year, a combination of internal courses, conferences, external seminars and on-line training, which represent an average of 64.96 training hours for each employee. 60% of training hours were delivered through e-learning methods. Approximately 17% of the training hours provided in the classroom were taught by internal staff (10,330 man-hours).

The programme comprises "General" training courses for all professional families, with a view to developing cross-functional knowledge (including the training required by law), and "Technical-professional" that comprises courses aimed at developing the technical skills of persons required to perform specific duties, or who are interested in consolidating and further improving the skills required by their roles. Last but not least, the programme addresses "Interpersonal skills" in order to develop behavioural skills, facilitate the dissemination of Group culture and internalise Group values.

The following chart shows the breakdown in percentage terms of training days that were held in the year in the three areas mentioned above.

Graph no. 4 - BREAKDOWN OF TRAINING HOURS IN 2017 BY TYPE OF TRAINING OFFERED



The main "General" training initiatives included the following activities intended to keep personnel constantly updated about regulatory requirements:

- Anti-Money Laundering: a new on-line form was released during the year with the title: "Fight against the financing of international terrorism and the proliferation of weapons of mass destruction" which was followed by "remote" training through Skype for Business on the use of the Intranet 347 ADV Enhanced application and "targeted" classroom training interventions focused on issues emerging in the exercise of self-assessment of the risks of money laundering and terrorist financing in 2017;
- Transparency: an on-line training course produced by ABL was released;
- Training on Safety at Work: in addition to classroom training for new hires and new supervisors (for First Aid and Fire-Fighting), the obligatory three-year updates on First Aid and Fire-Fighting were also carried out. During the first half of the year, training was given on the monitoring of business risks for

Branch Managers, Commercial Area Managers and Head Office Area Managers in collaboration with an external consultancy.

"Technical-professional" training included:

- In the field of Credit and Loans, as in the previous year, training activities continued on strengthening skills in the process of analysing and assessing creditworthiness, completing the training programme for personnel operating in the credit chain on the evolution of credit processes and historical and prospective analysis models, with the purpose of illustrating the logic of the new instructions and the practical effects of adopting the models and analysis methods required. A special focus was reserved for the Corporate segment with ad-hoc training relating to the analysis of Economic Groups. With reference to the introduction of IFRS 9, the first courses were organised for Head Office and Area Managers and for branch personnel, with the aim of raising awareness about the new regulations by examining the main innovations and their impact on the Bank's operational processes and financial statements. During the course of 2017 training initiatives were completed on the "Credit DataWareHouse", "collateral management" (from a technical and procedural point of view) and farming loans;
- in the Finance area, in the light of the ESMA guidelines on the assessment of knowledge and skills, a training project was carried out with SDA Bocconi aimed at "certifying", at the end of the course, the skills of members of staff providing investment services; at the end of the year, an alignment course was held for resources operating in the field of investment services on regulatory innovations (and their impact on operating processes), deriving from the entry into force of the MIFID II directive;
- with regard to the International sector, we replicated in the classroom the refresher course - already tested in 2015 and 2016 - with specific reference to Banca Popolare di Spoleto. In addition to the technical studies, the course analysed the commercial and relationship methods to be used with customers that do a lot of business abroad;

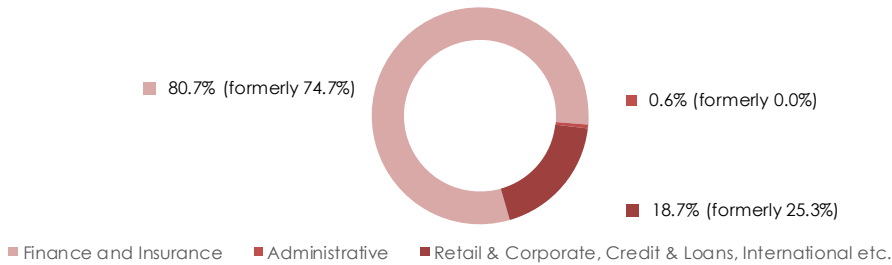
As foreseen by IVASS Regulation no. 6 of 2 December 2014, the training plan for the two-year period 2017-2018 was launched in e-learning mode.

Lastly, during the year, specific training was carried out for members of staff working in the sales network to support the launch of new products.

The following schedule analyses the "Technical-professional" training provided by topic.



Graph no. 5 - **BREAKDOWN OF "TECHNICAL-PROFESSIONAL" TRAINING IN 2017 BY TOPIC**



As part of "Relationship" training, a course was held for front-office resources (Customer Assistants) to strengthen their contact skills to support cross-selling and up-selling campaigns. The course also involved Branch Managers who had the task of supporting and monitoring their colleagues in the development of relationship techniques to increase the number of appointments held at the branch; subsequently, training sessions were held for Customer Assistants to try out telephone techniques through practical exercises.

As part of the training on equal opportunities, a course was held during the year for new mothers just back from maternity leave on the topic of "work/life balance", as well as a course on "female leadership" aimed at high potential members of staff.

As was done last year, a training course on the topic of Leadership was held for new Branch and Head Office Managers: the course lasted a total of 4 days in the classroom, interspersed with a month of on-the-job experience.

5.3 - Trade Unions relations

During the course of 2017, negotiations commenced with the Trade Unions to settle certain matters regarding the agreements reached at the end of 2016.

As regards loans to current members of staff, on 23 March 2017, an agreement was signed that provides for the possibility of switching between fixed and variable rates (and vice versa) and the reduction of the floor rate also on loans for restructuring and changing one's first home referred to in "Title II".

On the same date, negotiations began on the subject of "Integrated Welfare Plans - Company Bonuses 2016" with the sharing and signing of a Framework Agreement which defined the rules to be applied in calculating the bonus granted in 2017 (based on the 2016 results), with a forecast of the indicator at Group level of the increase in "loans per capita". This agreement permitted the activation of tax relief in accordance with the provisions of the Ministerial Decree of 25 March 2016, envisaging the use of integrated welfare plans, as in the previous year.

In particular, on 12 May 2017 the agreement on the V.A.P. (productivity bonus) was signed with the Trade Unions. It has more or less confirmed the previous years' values, with a new increase if specific percentage gates on Welfare are achieved.

Also in May, the Trade Unions agreed on the Regulations to be adopted for the election of the Workers' Safety Representatives (W.S.R.); on 30 May 2017 the related Agreement was signed and during the last quarter (25 October 2017 for Banco Desio and 26 October 2017 for Banca Popolare di Spoleto) the names of the W.S.R. elected were announced and they promptly began a training course designed specifically for them.

At the end of July, the Group finalised negotiations to participate in the 2017 Banking and Insurance Fund, signing the related agreement on 27 September 2017. This agreement was preliminary to the presentation of a contribution to the Banking and Insurance Fund mainly in relation to the Training Plan entitled "Orienting and developing business skills" (in addition to the provision of specialised training plans for individual development) for the reference time frame October 2017 / September 2018.

Lastly, in November management met with the Trade Unions to discuss the setting up of a Group Committee for "Commercial Policies and Work Organisation", as envisaged by the agreement signed on 24 July 2017, highlighting a substantial convergence on the characteristics and regulations of the Committee, but postponing the signing of the document to a date to be defined.

5.4 - Future activities

Considering the lines of strategy underlying the Group's Business Plan for the three-year period 2018-2020 approved by Banco Desio's Board of Directors on 11 January 2018 and subsequent announcement to the market, the Parent Company's Resources Department will define the activities to be undertaken in the set time frame. In particular, these actions will be aimed at supporting the evolution of the Group's distribution model towards an "omnichannel" integrated approach, with a particular focus on skills and training plans in consideration of the need for role retraining, dictated above all by the technological evolution under way (digitization) and the behavioural trends of customers. The initiatives that will be undertaken within the sphere of resources will also be correlated to the evolution of commercial decisions for the business and the related organisational and IT processes underlying the banking services offered by the Group.



6 - Control activities

6.1 - The levels of control in the management control and coordination function

In exercising its management control and coordination function, Banco di Desio e della Brianza S.p.A., in its capacity as Parent Company, uses a triple level of control over subsidiaries, in order to put into effect the specific "coordination model" that has been chosen, taking into account the nature and the size of the activities performed by each company, as well as its specific location, and by identifying the competent in-house functions for the specific control mechanisms.

The first level, of a strategic nature, is aimed at constantly verifying the guidelines provided by the Parent Company and is put into effect mainly by means of the presence on the Boards of Directors of each subsidiary of a certain number of its own officers that would normally represent the majority of Board members.

The second level is of a management type and regards the performance of analysis and the systematisation and measurement of periodic information flows from the subsidiaries, in order to verify the pursuit of strategic objectives in compliance with regulatory provisions, the preparation of adequate reporting on trends and earnings, the analysis of development, research or investment projects and of strategic opportunities, forecast cash flows and the other information needed for the preparation of the Group budget.

The third level is defined as technical-operational and mainly consists of monitoring the internal control system.

Further information on management control and coordination activities is included in paragraph 2.3 of the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

6.2 - The internal control system

The internal control system consists of a set of principles of conduct, rules and organisational procedures, which - in compliance with the law, Supervisory Authorities' regulations and corporate strategies - enables proper management of all of the Group's activities, with the involvement of corporate bodies and senior management and, generally, all the personnel.

Detailed information on the internal control system, as well as on the Financial Reporting Manager, and also on systems for risk management and for internal control in relation to the financial reporting process, are included in paragraphs 1 and 7 of the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

6.3 - Risk measurement and management

As regards the specific activities performed by the Parent Company's Risk Management function, whose objective is to ensure adequate controls over the management of various types of risk by adopting integrated processes, reference should be made to Part E of the explanatory notes – Information on risks and the related hedging policy.

7 - Results of operations

The following detailed tables and related comments relate to the consolidated balance sheet and income statement aggregates. Information about the individual companies in the Banco Desio Group is provided in chapter "8 – Performance of consolidated companies".

7.1 - Savings deposits: customer assets under administration

Total customer funds under management at 31 December 2017 reached Euro 25.1 billion, representing an overall increase of some Euro 1.5 billion with respect to the previous year end balance (6.4%), mainly attributable to direct deposits (+8.3%) and indirect deposits (+5.0%).

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

	31.12.2017		31.12.2016		Change	
	Amount	%	Amount	%	Amount	%
Due to customers	9,272,337	36.9%	8,729,591	36.9%	542,746	6.2%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,708,320	6.8%	1,409,792	6.0%	298,528	21.2%
Direct deposits	10,980,657	43.7%	10,139,383	42.9%	841,274	8.3%
Ordinary customer deposits	8,946,523	35.6%	8,415,302	35.7%	531,221	6.3%
Institutional customer deposits	5,202,355	20.7%	5,058,827	21.4%	143,528	2.8%
Indirect deposits	14,148,878	56.3%	13,474,129	57.1%	674,749	5.0%
Total customer deposits	25,129,535	100.0%	23,613,512	100.0%	1,516,023	6.4%

Direct deposits

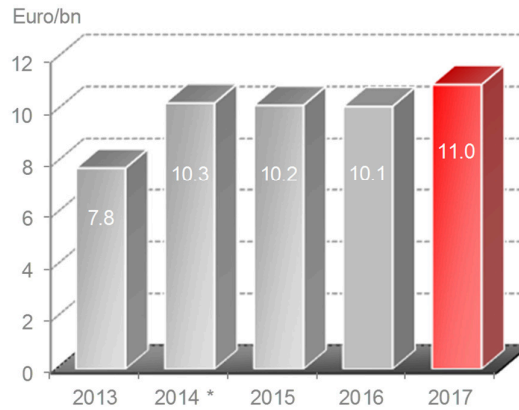
Direct deposits came to Euro 11.0 billion, up 8.3% on the previous year's figure, because of the increase in amounts due to customers (+6.2%) and in the balance of Debt securities in issue and Financial liabilities designated at fair value through profit and loss (+21.2%), influenced by the issuance of Euro 0.6 billion of covered bonds.

Debt securities in issue and financial liabilities designated at fair value through profit and loss relate to bonds issued and placed by the Group of some Euro 1.7 billion (including Euro 0.3 billion of subordinated bonds) and the remaining amount in certificates of deposits.

The trend in direct deposits in recent years is shown in the following chart.



Graph no. 6 - TREND IN DIRECT DEPOSITS IN RECENT YEARS



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

Indirect deposits

Overall, at 31 December 2017 indirect deposits posted an increase of 5.0% compared with the end of the previous year, rising to Euro 14.1 billion.

This trend is attributable to deposits from institutional customers, up by Euro 0.2 billion (+2.8%) to Euro 5.2 billion, and ordinary customer deposits, which rose by Euro 0.5 billion to Euro 8.9 billion (+6.3%), due to the performance of assets under management (+14.3%), partially offset by a decrease in assets under administration (-5.4%).

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

Table no. 3 - INDIRECT DEPOSITS

	31.12.2017		31.12.2016		Change	
		%		%	Amount	%
Assets under administration ⁽¹⁾	3,216,089	22.7%	3,401,030	25.2%	-184,941	-5.4%
Assets under management	5,730,434	40.5%	5,014,272	37.3%	716,162	14.3%
<i>of which: Mutual funds and Sicavs</i>	2,405,696	17.0%	1,869,166	13.9%	536,530	28.7%
<i>Managed portfolios</i>	967,212	6.8%	857,950	6.4%	109,262	12.7%
<i>Bancassurance</i>	2,357,526	16.7%	2,287,156	17.0%	70,370	3.1%
Ordinary customer deposits ⁽¹⁾	8,946,523	63.2%	8,415,302	62.5%	531,221	6.3%
Institutional customer deposits ⁽²⁾	5,202,355	36.8%	5,058,827	37.5%	143,528	2.8%
Indirect deposits ^{(1) (2)}	14,148,878	100.0%	13,474,129	100.0%	674,749	5.0%

⁽¹⁾ the totals at 31.12.2017 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 43.0 million (Euro 66.4 million at 31.12.2016);

⁽²⁾ institutional customer deposits at 31.12.2017 include securities of the Bancassurance segment of ordinary customers of the Parent Company and of Banca Popolare di Spoleto S.p.A. for Euro 2.1 billion (Euro 2.2 billion at 31.12.2016).

The following chart analyses the indirect deposits from ordinary customers by sector at 31 December 2017, showing that the weighting of managed assets has increased with respect to the prior year. The chart after that analyses the various components of managed assets.

Chart no. 7 - BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2017

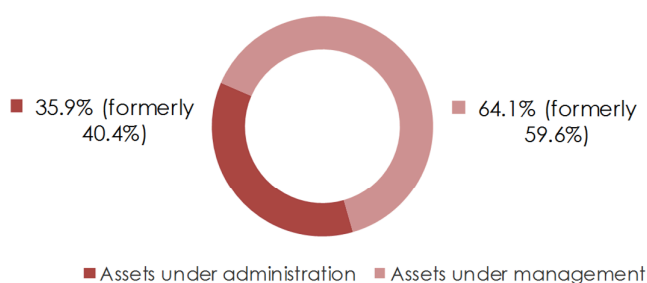
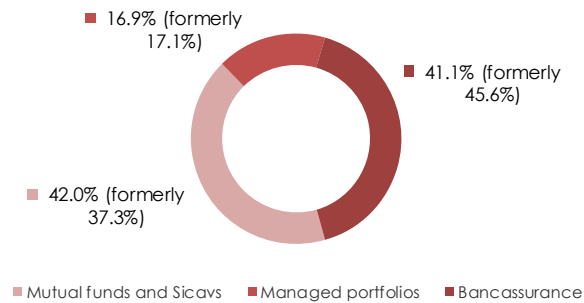




Chart no. 8 - BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2017



The macroeconomic environment remained stable throughout the year, thanks to solid synchronized growth and a persistent lack of inflationary pressures. As far as shares are concerned, during the year the combination of expansive monetary policies and an improving economy led to a sharp rise in equity markets, which focused on the securities and sectors most linked to the economic cycle, to the detriment of defensive ones. At a geographical level, the highest increases were achieved by the United States and Emerging Markets; however, performances in the Eurozone were also interesting with Italy distinguishing itself - in a positive way. As for the bond market, the Central Banks again dictated its trend. The search for returns has led investors to reduce more and more the quality of the assets in their portfolios and this has produced a significant reduction in spreads. Government bonds have maintained extremely high prices already reached in recent years.

As regards Managed Portfolios, the interest rate risk in the bond segment remained below that of the benchmark for the entire period. More generally, management policy was aimed, on the one hand, at maintaining an important exposure to supranational bonds; on the other hand, the most interesting returns were found in subordinated securities of the financial sector and bonds of emerging countries.

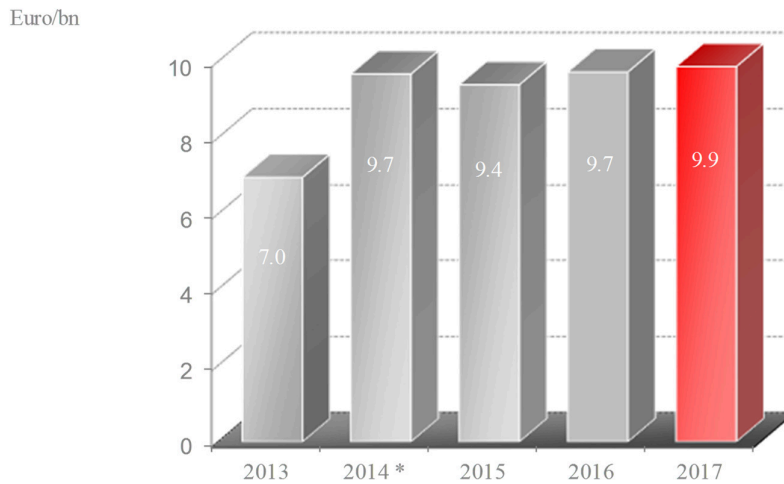
In equities, as part of a good diversification, the preference went to Europe compared with the USA (though its weighting still remained significant). With regard to the US market, exposure to medium-small capitalisations has been increased; the exposure to Emerging Markets is still marginal. At a product level, there was an overexposure to the sectors most correlated with the economic trend (industrial, cyclical and technological consumption), to the detriment of the telephony and utilities sectors. Lastly, stocks with high dividends were favoured.

7.2 - Credit management: loans to customers

The total value of loans to ordinary customers at the end of the year comes to Euro 9.9 billion, an increase of 1.5% compared with the end of the previous year. Also considering the net balance of loans to institutional customers in the previous year (Euro 0.2 billion), net loans to ordinary customers show an increase of Euro 0.4 billion (+3.7%), confirming the contribution made by the Banco Desio Group in terms of access to credit by the private sector and the provision of loans to the real economy and the development of credit policies aimed at achieving a higher credit net lending than the target foreseen as part of the "TLTRO II" refinancing operations.

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

Graph no. 9 - TREND IN CUSTOMER LOANS IN RECENT YEARS



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



Table no. 4 - LOANS TO CUSTOMERS

Amounts in thousands of Euro	31.12.2017		31.12.2016		Change	
		%		%	Amount	%
Current accounts	1,687,778	17.1%	1,723,130	17.7%	-35,352	-2.1%
Mortgages and other long-term loans	6,971,633	70.7%	6,575,882	67.7%	395,751	6.0%
Other	1,202,451	12.2%	1,209,415	12.4%	-6,964	-0.6%
Loans to ordinary customers	9,861,862	100.0%	9,508,427	97.8%	353,435	3.7%
Loans to institutional customers	0	0.0%	211,681	2.2%	-211,681	-100.0%
Loans to customers	9,861,862	100.0%	9,720,108	100.0%	141,754	1.5%

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of 2017 continues to reflect a high degree of risk diversification, although amounts are decreasing as can be seen from the following table.

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

Number of customers ^{(1) (2)}	31.12.2017	31.12.2016
First 10	1.12%	1.28%
First 20	1.93%	2.21%
First 30	2.62%	2.96%
First 50	3.81%	4.20%

⁽¹⁾ according to the figures of the Parent Company and the subsidiary Banca Popolare di Spoleto S.p.A.

⁽²⁾ net of repurchase agreements with institutional counterparties of Euro 211.7 million at 31.12.2016.

None of the largest customers are "Large Exposures" for supervisory purposes; the four positions classified as "Large Exposures" are attributable to balances with the Bank of Italy, the Treasury Ministry, the Spanish Government and the Guarantee Fund under Law no. 662 of 23.12.1996, for a total nominal amount of approximately Euro 3.2 billion, corresponding to around 0.2 billion in terms of total weighted amount.

Net impaired loans comprising non-performing loans, "unlikely to pay" loans and impaired past due and/or overdrawn exposures totalled Euro 823.9 million, net of adjustments of Euro 792.4 million, a decrease of Euro 86.3 million compared with 31 December 2016. DA QUI This is due to the above mentioned sales of non-performing loans and slower impairment of performing loans.

In particular, net non-performing loans totalled Euro 494.2 million, unlikely to pay loans Euro 321.3 million and impaired past due and/or overdrawn exposures Euro 8.4 million.

The following table summarises the gross and net indicators relating to credit risk, showing figures that are in line with those at the end of the previous year.

Table no. 6 - INDICATORS OF CREDIT RISK VERSUS CUSTOMERS

<i>% of gross loans ⁽¹⁾</i>	31.12.2017	31.12.2016
Gross non-performing loans to customers	15.11%	16.05%
<i>of which:</i>		
- gross doubtful loans	10.80%	10.45%
- unlikely to pay, gross	4.22%	5.41%
- non-performing past due and/or overdrawn exposures, gross	0.09%	0.18%
<i>% of net loans</i>	31.12.2017	31.12.2016
Net non-performing loans to customers	8.35%	9.36%
<i>of which:</i>		
- net doubtful loans	5.01%	4.95%
- unlikely to pay, net	3.26%	4.24%
- non-performing past due and/or overdrawn exposures, net	0.09%	0.17%

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

The main indicators on the coverage of impaired loans are reported below considering, for non-performing loans, the amount of direct write-downs made over the years, together with those relating to performing loans. The percentage coverage of impaired loans has increased.

Table no. 7 - INDICATORS OF COVERAGE OF LOANS TO CUSTOMERS

<i>% Coverage of non-performing and performing loans ⁽¹⁾</i>	31.12.2017	31.12.2016
% Coverage of doubtful loans	57.22%	56.34%
% Coverage of doubtful loans, gross of cancellations	61.12%	60.87%
% Total coverage of impaired loans	49.03%	46.24%
% Coverage of impaired loans, gross of cancellations	52.44%	50.01%
% Coverage of performing loans	0.45%	0.54%

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



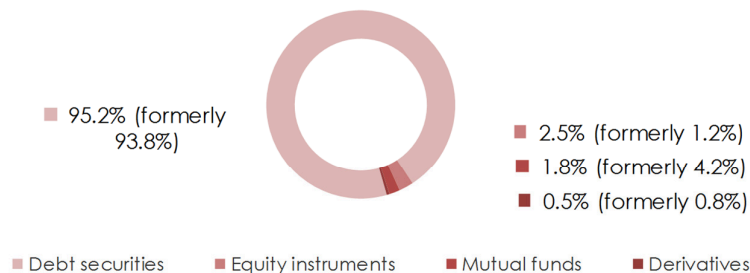
7.3 - The securities portfolio and interbank position

Securities portfolio

At 31 December 2017, the Group's total financial assets amounted to Euro 2.3 billion, up from end of 2016 (+21.9%). In particular, it reflects the reconstitution of the Held to Maturity Portfolio of Euro 0.7 billion, consisting of government bonds and bonds diversified by issuer, geographical area and by type of rate, maturing in maximum 5 years.

The portfolio breakdown by type of security is shown in the following chart, which shows that prevailing party (95.2%) of the investments still consist of debt securities.

Chart no. 10 - BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2017 BY TYPE OF SECURITIES



With reference to the issuers of securities, of the total portfolio at the end of the year, 78.6% relates to government securities (down compared with 87.7% of the previous year), 10.8% to securities issued by leading banks and the remainder to other issuers, as shown by the following chart.

Chart no. 11 - BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2017 BY TYPE OF ISSUER



2017 was a positive year for stock exchanges in a context of very low volatility; in particular, the S&P 500 index recorded an annual growth of 19.4%. Very similar performance was also recorded for the Nikkei 225 index (+19.1%), and globally for the MSCI World (+20.1%). Despite a French electoral result appreciated

by the markets and an economic recovery that has progressively strengthened, also extending to the countries of Southern Europe, Eurozone prices turned in lower performances than the world indices (for example, 6.5% growth by the Eurostoxx 50 index).

One of the main reasons for these lower performances by Europe was certainly the strength of the euro against the US dollar (+14.2% on an annual basis, the largest variance since 2003).

From a monetary policy point of view, the divergence between USA and Europe intensified as the FED implemented three rate hikes of 0.25% each, while the ECB announced that quantitative easing will continue in the first nine months of 2018, albeit at half its previous level. As a result, the interest rate differential between the dollar and the euro progressively increased, despite a moderate steepening of the euro curve (the 10-year swap rate increased by around 20 b.p. compared with a short-term part that was substantially unchanged). At the end of the year, the yield on the 10-year Bund was 0.43%, that of the Treasury 2.41%, while that of the BTP was 2.02%.

As regards government bond spreads between Italy and Germany, there was a period when spreads widened during the first four months, but then there was a recovery that brought them back to what they were at the start of the year on the 10-year maturity and a narrowing of spreads on the shorter end of the curve.

The debt performance of Portugal and Greece, countries that were considered higher risk at the beginning of the year, was excellent, having benefited from a strong rally in their bonds.

During the year, Banco Desio operated mainly in Italian government bonds, setting strategies that made it possible to achieve economic results that were better than the budget.

Note that, for the application of the counterparty risk mitigation policies for transactions in OTC (i.e. non-regulated) derivatives, the Bank uses bilateral netting agreements that, in the event of counterparty default, make it possible to offset receivable and payable positions. The Bank has therefore signed ISDA Master Agreements with all of the counterparties with which it operates in such instruments. In addition, specific bilateral Credit Support Annex agreements have been put in place with counterparties to regulate the collateral guarantee.

Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 31 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.



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

		31.12.2017					31.12.2016	
		Italy	France	Spain	USA	Total	Italy	Total
Financial assets available for trading	Nominal value	2,307	-	-	-	2,307	3,680	3,680
	Book value	1,533	-	-	-	1,533	2,798	2,798
Financial assets available for sale	Nominal value	1,216,147	-	-	8,338	1,224,485	1,636,226	1,636,226
	Book value	1,218,637	-	-	8,225	1,226,862	1,638,237	1,638,237
Financial assets held to maturity	Nominal value	320,000	80,000	160,000	-	560,000		
	Book value	321,699	79,917	162,050	-	563,666		
Sovereign debt	Nominal value	1,538,454	80,000	160,000	8,338	1,786,792	1,639,906	1,639,906
	Book value	1,541,870	79,917	162,050	8,225	1,792,061	1,641,035	1,641,035

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

		Italy	France	Spain	31.12.2017	
					Nominal value	Book value
Financial assets available for trading	up to 1 year	-	-	-	-	0
	1 to 3 years	1	-	-	1	1
	3 to 5 years	-	-	-	-	0
	over 5 years	2,306	-	-	2,306	1,532
	Total	2,307	-	-	2,307	1,533
Financial assets available for sale	up to 1 year	80,000	-	-	80,000	80,909
	1 to 3 years	190,000	-	-	198,338	198,553
	3 to 5 years	490,000	-	-	490,000	494,003
	over 5 years	456,147	-	-	456,147	453,397
	Total	1,216,147	-	-	1,224,485	1,226,862
Financial assets held to maturity	up to 1 year	-	-	-	-	0
	1 to 3 years	205,000	-	-	205,000	206,216
	3 to 5 years	115,000	80,000	160,000	355,000	357,450
	over 5 years	-	-	-	-	0
	Total	320,000	80,000	160,000	560,000	563,666
Sovereign debt	up to 1 year	80,000	-	-	80,000	80,909
	1 to 3 years	395,001	-	-	403,339	404,770
	3 to 5 years	605,000	80,000	160,000	845,000	851,453
	over 5 years	458,453	-	-	458,453	454,929
	Total	1,538,454	80,000	160,000	1,786,792	1,792,061

Net interbank position

The Group's net interbank position at 31 December 2017 is negative for Euro 0.5 billion, with a decrease compared with the position at the end of the previous year, which was also negative for Euro 0.8 billion.

In 2017, the Banco Desio Group was constantly committed to optimizing funding sources and levels, in particular through participation in the last "TLTRO II" auction in March, and then with the placement of the covered bonds, as mentioned previously. At the reference date, the Group also took a long liquidity position due to significant disinvestments from the securities portfolio which, despite the TLTRO II and Covered Bond transactions, still made it possible to reduce the net interbank borrowing position in question.

7.4 - Shareholders' equity and capital adequacy

Shareholders' equity pertaining to the Parent Company at 31 December 2017, including net profit for the period, amounts to Euro 927.1 million, compared with Euro 886.1 million at the end of the previous year.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 31 December 2017, 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 31.12.2017

	Shareholders' equity	of which: net profit (loss) for the period
Parent Company balances at 31 December 2017	912,372	37,996
Effect of consolidation of subsidiaries	14,684	12,342
Dividends declared during the period	-	-6,640
Consolidated balances at 31 December 2017	927,056	43,698

After a pay-out that takes account of the proposed allocation of the net profits of Group companies, subject to authorisation at the respective shareholders' meetings, capital for supervisory purposes (Own Funds) at 31 December 2017 amounted to Euro 1,089.1 million (CET 1 + AT1 Euro 934.2 million + T2 Euro 154.9 million). This was up by Euro 4.1 million from Euro 1,085.0 million at the end of the prior year mainly due to the comprehensive income of the year, partially offset by the reduction in Tier 2 Capital compared with 31 December 2016.

At 31 December 2017, the Common Equity Tier 1 ratio (CET1/Risk-weighted assets) was 11.5% (10.9% at 31 December 2016). The Tier 1 ratio (T1/Risk-weighted assets) was 11.6% (11.0% at 31 December 2016), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 13.6% (13.5% at 31 December 2016).

Bear in mind that the decision about capital taken by the Bank of Italy on 4 April 2017 after its periodic supervisory review and evaluation process (2016 SREP) required the Group to apply the following coefficients:

- **6% for the Common Equity Tier 1 ratio**, binding - pursuant to art. 67-ter TUB - to the extent of 4.8% (of which 4.5% for the minimum regulatory requirements and 0.3% for additional requirements) and for the remainder from the capital conservation buffer;
- **7.6% for the Tier 1 ratio**, binding - pursuant to art. 67-ter TUB - to the extent of 6.4% (of which 6.0% for the minimum regulatory requirements and 0.4% for additional requirements) and for the remainder from the capital conservation buffer;
- **9.75% for the Total Capital ratio**, binding - pursuant to art. 67-ter TUB - to the extent of 8.5% (of which 8% for the minimum regulatory requirements and 0.5% for additional requirements) and for the remainder from the capital conservation buffer.

The new prudential regulations have imposed a capital reserve that is in addition to the minimum regulatory requirements, with the objective of equipping the banks with high quality capital to be used in times of market stress to prevent any malfunctioning of the banking system and to avoid interruptions in the credit granting process.



The following table compares the consolidated capital requirements at 31 December 2017 with the minimum requirements at that date.

	Banco Desio Group	SREP	difference
CET 1	11.52%	6.00%	+ 5.52%
TIER 1	11.65%	7.60%	+ 4.05%
TOTAL CAPITAL RATIO	13.58%	9.75%	+ 3.83%

On 23 January and 25 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) 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.

7.5 - 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 *consolidated financial statements*, which forms the basis of the specific comments.

The presentation criteria for this table are as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- the "Net profit (loss) for the period" has been split between "Profit (loss) from operations after taxes" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 220 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers and flat-rate tax on long-term loans, as well as amortisation of leasehold improvements, reclassified respectively as a reduction to caption 180b) "Other administrative expenses" and as an increase in caption 210 "Net adjustments to intangible assets" included in "Operating expenses";
- the share of profits for the period relating to investments in associated companies is reclassified from caption 240 "Profit (loss) from equity investments" to "Profit from associates";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of loans" of "Operating income" is reclassified to the appropriate caption "Gains (losses) on disposal or repurchase of loans" not included in the "Result of operations";
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 190 "Net provisions for risks and charges" to caption 130a) "Net impairment adjustments to loans and advances", both captions not included in the "Result of operations";
- provisions and expenses of an extraordinary nature or which are "one-off", adjustments for impairment of financial assets which are not ordinary investments by the Bank, as well as extraordinary dividends from assets available for sale, have been reclassified to "Non-recurring provisions for risks and charges, other provisions and expenses/special dividends from available for sale securities";
- the tax effect on "Non-recurring profit (loss)" is reclassified from caption 290 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

As shown in the following table, which presents the reclassified income statement, 2017 closed with a net profit belonging to the Parent Company of Euro 43.7 million. This represents an increase of Euro 18.1 million (-71.0%) compared with the prior year of Euro 25.6 million; this trend is primarily attributable to the Euro 9.6 million growth (+25.4%) in the *Profit (loss) from operations after tax*, as well as a negative contribution from the *Non-recurring profit (loss) after tax* of 2.5 million, which is lower than the previous figure of Euro 12.3 million.

The increase in the *Profit (loss) from operations after tax* is mainly due to the Euro 8.7 million increase (+2.1%) in *Operating income* due, in particular, to the significant positive contribution of *Net commission income* which also rose by Euro 13.1 million (+8.7%).



Table no. 11 - RECLASSIFIED INCOME STATEMENT

Captions	31.12.2017	31.12.2016	Change	
			Amount	%
10+20 Net interest income	231,242	236,192	-4,950	-2.1%
70 Dividends and similar income	638	976	-338	-34.6%
40+50 Net commission income	164,047	150,977	13,070	8.7%
80+90+100 Net results on financial assets and liabilities	23,158	20,136	3,022	15.0%
+110				
220 Other operating income/expense	13,465	15,547	-2,082	-13.4%
Operating income	432,550	423,828	8,722	2.1%
180 a Payroll costs	-178,144	-178,164	20	0.0%
180 b Other administrative costs	-90,588	-86,548	-4,040	4.7%
200+210 Net adjustments to property, plant and equipment and intangible assets	-12,059	-12,334	275	-2.2%
Operating costs	-280,791	-277,046	-3,745	1.4%
Result of operations	151,759	146,782	4,977	3.4%
130a+100a Cost of credit	-78,650	-91,971	13,321	-14.5%
130 b Net impairment adjustments to financial assets available for sale	-2,235	-195	-2,040	n.s.
130 d Net impairment adjustments to other financial assets	1,563	489	1,074	219.6%
190 Net provisions for risks and charges	-2,493	-4,446	1,953	-43.9%
Profit (loss) from operations before tax	69,944	50,659	19,285	38.1%
290 Income taxes on current operations	-22,529	-12,852	-9,677	75.3%
Profit (loss) from operations after tax	47,415	37,807	9,608	25.4%
240+270 Profit (loss) from investments and disposal of investments	41	7,616	-7,575	-99.5%
Non-recurring provisions for risks and charges, other provisions and expenses / special dividends from AFS securities	-5,390	-30,722	25,332	-82.5%
Non-recurring result before tax	-5,349	-23,106	17,757	-76.9%
Income taxes from non-recurring items	2,893	10,836	-7,943	-73.3%
Non-recurring result after tax	-2,456	-12,270	9,814	-80.0%
320 Net profit (loss) for the period	44,959	25,537	19,422	76.1%
330 Minority interests	-1,261	14	-1,275	n.s.
340 Profit (Loss) for the period pertaining to the Parent Company	43,698	25,551	18,147	71.0%

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 31.12.2017

Captions	As per financial statements								Reclassified income statement	
		31.12.2017	Tax/expense recoveries	Special dividends from equity investments	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	31.12.2017
<i>Amounts in thousands of Euro</i>										
10+20	Net interest income	231,242								231,242
70	Dividends and similar income	6,400		-5,762						638
40+50	Net commission income	164,047								164,047
80+90+100	Net results on financial assets and liabilities	16,343		0		931		5,884		23,158
+110										
220	Other operating income/expense	45,863	-34,632		2,234					13,465
	Operating income	463,895	-34,632	-5,762	2,234	931	0	5,884	0	432,550
180 a	Payroll costs	-178,206					62			-178,144
180 b	Other administrative costs	-125,220	34,632							-90,588
200+210	Net adjustments to property, plant and equipment and intangible assets	-9,825			-2,234					-12,059
	Operating costs	-313,251	34,632	0	-2,234	0	62	0	0	-280,791
	Result of operations	150,644	0	-5,762	0	931	62	5,884	0	151,759
130a+100a	Cost of credit	-79,041				-931	1,322			-78,650
130 b	Net impairment adjustments to financial assets available for sale	-9,681						7,446		-2,235
130 d	Net impairment adjustments to other financial assets	3,803						-2,240		1,563
190	Net provisions for risks and charges	-1,171					-1,322			-2,493
	Profit (loss) from operations before tax	64,554	0	-5,762	0	0	62	11,090	0	69,944
290	Income taxes on current operations	-19,636							-2,893	-22,529
	Profit (loss) from operations after tax	44,918	0	-5,762	0	0	62	11,090	-2,893	47,415
240+270	Profit (loss) from investments and disposal of investments	41		0						41
	Non-recurring provisions for risks and charges, other provisions and expenses / special dividends from AFS securities			5,762			-62	-11,090		-5,390
	Non-recurring result before tax	41	0	5,762	0	0	-62	-11,090	0	-5,349
	Income taxes from non-recurring items								2,893	2,893
	Non-recurring result after tax	41	0	5,762	0	0	-62	-11,090	2,893	-2,456
320	Net profit (loss) for the period	44,959	0	0	0	0	0	0	0	44,959
330	Minority interests	-1,261								-1,261
340	Profit (Loss) for the period pertaining to the Parent Company	43,698	0	0	0	0	0	0	0	43,698

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

Operating income

Core revenues increased by about Euro 8.7 million with respect to the comparative period (+2.1%), amounting to Euro 432.6 million. In addition to the positive contribution made by *net commission income*, an increase of Euro 13.1 million, there has also been an increase in the *Net results on financial assets and liabilities* of Euro 3.0 million (+15.0%), partially offset by net interest income, which has fallen by Euro 5.0 million (-2.1%), due to the expansive monetary policy that has been strongly compressing interest income, partly offset by the recognition of the interest income connected to the "TLTRO II" operation for Euro 7.2 million. A similar trend also characterises *other operating income/expense* down by Euro 2.1 million mainly due to the reduction in recharge of costs of current accounts and deposits for rapid preliminary investigation fees. Lastly, dividends come in at Euro 0.6 million.

The following table analyses *net commission income* by type.

Table no. 13 - **BREAKDOWN OF NET COMMISSION INCOME BY TYPE OF SERVICE**

Amounts in thousands of Euro	31.12.2017		31.12.2016		Change	
	31.12.2017	%	31.12.2016	%	Amount	%
Collection and payment services	25,107	15.3%	25,207	16.7%	-100	-0.4%
Placement, custody, admin. of securities & other	21,293	13.0%	18,015	11.9%	3,278	18.2%
Managed portfolios and order taking	13,777	8.4%	11,781	7.8%	1,996	16.9%
Distribution of insurance products	16,628	10.1%	8,466	5.6%	8,162	96.4%
Maintenance and management of current accounts	73,939	45.1%	73,159	48.5%	780	1.1%
Other commission	13,303	8.1%	14,349	9.5%	-1,046	-7.3%
Net commission income	164,047	100.0%	150,977	100.0%	13,070	8.7%

Operating costs

Operating costs, which include *payroll costs*, *other administrative expenses* and *net adjustments to property, plant and equipment and intangible assets* come to around Euro 280.8 million and have increased by 1.4% compared with the previous period.

In particular, other administrative expenses have increased by Euro 4.0 million (+4.7%). The balance includes Euro 7.4 million for the ex-ante ordinary gross contributions to the Single Resolution Mechanism (SRM) and to the Deposit Guarantee Scheme (DGS) for 2017 (Euro 7.2 million gross in the prior year).

Payroll costs are in line with the comparative period, while net adjustments to property, plant and equipment and intangible assets amount to Euro 12.1 million (-2.2%).



Result of operations

The result of operations at 31 December 2017 therefore amounts to Euro 151.8 million, up by Euro 5.0 million compared with the prior year (+3.4%).

Net profit (loss) from operations after tax

The *Result of operations* of Euro 151.8 million leads to a *Profit (loss) from operations after tax* of Euro 47.4 million, 25.4% up compared with Euro 37.8 million in the comparative period, considering:

- reduction in the cost of credit (*net impairment adjustments to loans and advances plus gains (losses) on disposal or repurchase of loans*) to about 78.7 million euro, on 92.0 million euro in the comparative period due to the slowdown in the deterioration of loans, despite maintaining high levels of coverage;
- *impairment adjustments to financial assets* of Euro 0.7 million;
- *net provisions for risks and charges* of Euro 2.5 million, which had a negative net balance of Euro 4.4 million in the comparative period;
- income taxes on current operations of Euro 22.5 million (Euro 12.9 million). Bear in mind that the taxation for the prior period gained a benefit of Euro 1.4 million from the step-up for tax purposes (pursuant to art. 15, paragraph 10, of Decree Law 185/2008) of the goodwill recorded by Banca Popolare di Spoleto in the balance sheet for the Parent Company's contribution of the business unit made up of former branches of Banco Desio Toscana and Banco Desio Lazio.

Non-recurring profit (loss) after tax

Non-recurring profit (loss) after tax at 31 December 2017 was a loss of Euro 2.5 million. This mainly consists of:

- impairment adjustments (net of the use of provisions) recognised:
 - for Euro 2.1 million on a minority bank shareholding acquired during the period under a commitment made previously;
 - for Euro 3.6 million on the Atlante Fund following the write-off of the value of the banking interests held by the fund;both reclassified from net impairment losses on available-for-sale financial assets.
- the negative income components linked to participation in the Interbank Deposit Protection Fund's Voluntary Intervention Scheme (VIS), in particular:
 - Euro 4.4 million paid to the VIS during the year for the capital increases of the three banks sold to Cariparma in December, reclassified from the net results on financial assets and liabilities;
 - Euro 1.0 million for the impairment made on the nominal value of the securitisation tranches of NPLs subscribed by the VIS, reclassified from *net impairment adjustments to financial assets available for sale*;
- income of Euro 5.7 million from the special dividend paid by Cedacri S.p.A.;
net of the related (positive) tax effects of Euro 2.9 million.

The balance in the comparative period was negative for Euro 12.3 million and included the following items:

- *Profit on equity investments* of Euro 7.6 million consisting of:
 - Euro 2.6 million from the sale of the residual equity investment in Chiara Assicurazioni S.p.A., including a price adjustment of Euro 0.4 million on the shares sold in 2013,
 - Euro 5.2 million from the cancellation of the equity investment in CPC S.A. in liquidation,

- Euro 0.3 million from the loss on the sale of shares in Istifid S.p.A.,
- Euro 0.1 million from the cancellation of the equity investment in Rovere S.d.G. in liquidation;
- *Non-recurring provisions for risks and charges, other provisions and expenses / special dividends from financial assets available for sale with a negative balance of Euro 30.7 million due to:*
 - one-time charges of Euro 24.3 million linked to the Income support solidarity fund with related discounting effect (Euro 16.9 million for the Parent Bank, Euro 7.1 million for Banca Popolare di Spoleto and Euro 0.3 million for Fides),
 - gross additional contribution to the Single Resolution Mechanism (SRM) of Euro 7.6 million (Euro 5.7 million for the Parent Bank and Euro 1.9 million for Banca Popolare di Spoleto),
 - adjustments of Euro 2.1 million linked to the measurement of the investment in Fondo Atlante (and related commitment to pay funds, settled on 3 January 2017);
 - adjustments of Euro 1.5 million linked to the commitment of the Parent Bank to purchase a minority investment for more than fair value,
 - adjustment of Euro 0.5 million on the alignment with fair value of the equity instrument recognised on the investment in Caricesena made by the Voluntary Scheme of the Interbank Fund,
 - income of Euro 4.5 million representing the special dividend declared by Cedacri S.p.A. (Euro 3.2 million for the Parent Bank and Euro 1.3 million for Banca Popolare di Spoleto)
 - release of Euro 0.8 million (Euro 0.5 million for the Parent Bank and Euro 0.3 million for Banca Popolare di Spoleto) from the provision to the "Solidarity Fund " recorded in the prior year in order to cover the subordinated bondholders of bailed-out banks,
- Positive effect of the *Taxes on non-recurring elements of income* of Euro 10.9 million.

Parent Company net profit/(loss)

The total of the profit from operations after tax and the non-recurring profit after tax, as well as the result attributable to minority interests, leads to a net profit for the Parent Company at 31 December 2017 of Euro 43.7 million.



8 - 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.

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

Balance sheet

	31.12.2017	31.12.2016		Change	
		amount		%	
Total assets	10,459,327	8,925,882	1,533,445		17.2%
Financial assets	1,972,882	1,492,482	480,400		32.2%
Due from banks	1,562,664	500,276	1,062,388		212.4%
Loans to customers	6,251,542	6,247,053	4,489		0.1%
Property, plant and equipment	135,293	135,219	74		0.1%
Intangible assets	3,044	3,238	-194		-6.0%
Due to banks	1,760,234	1,011,518	748,716		74.0%
Due to customers	5,988,799	5,622,898	365,901		6.5%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,602,047	1,226,467	375,580		30.6%
Shareholders' equity (including Net profit/loss for the period)	912,371	865,567	46,804		5.4%
Own Funds	1,037,014	1,037,658	-644		-0.1%
Total indirect deposits	12,222,163	11,661,761	560,402		4.8%
of which: Indirect deposits from ordinary customers	7,057,209	6,648,082	409,127		6.2%
of which: Indirect deposits from institutional customers	5,164,954	5,013,679	151,275		3.0%

Income statement ⁽¹⁾

	31.12.2017	31.12.2016		Change	
		amount		%	
Operating income	274,873	260,838	14,035		5.4%
of which: Net interest income	131,991	134,617	-2,626		-2.0%
Operating costs	174,448	174,006	442		0.3%
Result of operations	100,425	86,832	13,593		15.7%
Profit (loss) from operations after tax	40,689	33,281	7,408		22.3%
Non-recurring profit (loss) after tax	-2,693	-1,602	-1,091		n.s.
Net profit for the year	37,996	31,679	6,317		19.9%

⁽¹⁾ from the reclassified income statement

Key figures and ratios

	31.12.2017	31.12.2016	Change amount
Capital/Total assets	8.7%	9.7%	-1.0%
Capital/Loans to customers	14.6%	13.9%	0.7%
Capital/Due to customers	15.2%	15.4%	-0.2%
Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and	57.0%	70.6%	-13.6%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	17.1%	16.3%	0.8%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)	17.2%	16.4%	0.8%
Total Own Funds/Risk-weighted assets (Total capital ratio)	19.9%	19.9%	0.0%
Financial assets/Total assets	18.9%	16.7%	2.2%
Due from banks/Total assets	14.9%	5.6%	9.3%
Loans to customers/Total assets	59.8%	70.0%	-10.2%
Loans to customers/Direct customer deposits	82.4%	91.2%	-8.8%
Due to banks/Total assets	16.8%	11.3%	5.5%
Due to customers/Total assets	57.3%	63.0%	-5.7%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss/Totc	15.3%	13.7%	1.6%
Direct customer deposits/Total assets	72.6%	76.7%	-4.1%
	31.12.2017	31.12.2016	Change amount
Cost/Income ratio	63.5%	66.7%	-3.2%
Net interest income/Operating income	48.0%	51.6%	-3.6%
Result of operations/Operating income	36.5%	33.3%	3.2%
Profit (loss) from operations after tax/Capital ⁽²⁾	4.7%	4.0%	0.7%
ROE ⁽²⁾	4.3%	3.8%	0.5%
Profit (loss) from operations before tax/Total assets (ROA)	0.6%	0.5%	0.1%
	31.12.2017	31.12.2016	Change amount
Net doubtful loans/Loans to customers	3.9%	4.1%	-0.2%
Net impaired loans/Loans to customers	6.5%	7.2%	-0.7%
% Coverage of doubtful loans	57.7%	55.0%	2.7%
% Coverage of doubtful loans, gross of cancellations	64.8%	63.3%	1.4%
% Total coverage of impaired loans	50.2%	46.3%	3.9%
% Coverage of impaired loans, gross of cancellations	56.4%	53.4%	3.0%
% Coverage of performing loans	0.40%	0.48%	-0.08%

Structure and productivity ratios

	31.12.2017	31.12.2016	Change amount	Change %
Number of employees	1,371	1,410	-39	-2.8%
Number of branches	146	149	-3	-2.0%
Loans and advances to customers per employee ⁽³⁾	4,496	4,429	67	1.5%
Direct deposits from customers per employee ⁽³⁾	5,459	4,856	603	12.4%
	31.12.2017	31.12.2016	Change amount	Change %
Operating income per employee ⁽³⁾	198	185	13	7.0%
Result of operations per employee ⁽³⁾	72	62	10	16.1%

⁽²⁾ excluding net profit (loss) for the period;

⁽³⁾ 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 net profit for the year at 31 December 2017 comes in at 38.0 million euro, an increase of 6.3 million euro (+19.9%) on 31.7 million euro of the previous year; this trend is primarily attributable to the Euro 7.4 million growth (+22.3%) in the positive *Profit (loss) from operations after tax*, partly offset by the rise of Euro



1.1 million (+68.1%) in the negative contribution from the *Non-recurring profit (loss) after tax* caused by a surplus of non-recurring expense items.

The increase in the *Profit (loss) from operations after tax* is mainly due to the Euro 14.0 million increase (+5.4%) in *Operating income* due, in particular, to the significant positive contribution of *Net commission income* which also rose by Euro 12.8 million (+12.9%), to the positive change in "*Net results on financial assets and liabilities*" for 6.3 million euro (+35.6%) and decrease in "*Net provisions for risks and other charges*" for 3.2 million euro only partly offset by a higher incidence of *current taxes* for 5.2 million euro, to the higher *cost of credit* of around 3.0 million euro (reflected in the further increase in coverage), to higher adjustments to financial assets available for sale for 2.2 million euro and to the decrease of 2.6 million euro in net interest income due to the money market situation.

Loans to customers increased from 6,247.1 million euro at the end of 2016 to 6,251.5 million euro at the reference date, an incidence of the deteriorated portfolio of 6.5% (formerly 7.2%).

Shareholders' equity increased from 852.0 million euro at 31 December 2016 to 865.6 million euro at the reference date, and capital for supervisory purposes (*Total capital ratio*) decreased from 1,037.7 million euro at the end of 2016 to 1,037.0 million euro, due to the reduction in class 2 capital since 31 December 2016 by 38.0 million euro.

The *Total capital ratio*, consisting of *Total Own Funds* as a ratio of *Risk weighted assets*, amounted to 19.9% (the same as at 31 December 2016).

8.2 - Banca Popolare di Spoleto S.p.A.

Balance sheet

	31.12.2017	31.12.2016	amount	Change
				%
Total assets	4,158,011	4,105,712	52,299	1.3%
Financial assets	310,397	379,865	-69,468	-18.3%
Due from banks	87,319	87,183	136	0.2%
Loans to customers	3,535,603	3,409,868	125,735	3.7%
Property, plant and equipment	42,042	42,714	-672	-1.6%
Intangible assets	8,428	8,392	36	0.4%
Due to banks	377,707	424,407	-46,700	-11.0%
Due to customers	3,283,099	3,106,267	176,832	5.7%
Debt securities in issue	108,447	186,073	-77,626	-41.7%
Shareholders' equity (including Net profit/loss for the period)	273,497	256,856	16,641	6.5%
Own Funds	280,588	249,920	30,668	12.3%
Total indirect deposits	1,970,253	1,878,890	91,363	4.9%
of which: Indirect deposits from ordinary customers	1,932,852	1,833,742	99,110	5.4%
of which: Indirect deposits from institutional customers	37,401	45,148	-7,747	-17.2%

Income statement ⁽¹⁾

	31.12.2017	31.12.2016	Change	
			amount	%
Operating income	151,754	157,849	-6,095	-3.9%
of which: Net interest income	89,075	95,460	-6,385	-6.7%
Operating costs	101,727	99,275	2,452	2.5%
Result of operations	50,027	58,574	-8,547	-14.6%
Profit (loss) from operations after tax	14,092	11,964	2,128	17.8%
Non-recurring profit (loss) after tax	238	-4,744	4,982	n.s.
Net profit for the year	14,330	7,220	7,110	98.5%

⁽¹⁾ from the reclassified income statement.

Key figures and ratios

	31.12.2017	31.12.2016	Change %
Capital/Total assets	6.6%	6.3%	0.3%
Capital/Loans to customers	7.7%	7.5%	0.2%
Capital/Due to customers	8.3%	8.3%	0.0%
Capital/Debt securities in issue	252.2%	138.0%	114.2%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	9.9%	9.2%	0.7%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)	9.9%	9.2%	0.7%
Total Own Funds/Risk-weighted assets (Total capital ratio)	10.7%	9.4%	1.3%
Financial assets/Total assets	7.5%	9.3%	-1.8%
Due from banks/Total assets	2.1%	2.1%	0.0%
Loans to customers/Total assets	85.0%	83.1%	1.9%
Loans to customers/Direct customer deposits	104.2%	103.6%	0.6%
Due to banks/Total assets	9.1%	10.3%	-1.2%
Due to customers/Total assets	79.0%	75.7%	3.3%
Debt securities in issue/Total assets	2.6%	4.5%	-1.9%
Direct customer deposits/Total assets	81.6%	80.2%	1.4%

	31.12.2017	31.12.2016	Change %
Cost/Income ratio	67.0%	62.9%	4.1%
Net interest income/Operating income	58.7%	60.5%	-1.8%
Result of operations/Operating income	33.0%	37.1%	-4.1%
Profit (loss) from operations after tax/Capital ⁽²⁾	5.4%	4.8%	0.6%
ROE ⁽²⁾	5.5%	2.9%	2.6%
Profit (loss) from operations before tax/Total assets (ROA)	0.5%	0.3%	0.2%

	31.12.2017	31.12.2016	Change %
Net doubtful loans/Loans to customers	7.0%	6.7%	0.3%
Net impaired loans/Loans to customers	11.6%	13.4%	-1.7%
% Coverage of doubtful loans	56.7%	57.7%	-1.0%
% Total coverage of impaired loans	48.0%	46.3%	1.7%
% Coverage of performing loans	0.54%	0.66%	-0.12%



Structure and productivity ratios

	31.12.2017	31.12.2016	Change	
			amount	%
Number of employees	889	904	-15	-1.7%
Number of branches	119	122	-3	-2.5%
Loans and advances to customers per employee ⁽³⁾	3,944	3,749	195	5.2%
Direct deposits from customers per employee ⁽³⁾	3,783	3,620	163	4.5%
	31.12.2017	31.12.2016	Change	
			amount	%
Operating income per employee ⁽³⁾	169	174	-5	-2.9%
Result of operations per employee ⁽³⁾	56	64	-8	-12.5%

⁽²⁾ excluding net profit (loss) for the period;

⁽³⁾ 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 net profit for the year at 31 December 2017 amounts to 14.3 million euro, with a significant increase of 7.1 million euro (+98.5%) on 7.2 million euro of the previous year; this is due to the increase of 5.0 million euro of "Non-recurring profit after tax" which comes to 0.2 million euro compared with the previous year loss of 4.7 million euro and to the rise of about 2.1 million euro (+17.8%) in "Profit (loss) from operations after tax" due, in particular, a lower cost of credit of 14.2 million euro (which reflects the slowdown trend in the credit deterioration even with high coverage levels), "Net commission income" up by 1.4 million euro and higher write-backs arising from other items for 1.2 million euro, partly offset by the lower contribution of net interest income of 6.4 million euro due to the money market situation, to the increase in operating costs for 2.5 million euro and higher tax burden on current operations of 3.4 million euro.

Loans to customers increased from 3,409.9 million euro at the end of 2016 to 3,535.6 million euro at the reference date, an incidence of the deteriorated portfolio of 11.6% (formerly 13.4%).

Book shareholders' equity has increased from 256.9 million euro at 31 December 2016 to 273.5 million at the reporting date, while Own funds (Total capital ratio) have gone from 249.9 euro at the end of 2016 to 280.6 million euro. The *Total capital ratio*, consisting of Total Own Funds as a percentage of Risk-weighted assets, amounts to 10.7% (9.4% at 31 December 2016).

8.3 - Fides S.p.A.

Balance sheet

Amounts in thousands of Euro	31.12.2017	31.12.2016	Change	
			amount	%
Total assets	641,380	566,871	74,509	13.1%
Financial assets	15	15	0	0.0%
Due from banks	2,481	3,238	-757	-23.4%
Loans to customers	636,940	562,021	74,919	13.3%
Property, plant and equipment	101	84	18	21.3%
Intangible assets	947	687	260	37.8%
Due to banks	580,676	521,674	59,002	11.3%
of which: Due to Group banks	580,420	521,529	58,891	11.3%
Due to customers	2,622	3,047	-425	-14.0%
Shareholders' equity (including Net profit/loss for the period)	50,144	37,811	12,333	32.6%
Own Funds	43,433	32,251	11,182	34.7%

Income statement ⁽¹⁾

Amounts in thousands of Euro	31.12.2017	31.12.2016	Change	
			amount	%
Operating income	17,058	14,890	2,168	14.6%
of which: Net interest income	13,672	11,750	1,922	16.4%
Operating costs	6,148	5,436	712	13.1%
Result of operations	10,910	9,454	1,457	15.4%
Profit (loss) from operations after tax	7,208	6,248	959	15.4%
Non-recurring profit (loss) after tax	0	-161	161	n.s.
Profit for the period	7,208	6,087	1,120	18.4%

⁽¹⁾ from the reclassified income statement

Key figures and ratios

	31.12.2017	31.12.2016	Change amount
Capital/Total assets	7.8%	6.7%	1.1%
Capital/Loans to customers	7.9%	6.7%	1.2%
Capital/Due to Banks	8.6%	7.2%	1.4%
Total Own Funds/Risk-weighted assets (Total capital ratio)	8.2%	6.8%	n.s.
Loans to customers/Total assets	99.3%	99.1%	0.2%
Due to banks/Total assets	90.5%	92.0%	-1.5%

	31.12.2017	31.12.2016	Change Amount
Cost/Income ratio	36.0%	36.5%	-0.5%
Net interest income/Operating income	80.2%	78.9%	1.3%
Result of operations/Operating income	64.0%	63.5%	0.5%
Profit (loss) from operations after tax/Capital ⁽²⁾	16.8%	19.7%	-2.9%
ROE ⁽²⁾	16.8%	19.2%	-2.4%
Profit (loss) from operations before tax/Total assets (ROA)	1.6%	1.1%	0.5%

	31.12.2017	31.12.2016	Change amount
Net doubtful loans/Loans to customers	0.1%	0.1%	0.0%
Net impaired loans/Loans to customers	0.5%	0.5%	0.0%
% Coverage of doubtful loans	63.4%	65.6%	-2.2%
% Total coverage of impaired loans	36.6%	35.4%	1.2%
% Coverage of performing loans	0.07%	0.07%	0.0%



Structure and productivity ratios

	31.12.2017	31.12.2016	Change amount	%
Number of employees ⁽³⁾	43	42	1	2.4%
<i>Amounts in thousands of Euro</i>				
Loans and advances to customers per employee ⁽⁴⁾	14,987	13,708	1,279	9.3%
<i>Amounts in thousands of Euro</i>				
Operating income per employee ⁽⁴⁾	401	363	38	10.5%
Result of operations per employee ⁽⁴⁾	257	231	26	11.3%

⁽³⁾ number of employees at the reference date;

⁽⁴⁾ based on the number of employees calculated as a straight average.

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

The profit for the year ended 31 December 2017 was about 7.2 million euro, following an increase of 18.4% from 6.1 million euro in the comparative period; Net interest income was also higher at 13.7 million euro (formerly 11.7 million euro), as was net interest and other income at 12.9 million euro (formerly 11.4 million euro) and the results of operations at 10.9 million euro (formerly 9.5 million euro).

Loans to customers increased from 562.0 million euro at the end of 2016 to 636.9 million euro at the reference date, an incidence of 0.5% of the deteriorated portfolio (unchanged).

Shareholders' equity has increased from 37.8 million euro at 31 December 2016 to 50.1 million at the reporting date (due to the increase in share capital of 10 million euro and the result for the year, partly offset by the distribution of dividends), while Own funds have gone from 32.3 million euro at the end of 2016 to 43.4 million euro. The *Total capital ratio*, consisting of *Total Own Funds* as a ratio of *Risk weighted assets*, comes to 8.2% (6.8% at 31 December 2016).

9 - Other information

9.1 - Treasury shares

At 31 December 2017, as was the case at the previous year end, the Parent Company Banco di Desio e della Brianza S.p.A. did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi & C. S.a.p.A. and it did not trade in treasury share or shares of its parent company, directly or through a trustee or other person.

9.2 - Ratings

On 20 June 2017, following its annual review, Fitch Ratings confirmed all the ratings awarded to the Parent Company, Banco di Desio e della Brianza.

The updated ratings are the following:

- 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"

9.3 – Transactions with related parties and associated persons

For a more detailed description of the procedures that govern transactions with related parties (pursuant to art. 2391-bis of the Civil Code) and with associated persons (pursuant to art. 53 of the CFA), reference should be made to paragraph 5 of the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations.

Details of transactions with related parties approved by the Board of directors in the course of 2016 are disclosed in Part H of the explanatory notes.

9.4 - Information on incentive plans

At the reference date, there are no equity-based payments.

9.5 – Report on the adoption of the code of conduct for listed companies

Information about the adoption of the Code of Conduct for listed companies is provided in the Annual Report on Corporate Governance in compliance with art. 123-bis of the CFA, which is available on the Group's website, along with this report on operations, and to which reference should be made.



9.6 - Research and development activities

In its capacity as Parent Company, the Bank, as described in paragraph 6.1 "The levels of control in the management control and coordination function", undertakes development with a view to supporting and coordinating the companies belonging to the Group, as well as research and investment in operational solutions aimed, in particular, at continuous improvements in the customer relationship.

The Banco Desio Group is closely involved in the development of "multichannel" operations, in order to make banking services easier to use, simple and more flexible. Widespread connectivity, mobility, advanced payment services and user-friendly technology have led to an evolution in customers' access to banking services, new models of interpersonal relationships and, consequently, a growing digitisation of services, processes and multi-channel approach to relationships.

As a consequence of this evolution in digital services, the action to strengthen the Group's range of technological solutions offered to customers continued in 2017. In particular, during the year some important projects were finalized or launched in the areas of payment systems and telematic services:

- contactless Bancomat card: the "c.less" function has been added to the traditional Bancomat circuit card, which allows the holder to make fast and secure payments simply by putting their card close to the POS terminal;
- "& Si" prepaid card: a new rechargeable prepaid card Nexi (formerly Cartasi) equipped with "chip & Pin" technology able to make its use fast and secure for payments on physical POS and e.commerce;
- HCE (host card evolution) payments: through the "Nexi Pay" function, the bank's customers can associate their credit and prepaid Visa and Mastercard cards with an Android smartphone to make payments using the phone instead of the card. During the last quarter of the year, steps were taken to use this function also on Apple devices;
- repetitive bank transfers: the new home banking function allows customers to repeat payment orders arranged online automatically over time;
- top up prepaid cards: customers can top up their prepaid card directly through the home banking portal or via mobile banking;
- secure call: with this function, the use of home and mobile banking services will be even safer and faster. Secure call allows to authorise transactions through a simple call from a mobile phone to a toll-free number.

Again in the context of web and mobile banking services, in the second part of the year the bases were laid for a revision of the web platforms dedicated to individuals and companies that will take place in 2018.

9.7 – Opt-out from obligation to publish information documents for extraordinary operations pursuant to Consob regulations

Pursuant to art. 3 of Consob resolution no. 18079 of 20 January 2012, the Parent Company has exercised its right to opt-out as provided by art. 70, paragraphs 8 and by art. 71, paragraph 1-bis of Consob Regulation 11971/99, effectively exercising its right to opt-out from the obligation to publish information documents required by Attachment 3B of the aforementioned Consob Regulation for significant mergers, demergers, increases in capital by contribution in kind, acquisitions and disposals.

9.8 - Statement of a non-financial nature

In application of Legislative Decree no. 254 of 30 December 2016, Banco di Desio e della Brianza S.p.A., as the parent company, publishes a consolidated non-financial statement as a separate report with respect to the consolidated financial statements, called the "Banco Desio Group's Sustainability Report", which contains the information required by the Decree.

Publication of the Sustainability Report is announced in a press release that indicates the section of the Banco Desio's website where the consolidated non-financial statement is published.

10 - Main risks and uncertainties and outlook for the rest of the year

The consolidated financial statements at 31 December 2017 have been prepared on a going concern basis, since there are no plausible reasons to believe the contrary for the foreseeable future. The capital and financial structure and operating performance of the Group provide absolute confirmation of the foregoing.

In the paragraph on the macroeconomic scenario, a description has been provided of trends in the economy and financial markets with the principal risks that they involve, while the controls over the Bank's operations and the various types of risk are described in detail in Part E of the explanatory notes – Information on risks and related hedging policy.

Furthermore, explanatory notes on the levels of control in the management control and coordination function and on the internal control system are included in the relevant paragraphs of this report, with references made, for further detailed information, to the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations.

On the basis of the information that can be deduced from the strategic guidelines of the 2018-2020 Business Plan, for 2018, we envisage:

- the start of the evolutionary process of the distribution model through an important programme of investments in fixed assets and training with which to create the backbone of a reorientation towards a multi-channel model (consisting of branches, financial advisors and the web) for the Group to expand its customer base even more decisively and to increase each mode of operational contact and customer assistance according to their behavioural profiles;
- a not particularly dynamic trend in the interest margin, taking into account the forecasts for a modest revision of the monetary policy objectives in 2018 by the European Central Bank and prudent management of the securities portfolio by composition and duration, against which growth in the commission margin will continue in line with the evolution of the business model which sees a progressive accentuation (also for the number of dedicated resources) of assistance to core customers (individuals, households and SMEs) in terms of the range of products and advice offered;
- a further containment in the cost of credit, which is expected to be accentuated in the three years 2018-2020, consequent, on the one hand, to the expected decline in impairment rates (transfer to non-performing loans); on the other, to the systematic evolution in the management of non-performing loans as a result of a programme of sales (also with recourse to GACS), which is already expected to start having an effect in 2018, and of the organisational efficiency of the NPL sector



according to the guidance of the ECB; even if there are still uncertainties about the impact of a revision of the provisioning policies due to new regulations;

- maintaining constant pressure to contain operating costs, while leaving space to complete the necessary adjustments organised in line with the model's evolution; in 2018, an additional part of the benefits to personnel costs deriving from the voluntary exodus of 2016 will begin to be felt, without prejudice to continuation of the charges deriving from contributions to the National Resolution Fund and the Deposit Guarantee Scheme.

Desio, 8 February 2018

The Board of Directors
Banco di Desio e della Brianza S.p.A.

Consolidated financial statements



CONSOLIDATED BALANCE SHEET

ASSETS

Assets	31.12.2017	31.12.2016	Change	
			amount	%
10. Cash and cash equivalents	59,413	50,472	8,941	17.7%
20. Financial assets held for trading	20,981	20,053	928	4.6%
40. Financial assets available for sale	1,511,467	1,848,164	(336,697)	-18.2%
50. Financial assets held to maturity	748,696	0	748,696	
60. Due from banks	1,218,060	112,838	1,105,222	979.5%
70. Loans to customers	9,861,862	9,720,108	141,754	1.5%
80. Hedging derivatives	5	2,591	(2,586)	-99.8%
90. Adjustment to financial assets with generic hedge (+/-)	875	1,543	(668)	-43.3%
120. Property, plant and equipment	180,566	181,201	(635)	-0.4%
130. Intangible assets	17,946	17,843	103	0.6%
<i>of which:</i>				
- goodwill	15,322	15,322		
140. Tax assets	212,527	233,410	(20,883)	-8.9%
<i>a) current</i>	35,097	36,408	(1,311)	-3.6%
<i>b) deferred</i>	177,430	197,002	(19,572)	-9.9%
<i>of which Law 214/2011</i>	151,027	164,834	(13,807)	-8.4%
160. Other assets	163,424	177,680	(14,256)	-8.0%
Total assets	13,995,822	12,365,903	1,629,919	13.2%

LIABILITIES

Liabilities and shareholders' equity	31.12.2017	31.12.2016	Change	
			amount	%
10. Due to banks	1,705,928	962,245	743,683	77.3%
20. Due to customers	9,272,337	8,729,591	542,746	6.2%
30. Debt securities in issue	1,708,320	1,393,884	314,436	22.6%
40. Financial liabilities held for trading	7,976	6,230	1,746	28.0%
50. Financial liabilities designated at fair value through profit and loss	0	15,908	(15,908)	-100.0%
60. Hedging derivatives	4,724	6,637	(1,913)	-28.8%
80. Tax liabilities	30,226	27,367	2,859	10.4%
<i>a) current</i>	3,425	718	2,707	377.0%
<i>b) deferred</i>	26,801	26,649	152	0.6%
100. Other liabilities	210,961	220,054	(9,093)	-4.1%
110. Provision for termination indemnities	28,962	30,204	(1,242)	-4.1%
120. Provisions for risks and charges:	46,547	55,282	(8,735)	-15.8%
<i>b) other provisions</i>	46,547	55,282	(8,735)	-15.8%
140. Valuation reserves	38,307	11,755	26,552	225.9%
170. Reserves	761,201	746,964	14,237	1.9%
180. Share premium reserve	16,145	16,145		
190. Share capital	67,705	67,705		
210. Minority interests	52,785	50,381	2,404	4.8%
220. Net profit (loss) for the period (+/-)	43,698	25,551	18,147	71.0%
Total liabilities and shareholders' equity	13,995,822	12,365,903	1,629,919	13.2%



CONSOLIDATED INCOME STATEMENT

	31.12.2017	31.12.2016	Change	
			amount	%
10. Interest and similar income	283,490	307,107	(23,617)	-7.7%
20. Interest and simila expense	(52,248)	(70,915)	18,667	-26.3%
30. Net interest income	231,242	236,192	(4,950)	-2.1%
40. Commission income	175,484	171,269	4,215	2.5%
50. Commission expense	(11,437)	(20,292)	8,855	-43.6%
60. Net commission income	164,047	150,977	13,070	8.7%
70. Dividends and similar income	6,400	5,509	891	16.2%
80. Net trading income	2,865	3,456	(591)	-17.1%
90. Net hedging gains (losses)	(119)	(792)	673	-85.0%
100. Gains (losses) on disposal or repurchase of:	13,605	15,822	(2,217)	-14.0%
a) loans	(520)	(1,710)	1,190	-69.6%
b) financial assets available for sale	12,787	18,849	(6,062)	-32.2%
c) financial assets held to maturity	2,183		2,183	
d) financial liabilities	(845)	(1,317)	472	-35.8%
110. Net results on financial assets and liabilities designated at fair value	(8)	(60)	52	-86.7%
120. Net interest and other banking income	418,032	411,104	6,928	1.7%
130. Net impairment adjustment to:	(84,919)	(92,401)	7,482	-8.1%
a) loans	(79,041)	(90,138)	11,097	-12.3%
b) financial assets available for sale	(9,681)	(2,265)	(7,416)	327.4%
d) other financial assets	3,803	2	3,801	n.s.
140. Net profit from financial activities	333,113	318,703	14,410	4.5%
170. Net profit from financial and insurance activities	333,113	318,703	14,410	4.5%
180. Administrative costs:	(303,426)	(333,838)	30,412	-9.1%
a) payroll costs	(178,206)	(202,501)	24,295	-12.0%
b) other administrative costs	(125,220)	(131,337)	6,117	-4.7%
190. Net provisions for risks and charges	(1,171)	(3,779)	2,608	-69.0%
200. Net adjustments to property, plant and equipment	(7,780)	(8,114)	334	-4.1%
210. Net adjustments to intangible assets	(2,045)	(1,978)	(67)	3.4%
220. Other operating charges/income	45,863	48,943	(3,080)	-6.3%
230. Operating costs	(268,559)	(298,766)	30,207	-10.1%
240. Profit (loss) from equity investments		7,616	(7,616)	-100.0%
270. Gains (losses) on disposal of investments	41		41	
280. Profit (loss) from current operations before tax	64,595	27,553	37,042	134.4%
290. Income taxes on current operations	(19,636)	(2,016)	(17,620)	874.0%
300. Profit (loss) from current operations after tax	44,959	25,537	19,422	76.1%
320. Net profit (loss) for the period	44,959	25,537	19,422	76.1%
330. Net profit (loss) pertaining to minority interests	(1,261)	14	(1,275)	n.s.
340. Parent Company net profit (loss)	43,698	25,551	18,147	71.0%
	31.12.2017	31.12.2016		
Basic earnings per share (Euro)	0.33	0.19		
Diluted earnings per share (Euro)	0.33	0.19		

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Captions	31.12.2017	31.12.2016
10. Net profit (loss) for the period	44,959	25,537
Other elements of income, net of income taxes without reversal to income statement		
20. Property, plant and equipment	-	-
30. Intangible assets	-	-
40. Defined-benefit pension plans	(582)	(496)
50. Non-current assets and disposal groups held for sale	-	-
60. Portion of the valuation reserves of the equity investments carried at equity	-	-
Other elements of income, net of income taxes with reversal to income statement		
70. Foreign investment hedges	-	-
80. Exchange differences	-	-
90. Cash-flow hedges	916	(1,846)
100. Financial assets available for sale	27,658	(7,438)
110. Non-current assets and disposal groups held for sale	-	-
120. Portion of the valuation reserves of the equity investments carried at equity	-	(772)
130. Total other elements of income (net of income taxes)	27,992	(10,552)
140. Total comprehensive income (Captions 10+130)	72,951	14,985
150. Total comprehensive income pertaining to minority interests	(2,701)	554
Total consolidated comprehensive income pertaining to Parent Company	70,250	15,539

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31.12.2017

	Balance at 31.12.2016	Changes in opening balances	Balance at 01.01.2017	Allocation of prior year results		Changes during the year							Group shareholders' equity at 31.12.2017	Minority interest at 31.12.2017	
				Reserves	Dividends and other allocations	Changes in reserves	Transaction on shareholders' equity								Comprehensive income at 31.12.2017
							Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options			
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	
Riserves:															
a) from profit	707,638		707,638	14,298	(476)							(30)	747,405	(25,975)	
b) other shares	17,619		17,619										13,796	3,816	
Valuation reserves:	10,848		10,848										27,992	38,307	
Equity instruments															
Treasury shares	(51)		(51)											(51)	
Net profit (loss) for the period	25,537		25,537	(14,298)	(11,239)								44,959	43,698	
Group shareholders' equity	868,120		868,120		(11,239)	(80)						5	70,250	927,056	
Minority interests	50,381		50,381			(396)						99	2,701	52,785	



STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31.12.2016

	Balance at 31.12.2015	Changes in opening balances	Balance at 01.01.2016	Allocation of prior year results		Changes during the year							Group shareholders' equity at 31.12.2016	Minority interest at 31.12.2016
				Reserves	Dividends and other allocations	Changes in reserves	Transaction on shareholders' equity					Comprehensive income at 31.12.2016		
							Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares			
Share capital:														
a) ordinary shares	118,578		118,578									(96)	60,840	57,642
b) other shares	6,865		6,865										6,865	
Share premium reserve	31,569		31,569									1	16,145	15,425
Reserves:														
a) from profit	683,485		683,485	26,009		(1,856)							733,168	(25,530)
b) other shares	22,611		22,611			(4,999)							13,796	3,816
Valuation reserves:	21,400		21,400									(10,552)	11,755	(907)
Equity instruments														
Treasury shares	(51)		(51)											(51)
Net profit (loss) for the period	37,598		37,598	(26,009)	(11,589)							25,537	25,551	(14)
Group shareholders' equity	870,449		870,449	(11,589)	(6,279)							15,539	868,120	
Minority interests	51,606		51,606			(576)						(95)	(554)	(50,381)



CONSOLIDATED CASH FLOW STATEMENT

	31.12.2017	31.12.2016
A. OPERATING ACTIVITIES		
1. Cash generated from operations	164,908	151,733
- interest received (+)	280,220	305,648
- interest paid (-)	(54,506)	(75,627)
- dividends and similar income (+)	6,400	
- net commission income (+/-)	164,985	152,028
- payroll costs (-)	(178,204)	(202,499)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(101,979)	(106,676)
- other revenues (+)	67,628	80,875
- taxation (-)	(19,636)	(2,016)
- costs/revenues for disposal groups, net of tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	(964,231)	(270,199)
- financial assets held for trading	(1,964)	(4,256)
- financial assets designated at fair value through profit and loss		
- financial assets available for sale	352,890	27,271
- loans to customers	(249,799)	(450,856)
- due from banks: on demand	(18,093)	103,451
- due from banks: other receivables	(1,087,086)	76,771
- other assets	39,821	(22,580)
3. Cash generated (absorbed) by financial liabilities	1,575,546	102,621
- due to banks: on demand	(9,198)	3,619
- due to banks: other debts	752,881	205,511
- due to customers	542,746	485,481
- debt securities in issue	316,893	(518,010)
- due from banks: on demand	1,710	629
- financial liabilities designated at fair value through profit and loss	(15,908)	(8,607)
- other liabilities	(13,578)	(66,002)
Net cash generated/absorbed by operating activities (A)	776,223	(15,845)
B. INVESTING ACTIVITIES		
1. Cash generated by	241	18,781
- sale of equity investments		13,261
- dividends collected on equity investments		5,509
- sale/redemption of financial assets held to maturity		
- sale of property, plant and equipment	241	11
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	(758,843)	(5,957)
- purchase of equity investments		
- purchase of financial assets held to maturity	(749,309)	
- purchase of property, plant and equipment	(7,386)	(4,343)
- purchase of intangible assets	(2,148)	(1,614)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	(758,602)	12,824
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(11,635)	(11,589)
Net cash generated/absorbed by financing activities (C)	(11,635)	(11,589)
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	5,986	(14,610)

RECONCILIATION

	31.12.2017	31.12.2016
Cash and cash equivalents at beginning of period	50,472	62,306
Net increase (decrease) in cash and cash equivalents	5,986	(14,610)
Cash and cash equivalents: effect of change in exchange rates	2,955	2,776
Cash and cash equivalents at end of period	59,413	50,472

Consolidated explanatory notes

PART A – ACCOUNTING POLICIES

A.1 GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation 1606 of 19 July 2002, the consolidated financial statements of the Banco Desio Group are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2017 and endorsed by the European Commission.

Section 2 - Basis of preparation

The consolidated financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and the explanatory notes; they are also accompanied by the Directors' report on operations.

For the preparation of the consolidated financial statements, reference was made to the Bank of Italy Circular 262 of 22 December 2005 and subsequent updates. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The financial statements have been prepared in the interests of clarity and give a true and fair view of the balance sheet, financial position and results of operations for the year.

The financial statements have been prepared on a going-concern basis, in accordance with the accrual principle and, in the recognition and presentation of the results of operations, the principle of substance over form has been given precedence. The accounting policies are consistent with those used for the preparation of the consolidated financial statements of the previous year.

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

International accounting standards applicable from 2017

The following amendments approved by the European Commission on 6 November 2017 have become applicable from 1 January 2017:

Amendment to IAS 12

Income taxes (published by the IASB on 19 January 2016). The purpose of the document is to provide clarifications about the recognition of deferred tax assets on unrealised losses on the occurrence of certain circumstances and about estimating taxable income for future years. This amendment did not affect the balance sheet and income statement balances of these financial statements.

Amendment to IAS 7

Cash flow statement (published by the IASB on 29 January 2016). The document provides clarifications on how to improve disclosure on financial liabilities. In particular, the amendments require the provision of information that enables users of the financial statements to understand changes in liabilities arising from financing transactions, including changes that are the result of monetary movements and those that are the result of non-monetary movements. The changes do not provide for a specific format to be used for disclosures. However, the changes do require an entity to provide a reconciliation between the opening and closing balances of liabilities arising from financial transactions. The presentation of comparative



information relating to previous financial years is not required. The application of this amendment did not require the inclusion of additional information for the Bank.

International accounting standards endorsed at 31 December 2017 with application after 2017

IFRS 9 - Financial instruments

On 29 November 2016, EU Official Gazette L 323/1 published Commission Regulation (EU) 2016/2067 of 22 November 2016 on *International Financial Reporting Standard (IFRS) 9 – Financial Instruments* issued by the International Accounting Standards Board (IASB) on 24 July 2014.

This standard seeks to improve the disclosures made about financial instruments, in order to tackle the problems that emerged during the financial crisis. The adoption of IFRS 9 involves amendments to the following international accounting standards (IAS) 1, IAS 2, IAS 8, IAS 10, IAS 12, IAS 20, IAS 21, IAS 23, IAS 28, IAS 32, IAS 33, IAS 36, IAS 37, IAS 39, IFRS 1, IFRS 2, IFRS 3, IFRS 4, IFRS 5, IFRS 7, IFRS 13, the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) 2, IFRIC 5, IFRIC 10, IFRIC 12, IFRIC 16, IFRIC 19, and the interpretation of the Standing Interpretations Committee (SIC) 27, in order to ensure consistency among the various international accounting standards.

The new standard, which applies from 1 January 2018, introduces new criteria for the classification and measurement of financial assets:

- a) The business model adopted for the management of financial assets;
- b) The characteristics of their contractual cash flows.

Depending on these criteria, the standard provides for the following three categories:

- I. Amortised Cost (AC);
- II. Fair Value with allocation of changes in the other components of the Statement of Comprehensive Income (FVOCI);
- III. Fair Value through profit or loss (FVTPL).

With reference to the impairment model, the new standard requires that the estimate of loan losses is based on the model of "expected losses" (as opposed to "incurred losses") using information that has support and available without unreasonable charges or efforts that include historical, current and future data. The standard establishes, in particular, that:

- This impairment model applies to all financial instruments, namely financial assets measured at amortised cost, those measured at fair value with changes recognised under other components in the statement of comprehensive income, receivables from leases and trade receivables;
- To apply the model, financial instruments have to be classified in three categories (known as stages or buckets), each of which has specific procedures for defining and measuring write-downs.

Lastly, the standard introduces a new hedge accounting model in order to adapt the requirements of the current IAS 39 which were sometimes considered too stringent and not suitable to reflect companies' risk management policies. Among other actions, the standard expands the scope of risks for which hedge accounting of non-financial items can be applied, removes the compulsory quantitative effectiveness tests and no longer requires retrospective evaluation of the effectiveness of the hedge.

IFRS 15 – Revenue from contracts with customers

IFRS 15 "Revenue from contracts with customers" as adopted by Commission Regulation (EU) 2016/1905 of 22 September 2016, which was published in the Official Gazette L 295 of 29 October 2016, shall be applicable as of 1 January 2018. The adoption of IFRS 15, with effect from when it comes into force, implies the cancellation of IAS 18 "Revenues" and IAS 11 "Contract work", as well as the related Interpretations.

The standard establishes a new model for revenue recognition, which will apply to all contracts with customers except for those that fall within the scope of other IAS/IFRS, such as leases, insurance contracts and financial instruments. The new model, in particular, provides for the recognition of revenue based on the following 5 steps:

- identification of the contract with the customer: IFRS 15 applies to all contracts entered into with a customer that meet specific criteria. In certain specific cases, IFRS 15 requires an entity to combine/aggregate a number of contracts and to account for them as one sole contract;
- identification of the performance obligations in the contract: a contract constitutes a promise to transfer goods or services to a customer. If the goods or services are distinct, the promise qualifies as a performance obligation and is accounted for separately;
- determination of the price: the transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services. The transaction price may be a fixed amount, but at times it may include variable or non-cash components;
- allocation of the transaction price to the performance obligations in the contracts: an entity should allocate the transaction price to the various performance obligations in the contract by reference to the standalone selling prices of the distinct goods or services envisaged by the contract. If a standalone selling price is not directly observable, the entity will need to estimate it. The standard establishes when an entity should allocate a discount or a variable component to one or more performance obligations (or to distinct goods or services) covered by the contract;
- revenue recognition criteria when the entity satisfies a performance obligation: an entity recognises revenue when it satisfies its performance obligation by means of the transfer of goods or the rendering of a service, as envisaged by the contract, to a customer (i.e. when the customer obtains of the goods or service). The amount of revenue to be recognised is that allocated to the performance obligation that has been satisfied. A performance obligation may be satisfied either at a point in time (typically, in the case of a transfer of goods) or over time (typically, in the case of the provision of services). In the case of performance obligations that are satisfied over time, an entity recognises revenue over the relevant period by selecting an appropriate method to measure the progress made with respect to the complete satisfaction of the performance obligation.

With reference to first-time application of the new accounting standard, on the basis of various analyses that we have carried out, the impacts for the Group will be mainly the request for more disclosures.



Section 3 – 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

Compared with the situation at 31 December 2016, there has been a change in the scope of consolidation following the inclusion of the SPV "Desio OBG S.r.l.", which had been set up ad hoc in connection with the structuring and implementation of the covered bonds issue programme approved by the Board of Directors of the Parent Company, pursuant to art. 7-bis of Law 130/99; on 29 June 2017, the Parent Company acquired a 60% equity interest in the above SPV, which was thus included in Banco Desio Group as of the same date.

As regards the interest held in Banca Popolare di Spoleto S.p.A., note that it decreased during the year because of the conversion into ordinary shares of the "Banca Popolare di Spoleto S.p.A. Warrants 2015-2017" by the 30 June 2017 expiry date set by the warrant regulations; consequently, the unexercised warrants have been stripped of all rights and have become invalid for all intents and purposes.

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:

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
- are met.

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	396
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.	4,158,011	30,293	310,397	50,470	7,046	273,497	89,075	146,710	(98,200)	19,376	14,330	-	14,330	4,378	18,708
Desio OBG S.r.l.	60	-	-	2	-	10	-	68	(62)	6	-	-	-	-	-

3 Significant restrictions

There are no significant 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.

4 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 accounted for using the equity method (this policy was not applicable at the reporting date, since the Parent Company does not hold any investments in associates).

Section 4 – Subsequent events

Please read "Significant events" in the Report on Operations.

Section 5 - Other aspects

Implementation of IFRS 9 - Financial instruments

During 2016, the Banco Desio Group undertook a project to implement IFRS 9, which from 1 January 2018 replaces IAS 39 (used up to the preparation of these financial statements at 31 December 2017). As is known, IFRS 9 affects the methods used for the classification and measurement of financial instruments and the logic and methods used in calculating write-downs. In view of the pervasiveness of the effects of applying of the new accounting standard, not only in terms of financial reporting but also in terms of information systems, organisational and commercial processes, and therefore the business as a whole, the project was designed to analyse the various areas affected by the standard (essentially "*classification and measurement*" and "*impairment*"), to identify and implement the application and organisational measures that will be necessary, as well as to define the qualitative and quantitative impacts for the Group as a whole and for each entity belonging to it.

A Steering Committee has been established, involving General Management, the Administration Department, the Risk Management function and the Organisational Processes and Products Department, in order to establish the guidelines, to direct the activities of the Work Group, to ratify the results and to take decisions in key areas for the project. Work on the project has been prepared and carried out with the active participation of the Group's many professional structures and skills.

In order to ensure that the project is developed organically, a specific coordination work group ("PMO") was created for the "*classification and measurement*" and "*impairment*" areas, supporting these two specific themes in addressing the choices of operational implementation of the standard



that are in line with the best practices that have been established at a national and international level from time to time and to ensure the necessary coordination with other Group projects, as well as with IT outsourcer, in order to provide solutions able to realise coherent synergies among them (directing, where necessary, the approach chosen by the IT outsourcer).

The project has been developed for each of the two themes, "*classification and measurement*" and "*impairment*", using the same approach broken down into the following activities:

- initial assessment and preliminary decisions (mainly accounting and model related);
- design of the target operating model and definition of the related IT impact;
- implementation, in terms of organisational and application development and impact analysis.

As a result of the various project activities performed, on 22 November the Steering Committee ratified the overall picture of the choices and the application rules defined in the so-called "IFRS 9 Methodological Framework" and therefore reflected in the internal regulations that were submitted to the approval of the Board of Directors of the Group entities, starting with the Parent Company on 30 November.

Classification and measurement

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

In this regard, the business models that will be adopted by the various Group entities and the procedures for carrying out the test on the contractual characteristics of the cash flows have been formalised (the so-called SPPI test, i.e. "Solely Payments of Principal and Interest", including the "Benchmark Test").

At the same time, the composition of existing receivables and securities portfolios was analysed in order to identify their correct classification at the time of the first-time adoption of the new standard, also taking into account the different options allowed by IFRS 9.

As for the business models, the census and analysis were completed at individual company level. Specifically:

- for the loan portfolio, only one HTC-type (Hold to Collect) business model was identified;
- for the proprietary securities portfolio, one HTC-type, one HTC&S-type (Hold to Collect and Sell) business model and one Trading-type business model were identified.

For the Hold to Collect portfolios the thresholds have been defined to allow sales that are frequent, but not particularly large (both individually and in aggregate), or those that are quite large but infrequent, as well as thresholds to allow sales that are close to maturity; at the same time, the parameters were established to identify sales that are consistent with this business model as they are attributable to an increase in credit risk. Also any sales of financial assets as part of securitisations that do not qualify for derecognition are considered compliant with an HTC business model. In general terms, the current way of managing loans to both retail and corporate counterparties is attributable to a Hold to Collect business model. On the other hand, as regards the proprietary securities portfolio, based on our analyses, the securities classified at the reference date at amortised cost generally show a reduced level of movement in line with the management strategy of a Hold to Collect business model. As regards debt securities classified on the same date as *Assets available for sale*, the adoption of a Hold to Collect and Sell business model was defined for most of the portfolios. Only in limited cases, referring to a marginal portion of the portfolios, some category transfers are being defined (from HTM to HTC&S and from AFS to HTC).

As regards the second element of classification of financial assets (based on the characteristics of their cash flows), for the credit sector, the project carried out modular analyses taking into account the significance of the portfolios and their homogeneity. In this regard, different approaches were used for retail and corporate loan portfolios and, in this context, only marginal cases emerged which, by virtue of specific contractual clauses (covenants) or the nature of the loan, would lead to the SPPI test being failed; no significant impact is therefore expected for the credit and loans sector. As for the debt securities in the proprietary portfolio, we carried out a detailed examination of the characteristics of the cash flows of the instruments classified at amortised cost and in the category of financial assets available for sale according to IAS 39, without identifying any cases of failure to pass the SPPI test under IFRS 9. With reference instead to the investment funds (open and closed-end funds), based on the in-depth analyses that we performed and the recent clarifications provided by the IFRS Interpretation Committee, they will have to be measured at fair value through profit and loss, with a consequent increase in the volatility of the income statement for these instruments, which are currently classified as *Assets available for sale*. With regard to equity instruments, note that we have completed the in-depth analyses to assess which instruments present in the portfolio on the date of first-time adoption of IFRS 9 ought to take advantage of the option for classification at fair value through other comprehensive income (FVTOCI without recycling through profit and loss); we have also defined the guidelines for the "fully operational" choice and we are currently formalising the related organisational process. Lastly, note that at the end of a specific evaluation process, we decided not to use the fair value option (with separate recognition of changes in fair value attributable to own creditworthiness to equity) for the stock of financial liabilities outstanding at 1 January 2018.

Impairment

As regards impairment (for which specific approaches have been developed for the loan portfolio on one hand and the securities portfolio on the other), the main elements can be considered as follows:

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

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



quality) at each reference date as low credit risk exposures to be classified in stage 1.

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

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

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

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

A specific consideration also has to be made for exposures classified in "stage 3" (equivalent to the current perimeter of the impaired portfolio): although no impact is expected from IFRS 9 with reference to the "classification" approach, the additional analyses carried out in the last few months of 2017, having regard to the IFRS Foundation's Agenda Paper 6 entitled "Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses" and subsequently considering the "Guidelines for less significant Italian banks on the management of non-performing loans" published by the Bank of Italy in January 2018 to encourage their proactive management, have also led banks to adjust the impairment on the NPL portfolio to include forward-looking factors in the scenario assessments. We are currently finalising the application of multi-scenario hypotheses in which the so-called "disposal scenario" is also considered, in line with the declared objectives of the business plan for which the recovery of impaired assets is also foreseen through their transfer. The recoverable amount will consequently be determined on the basis of a weighted average of the expected recoveries through the internal work-out process and expected selling prices; both scenarios are weighted according to the expected level of sales in relation to the Group's NPE strategy.

Hedge accounting

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

Impacts on information systems

A coherent and effective process of implementing the innovations introduced by the new standard meant that we had to make significant changes to the technological infrastructure currently in use; to this end, we carried out specific analyses in coordination with the IT-outsourcer, which led to the identification of the main areas of impact, the definition of the target application architectures to be implemented; the applications and procedures to be adjusted were also identified, together with the changes to be made on the basis of a modular approach, establishing priorities, in order to comply with the new requirements set by the standard. The systems interventions that are being finalised have therefore concerned both the implementation of the necessary functionalities on pre-existing procedures and the integration of new applications.

In greater detail, with regard to the Classification and Measurement area, once we had outlined how to perform the SPPI test, we identified and, where necessary, adapted the applications and procedures for their implementation, both for securities and for credit exposures in a narrow sense.

As regards impairment, having made the key decisions about the parameters for assessing significant increase of risk, as well as the methods for calculating the ECL, also taking forward-looking information into account, we then identified the risk management applications to track credit risk at the level of individual position and the calculation of the related ECL, as well as the necessary adjustments and upgrades. Similar analyses and interventions are in progress for adaptation of the accounting applications, also in order to guarantee adequate disclosures, as envisaged, among other things, by the new version of the FINREP and the updating of Bank of Italy Circular 262, which is valid from 1 January 2018.

Organizational impacts and further developments

In addition to interventions on IT systems, organisational measures are currently being completed with the revision and adaptation of the existing operational processes, the design and implementation of new processes and the corresponding control activities, with a redefinition of the operational, administrative and control skills needed in the various structures concerned.

The interventions relating to "Classification and Measurement" concerned the following structures: Network, Network Support & Governance, and Credit & Loans, in order to define the processes involved in managing and monitoring the SPPI test.

For impairment, the Group's objective is increasingly effective and integrated implementation of the on-going methods of monitoring credit risk, in line with the provisions of IFRS 9. The purpose is to guarantee preventive interventions so as to monitor individual positions that could potentially "slide" into stage 2 and to make timely adjustments based on the real credit risk. The introduction of IFRS 9 has also had an impact in terms of our products and services on offer, which meant reviewing and updating our catalogue.

With reference to the Group's accounting rules, the new rules on impairment and the application of the business model, the Banco Desio Group has prepared or updated policies and guidelines for the main operating processes involved. They have been submitted to the approval of the Board of Directors of the various Group entities, starting with the Parent Company on 30 November, as mentioned previously.



Impacts of first-time application on the balance sheet

For the Banco Desio Group, the first financial report prepared in accordance with IFRS 9 will be the quarterly report at 31 March 2018 (which will be prepared for the purpose of determining Banco Desio's own funds and those of the Group). The analyses carried out to date, as summarised above, confirm that the main impacts expected from adoption of the new standard will mainly derive from: (a) application of the new impairment model based on the "expected loss" concept, which will result in an increase in value adjustments compared with those determined on the basis of the "incurred loss" impairment model used at the reference date in application of IAS 39, as well as (b) application of the new rules for the transfer of exposures between the different classification "stages" (1 and 2) and the "disposal scenario" for the assessment of impaired positions (stage 3) provided for under the new standard.

Taking into account the analyses and implementations underway with reference to the multi-scenario hypotheses, also related to the NPL strategy contained in the 2018-2020 business plan recently defined by management of the Parent Company and approved by the respective governance bodies of the Group banks, we believe that the effects deriving from adoption of IFRS 9, to be recognised as a balancing entry in equity on first-time adoption, can be estimated, net of tax, in a decrease in the Group's fully loaded CET 1 ratio of between 75 and 85 basis points.

These effects are mainly due to the introduction of the transfer scenarios in the measurement of value adjustments on impaired credit exposures and lifetime ECL on credit exposures allocated to stage 2. The main elements of uncertainty that affect these estimates are mainly attributable to the application choices made in relation to the multi-scenario assumptions for stage 3 and definition of the overall tax impact deriving from FTA in relation to hypothetical taxable income.

As mentioned in the Report on Operations under Significant Events, we would recall that Group banks decided to adopt the transitional regime foreseen in Regulation (EU) 2017/2395 to mitigate the impact of applying the new accounting standard in determining own funds and capital ratios for supervisory purposes.

Use of estimates and assumptions in preparing the consolidated financial statements

Preparing the consolidated financial statements also requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement.

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

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

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

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

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

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

Domestic tax group election

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

Legal audit

These consolidated financial statements have been audited by Deloitte & Touche S.p.A., pursuant to Legislative Decree 39 of 27 January 2010 and to the resolution of the Shareholders' Meeting of 26 April 2012.

A.2 MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

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

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



Financial assets held for trading

Recognition

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

Financial assets held for trading are designated on initial recognition as assets at fair value through profit and loss, corresponding to the price paid, without taking account of transaction costs or income that are recognised directly in the income statement.

Classification

"Financial assets held for trading" include debt securities, equities, positive derivatives held for trading and other assets that, according to the initial designation, are classified as financial instruments held for trading in the short term. Since classification derives from initial designation, subsequent transfers to other categories are generally not allowed for this category of financial assets, except as in rare circumstances specified in IAS 39. The transfer value is represented by the fair value at the time of reclassification.

Measurement

Equities, Italian and foreign government bonds and derivatives traded in an active market are measured at the closing price on the assessment date or, in its absence, in the most advantageous market (*fair value level 1*).

Italian and foreign government bonds, Italian and foreign corporate bonds, equities and derivatives not traded in an active market are measured by using valuation techniques (*fair value level 2 or 3*, based on the significance of unobservable inputs used in the valuation models).

Derecognition

Assets held for trading are derecognised when they are sold or cancelled.

Recognition of items affecting the income statement

Subsequent to initial recognition, financial assets held for trading are measured at fair value with value changes recognised in profit or loss.

Financial assets available for sale

Recognition

The initial recognition of financial assets available for sale takes place at the settlement date at fair value, including any transaction costs or income directly attributable to the instrument concerned.

If, for those cases permitted by the applicable accounting standards, the recognition takes place upon a reclassification of financial assets held to maturity, the amount recognised is represented by the fair value at the time of transfer.

Classification

"Financial assets available for sale" include financial assets - derivatives excluded - not classified as Loans,

Assets held for trading or as Assets held to maturity.

This caption thus includes, in addition to bonds that are not held for trading and which are not classified as Assets held to maturity, equity interests not held for trading and which do not qualify as controlling interests or as a placement as well as mutual fund units.

Financial assets can be transferred from "available for sale" to "held to maturity", but only in the following circumstances:

- a change in the intention or ability to continue holding the asset,
- in rare cases where a reliable measurement of fair value is not available.

A transfer to "Loans and receivables" is only allowed in particular circumstances.

Measurement

Subsequent to initial recognition, the price component of financial assets available for sale is measured at fair value, whereas the interest component is calculated at the actual rate of return.

For the purposes of determining fair value, the same criteria as for assets held for trading are applied.

For unquoted financial assets, inclusive of non-controlling interests, the fair value measurement is carried out using valuation techniques, that is, when a reliable determination of fair value is not possible, the assets in question are measured at cost (*Level 3*).

Mutual funds that are traded in an active market are measured at the closing price observable in the principal market on the assessment date or, in its absence, in the most advantageous market (*Level 1*). Mutual funds that are not traded in an active market (particularly closed-end funds and hedge funds) are measured at the latest published N.A.V. or the N.A.V. that has been provided by the fund manager, to which an appropriate adjustment is made (of 20%) to take account of the liquidability of the units (*Level 3*).

At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated, taking into account whether the issuer is in financial difficulty or other similar factors. As required by IAS 39, paragraph 61, for debt securities, listed and unlisted equities and for Mutual funds traded in an active market, "significant" (higher than 25%) or "extended" (more than 24 months) write-downs are considered to be objective impairment indicators. For Mutual funds not traded in an active market and equity investments in investees other than subsidiaries or associates, "significant" (higher than 30%) or "extended" (more than 60 months) write-downs are considered to be objective impairment indicators.

In accordance with internal policy, pre-established thresholds being exceeded is considered to be impairment, with the consequent recognition in the income statement of the accumulated impairment loss incurred since the date of initial recognition.

The amount of the impairment is the difference between the asset's book value and its recoverable amount.

Derecognition

Financial assets available for sale are derecognised when the asset is sold, cancelled or transferred to another category.

Recognition of items affecting the income statement



The effect of the assessment is recorded in shareholders' equity as a contra-entry to the valuation reserves, net of tax, until the asset is derecognised, while the amortised cost element is charged to the income statement.

On extinction, sale, transfer to another category or detection of an impairment loss, the cumulative amount in the valuation reserve is charged to the income statement.

If impairment losses recorded in the income statement no longer apply because of subsequent revaluations, the write-back, up to the amount of such losses, is recorded in the income statement for debt securities, and in an equity reserve for equities.

In the case of assets available for sale with fair value hedges, the change in fair value related to the risk being hedged is recognised in the income statement under "Net hedging gains (losses)", in the same way as the changes in fair value of the hedging instrument, while changes in fair value not related to the risk being hedged are recorded in equity to offset the valuation reserves.

In the presence of cash flow hedges of assets available for sale, the fair value changes are recorded under shareholders' equity; please refer to the section on "Hedging transactions" for a description of the gains and losses on the hedging instrument.

Financial assets held to maturity

Recognition

The initial recognition of financial assets held to maturity takes place at the settlement date at fair value, including any transaction costs or income directly attributable to the purchase.

Classification

"Financial assets held to maturity" comprise debt securities that have fixed or determinable contract payments and a fixed maturity, for which there is the intention and ability to hold them to maturity.

The category of financial assets held to maturity was created on the basis of specific resolutions passed by the corporate bodies, who also approve any subsequent movements on it, in compliance with IAS 39.

For those cases permitted by the applicable accounting standards, transfers are only permitted to Financial assets available for sale. The inclusion of financial assets in this category is no longer permitted in the current period and the next two years in the event of sales or transfers of a not insignificant amount, excluding investments that are close to maturity and isolated events that are beyond the Bank's control.

If the conditions that ban the use of this category come about, the assets concerned have to be reclassified to financial assets available for sale (under the so-called "tainting provision").

Measurement and recognition of items affecting the income statement

Measurements subsequent to initial recognition are recorded at amortised cost using the effective interest rate method with the contra-entry going to the income statement.

At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated. If they do exist, the impairment losses are recognised in the income statement.

If the reasons for making the impairment adjustment cease to apply, the related asset is written back 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.

Derecognition

Financial assets held to maturity are derecognised when the asset is sold, cancelled or transferred to another category.

Loans and receivables

Recognition

Loans and receivables are recognised at the contract date, which is usually equal to the date the loan is granted.

If the two dates do not coincide, upon the execution of the contract, a commitment is assumed to provide funds that terminates on the date the loan is granted. Loans and receivables are recognised at fair value, which normally equates to the amount granted, including any costs or income directly attributable to the loan and which are determinable at the outset of the transaction.

If the recognition in this category takes place as a result of a reclassification from Financial assets available for sale or from Financial assets held for trading, the fair value of the asset at the date of reclassification represents the new amortised cost of the asset.

Classification

"Loans and receivables" include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They generally comprise transactions with customers and banks and debt securities not quoted in an active market that have similar characteristics to receivables, excluding assets held for trading and available for sale.

They also include finance lease receivables and repurchase agreements with obligation to resale.

Transfers from "Financial assets available for sale" and "Financial assets held for trading" are only allowed in particular circumstances, as specified in IAS 39.

Measurement

Subsequent to initial recognition, loans and receivables are measured on the basis of the principle of amortised cost, calculated using the effective interest method.

The amortised cost is equal to the initial value net of any principal repayments, plus or minus adjustments and write-backs and the amortisation of the difference between the amount paid and the amount repayable at maturity.

The effective interest rate is the rate that makes the present value of future cash flows equal to the amount of the loan issued, adjusted by directly attributable costs or revenues.

Loans are assessed periodically and split between "performing" and "non-performing", depending on the degree of impairment of the loan.

The amortised cost method is not used in relation to short-term loans, which are measured at historical cost; the same method is applied to loans without a defined maturity or which can be revoked at any time.

Loans are subjected to assessment to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired.



This includes the various categories of non-performing loans established by the Bank of Italy: doubtful loans, unlikely to pay and non-performing past due and/or overdrawn exposures.

The loan portfolio is subject to periodic review at least at every annual or interim balance sheet date to identify and determine any objective impairment. This is done by applying the criteria laid down in the Lending Policies, taking into account the specific solvency situation of each debtor, as well as the local or national economic conditions relating to the debtor's business sector.

Performing loans have been evaluated on a general basis by dividing them into classes of risk. The Expected Loss (EL) is computed by applying the Probability of Default (PD) by risk class and the loss that would be incurred in the event of default (Loss Given Default - LGD) produced by the Credit Rating System. These parameters are derived from a historical-statistical analysis of the trend of a series of predictor variables for a probable future deterioration of credit quality. The expected loss is an estimation of the latent loss at the reference date.

Non-performing loans include all receivables for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted at the original effective interest rate. The valuation is analytical in nature and takes into account the presumed possibility of recovery, the expected timing of collection and any guarantees that are in place, according to the methods envisaged in the Lending Policies.

The EBA standards have also introduced the definition of forbore exposures. Credit exposures are "forborne" when, due to the deterioration of the economic-financial condition of the debtor (financial difficulties), the original contractual conditions are amended or the loan is refinanced, in whole or in part. The exposures subject to forbearance may be classified among the categories of impaired loan (non-performing, unlikely to pay, past due and impaired past due) or as performing loans. The accounting policies for the assessment of forbore exposures and the related provisions follow the general criterion established in IAS 39.

Receivables for interest on arrears accrued on impaired assets are only recorded in the financial statements once it has been collected.

The value of loans to non-residents is adjusted on a general basis in relation to the difficulties in servicing debt by the countries of residence.

The fair value of loans is calculated solely for the purpose of disclosure in the notes of any performing loans beyond the short term. Non-performing loans already evaluated analytically and short-term positions are shown at book value, which represents a reasonable approximation of their fair value.

The fair value is determined using a valuation technique that involves discounting the expected cash flows using discount factors that incorporate not just the risk free rate, but also a specific credit spread for each legal entity; in addition, for each relationship, credit risk is considered in terms of PD and LGD as measured by the CRS model. In general, they are classified at 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).

Derecognition

Loans are only derecognised if their sale involved the transfer of essentially all the risks and benefits associated with the loan. Conversely, if a significant part of the risks and benefits relating to loans that have been sold are retained, then they continue to be reported as assets in the balance sheet, even if formally ownership of the loans has been transferred.

Even if the transfer of essentially all the risks and benefits cannot be demonstrated, loans are derecognised

if no form of control over them has been retained. By contrast, the partial or total retention of such control means that the related loans 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 loans sold and to changes in their cash flows. Lastly, loans sold are derecognised if there is retention of the contractual rights to collect the related cash flows, with a parallel commitment to pay all such flows, and only these, to third parties.

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.

Interest on arrears is only recorded in the income statement when collected.

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

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.

Hedging transactions

Recognition

Upon initial recognition of derivatives, inclusive of hedging instruments, they are measured at fair value.

The recognition of hedging transactions assumes:

- the involvement of external counterparties;
- 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.

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).

Measurement

The fair value of hedging instruments not quoted in an active market is determined using valuation models for estimating and discounting future cash flows (*fair value Level 2 or Level 3* - based on the significance of unobservable inputs used in the valuation models); with specific reference to OTC hedging derivatives, the model applied is the Credit Value Adjustment and Debit Value Adjustment.

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 to 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

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.

Classification

Equity investments are classified as investments in associates in accordance with IAS 28, or as investments in companies subject to joint control, as defined in IFRS 11. Other equity investments are booked in accordance with IAS 39. They are classified as financial assets available for sale and follow the measurement criteria provided for that class of financial assets.

Measurement

For measurement subsequent to initial recognition the equity method is applied, whereby the initial carrying value is adjusted to reflect the share of the associate's equity pertaining to the Parent Company.

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

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.

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.

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.

Solely for disclosure purposes, the fair value of investment property is measured at cost less accumulated depreciation. The fair value is estimated through the use of property market information sources, appropriately adjusted based on the specifics of the assets and as advised by independent external experts (Level 3).

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

Recognition

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

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

Classification

Intangible assets include goodwill, compensation for abandonment of leasehold premises and software purchase costs.

Leasehold improvements are booked to other assets.

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. 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.

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, with no possibility of a subsequent write-back.

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



Derecognition

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

Recognition of items affecting the income statement

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

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

Current and deferred taxation

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

Deferred tax assets are recognised when their recovery is probable, i.e. when it is expected that there will be sufficient future taxable income to recoup the asset. They are shown in the balance sheet under caption 130 "Deferred tax assets".

Conversely, deferred tax liabilities are shown on the liabilities side of the balance sheet under caption 80 "Deferred tax liabilities".

In the same way, current taxes not yet paid at the balance sheet date are recognized under caption 80 "Current tax liabilities". In the event of the payment of advances that exceed the final amount due, the recoverable amount is accounted for under caption 130 "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).

In this regard, it should be noted that Banco Desio, along with the other Italian Group companies, has elected to form part of a domestic tax group. In administrative terms, the tax affairs of the Bank and those of the other Group companies are managed separately.

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 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 - Other provisions

Classification

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.

Measurement

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.

Debts and debt securities in issue

Recognition

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

Classification

This includes various forms of funding put in place by Banco Desio: amounts due to banks, amounts due to customers, bonds and certificates of deposit issued by the Bank, repurchase agreements with obligation to repurchase and other payables, which include cashier's checks and checks issued by Banco.



Measurement and recognition of items affecting the income statement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, with the contra-entry going to the income statement.

Financial liabilities not measured at amortised cost are measured at the amount paid to transfer the liability.

Financial liabilities subject to fair value hedges follow the same measurement criteria as the hedging instrument, being limited to changes in the fair value since designation of the hedge, with the contra-entry going to the income statement.

If the hedging relationship is interrupted, the difference between the fair value determined at the discontinuing date and the amortised cost is recognised in the income statement over the residual life of the financial instrument.

Securities issued are shown net of any repurchases.

Solely for disclosure purposes, the fair value is determined of debt and securities issued; for issued debt and certificates of deposit, the fair value substantially equates to book value, which represents a reasonable approximation thereof (Level 3). For bonds issued by the Bank, the fair value is determined by using valuation models to estimate and discount future cash flows (Level 2).

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

The repurchase of previously issued bonds results in their derecognition; the difference between the carrying amount of the liability and the amount paid for its repurchase is recognised in the income statement.

The re-placement of own securities previously repurchased is considered as a new issue measured at the new sale value.

Financial liabilities held for trading

Recognition and classification

Liabilities held for trading are recorded at fair value.

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.

Derivative instruments traded in active markets are measured at the closing price observable in the principal market on the assessment date or, in the absence thereof, in the most advantageous market (Level 1).

Derivative instruments that are not traded in active markets are priced by using valuation techniques (*Level 2 or Level 3* - based on the significance of unobservable inputs used in the valuation models).

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

Financial liabilities designated at fair value through profit and loss

Recognition

Recognition is at fair value, equal to the amount received, or at the issue price, adjusted for any costs or income directly attributable to the individual issue.

Classification

This caption includes financial liabilities designated at fair value through profit and loss.

In particular, this caption refers to the application of the fair value option for financial liabilities subject to "natural hedging", designed to achieve a better balance of the effects of measuring financial assets and liabilities on the income statement.

Financial liabilities may be designated at fair value through the income statement in the following cases:

- elimination or reduction of valuation inconsistencies
- evaluation of instruments containing embedded derivatives
- evaluation of groups of financial assets or liabilities on the basis of a documented risk management or investment strategy.

This category comprises bonds issued with an embedded derivative or financial hedge.

Measurement and recognition of items affecting the income statement

These are recorded at fair value, with the effects charged to the income statement.

The fair value is determined through valuation techniques using observable elements in active markets (*Level 2*). The methodology consisted of discounting cash flows using a zero coupon curve based on elements available in the market and the application of a credit spread calculated as the difference between the Euro OIS (EONIA) curve and the yield curve for a basket of bonds issued by Italian banks with ratings comparable to those of Banco Desio, whereas a specific curve was used for subordinated bonds.

Derecognition

Financial liabilities measured at fair value are derecognised on disposal, expiration or termination.

Repurchases of own issues substantially lead to the termination of the part subject to repurchase. The replacement of own securities previously repurchased is considered as a new issue at the sale value.

Currency transactions

Recognition



Currency transactions are recorded in accordance with IAS 21 - *Effects of changes in foreign exchange rates* at the time of settlement by converting them into euro at the exchange rate ruling on the transaction date.

Measurement

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

- monetary items: conversion at the exchange rate ruling at the balance sheet date;
- non-monetary items measured at cost: converted at the exchange rate ruling at the transaction date;
- non-monetary items measured at fair value: conversion at the exchange rate ruling at the balance sheet date.

Recognition of items affecting the income statement

For monetary items, the effect of the measurements is recognised in the income statement.

For non-monetary items with recognition of gains and losses in the income statement, exchange differences are also recognised in the income statement; if gains and losses are recognised in shareholders' equity, any exchange differences are also booked to equity.

Other information

Valuation reserves

This caption includes valuation reserves of financial assets available for sale, derivative contracts to hedge cash flows, valuation reserves created under special laws in past years and reserves for the actuarial valuation of employee benefits under IAS 19. They also include the effects of the application of fair value as the deemed cost of property, plant and equipment upon first-time adoption of IAS/IFRS.

Recognition of costs and revenues

Revenues are recognised when they are earned or, in any case, when it is probable that benefits will be received and these benefits can be reliably measured. 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 (Caption 130. Net impairment adjustments to loans and receivables).

- default interest, which may be provided by contract, is recognised in the income statement only when actually collected;
- dividends are recognised in the income statement when distribution has been approved;
- commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;
- revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (*Level 1 and Level 2*). If these values cannot easily be determined or have a reduced level of liquidity (*Level 3*), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;
- gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
- revenues from the sale of non-financial assets are recognised on completion of the sale, unless most of the risks and benefits associated with the asset have been retained.

Expenses are recognised in the income statement in the periods when the related revenues are booked. 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.

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

Loans and receivables subject to securitisation transactions completed prior to first-time adoption (FTA) of international accounting standards are not recognised in the financial statements in accordance with the extension option provided by IFRS 1, which makes it possible to avoid booking non-derivative financial assets/liabilities sold or deleted before the date of transition to IFRS (1 January 2004). Exposures to securitisations (in the form of junior securities or deferred purchase price) are classified as loans. However,



if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control¹ introduced by IFRS 10, it is included within the Group's scope of consolidation.

According to the breakdown by type, loans and receivables include loans subject to securitisations subsequent to 1 January 2004, which do not have the requisites under IAS 39 for elimination 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 Bank, is allocated to amounts due to customers.

Both assets and liabilities are measured at amortised cost and the related interest is recorded in the income statement.

¹ 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.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

The amendments to IAS 39 and IFRS 7 "Reclassification of financial assets" approved by the IASB in 2008 allow companies to reclassify certain financial assets out of "assets held for trading" and "assets available for sale" after initial recognition.

In particular, it is possible to reclassify:

- financial assets held for trading or available for sale that would have met the definition provided by the International Accounting Standards for the loan portfolio (if such assets were not classified as held for trading or available for sale at initial recognition) if the entity has the intention and ability to hold them for the foreseeable future or until maturity;
- financial assets held for trading that at the time they were recorded did not meet the definition of loans, but "only in rare circumstances".

There have been no portfolio transfers by Group companies in the period.

On the other hand, as regards transfers in previous years, it should be noted that in 2008 Banca Popolare di Spoleto applied the "Reclassification of financial assets" with which the IASB amended IAS 39 and IFRS 7 in October 2008.

Under this amendment, on 1 July 2008 Banca Popolare di Spoleto transferred:

- € 56 million (book value) of debt securities from the HFT portfolio to the portfolio of loans to customers and due from banks;
- € 31.3 million (book value) of debt securities from the AFS portfolio to the portfolio of loans to customers and due from banks;
- € 124.8 million (book value) of securities, of which about € 118.8 million of Treasury Credit Certificates, from the HFT portfolio to the AFS portfolio.

During the following financial years, the Banco Desio Group did not make other reclassifications. There were no reclassified financial instruments remaining at the end of 2008.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

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



When a price is not detectable for the same asset or a liability, the fair value is estimated by applying a valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

As required by IFRS 13 and for the purpose of the determination of 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.

A.4.1 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:
 - o interest rates and yield curves observable at commonly quoted intervals;

- o implied volatilities;
- o 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.

A.4.2 Process and sensitivity of valuations

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

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

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



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

A.4.3 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.

A.4.4 Other information

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

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities designated at fair value	31.12.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	8,665	7,771	4,545	5,535	11,872	2,646
2. Financial assets designated at fair value through profit and loss						
3. Financial assets available for sale	1,254,556	241,401	15,510	1,697,521	118,598	32,045
4. Hedging derivatives		5			2,591	
5. Property, plant and equipment						
6. Intangible assets						
Total	1,263,221	249,177	20,055	1,703,056	133,061	34,691
1. Financial liabilities held for trading		3,450	4,526		4,074	2,156
2. Financial liabilities designated at fair value through profit and loss					15,908	
3. Hedging derivatives		4,724			6,637	
Total		8,174	4,526		26,619	2,156

Key

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

Investments valued on the basis of unobservable inputs (Level 3) are a very limited share of financial assets measured at fair value (1.31% compared with 1.85% at end-2016). These investments consist primarily of non-controlling interests classified as "Financial assets available for sale".

Given the nature and, in any case, the insignificance of the amount, as in the case of minority investments carried at cost because updated current values are unavailable or cannot be estimated and the valuation of units in mutual funds applying the liquidity discount envisaged in the policy, the sensitivity analysis for this caption was carried out in relation to the quotas in Fondo Atlante and the asset deriving from the Voluntary Scheme investment in NPL securitisations; considering the application of a liquidity discount of 20%, the analysis shows an insignificant reduction in the fair value of the level 3 "Financial assets available for sale" (below 1%).

At 31 December 2017, the impact of applying the Credit Value Adjustment to derivatives with positive mark-to-market amounts is 1 thousand euro (relating to trading derivatives); with regard to those with a negative MTM, application of the Debit Value Adjustment has no impact.



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

	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	2,646		32,045			
2. Increases	4,545		11,026			
2.1. Purchases			8,606			
2.2. Profits posted to:						
2.2.1. Income statement	4,545					
- of which: capital gains	4,545					
2.2.2. Shareholders' equity						
2.3. Transfers from other levels						
2.4. Other increases			2,420			
3. Decreases	2,646		27,561			
3.1. Sales			1,411			
3.2. Redemptions						
3.3. Losses posted to:						
3.3.1. Income statement	2,246		9,681			
of which: capital losses	2,246		9,681			
3.3.2. Shareholders' equity			203			
3.4. Transfers to other levels			14,097			
3.5. Other decreases	400		2,169			
4. Closing balance	4,545		15,510			

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 and loss	Hedging derivatives
1. Opening balance	2,156		
2. Increases	4,526		
2.1. Issues			
2.2. Losses posted to:			
2.2.1. Income statement	4,526		
- of which: capital losses	4,526		
2.2.2. Shareholders' equity			
2.3. Transfers from other levels			
2.4. Other increases			
3. Decreases	2,156		
3.1. Redemptions			
3.2. Repurchases			
3.3. Profits posted to:			
3.3.1. Income statement	2,156		
- of which: capital gains	2,156		
3.3.2. Shareholders' equity			
3.4. Transfers to other levels			
3.5. Other decreases			
4. Closing balance	4,526		



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	31.12.2017				31.12.2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	748,696	570,327	186,804					
2. Due from banks	1,218,060			1,218,060	112,838		10,316	102,696
3. Loans to customers	9,861,862		5,522,929	4,547,928	9,720,108		5,479,533	4,503,206
4. Investment property	1,136			1,035	1,154			1,036
5. Non-current assets and disposal groups held for sale								
Total	11,829,754	570,327	5,709,733	5,767,023	9,834,100		5,489,849	4,606,938
1. Due to banks	1,705,928			1,705,928	962,245			962,245
2. Due to customers	9,272,337			9,272,337	8,729,591			8,729,591
3. Debt securities in issue	1,708,320		1,705,960	23,447	1,393,884		1,361,453	25,825
4. Liabilities associated with assets held for sale								
Total	12,686,585		1,705,960	11,001,712	11,085,720		1,361,453	9,717,661

Key

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

A.5 INFORMATION ON "DAY ONE PROFIT/LOSS"

IAS 39 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 Banco Desio Group's operations and based on the internal valuation methodologies currently in use, the fair value of the financial instruments on initial recognition generally coincides with the transaction price; however, if a difference arises during the year between the transaction price and the amount determined using valuation techniques, this difference is immediately recognised to the income statement as shown in table 6.1 "Gains/losses on sale/repurchase: breakdown"

PART B - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents – caption 10

1.1 Cash and cash equivalents: breakdown

	31.12.2017	31.12.2016
a) Cash	59,413	50,472
b) Demand deposits with central banks		
Total	59,413	50,472

Section 2 - Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31.12.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	3	2,158		3,224	1,446	
1.1 Structured securities	1			1,868		
1.2 Other debt securities	2	2,158		1,356	1,446	
2. Equity instruments	4,642			2,292		400
3. Mutual funds	3,839					
4. Loans						
4.1 Repurchase agreements						
4.2 Other						
Total A	8,484	2,158		5,516	1,446	400
B. Derivatives:						
1. Financial derivatives:	181	5,613	4,545	19	10,426	2,246
1.1 for trading	181	5,613	4,545	19	9,891	2,246
1.2 connected with the fair value option					535	
1.3 other						
2. Credit derivatives						
2.1 for trading						
2.2 connected with the fair value option						
2.3 other						
Total B	181	5,613	4,545	19	10,426	2,246
Total (A+B)	8,665	7,771	4,545	5,535	11,872	2,646

Caption 20 "Financial assets held for trading" comprises:

- cash assets held for trading;
- positive value of derivatives held for trading.



The prior year balance also includes the positive value of the derivatives for which the fair value option has been exercised, consisting of derivatives operationally linked to bond issues for which the Bank exercised the "fair value option".

The policy adopted for the categorisation of financial instruments within the three levels of the fair value hierarchy is disclosed in the previous section "A.4 Information on fair value" in Part A "Accounting policies" of the explanatory notes.

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

The investments referred to in caption "3. Mutual funds" consist of investments in Exchange Traded Funds (ETFs).

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

Captions/Amounts	31.12.2017	31.12.2016
A. Cash assets		
1. Debt securities	2,161	4,670
a) Government and central banks	1,533	2,797
b) Other public entities		
c) Banks	628	5
d) Other issuers		1,868
2. Equity instruments	4,642	2,692
a) Banks	1,131	513
b) Other issuers:	3,511	2,179
- insurance companies		141
- financial companies	735	492
- non-financial companies	2,776	1,546
- other		
3. Mutual funds	3,839	
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total A	10,642	7,362
B. Derivatives		
a) Banks	9,753	11,913
- Fair value	9,753	11,913
b) Customers	586	778
- Fair value	586	778
Total B	10,339	12,691
Total (A+B)	20,981	20,053

Section 4 - Financial assets available for sale - caption 40**4.1 Financial assets available for sale: breakdown**

Captions/Amounts	31.12.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,226,860	194,134		1,631,315	118,598	
1.1 Structured securities		2,033			7,701	
1.2 Other debt securities	1,226,860	192,101		1,631,315	110,897	
2. Equity instruments		47,267	5,035	25		19,963
2.1 Valued at fair value		47,267	679	25		15,746
2.2 Valued at cost			4,356			4,217
3. Mutual funds	27,696		10,475	66,181		12,082
4. Loans						
Total	1,254,556	241,401	15,510	1,697,521	118,598	32,045

Caption "Financial assets available for sale" comprises:

- the bond portfolio and mutual funds not held for trading;
- portions of equity investments in companies with voting rights of less than 20% of the share capital of companies that are not included in the scope of consolidation.

Debt securities include securities held as collateral in OTC derivative transactions for Euro 6.4 million.

Mutual funds: breakdown by main category

The table below provides a breakdown of the main categories of investments made in mutual funds included in financial assets available for sale.

	31.12.2017	31.12.2016
Equity funds	7,802	11,715
Bond funds	19,895	16,854
Flexible funds	0	37,613
Hedge funds	9	10
Closed-end real estate funds	9,721	9,441
Closed-end investment funds	744	2,630
Total	38,171	78,263



4.2 Financial assets available for sale: breakdown by borrower/issuer

Captions/Amounts	31.12.2017	31.12.2016
1. Debt securities	1,420,994	1,749,913
a) Government and central banks	1,226,861	1,638,238
b) Other public entities		
c) Banks	101,151	96,197
d) Other issuers	92,982	15,478
2. Equity instruments	52,302	19,988
a) Banks	10,141	25
b) Other issuers:	42,161	19,963
- insurance companies		
- financial companies	3,808	5,179
- non-financial companies	38,341	14,154
- other	12	630
3. Mutual funds	38,171	78,263
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	1,511,467	1,848,164

Impairment tests of financial assets available for sale

As required by the accounting standards IAS 39, at the year end, financial assets available for sale are tested for impairment to verify the potential existence of negative events that might indicate that the carrying amount of the assets may not be fully recoverable.

The policy for the performance of impairment testing of financial assets available for sale is described in the specific section of "Part A - Accounting policies" of these explanatory notes.

Section 5 - Financial assets held to maturity - caption 50

5.1 Financial assets held to maturity: breakdown

Type of transaction/Amounts	31.12.2017				31.12.2016			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	748,696	570,327	186,804					
- structured								
- other	748,696	570,327	186,804					
2. Loans								

Key

FV = fair value

BV = book value

During the first half of the year, the Held to Maturity Portfolio has been reinstated; further information is provided in section "7.3 The securities portfolio and interbank position" of the Report on operations.

Fair value measurements for the sole purpose of fulfilling market disclosure requests are classified on the basis of fair value hierarchy levels that reflect the relevance of the inputs used in the valuation.

5.2. Financial assets held to maturity: breakdown by borrower/issuer

Type of transaction/Amounts	31.12.2017	31.12.2016
1. Debt securities	748,696	
a) Government and central banks	563,667	
b) Other public entities		
c) Banks	124,492	
d) Other issuers	60,537	
2. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	748,696	
Total FV	757,131	



Section 6 - Due from banks - caption 60

6.1 Due from banks: breakdown

Type of transaction/Amounts	31.12.2017			31.12.2016				
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	1,097,955			1,097,955	78,591			78,591
1. Restricted deposits								
2. Reserve requirement	1,097,955				78,591			
3. Repurchase agreements								
4. Other								
B. Due from banks	120,105				34,247			
1. Loans	120,105			120,105	24,105			24,105
1.1 Current accounts and demand deposits	30,305				12,212			
1.2 Restricted deposits	35,435				7,979			
1.2.1 Mandatory reserve requirement met indirectly								
1.2.2 Other	35,435				7,979			
1.3 Other loans:	54,365				3,914			
- Repurchase agreements								
- Finance leases								
- Other	54,365				3,914			
2. Debt securities					10,142		10,316	
2.1 Structured securities					3,799			
2.2 Other debt securities					6,343			
Total	1,218,060			1,218,060	112,838		10,316	102,696

Key

FV = fair value

BV = book value

Amounts due from central banks include the amount of the reserve requirement at the Bank of Italy.

The Group's commitment to maintain the reserve requirement amounts to Euro 90.2 million at 31 December 2017 (Euro 87.5 million at the prior year end). For the purpose of maintaining the average level of the reserve in line with the requirement, its amount may fluctuate, even significantly, in relation to the contingent liquidity needs of the Bank. At the reference date, the Bank took a long liquidity position due to significant disinvestments from the securities portfolio.

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

The caption "Other loans - Other" includes the amount of liquidity deposited with the account bank of the Covered Bond issue programme for Euro 52 million.

6.2 Due from banks with specific hedges

At the reference dates, there are no amounts due to banks with specific hedges.

6.3 Due from banks: finance leases

At the reference date, there are no amounts due from banks linked to finance leases.

Section 7 - Loans to customers - caption 70

7.1 Loans to customers: breakdown

Type of transaction/Amounts	31.12.2017					31.12.2016						
	Book value		Fair value			Book value		Fair value				
	Performing loans	Non-performing loans		L1	L2	L3	Performing loans	Non-performing loans		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	9,037,938	823,924		5,522,929	4,547,928	8,808,817	910,206		5,478,408	4,503,206		
1. Current accounts	1,491,290	196,488				1,524,805	198,325					
2. Repurchase agreements						211,681						
3. Mortgage loans	5,479,861	595,277				5,047,390	632,028					
4. Credit cards, personal loans and assignments of one-fifth of salary	652,144	4,796				589,740	5,173					
5. Finance leases	223,325	16,230				284,550	17,001					
6. Factoring	24,781	934				35,236	290					
7. Other loans	1,166,537	10,199				1,115,415	57,389					
Debt securities						1,085			1,125			
8. Structured securities						1,085						
9. Other debt securities												
Total	9,037,938	823,924		5,522,929	4,547,928	8,809,902	910,206		5,479,533	4,503,206		

Gross loans totalled Euro 10,694,965 thousand (Euro 10,550,641 thousand last year), including the loans acquired 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 adjustments amounted to Euro 833,103 thousand (against Euro 830,533 thousand at the end of last year).

The table includes the amounts of receivables sold which have not been derecognised, constituting eligible assets for the Covered Bond programme; at 31 December 2017, these receivables amounted to Euro 785,238 thousand.

In the comparative period, the table includes loans relating to Banca Popolare di Spoleto's "Spoleto Mortgages 2011" securitisation, not eliminated from the balance sheet as there was no basis for derecognition. On 23 November 2017, the subsidiary also purchased without recourse all the receivables previously sold to Spoleto Mortgages 2011 Società per la Cartolarizzazione S.r.l., excluding those fully repaid up to (and including) 31 October 2017.

"Mortgage loans" also include collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 1,817,251 thousand (Euro 1,696,942 thousand at the end of last year).

As regards non-performing loans, in addition to the disclosures made in the Report on operations, reference should be made to "Section E" of these explanatory notes.

This caption includes the interest accrued at 31 December 2017 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. Considering current conditions in the loan market, the fair value of non-performing loans might not represent their final exit



price, as there is still a certain amount of chance associated with the elements used for the determination of price by potential third-party purchasers.

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amounts	31.12.2017			31.12.2016		
	Performing loans	Non-performing loans		Performing loans	Non-performing loans	
		Purchased	Other		Purchased	Other
1. Debt securities				1,085		
a) Governments						
b) Other public entities						
c) Other issuers				1,085		
- non-financial companies						
- financial companies				1,085		
- insurance companies						
- other						
2. Loans to:	9,037,938		823,924	8,808,817		910,206
a) Governments	24,420		9	23,204		
b) Other public entities	4,180		442	3,184		7
c) Other parties	9,009,338		823,473	8,782,429		910,199
- non-financial companies	5,765,780		604,580	5,570,321		677,103
- financial companies	93,459		7,174	345,148		982
- insurance companies	3,687			1,436		200
- other	3,146,412		211,719	2,865,524		231,914
Total	9,037,938		823,924	8,809,902		910,206

7.3 Loans to customers: assets with specific hedges

	31.12.2017	31.12.2016
1. Loans with specific fair value hedges	5,202	7,523
a) Interest rate risk	5,202	7,523
b) Exchange rate risk		
c) Credit risk		
d) Other risks		
2. Loans with specific cash flow hedges		
a) Interest rate risk		
b) Exchange rate risk		
c) Expected transactions		
d) Other hedged assets		
Total	5,202	7,523

This caption represents the nominal value of loans with specific fair value hedges for interest rate risk.

7.4 Finance leases

The reconciliation among gross investment in leases and present value of minimum lease payments and unsecured residual value payable to lessor is reported below.

Type of transaction	31.12.2017				31.12.2016			
	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)
Finance lease	282,406	(47,420)	234,986	49,669	355,877	(59,781)	296,096	54,505
- of which leaseback agreements	22,825	(4,419)	18,406	4,378	27,982	(5,184)	22,798	5,533
Total	282,406	(47,420)	234,986	49,669	355,877	(59,781)	296,096	54,505

Falling due	31.12.2017			31.12.2016		
	Gross investment	Deferred profit	Net investment	Gross investment	Deferred profit	Net investment
- Within one year	7,968	(183)	7,785	10,151	(194)	9,957
- Between one and five years	80,969	(6,982)	73,987	92,926	(6,108)	86,818
- Beyond five years	193,469	(40,255)	153,214	252,800	(53,480)	199,320
Total	282,406	(47,420)	234,986	355,877	(59,782)	296,095

The net investment corresponds to the outstanding capital element of lease obligations at the year end.



Section 8 - Hedging derivatives - caption 80

8.1 Hedging derivatives: breakdown by type and level

Type of transaction/Amounts	31.12.2017				31.12.2016			
	FV			NV	FV			NV
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives		5		6,455		2,591		31,298
1) Fair value		5		6,455		2,591		31,298
2) Cash flows								
3) Foreign investments								
B) Credit derivatives								
1) Fair value								
2) Cash flows								
Total		5		6,455		2,591		31,298

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.

For the comparative period, the table shows the positive balance sheet value of derivative hedging contracts relating to specific fair value hedges on bonds issued by the Parent Company and by BPS. These derivatives expired during 2017.

8.2 Hedging derivatives: breakdown by hedge portfolios and by type of hedge (book value)

Operation/Type of hedge	Fair value					Generic hedge	Cash flows		Foreign investments
	Specific hedge						Specific hedge	Generic hedge	
	interest rate risk	exchange rate risk	credit risk	price risk	other risks				
1. Financial assets available for sale									
2. Loans and receivables	5								
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets	5								
1. Financial liabilities									
2. Portfolio									
Total liabilities									
1. Expected transactions									
2. Financial assets and liabilities portfolio									

Specific hedges on loans, reported in the table, refer to fair value hedges for interest rate risk on specific loan items classified in the asset caption "Loans to customers".

If prospective and retrospective assessments performed during the year in compliance with the requirements of IAS 39 did not confirm the effectiveness of the hedging relationship, they were interrupted and the related derivatives classified as trading instruments.

Section 9 - Adjustment to financial assets with generic (or "macro") hedges - caption 90

9.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets/Members of the group	31.12.2017	31.12.2016
1. Positive adjustments	875	1,543
1.1 of specific portfolios:	875	1,543
a) loans	875	1,543
b) financial assets available for sale		
1.2 total		
2. Negative adjustments		
2.1 of specific portfolios:		
a) loans		
b) financial assets available for sale		
2.2 total		
Total	875	1,543

The adjustment to financial assets with generic hedges ("macro-hedging") 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.

9.2 Assets with generic hedges for interest rate risk

	31.12.2017	31.12.2016
1. Loans and receivables	6,420	7,016
2. Financial assets available for sale		
3. Portfolio		
Total	6,420	7,016

At 31 December 2017, the Group has generic hedges in place to cover the interest-rate risk on the portfolios of fixed-rate loans to customers that mature between 2021 and 2037.



Section 10 - Equity investments - caption 100

10.1 Equity investments: details of holdings

At the reporting date, the Banco Desio Group does not hold equity investments in associates or companies under joint control.

10.5 Equity investments: changes during the year

	31.12.2017	31.12.2016
A. Opening balance	-	13,261
B. Increases		
B.1 Purchases		
B.2 Write-backs		
B.3 Revaluations		
B.4 Other changes		
C. Decreases		13,261
C.1 Sales		13,261
C.2 Write-downs		
C.3 Other changes		
D. Closing balance	-	-
E. Total revaluations	-	-
F. Total write-downs	-	-

Caption "C.1 Sales" in the previous year showed the sale of 4,054,001 of the shares of Chiara Assicurazioni S.p.A. (32.66%) to Helvetia.

10.6 Significant assessments and assumptions in determining the existence of joint control or significant influence

In accordance with IAS 28, significant influence is the power to participate in determining financial and operating policies of the investee without having control or joint control. IAS 28 also introduces a presumption of significant influence whenever the investor owns - directly or indirectly - a percentage of voting rights equal to or greater than 20%. If there is an interest equal to or higher than 20%, the participant will be responsible for demonstrating the absence of any significant influence. Conversely, if the interest is lower than 20%, the participant will be responsible for demonstrating the existence of significant influence.

The existence of significant influence is usually evidenced in one or more of the following circumstances:

- representation on the board of directors or equivalent governing body of the investee;
- participation in the decision-making process, including participation in decisions about dividends or other distribution of profits;
- the presence of significant transactions between the entity and the investee;
- an interchange of managerial personnel; or
- the provision of essential technical information.

Taking the above criteria into account, during our assessments we did not find any examples of significant influence or joint control as of 31 December 2017.

10.7 Commitments relating to investments in companies under joint control

There are no commitments relating to investments in companies under joint control.

10.8 Commitments relating to investments in companies subject to significant influence

There are no commitments relating to investments in companies subject to significant influence.

10.9 Significant restrictions

At the reference date, the Banco Desio Group has no investment in associates or subsidiaries under joint control.

10.10 Other information

There is no other information to be reported.



Section 12 - Property, plant and equipment - caption 120

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

Assets/Amounts	31.12.2017	31.12.2016
1 Own assets	179,430	180,047
a) land	53,108	52,564
b) property	107,179	107,506
c) furniture	5,097	5,607
d) electronic systems	4,031	4,930
e) other	10,015	9,440
2 Land and property under finance lease		
a) land		
b) property		
c) furniture		
d) electronic systems		
e) other		
Total	179,430	180,047

As at the year end, there were no tangible fixed assets being purchased under finance leases.

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. 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.

12.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	31.12.2017			31.12.2016				
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	1,136			1,035	1,154			1,036
a) land	498			426	498			426
b) property	638			609	656			610
2. Land and property under finance lease								
a) land								
b) property								
Total	1,136			1,035	1,154			1,036

The book value reflects the capitalisation of construction and/or renovation costs, in addition to taxes, particularly on new properties acquired, factors that the market value do not fully reflect.

12.3 Property, plant and equipment for business purposes: breakdown of revalued assets

As at the balance sheet date, the Banco Desio Group does not have any revalued property, plant and equipment for business purposes.

12.4 Investment property: breakdown of assets carried at fair value

At the reference date, the Banco Desio Group has no investment property measured at fair value.

12.5 Property, plant and equipment for business purposes: changes during the year

Assets/Amounts	Land	Property	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	52,564	136,917	39,048	33,049	52,108	313,686
A.1 Total net write-downs		29,411	33,441	28,119	42,668	133,639
A.2 Net opening balance	52,564	107,506	5,607	4,930	9,440	180,047
B. Increases	654	2,737	1,333	7,969	5,784	18,477
B.1 Purchases	654	2,032	616	972	3,267	7,541
of which: business combinations						
B.2 Capitalised improvement costs						
B.3 Write-backs						
B.4 Increase in fair value booked to:						
- a) shareholders' equity						
- b) income statement						
B.5 Exchange gains						
B.6 Transfer from investment property						
B.7 Other changes		705	717	6,997	2,517	10,936
C. Decreases	110	3,064	1,843	8,868	5,209	19,094
C.1 Sales	110	160	3		15	288
C.2 Depreciation		2,807	1,199	1,868	1,881	7,755
C.3 Impairment write-downs booked to:						
- a) shareholders' equity						
- b) income statement						
C.4 Decreases in fair value booked to:						
- a) shareholders' equity						
- b) income statement						
C.5 Exchange losses						
C.6 Transfers to:						
- a) investment property, plant and equipment						
- b) assets held for sale						
C.7 Other changes		97	641	7,000	3,313	11,051
D. Net closing balance	53,108	107,179	5,097	4,031	10,015	179,430
D.1 Net total write-downs		32,141	34,052	22,991	41,995	131,179
D.2 Gross closing balance	53,108	139,320	39,149	27,022	52,010	310,609
E. Measurement at cost						

The captions A.1 and D.1 – "Net total write-downs" relate to accumulated depreciation.

Captions "B.7 Other changes", "C.1 Sales" and "C.7 Other changes" include the effects of disposals and sales of property, plant and equipment during the year; in particular, caption "B.7 Other changes" includes the release of the accumulated depreciation on the assets sold and caption "C.7 Other changes" includes the release of the historical cost of the same assets.

As a result of the sale of property, plant and equipment, as per caption "C.1 Sales", gains of Euro 41 thousand have been recognised in the income statement under caption 240 "Gains (losses) on disposal of investments"; on the other hand, as a result of the disposal of property, plant and equipment, under



"C.7 Other changes", losses of Euro 212 thousand have been recognised in the income statement under caption 190 "Other operating charges/income".

12.6 Investment property: changes during the year

	Total	
	Land	Property
A. Opening balance	498	656
B. Increases		
B.1 Purchases		
<i>of which: business combinations</i>		
B.2 Capitalised improvement costs		
B.3 Positive changes in fair value		
B.4 Write-backs		
B.5 Foreign exchange gains		
B.6 Transfers from assets used in business		
B.7 Other changes		
C. Decreases		(18)
C.1 Sales		
C.2 Depreciation		(18)
C.3 Negative changes in fair value		
C.4 Impairment write-downs		
C.5 Foreign exchange losses		
C.6 Transfers to other asset categories		
a) assets used in business		
b) non-current assets and disposal groups held for sale		
C.7 Other changes		
D. Closing balance	498	638
E. Measurement at fair value		

12.7 Commitments to purchase property, plant and equipment

At year-end there are no commitments to purchase property, plant and equipment.

Section 13 - Intangible assets - caption 130**13.1 Intangible assets: breakdown by type**

Assets/Amounts	31.12.2017		31.12.2016	
	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	2,624		2,521	
A.2.1 Carried at cost:	2,624		2,521	
a) Intangible assets generated internally				
b) Other assets	2,624		2,521	
A.2.2 Carried at fair value:				
a) Other intangible assets generated internally				
b) Other assets				
Total	2,624	15,322	2,521	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 4 or 5 years, based on the useful life specified within the asset category.

Impairment testing of goodwill

According to the provisions of IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, we report below information on the impairment test on cash generating units (CGU) carried out at the reporting date.

Impairment testing is designed to check that the carrying amount of the CGU does not exceed its recoverable amount, defined as the higher of fair value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the CGU.

The recoverable amount of the CGU has been determined with reference to its value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived from them, using an appropriate discount rate for the time period in which the cash flows will be generated.

In practice, for credit or financial companies, use is made of Free Cash Flow to Equity (FCFE) methodology, or, more specifically, an Excess Capital variant of the Dividend Discount Model (DDM). This methodology determines the value of a company based on future cash flows that it will be capable of distributing to its shareholders, without touching the assets needed to support its expected growth in compliance with regulatory capital requirements imposed by the Supervisory Authorities, discounted using a discount rate that reflects the specific risk premium. Note, however, that despite the term "Dividend Discount Model", the cash flows considered by the model are not dividends expected to be distributed to shareholders, but cash flows from which a shareholder could benefit and which are surplus to operating capital



requirements.

On a basis consistent with that of the prior year financial statements, individual legal entities have been identified as CGUs, taking account of the fact that the Banking Group envisages that the Parent Company shall provide guidance and strategic coordination aimed at the achievement of the objectives concerning the development and earnings of each legal entity and, as a consequence, results are reported autonomously (by means of the management reporting system) in a manner which sees the CGU coincide with the legal entity and, accordingly, management reports, as well as the budget process, analyse, monitor and forecast earnings and financial position based on this approach.

Impairment testing was thus conducted for the legal entities Banco di Desio e della Brianza Spa, Banca Popolare di Spoleto Spa and Fides Spa, on the basis of the criteria and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

To estimate the recoverable amount of the goodwill pertaining to the specific legal entity, reference is made to the so-called "value in use" ("equity value" for banks and financial intermediaries).

"Explicit" time period for the determination of future cash flows

The time horizon used is the same as the 2018-2020 Business Plan approved by the Directors on 11 January 2018, as well as the further development of this plan prepared by management. This contains projections of future results extended to include an explicit forecast period of five years. This is to minimise potential distortions from using only the time horizon of the Business Plan, which could be strongly influenced by a complex systemic situation because of the considerable uncertainty in forecasting the macroeconomic scenario due to the prolonged effects of the crisis, the lasting impacts that it had on the money market and on interest rates, or otherwise linked to extraordinary events for which it is worth trying to normalise the results so as to focus better on the effective medium/long term potential of the entity being tested.

Cash flows

For the valuation of banks and financial intermediaries, an equity side approach to DDM methodology is used for the determination of equity value, as, due to the characteristic activities undertaken by a financial intermediary (deposit taking and lending), it is particularly difficult to distinguish between financial payables and operating payables; furthermore, for the Excess Capital approach, cash flows available to shareholders are cash flows from which a shareholder could potentially benefit in excess of operating capital requirements and, thus, they take due account of regulatory capital absorption.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to K_e , the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity.

The equity value of the CGU at the date of testing, determined on the basis of the above procedure, after deducting the book value of shareholders' equity, is then compared with the book value of the specific goodwill pertaining to the CGU in question, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing

The main assumptions used for impairment testing are set out below.

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco di Desio e della Brianza Spa	DDM	2018-2020 Business Plan extended to 2022	0.60%	9.61%	2.00%	Net results	CET 1 8.50% (*)
Banca Popolare di Spoleto Spa	DDM	2018-2020 Business Plan extended to 2022	-0.57%	9.61%	2.00%	Net results	CET 1 8.50% (*)
Fides Spa	DDM	2018-2020 Business Plan extended to 2022	-3.77%	9.61%	2.00%	Net results	CET 1 8.50% (*)

(*) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)

As a result of the impairment testing performed, no write-down of this CGU's goodwill was needed.

It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets and could be subject to changes, currently unforeseeable, that could have an impact on the main assumptions applied and, therefore, potentially, also on the results of future years, which could differ from those presented here.

c) Sensitivity analysis

Since the measurement of impairment is rendered particularly complex due to the current macroeconomic and market environment and by the consequent difficulties in forecasting long term earnings, to support the testing performed, stress tests were carried out assuming a change in the main parameters applied for impairment testing.

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the CGU match the carrying amount of goodwill, after having deducted the shareholders' equity allocated to it.

CGU	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banco di Desio e della Brianza Spa	38.37%	563
Banca Popolare di Spoleto Spa	9.13%	85
Fides Spa	59.61%	Over 1,000



Second level impairment tests

In consideration of the fact that the market capitalisation of Banco Desio's shares (ordinary shares plus savings shares) in 2016 was less than consolidated shareholders' equity, impairment testing of Banco Desio Group (2nd level impairment) was done on the Group as a whole.

Impairment testing has therefore been performed on the basis of the criteria and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

To estimate the recoverable amount of an equity investment, reference is made to the so-called value in use (equity value for banks and financial intermediaries).

"Explicit" time period for the determination of future cash flows

The time horizon used is the same as the 2018-2020 Business Plan approved by the Directors on 11 January 2018, as well as the further development of this plan prepared by management. This contains projections of future results extended to include an explicit forecast period of five years. This is to minimise potential distortions from using only the time horizon of the Business Plan, which could be strongly influenced by a complex systemic situation because of the considerable uncertainty in forecasting the macroeconomic scenario due to the prolonged effects of the crisis, the lasting impacts that it had on the money market and on interest rates, or otherwise linked to extraordinary events for which it is worth trying to normalise the results so as to focus better on the effective medium/long term potential of the entity being tested.

Cash flows

For the valuation of banks and financial intermediaries, an equity side approach to DDM methodology is used for the determination of equity value as, due to the characteristic activities undertaken by a financial intermediary (deposit taking and lending), it is particularly difficult to distinguish between financial payables and operating payables; furthermore, for the Excess Capital approach, cash flows available to shareholders are cash flows from which a shareholder could potentially benefit in excess of operating capital requirements and, thus, they take due account of regulatory capital absorption.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to K_e , the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity.

The equity value of the investment at the date of testing, determined on the basis of the above procedure, is then compared with the book value of the specific Consolidated Own Funds, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing

The main assumptions used for impairment testing are set out below.

	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco Desio Group	DDM	2018-2020 Business Plan extended to 2022	0.25%	9.61%	2.00%	Net results	CET 1 8.50% (**)
(*) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)							

An amount arose from impairment testing that was higher than the average capitalisation in 2016 of Banco Desio's shares (ordinary shares plus savings shares). Since the latter was higher than the carrying amount of consolidated shareholders' equity at the measurement date, there was no need to write down any of the Group's assets.

It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets and could be subject to changes, which are currently unforeseeable, that would consequently have an impact on the main assumptions applied and, thus, potentially, also on the results of future years that could be different from those set out herein.

c) Sensitivity analysis

Since the measurement of impairment is rendered particularly complex due to the current macroeconomic and market environment and by the consequent difficulties in forecasting long term earnings, to support the testing performed, stress tests were carried out assuming a change in the main parameters applied for impairment testing.

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of consolidated shareholders' equity match the carrying amount at the measurement date.

CGU	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banco Desio Group	20.58%	227



13.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets:		Total
		LIM	UNLIM	LIM	UNLIM	
A. Gross opening balance	35,963			10,712		46,685
A.1 Total net write-downs	20,641			8,191		28,842
A.2 Net opening balance	15,322			2,521		17,843
B. Increases				2,148		2,148
B.1 Purchases				2,148		2,148
<i>of which: business combinations</i>						
B.2 Increases in internally generated intangible assets						
B.3 Write-backs						
B.4 Positive changes in fair value						
- recognised in equity						
- recognised in income statement						
B.5 Foreign exchange gains						
B.6 Other changes						
C. Decreases				2,045		2,045
C.1 Sales						
C.2 Write-downs				2,045		2,045
- amortisation				2,045		2,045
- Write-downs						
+ shareholders' equity						
+ income statement						
C.3 Negative changes in fair value						
- recognised in equity						
- recognised in income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Foreign exchange losses						
C.6 Other changes						
D. Net closing balance	15,322			2,624		17,946
D.1 Total net write-downs	20,641			10,236		30,887
E. Gross closing balance	35,963			12,860		48,833
F. Measurement at cost						

Key

LIM: limited duration

UNLIM: unlimited duration

13.3 Other information

At year-end there are no commitments to purchase intangible assets.

Section 14 - Tax assets and liabilities - Asset caption 140 and Liability caption 80**14.1 Deferred tax assets: breakdown**

	Ires	Irap	31.12.2017	31.12.2016
A) With contra-entry to the income statement:				
Tax losses	1,342		1,342	1,330
Tax deductible goodwill	4,298	870	5,168	5,653
Write-down of loans to customers deductible on a straight-line basis	131,727	16,881	148,608	162,277
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994	1		1	1
Provision for implicit risks on loans				
Write-downs of shares classified under securities FVPL				
Statutory depreciation of buildings				
Statutory depreciation of property, plant and equipment	208		208	148
Provision for guarantees and commitments and country risk	589		589	810
Provisions for personnel costs	7,872	1,409	9,281	10,359
Provision for lawsuits	3,876	47	3,923	4,051
Provision for claw-backs	246	50	296	1,465
Provision for sundry charges	411	14	425	466
Tax provision for termination indemnities	346		346	358
Other general expenses deductible in the following year	13	249	262	203
Other	836	296	1,132	1,971
Total A	152,070	19,816	171,886	189,397
B) With contra-entry to shareholders' equity:				
Tax provision for termination indemnities	947		947	725
Write-down of securities classified as AFS	2,841	576	3,417	5,664
Other	985	195	1,180	1,216
Total B	4,773	771	5,544	7,605
Total (A+B)	156,843	20,587	177,430	197,002

Probability test on deferred tax assets

In relation to the deferred tax assets described above, it should be noted that they refer for Euro 151,027 thousand to taxes as per Law 214/2011, which made it certain that they would be recovered, thereby making the IAS 12 probability test automatically satisfied.

The Parent Company Banco di Desio e della Brianza S.p.A. is not obliged to pay the annual guarantee fee for the transformation of deferred tax assets into tax credits as per Law 214/2011 as introduced by art. 11 of D.L. 59/2016, as the tax base, calculated according to regulations, is negative.

The additional deferred tax assets described above, which are outside the scope of Law 214/2011, have been recognised in view of the probability of their recovery, expecting there to be sufficient taxable income in the future to recover these assets. In particular, deferred tax assets have been analysed by type and by the timing of the reversal of the related temporary differences, considering the future profitability of the Group and the related taxable income forecast in the business plan to 2022. The analysis showed that there will be sufficient taxable income in the future to recover these assets.



14.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2017	31.12.2016
A) With contra-entry to the income statement:				
Gains on disposal of property, plant and equipment				
Tax depreciation of buildings	6,692	871	7,563	7,563
Tax depreciation of property, plant and equipment		15	15	15
Tax amortisation of goodwill	475	96	571	571
Tax amortisation of deferred charges (software)	1	5	6	7
Tax provision as per art. 106, paragraph 3	20		20	20
Tax provision for termination indemnities				
Other	7,580	1,221	8,801	11,391
Total A	14,768	2,208	16,976	19,567
B) With contra-entry to shareholders' equity				
Cash-flow hedges	504	102	606	154
Revaluation of AFS securities	6,242	1,624	7,866	6,712
Revaluation of equity investments	268	1,085	1,353	216
Tax provision for termination indemnities				
Total B	7,014	2,811	9,825	7,082
Total (A+B)	21,782	5,019	26,801	26,649

14.3 Changes in deferred tax assets (with contra-entry to income statement)

	31.12.2017	31.12.2016
1. Opening balance	189,397	192,063
2. Increases	4,705	12,560
2.1 Deferred tax assets recognised during the year	4,407	12,259
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	4,407	12,259
2.2 New taxes or increases in tax rates		
2.3 Other increases	298	301
3. Decreases	22,216	15,226
3.1 Deferred tax assets cancelled in the year	22,216	15,175
a) reversals	22,216	15,175
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		51
a) Conversion to tax credits as per L. 214/2011		
b) Other		51
4. Closing balance	171,886	189,397

The deferred tax assets recognised during the year mainly comprised:

- Euro 2,940 thousand relating to non-deductible provisions to risks and charges and employee related provisions;
- Euro 1,026 thousand for non-deductible provisions for legal disputes and bankruptcy clawback actions.

The sub-caption "2.3 Other increases" relates to the recognition of deferred tax assets as a result of the recomputation, made for the purpose of the tax return for the year 2016.

Deferred tax assets cancelled in the year are essentially due to:

- for Euro 13,667 thousand to the recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83 of 27 June 2015;
- Euro 7,250 thousand relating to the use of taxed provisions.



14.3.1 Change in deferred tax assets as per L. 214/2011 (as a contra-entry to the income statement)

	31.12.2017	31.12.2016
1. Opening balance	164,834	173,678
2. Increases		
3. Decreases	13,807	8,844
3.1 Reversals	13,807	8,844
3.2 Conversion to tax credits		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other decreases		
4. Closing balance	151,027	164,834

"3.1 Reversals" refers to:

- for Euro 13,666 thousand from the recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83 of 27 June 2015;
- Euro 141 thousand relating to an adjustment to the deferred tax asset on the step-up for tax purposes of goodwill in 2012 related to the Parent Company.

14.4 Change in deferred tax liabilities (as a contra-entry to the income statement)

	31.12.2017	31.12.2016
1. Opening balance	19,567	22,813
2. Increases	999	859
2.1 Deferred tax liabilities recognised during the year	506	610
a) relating to prior years		
b) due to changes in accounting policies		
c) other	506	610
2.2 New taxes or increases in tax rates		
2.3 Other increases	493	249
3. Decreases	3,590	4,105
3.1 Deferred tax liabilities cancelled during the year	3,590	4,103
a) reversals	3,590	4,103
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		2
4. Closing balance	16,976	19,567

The deferred tax liabilities recognised during the year mainly comprised:

- Euro 439 thousand on the voluntary contribution to the Interbank Deposit Protection Fund;
- Euro 60 thousand on dividends for the year that have not yet been collected.

The caption "2.3 Other increases" relates to the recognition of deferred tax liabilities as a result of the recomputation, made for the purpose of the tax return for the year 2016.

Deferred tax liabilities cancelled during the year are mainly attributable:

- for Euro 1,877 thousand to fair value differences recorded in the consolidated financial statements pursuant to IFRS 3, following the business combination (acquisition of Banca Popolare di Spoleto S.p.A. which took place in 2014);
- for Euro 893 thousand to the voluntary contribution to the Interbank Deposit Protection Fund;
- for Euro 715 thousand to the share of capital gains realised on financial assets in 2013, 2014, 2015 and 2016, deductible on a straight-line basis over the following four years in accordance of art. 86.4 of TUIR (Consolidated Income Tax Act);
- for Euro 62 thousand to dividends pertaining to the previous year and collected during the current year;
- for Euro 43 thousand to the release recorded on recalculation of the Irap deduction from Ires in relation to the payroll costs incurred in prior years.



14.5 Changes in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2017	31.12.2016
1. Opening balance	7,605	3,098
2. Increases	1,004	5,879
2.1 Deferred tax assets recognised during the year	1,004	5,879
a) relating to prior years		
b) due to changes in accounting policies		
c) other	1,004	5,879
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	3,065	1,372
3.1 Deferred tax assets cancelled in the year	3,065	1,372
a) reversals	3,065	1,372
b) written down as no longer recoverable		
c) due to changes in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	5,544	7,605

Deferred tax assets recognised during the year are attributable to:

- for Euro 783 thousand to the measurement of securities classified as Financial assets available for sale;
- for Euro 221 thousand to the actuarial measurement of the Provision for termination indemnities.

Deferred tax assets cancelled in the year relate to the measurement of securities classified as Financial assets available for sale.

14.6 Changes in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2017	31.12.2016
1. Opening balance	7,082	8,728
2. Increases	3,334	1,608
2.1 Deferred tax liabilities recognised during the year	3,334	1,608
a) relating to prior years		
b) due to changes in accounting policies		
c) other	3,334	1,608
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	591	3,254
3.1 Deferred tax liabilities cancelled during the year	591	3,254
a) reversals	591	3,254
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	9,825	7,082

Deferred tax liabilities recognised during the year are made up of:

- for Euro 2,882 thousand to the valuation of securities classified under Financial assets available for sale;
- for Euro 452 thousand to the change in the reserve for cash-flow hedges.

Deferred tax assets cancelled in the year relate to the measurement of securities classified as Financial assets available for sale.



Section 16 - Other assets - caption 160

16.1 Other assets: breakdown

	31.12.2017	31.12.2016
Tax credits		
- capital	8,641	8,487
Amounts recoverable from the tax authorities for advances paid	33,321	44,663
Withholding tax credits		5
Cheques negotiated to be cleared	26,384	30,751
Invoices issued to be collected	1,307	895
Debtors for securities and coupons to be collected by third parties		19
Items being processed and in transit with branches	24,094	29,235
Currency spreads on portfolio transactions	2,903	257
Investments of the supplementary fund for termination indemnities	315	344
Leasehold improvement expenditure	13,462	15,123
Accrued income and prepaid expenses	1,450	971
Other items	51,547	47,000
Total	163,424	177,680

The balance of this caption at 31 December 2017 mainly relates to the Group banking sector.

The "Tax credits - capital" caption mainly relates to the reimbursement requested by the Parent Company 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 2,580 thousand;
- a receivable for virtual stamp duty of Euro 24,285 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 6,286 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 cheques being processed, Euro 4,603 thousand; the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 3,714 thousand di euro, and the recovery of commissions on lines of credit made available to customers, Euro 8,344 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new year.

The amount of "Currency spreads on portfolio transactions" results from the offset of illiquid liability positions against illiquid asset 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. New investments of Euro 649 thousand have been made during the year; the related amortisation charge, which is recognised in the caption "190 – Other operating charges", amounts to Euro 2,264 thousand.

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

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

- Euro 1,701 thousand due from the liquidator of CPC S.A. in liquidation; this receivable is of a specific nature and is recoverable for the excess over the amount allocated to the provision for risks and charges in respect of the charges estimated for cancellation of the company (Euro 205 thousand);
- Euro 170 thousand due from the liquidator of Rovere, which was cancelled in 2017;
- Euro 5,762 thousand recognised following the authorisation given to distribute the profit reserves of Cedacri S.p.A.;
- commissions and taxes awaiting collection for Euro 13,758 thousand;
- consideration receivable of Euro 13,497 thousand arising from transactions carried out in 2017 for the sale to specialist intermediaries of non-performing loans;
- invoices to be issued for Euro 5,523 thousand;
- Euro 921 thousand due following currency transactions.



LIABILITIES

Section 1 - Due to banks - caption 10

1.1 Due to banks: breakdown

Type of transaction/Amounts	31.12.2017	31.12.2016
1. Due to central banks	1,592,800	800,000
2. Due to banks	113,128	162,245
2.1 Current accounts and demand deposits	27,077	36,275
2.2 Restricted deposits	2,593	372
2.3 Loans	83,205	125,454
2.3.1 Repurchase agreements		
2.3.2 Other	83,205	125,454
2.4 Payables for commitments to repurchase own equity instruments		
2.5 Other payables	253	144
Total	1,705,928	962,245
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	1,705,928	962,245
Total fair value	1,705,928	962,245

"Due to central banks" reflects, for Euro 1,600 million, the funding facility assigned to the Bank by the Eurosystem as part of the "TLTRO II" operation, net of interest expense of Euro 7.2 million. As a guarantee for this loan, the Group has lodged collateralised mortgage loans with the ECB (via the A.Ba.Co. procedure) for Euro 1,817,251 thousand.

1.2 Details of caption 10 "Due to banks": subordinated loans

As at the reporting date, the Group did not have any subordinated loans due to banks.

1.3 Details of "Due to banks": structured loans

At the reference date, the Group did not have amounts due to banks with specific hedge.

1.4 Due to banks with specific hedge

At the reference date, the Group did not have amounts due to banks with specific hedge.

1.5 Finance lease payables

At the reference date, the Group did not have finance lease contracts with banks.

Section 2 - Due to customers - caption 20

2.1 Due to customers: breakdown

Type of transaction/Amounts	31.12.2017	31.12.2016
1. Current accounts and demand deposits	7,738,397	7,288,663
2. Restricted deposits	1,471,738	1,383,441
3. Loans	24,045	23,204
3.1 Repurchase agreements		
3.2 Other	24,045	23,204
4. Payables for commitments to repurchase own equity instruments		
5. Other payables	38,157	34,283
Total	9,272,337	8,729,591
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	9,272,337	8,729,591
Fair value	9,272,337	8,729,591

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 checks for Euro 34,970 thousand and checks for Euro 535 thousand (last year cashier's checks for Euro 30,673 thousand and checks for Euro 528 thousand respectively).

2.2 Details of caption 20 "Due to customers": subordinated loans

At the reference date, the Group did not have subordinated loans with customers.

2.3 Details of caption 20 "Due to customers": structured loans

At the reference date, the Group did not have structured loans with customers.

2.4 Due to customers with specific hedge

At the reference date, the Group did not have amounts due to customers with specific hedge.

2.5 Finance lease payables

At the reference date, the Group did not have amounts due to customers for finance lease transactions.



Section 3 - Debt securities in issue - caption 30

3.1 Debt securities in issue: breakdown

Type of security/Amounts	31.12.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,684,873	1,705,960			1,368,059	1,361,453		
1.1 structured					15,161	15,297		
1.2 other	1,684,873	1,705,960			1,352,898	1,346,156		
2. Other securities	23,447			23,447	25,825			25,825
2.1 structured								
2.2 other	23,447			23,447	25,825			25,825
Total	1,708,320	1,705,960	23,447		1,393,884	1,361,453	25,825	

This caption includes funding by means of securities, which include bonds and certificates of deposit, the book value of which is measured at amortised cost, inclusive of accrued interest thereon. The total funds collected are shown net of repurchased securities.

During the year, new debt securities were issued of a nominal value (N.V.) of Euro 736,238 thousand, while debt securities redeemed on maturity amounted to Euro 398,849 thousand (N.V.). Again, during the year, repurchases were made of securities for Euro 52,929 thousand (N.V.) and which were subsequently relocated for Euro 36,587 thousand (N.V.).

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 21,123 thousand were issued with a short term maturity and Euro 2,276 thousand were issued with a longer than short term maturity. The remainder consists of certificates of Euro 47 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.

3.2 Details of caption 30 "Debt securities in issue": subordinated securities

Bonds	Issue date	Maturity date	Currency	Rate	31.12.2017	31.12.2016
Issued by the Parent Company						
ISIN code IT0004815855	15.06.2012	15.06.2017	EUR	FR		13,014
ISIN code IT0004921166	03.06.2013	03.06.2018	EUR	FR	12,485	13,022
ISIN code IT0005038085	28.08.2014	28.08.2019	EUR	FR	47,873	50,049
ISIN code IT0005070179	22.12.2014	22.12.2019	EUR	FR	48,097	49,919
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,382	79,454
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	49,481	49,873
Issued by Subsidiaries						
ISIN code IT0004331598	15.04.2008	15.04.2018	EUR	FR	7,286	7,964
ISIN code IT0004344278	18.04.2008	18.04.2018	EUR	FR	9,480	10,544
Total					254,084	273,839

3.3 Details of caption 30 "Debt securities in issue": securities with specific hedge

	31.12.2017	31.12.2016
1. Securities with specific fair value hedge:		24,211
a) interest rate risk		24,211
b) exchange rate risk		
c) other risks		
2. Securities with specific cash flow hedge:	128,864	129,327
a) interest rate risk	128,864	129,327
b) exchange rate risk		
c) other		



Section 4 - Financial liabilities held for trading - caption 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/Members of the group	31.12.2017					31.12.2016				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured										
3.1.2 Other bonds										
3.2 Other securities										
3.2.1 Structured										
3.2.2 Other										
Total A										
B. Derivatives										
1. Financial derivatives			3,450	4,526			4,074	2,156		
1.1 For trading			3,450	4,526			4,074	2,156		
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			3,450	4,526			4,074	2,156		
Total A+B			3,450	4,526			4,074	2,156		

Key

FV = fair value

FV* = fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

NV = Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Caption 40 "Financial liabilities held for trading" comprises the negative value of derivatives held for trading.

4.2 Details of caption 40 "Financial liabilities held for trading": subordinated liabilities

At the reference date, the Group did not have subordinated financial liabilities held for trading.

4.3 Details of caption 40 "Financial liabilities held for trading": structured loans

At the reference date, the Group did not have subordinated loans included in financial liabilities held for trading.

4.4 Trading cash financial liabilities (excluding short positions): changes during the year

At the reference date, the Group did not have cash financial liabilities.

Section 5 - Financial liabilities designated at fair value through profit and loss - caption 50

5.1 Financial liabilities designated at fair value through profit and loss: breakdown

Type of transaction/Amounts	31.12.2017					31.12.2016				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks										
1.1 Structured										
1.2 Other										
2. Due to customers										
2.1 Structured										
2.2 Other										
3. Debt securities					15,450	15,908	16,151			
3.1 Structured					15,450	15,908				
3.2 Other										
Total					15,450	15,908	16,151			

Key

FV = fair value

FV* = fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

NV = Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Zero balances at the reporting dates; for the comparative period, the table shows financial liabilities that consist of bonds, issued by the Parent Company, which were measured at fair value and systematically hedged by the use of derivatives (fair value option).

5.2 Details of caption "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

As at the reporting date, the Group had not issued any subordinated bonds classifiable as financial liabilities designated at fair value through profit and loss.



Section 6 - Hedging derivatives - caption 60

6.1 Hedging derivatives: breakdown by type and level

	31.12.2017				NV	31.12.2016				
	Fair value			L3		Fair value			NV	
	L1	L2	L3			L1	L2	L3		
A. Financial		4,724			138,260		6,637			140,589
1) Fair value		3,310			8,260		3,859			10,589
2) Cash flows		1,414			130,000		2,778			130,000
3) Foreign investments										
B. Credit derivatives										
1) Fair value										
2) Cash flows										
Total		4,724			138,260		6,637			140,589

Key

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

6.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Operation/Type of hedge	Fair value					Cash flows			Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other risks				
1. Financial assets available for sale									
2. Loans and receivables	3,310								
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets	3,310								
1. Financial liabilities							1,414		
2. Portfolio									
Total liabilities							1,414		
1. Expected transactions									
2. Financial assets and liabilities portfolio									

Specific hedges on loans, reported in the table, refer to fair value hedges for interest rate risk on specific loan items classified in the asset caption "Loans to customers".

The cash flow hedges of financial liabilities are also to hedge bonds issued by Banco Desio.

Section 8 - Tax liabilities - caption 80

The breakdown and changes during the year of tax liabilities are disclosed in Section 14, Assets, together with information on deferred tax assets.

Section 10 - Other liabilities - caption 100**10.1 Other liabilities: breakdown**

	31.12.2017	31.12.2016
Due to tax authorities	497	690
Amounts payable to tax authorities on behalf of third parties	25,457	24,554
Social security contributions to be paid	6,145	6,785
Dividends due to shareholders	27	24
Suppliers	10,750	13,564
Amounts available to customers	20,865	23,343
Interest and dues to be credited	20	51
Payments against bill instructions	1,215	6,645
Early payments on loans not yet due	630	60
Items being processed and in transit with branches	100,345	81,940
Currency differences on portfolio transactions	12,683	18,119
Due to personnel	14,297	18,101
Sundry creditors	13,105	18,105
Provisions for guarantees given and commitments	2,144	5,947
Accrued expenses and deferred income	2,781	2,126
Total	210,961	220,054

The components pertaining to the banking business included in the above caption amount to Euro 207,378 thousand.

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" include transactions that are usually settled within the first few days of the following year. The main component of it relates to bank transfers being processed of Euro 87,785 thousand (Euro 68,427 thousand at the prior year end) and to MAV (payment by advice) collections of Euro 2,327 thousand (Euro 2,349 thousand at the prior year end).

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 11,537 thousand (Euro 14,983 thousand last year) and the year end balance of the amount due for holiday pay of Euro 2,029 thousand (Euro 2,629 thousand at the prior year end).

The main items included under caption "Sundry creditors" refer to: sundry creditors from dealing in foreign exchange for Euro 2,171 thousand (Euro 1,336 thousand last year), creditors for bills withdrawn for Euro 1,632 thousand (Euro 762 thousand last year) and bank transfers being processed for Euro 2,449 thousand (Euro 1,799 thousand last year). The prior year balance also included the additional contribution to the SRM, Euro 7,580 thousand.



Section 11 - Provision for termination indemnities - caption 110

11.1 Provision for termination indemnities: changes during the year

	31.12.2017	31.12.2016
A. Opening balance	30,204	29,712
B. Increases	1,364	1,384
B.1 Provision for the year	555	699
B.2 Other changes	809	685
<i>of which: business combinations</i>		
C. Decreases	2,606	892
C.1 Payments made	2,605	892
C.2 Other changes	1	
D. Closing balance	28,962	30,204

In accordance with international accounting standards, the provision for termination indemnities is classified as a defined benefit scheme and is thus subject to actuarial measurement, for which the related assumptions applied are set out in the following paragraph.

The provision made in the year does not include amounts paid directly by the Group, depending on the choice made by employees, to supplementary pension schemes or to the state pension scheme managed by INPS. The cost of the foregoing payments, which for the year just ended amounts to Euro 11,414 thousand (Euro 11,423 thousand last year), is recognised in Personnel expenses in the sub-caption "g) payments to external supplementary pension funds: defined contribution".

The captions "B.2 Other changes" and "C.2 Other changes" reflects the impact of discounting the provision for termination indemnities for statutory purposes (positive and negative).

11.2 Other information

The actuarial assumptions used by the independent actuary for the measurement of the liability at the reporting date are the following:

Demographic assumptions

- for the probability of death, those determined by gender by the State General Accounting Department, denominated RG 48;
- for the probability of disability, those, by gender, adopted by the 2010 INPS forecasting model. These probabilities were arrived at by starting with the distribution by age and gender of pensions at 1 January 1987 with effect from 1984, 1985 and 1986 relating to personnel in the credit sector;
- for the retirement age for the general working population, it was assumed that the first of the pension requirements valid for compulsory social security insurance had been met;
- for the probability of leaving employment for reasons other than death, based on internal statistics, an annual frequency of 2.50% was used; account has also been taken of the Group's redundancy plan;
- for the probability of advances, an annual amount of 4% was assumed.

Economic-financial assumptions

Technical measurement was performed on the basis of the following assumptions:

- technical discounting rate 0.88%
- annual inflation rate 1.50%
- total annual income growth rate 2.50%
- termination indemnity annual growth rate 2.63%.

As regards the discount rate, the iBoxx Eurozone Corporates AA 7-10 index at the valuation date has been taken as reference for the valuation of this parameter.

The following table gives a sensitivity analysis of the liability recognised on changes in the economic and financial assumptions:

	Increase in parameter (+)	Decrease in parameter (-)
Annual discounting rate (+/-0.25%)	28,472	29,468
Annual inflation rate (+/- 0.25%)	29,264	28,666
Annual turn over rate (+/- 2.00%)	28,690	29,282

Section 12 - Provisions for risks and charges - caption 120

12.1 Provisions for risks and charges: breakdown

Items/Components	31.12.2017	31.12.2016
1. Pensions and similar commitments		
2. Other provisions for risks and charges	46,547	55,282
2.1 <i>Legal disputes</i>	15,386	19,458
2.2 <i>Personnel expenses</i>	28,863	32,221
2.3 <i>Other</i>	2,298	3,603
Total	46,547	55,282

The caption "legal disputes" include provisions made in the year for expected losses of Euro 14,491 thousand, arising from legal disputes and of Euro 895 thousand from bankruptcy clawback actions. In application of IFRS 3, the provision for bankruptcy clawback actions includes Euro 500 thousand relating to contingent liabilities that are recognised in the evaluation of the assets and liabilities acquired on the acquisition of BPS.

"Personnel expenses" mainly include estimated liabilities for: the Solidarity Fund, Euro 15,003 thousand; the bonus system, Euro 7,167 thousand, and the long-service and additional holiday awards, Euro 3,387 thousand.

The caption "Other" includes provisions for charges pertaining to other operating risks, including:

- provisions inherent to tax dispute for Euro 56 thousand;
- provisions relating to tax dispute for Euro 361 thousand relating to contingent liabilities that are recognised in the evaluation of the assets and liabilities acquired on the acquisition of BPS, which took place in 2014;
- provisions of Euro 205 thousand for the estimated costs of winding-up CPC S.A. in liquidation;
- provisions totalling Euro 374 thousand for the contractual indemnities due to financial advisors.

For further details of disputes concerning legal disputes and other operating risks, reference should be made to "Part E – Information on risks and hedging policies".



12.2 Provisions for risks and charges: changes in the year

Items/Components	Pensions and similar commitments	Other provisions	Total
A. Opening balance		55,282	55,282
B. Increases		12,193	12,193
B.1 Provision for the year		12,172	12,172
B.2 Changes due to the passage of time		21	21
B.3 Changes due to changes in the discount rate			
B.4 Other changes			
C. Decreases		20,928	20,928
C.1 Utilisations during the year		18,287	18,287
C.2 Changes due to changes in the discount rate			
C.3 Other changes		2,641	2,641
D. Closing balance		46,547	46,547

12.3 Pensions and similar commitments - defined benefits

There are nil balances at year end.

12.4 Provisions for risks and charges: other provisions

Details of "Other provisions for risks and charges" are provided in Section 12.1.

Section 15 - Group Shareholders' equity - captions 140, 160, 170, 180, 190, 200 and 220

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

	31.12.2017	31.12.2016
A. Share capital		
A.1 Ordinary shares	67,705	67,705
A.2 Savings shares	60,840	60,840
A.3 Preference shares	6,865	6,865
B. Treasury shares		
B.1 Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	67,705	67,705

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

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

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

15.2 Share capital - number of shares of the Parent Company: changes during the year

	Ordinary	Other
A. Shares at the beginning of the year	117,000,000	13,202,000
- fully paid	117,000,000	13,202,000
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares in circulation: opening balance	117,000,000	13,202,000
B. Increases		
B.1 New issues		
- for payment		
- business combination		
- conversion of bonds		
- exercise of warrant		
- other		
- bonus issues		
- in favour of employees		
- in favour of directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Business sale transactions		
C.4 Other changes		
D. Shares in circulation: closing balance	117,000,000	13,202,000
D.1 Treasury shares (+)		
D.2 Shares at the end of the year	117,000,000	13,202,000
- fully paid	117,000,000	13,202,000
- not fully paid		

15.3 Share capital: other information

There is no other information to be disclosed at the reference date.

15.4 Revenue reserves: other information

Captions	31.12.2017	31.12.2016
Legal reserve	91,417	88,249
Statutory reserves	528,905	511,728
Retained earnings (losses)	17,003	15,918
Other FTA reserves	99,785	99,785
Other reserves	24,091	31,284
Total	761,201	746,964



Section 16 - Minority interests - caption 210

16.1 Details of caption 210 "Minority interests"

Company name	31.12.2017	31.12.2016
Equity investments in consolidated companies with significant minority interests		
1. Banca Popolare Spoleto	52,781	50,381
2. Desio OBG S.r.l.	4	-
Other equity investments	-	-
Total	52,785	50,381

16.2 Equity instruments: breakdown and changes during the year

None.

OTHER INFORMATION

1. Guarantees given and commitments

Transactions	31.12.2017	31.12.2016
1) Financial guarantees:	25,612	27,802
a) Banks	2,602	6,325
b) Customers	23,010	21,477
2) Commercial guarantees:	275,032	265,240
a) Banks	5,663	8,078
b) Customers	269,369	257,162
3) Irrevocable commitments to disburse loans	133,254	138,657
a) Banks	358	
i) certain to be called on	358	
ii) not certain to be called on		
b) Customers	132,896	138,657
i) certain to be called on	18,607	24,663
ii) not certain to be called on	114,289	113,994
4) Commitments underlying credit derivatives: sale of protection		
5) Assets pledged to guarantee third-party commitments		
6) Other commitments	509	573
Total	434,407	432,272

2. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31.12.2017	31.12.2016
1. Financial assets held for trading		
2. Financial assets designated at fair value through profit and loss		
3. Financial assets available for sale	874,469	240,880
4. Financial assets held to maturity		
5. Due from banks		
6. Loans to customers	785,238	
7. Property, plant and equipment		

Caption "6. Loans to customers" shows the receivables assigned to the SPV Desio OBG Srl constituting assets eligible for the covered bond programme.



5. Administration and trading on behalf of third parties

Type of services	31.12.2017
1. Execution of orders on behalf of customers	
a) purchases	
1. Settled	37,363
2. Unsettled	3,569
b) sales	
1. Settled	43,874
2. Unsettled	3,257
2. Asset management	
a) Individual	970,085
b) Collective	569,983
3. Custody and administration of securities	
a) third-party securities on deposit as custodian bank (excluding portfolio management schemes)	
1. securities issued by companies included in the consolidation	
2. other securities	
b) third-party securities held on deposit (excluding portfolio management schemes): other	
1. securities issued by companies included in the consolidation	1,080,089
2. other securities	7,472,721
c) third-party securities deposited with third parties	8,516,749
d) portfolio securities deposited with third parties	2,247,105
4. Other transactions	

6. Financial assets subject to offsetting in the financial statements, or subject to framework offsetting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2017 (f=c-d-e)	Net amount 31.12.2016
				Financial instruments (d)	Deposits of cash received as collateral (e)		
1. Derivatives	5,605		5,605	818	4,640	147	980
2. Repurchase agreements							
3. Securities							
4. Other							
Total 31.12.2017	5,605		5,605	818	4,640	147	
Total 31.12.2016	12,993		12,993	1,513	10,500		980

7. Financial liabilities subject to offsetting in the financial statements, or subject to framework agreements for offsetting or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2017 (f=c-d-e)	Net amount 31.12.2016
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1. Derivatives	8,174		8,174	7,174	1,730	730	613
2. Repurchase agreements							
3. Securities lending							
4. Other transactions							
Total 31.12.2017	8,174		8,174	7,174	1,730	730	
Total 31.12.2016	10,712		10,712	7,449	2,650		613

Tables 6 and 7 show the positive fair values (Table 6 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") and the negative fair values (Table 7 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") of derivatives for which there are ISDA agreements (Credit Support Annex). While these agreements do not comply with all of the requirements of IAS 32 paragraph 42 for offsetting in the financial statements, they do provide for mechanisms to mitigate the risk of counterparty default through the exchange of collateral on restricted deposits and allow the netting of receivables and payables relating to financial and credit derivatives on the occurrence of certain events such as the default of the counterparty. In line with the provisions of IFRS 7 and the latest provisions on rules for the preparation of banks' financial statements, in the compilation of tables, account has been taken of:

- the effects of the potential compensation of financial assets and liabilities, indicated in column (d) "Financial instruments", together with the fair value of financial collateral represented by securities;
- the effects of potential compensation of exposures with cash collateral, as indicated in column (e) "Cash deposits received as collateral".



These effects are calculated for counterparties with whom there is a framework netting agreement within the limits of the amount indicated in column (c) "Net amount of financial assets reported in the financial statements".

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2017	31.12.2016
1. Financial assets held for trading	201		46	247	710
2. Financial assets designated at fair value through profit and loss					
3. Financial assets available for sale	12,440			12,440	13,460
4. Financial assets held to maturity	2,255			2,255	
5. Due from banks	178	420	7,200	7,798	560
6. Loans to customers	24	260,454		260,478	292,374
7. Hedging derivatives					
8. Other assets			272	272	3
Total	15,098	260,874	7,518	283,490	307,107

Caption "1. Financial assets held for trading – Other transactions" includes the positive balance of differentials on derivative contracts.

Interest on "Loans to customers" is recognised net of default interest accrued in the year on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question amounts to Euro 12,068 thousand.

Conversely, the caption includes default interest collected in the year of Euro 1,148 thousand.

Due to the credit policies implemented during the year by the Banco Desio Group, which made it possible to exceed the target level of credit net lending at 31 December 2017, interest receivable on amounts "Due from banks" for "other transactions" includes Euro 7.2 million which refers to the benefit deriving from application of the negative interest rate of 0.40% on the line of credit assigned by the Eurosystem to the Banco Desio Group for the "TLTRO II" operation.

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

Captions	31.12.2017	31.12.2016
Interest income on financial assets in foreign currency	1,512	1,323



1.3.2 Interest income from finance leases

Captions	31.12.2017	31.12.2016
Interest income from finance leases	5,547	7,867

Interest income recognised as income for the year on financial leases, and included in "Loans to customers - loans", refers for Euro 4,857 thousand to index-linked contracts, of which Euro 283 thousand in leaseback contracts.

1.4 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2017	31.12.2016
1. Due to central banks	(1,481)			(1,481)	(582)
2. Due to banks	(328)			(328)	(374)
3. Due to customers	(24,362)			(24,362)	(33,184)
4. Debt securities in issue		(24,824)		(24,824)	(35,912)
5. Financial liabilities held for trading					
6. Financial liabilities designated at fair value through profit and loss		(48)		(48)	(648)
7. Other liabilities and provisions			(69)	(69)	(115)
8. Hedging derivatives			(1,136)	(1,136)	(100)
Total	(26,171)	(24,872)	(1,205)	(52,248)	(70,915)

1.5 Interest and similar expense: differentials on hedging transactions

Captions	31.12.2017	31.12.2016
A. Positive differentials on hedging transactions	294	1,920
B. Negative differentials on hedging transactions	(1,430)	(2,020)
C. Balance (A-B)	(1,136)	(100)

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

Captions	31.12.2017	31.12.2016
Interest expense on foreign currency financial liabilities	(383)	(189)

1.6.2 Interest expense on finance leases

Banco Desio Group was not party to any such transactions.

Section 2 - Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2017	31.12.2016
a) guarantees given	3,066	3,166
b) credit derivatives		
c) management, brokerage and consulting services:	59,908	46,570
1. trading in financial instruments		
2. trading in foreign exchange	1,595	1,646
3. asset management	8,121	6,119
3.1. individual	7,524	5,622
3.2. collective	597	497
4. custody and administration of securities	1,692	1,846
5. custodian bank		
6. placement of securities	21,397	18,752
7. order taking	5,656	5,662
8. advisory services		
8.1 regarding investments		
8.2 regarding financial structuring		
9. distribution of third-party services	21,447	12,545
9.1. asset management	468	310
9.1.1. individual	468	310
9.1.2. collective		
9.2 insurance products	16,628	8,466
9.3 other products	4,351	3,769
d) collection and payment services	28,657	28,563
e) servicing related to securitisation	112	58
f) services for factoring transactions	114	140
g) tax collection services		
h) management of multilateral trading systems		
i) maintenance and management of current accounts	73,939	73,159
j) other services	9,688	19,613
Total	175,484	171,269

The commissions from "other services" include Euro 2,589 thousand (Euro 12,589 thousand last year) from the consumer credit activities of Fides S.p.A.; Euro 1,282 thousand from the recovery of expenses on collections mad for customers; Euro 1,514 thousand from internet banking fees, and Euro 1,231 thousand from the recovery of expenses on the collection of mortgage payments.

The change in commission income on transactions for the assignment of one fifth of salary charged contractually to customers is attributable to a revision of the pricing system in the period, reflected also in commission expense paid to the distribution network.



2.2 Commission expense: breakdown

Services/Amounts	31.12.2017		31.12.2016	
	Dividends	Income from Mutual funds	Dividends	Income from Mutual funds
a) guarantees received		(351)		(317)
b) credit derivatives				
c) management and brokerage services		(1,513)		(2,092)
1. trading in financial instruments		(101)		(110)
2. trading in foreign exchange				
3. asset management:				
3.1 own portfolio				
3.2 third-party portfolio				
4. custody and administration of securities		(1,308)		(1,245)
5. placement of financial instruments		(104)		(737)
6. offer of securities, financial products and services through financial promoters				
d) collection and payment services		(3,550)		(3,356)
e) other services		(6,023)		(14,527)
Total		(11,437)		(20,292)

The commission expense arising on "other services" includes Euro 4,338 thousand recognised to financial intermediaries, comprising Euro 3,355 thousand (Euro 12,983 thousand last year) by Fides S.p.A. and Euro 983 thousand (Euro 894 thousand last year) by Banca Popolare di Spoleto. As was the case for commission income, the change in commission payable to the distribution network for transactions for the assignment of one fifth of salary is attributable to a revision of the pricing system in the period.

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2017		31.12.2016	
	Dividends	Income from Mutual funds	Dividends	Income from Mutual funds
A. Financial assets held for trading	45		32	
B. Financial assets available for sale	6,355		5,477	
C. Financial assets designated at fair value through profit and loss				
D. Equity investments				
Total	6,400		5,509	

The table shows dividend income from non-controlling interests classified as financial assets available for sale. The dividends in caption "B. Financial assets available for sale" include Euro 5,762 thousand recognised following the authorisation to distribute the profit reserves of Cedacri S.p.A. of 6 December 2017, (Euro 4,533 thousand in the previous year).

Section 4 - 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	2,337	(1,783)	(856)	(296)
1.1 Debt securities		1,453	(166)	(469)	818
1.2 Equity instruments	6	648	(618)	(84)	(48)
1.3 Mutual funds		103	(999)	(303)	(1,199)
1.4 Loans					
1.5 Other		133			133
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	2,973
4. Derivatives	1,051	9,967	(513)	(10,218)	188
4.1 Financial derivatives:	1,051	9,967	(513)	(10,218)	287
- On debt securities and interest rates	618	7,716	(513)	(7,615)	206
- On equities and equity indices	433	1,702		(1,828)	307
- On currency and gold	x	x	x	x	(99)
- Other		549		(775)	(226)
4.2 Credit derivatives					
Total	1,057	12,304	(2,296)	(11,074)	2,865

The captions "1. Financial assets held for trading" and "4. Derivatives" include income from financial assets held for trading, with the exception of derivatives used to hedge financial instruments for which the fair value option was adopted and for which the measurement results are shown in the table "Net change in value of financial assets and liabilities designated at fair value".

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



Section 5 - Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31.12.2017	31.12.2016
A. Income relating to:		
A.1 Fair value hedges	544	39
A.2 Hedged financial assets (fair value)	29	563
A.3 Hedged financial liabilities (fair value)	218	1,491
A.4 Cash flow hedges		
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	791	2,093
B. Charges relating to:		
B.1 Fair value hedges	(198)	(2,885)
B.2 Hedged financial assets (fair value)	(688)	
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)	(910)	(2,885)
C. Net hedging gains (losses) (A-B)	(119)	(792)

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

Section 6 - Gains (losses) on disposal or repurchase - caption 100**6.1 Gains (losses) on disposal or repurchase: breakdown**

Caption/Income items	31.12.2017			31.12.2016		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks						
2. Loans to customers	7,644	(8,164)	(520)	7,298	(9,008)	(1,710)
3. Financial assets available for sale	26,853	(14,066)	12,787	25,298	(6,449)	18,849
3.1 Debt securities	21,416	(6,685)	14,731	23,086	(5,593)	17,493
3.2 Equity instruments		(5,904)	(5,904)	6		6
3.3 Mutual funds	5,437	(1,477)	3,960	2,206	(856)	1,350
3.4 Loans						
4. Financial assets held to maturity	2,183		2,183			
Total assets	36,680	(22,230)	14,450	32,596	(15,457)	17,139
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities in issue	65	(910)	(845)	321	(1,638)	(1,317)
Total liabilities	65	(910)	(845)	321	(1,638)	(1,317)

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

The caption "2. Loans to customers" includes the net gain (loss)

- on disposal of non-performing loans. In particular, during the year, portfolios were sold, generating a total loss of Euro 0.9 million;
- from the sale of loans & receivables securities by Banca Popolare di Spoleto (profit of around Euro 0.4 million).

The caption "3. Financial assets available for sale" includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect. The gains from the sale of Mutual funds include the related tax credit.

With particular reference to "3.2 losses on equity instruments", it essentially consists:

- for Euro 4,356 thousand, of the loss resulting from payments to the FITD Voluntary Scheme for the recapitalisation of the banks sold to Cariparma Crédit Agricole;
- for Euro 1,527 thousand, of the difference between the transaction price and the amount determined using valuation techniques (day one loss) on a minority shareholding acquired during the reference period.

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



Section 7 - Net results on financial assets and liabilities designated at fair value - caption 110

7.1 Net change in value of financial assets and liabilities designated at fair value: breakdown

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					
1.1 Debt securities					
1.2 Equity instruments					
1.3 Mutual funds					
1.4 Loans					
2. Financial liabilities		27			27
2.1 Debt securities		27			27
2.2 Due to banks					
2.3. Due to customers					
3. Other financial assets and liabilities: exchange differences					
4. Derivatives		2	(37)		(35)
Total		29	(37)		(8)

The net gains (losses) on financial assets and liabilities designated at fair value result from the difference between the fair value measurement of Group bonds, subject to "natural hedging" on having applied the fair value option and the corresponding financial derivatives.

They also include the net gains (losses) from trading in these bonds.

Section 8 - Net impairment write-downs/write-backs - caption 130**8.1 Net impairment adjustments to loans and advances: breakdown**

Transactions/Income components	Write-downs (1)			Write-backs (2)				31.12.2017	31.12.2016
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers	(6,225)	(148,668)	(2,261)	23,587	47,822		6,704	(79,041)	(90,138)
Non-performing loans acquired									
- Loans									
- Debt securities									
Other receivables									
- Loans	(6,225)	(148,668)	(2,261)	23,587	47,822		6,704	(79,041)	(90,138)
- Debt securities									
C. Total	(6,225)	(148,668)	(2,261)	23,587	47,822		6,704	(79,041)	(90,138)

Key

A = Interest

B = Other write-backs

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-offs" column relates to losses from the write-off of doubtful loans.

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

- Doubtful loans for Euro 90,629 thousand (formerly Euro 133,219 thousand);
- Unlikely to pay loans for Euro 57,145 thousand (formerly Euro 97,440 thousand);
- Past due loans for Euro 1,004 thousand (formerly Euro 6,995 thousand).

"Portfolio write-downs" relate to the performing loans portfolio.

The specific interest write-backs (A) relate to the discount interest on the capital element which is deemed to be recoverable on doubtful and "unlikely to pay" loans.

"Other" specific write-backs relate to:

- doubtful loans amortised in previous years Euro 1,722 thousand (formerly Euro 1,974 thousand)
- collections of loans previously written down Euro 27,671 thousand (formerly Euro 25,171 thousand)
- write-backs Euro 18,429 thousand (formerly Euro 48,401 thousand)



8.2 Net impairment write-downs/write-backs of financial assets available for sale: breakdown

Transactions/Income components	Write-downs (1)		Write-backs (2)		31.12.2017	31.12.2016
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities						(15)
B. Equity instruments		(3,281)			(3,281)	(709)
C. Mutual funds		(6,400)			(6,400)	(1,541)
D. Loans to banks						
E. Loans to customers						
F. Total		(9,681)			(9,681)	(2,265)

Key

A = Interest

B = Other write-backs

Caption "B. Equity instruments" is made up:

- for Euro 2,231 thousand, of an adjustment of a minority bank shareholding acquired during the period under a commitment made previously as part of broader business agreements in connection with the sale of a stake held in the insurance business;
- for Euro 1,050 thousand, of the adjustment recorded on the equity instrument recorded for the contributions paid to the FITD Voluntary Scheme for the subscription of securities of the non-performing loan securitisation, on which a fair value adjustment was subsequently recognised.

Caption "C. Mutual funds" includes adjustments for Euro 4,165 thousand on the Atlante fund, of which:

- Euro 557 thousand, offset by the use of the same amount of the provision for the adjustment to the payment commitment made the previous year;
- for Euro 3,608 thousand following the write-off of the value of the banking interests held by the fund.

8.3 Net impairment write-downs/write-backs of financial assets held to maturity: breakdown

There were no net impairment adjustments to financial assets held to maturity in the years ended 31 December 2017 and 2016.

8.4 Net impairment adjustments to other financial assets: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				31.12.2017	31.12.2016
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given		(440)		1,927		2,316	3,803	2	
B. Credit derivatives									
C. Commitments to disburse									
D. Other transactions									
E. Total		(440)		1,927		2,316	3,803	2	

Key

A = Interest

B = Other write-backs

The caption "Write-backs – portfolio" includes the use:

- for Euro 557 thousand, of the adjustment to the payment commitment versus the Atlante Fund recorded the previous year;
- for Euro 1,683 thousand, of the provision for the purchase of the minority holding in a bank recorded the previous year.



Section 11 - Administrative costs - caption 180

11.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2017	31.12.2016
1) Employees	(173,198)	(197,030)
a) Wages and salaries	(117,302)	(116,901)
b) Social security charges	(30,869)	(30,531)
c) Termination indemnities		
d) Pension expenses		
e) Provision for termination indemnities	(561)	(699)
f) Provision for post-retirement benefits and similar commitments:		
- defined contribution		
- defined benefit		
g) Payments to external supplementary pension funds:	(11,414)	(11,423)
- defined contribution	(11,414)	(11,423)
- defined benefit		
h) Equity-based payments		
i) Other personnel benefits	(13,052)	(37,476)
2) Other active employees	(581)	(765)
3) Directors and auditors	(4,427)	(4,706)
4) Retired personnel		
Total	(178,206)	(202,501)

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 11.4 below.

11.2 Average number of employees by level

	31.12.2017	31.12.2016
1) Employees	2,340	2,359
a) managers	32	36
b) middle managers	1,099	1,091
c) other employees	1,209	1,232
2) Other personnel	4	4

11.3 Defined post-employment benefit obligations: costs and revenues

Balances were zero at the reporting dates.

11.4 Other personnel benefits

	31.12.2017	31.12.2016
Provision for sundry charges	(6,704)	(8,137)
Contributions to healthcare fund	(2,038)	(2,012)
Training and instruction costs	(976)	(276)
Rent expense of property used by employees	(250)	(385)
Redundancy incentives	231	(23,807)
Other	(3,315)	(2,859)
Total	(13,052)	(37,476)

The main components of the "Other" caption include company canteen costs of Euro 1,985 thousand (Euro 1,800 thousand) and costs relating to insurance premiums of Euro 532 thousand (Euro 469 thousand).

11.5 Other administrative costs: breakdown

	31.12.2017	31.12.2016
Indirect taxes and duties:		
- Stamp duty	(26,257)	(26,105)
- Other	(6,010)	(5,900)
Other costs:		
- IT expenses	(16,878)	(16,163)
- Lease of property and other assets	(13,612)	(14,228)
- Maintenance of buildings, furniture and equipment	(6,289)	(5,831)
- Post office and telegraph	(2,262)	(2,740)
- Telephone and data transmission	(5,882)	(5,354)
- Electricity, heating, water	(3,949)	(4,483)
- Cleaning services	(1,440)	(1,419)
- Printed matter, stationery and consumables	(1,216)	(1,320)
- Transport costs	(1,174)	(1,161)
- Surveillance and security	(2,697)	(2,539)
- Advertising	(2,113)	(1,972)
- Information and surveys	(2,294)	(2,289)
- Insurance premiums	(1,103)	(1,220)
- Legal fees	(6,410)	(6,196)
- Professional consulting fees	(8,057)	(7,062)
- Various contributions and donations	(292)	(301)
- Sundry expenses	(17,285)	(25,054)
Total	(125,220)	(131,337)

The caption "Sundry expenses" comprises the contributions of the year to Single Resolution Mechanism and to Deposit Guarantee Scheme for Euro 7,437 thousand (Euro 14,743 thousand in the previous year, including Euro 7,579 thousand of extraordinary contribution to the Single Resolution Mechanism) of which:

- Euro 3,501 thousand for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for the year (Euro 3,779 thousand in the previous period);
- Euro 3,936 thousand for the ex-ante ordinary contribution to the Deposit Guarantee Scheme (DGS) for the year (Euro 3,385 thousand in the previous year).



The comparative figure also included the contribution to the Interbank Fund Voluntary scheme for the intervention in favour of Banca Tercas of Euro 1,576 thousand (upon completion of the repayment of the contribution previously paid to the Interbank Fund of Euro 1,571 thousand, classified as write-backs of other financial transactions).

It also includes the fees paid to the auditing firm Deloitte & Touche S.p.A. and/or to other entities of the same network, for services provided to the Banco Desio Group for a total of Euro 1,057 thousand, summarised below by type of service provided.

Type of services	Party which provided the service	Recipient	Fees (in thousands of euro)
Audit	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	276
		Banca Popolare di Spoleto	165
		Fides	45
		Desio OBG	16
Attestation services	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	104
		Banca Popolare di Spoleto	29
		Fides	1
Other services:			
Risk Management and IFRS9 Methodological Support	Deloitte Consulting S.r.l.	Banco di Desio e della Brianza	238
		Banca Popolare di Spoleto	149
		Fides	34
Total			1,057

The fees are shown net of expenses, the CONSOB contribution (where due) and VAT.

Section 12 - Net provisions for risks and charges - caption 190**12.1 Net provisions for risks and charges: breakdown**

	Provision	Utilisations	31.12.2017	31.12.2016
charges for legal disputes	(4,244)	2,843	(1,401)	(3,379)
other	(144)	374	230	(400)
Total	(4,388)	3,217	(1,171)	(3,779)

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

Other charges include provisions for other operating risks, inclusive of tax disputes.

Section 13 - Net adjustments to property, plant and equipment - caption 200**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) 31.12.2017
A. Property, plant and equipment				
A.1 Owned	(7,780)			(7,780)
- for business purposes	(7,763)			(7,763)
- for investment purposes	(17)			(17)
A.2 Held under finance leases				
- for business purposes				
- for investment purposes				
Total	(7,780)			(7,780)

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

Details, by asset category, of the impact on the income statement of adjustments to property, plant and equipment are shown in caption "C.2 Depreciation" of the tables 12.5 and 12.6 of Section 12, Assets.



Section 14 - Net adjustments to intangible assets - caption 210

14.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result
				(a + b + c) 31.12.2017
A. Intangible assets				
A.1 Owned	(2,045)			(2,045)
- Generated internally				
- Other	(2,045)			(2,045)
A.2 Held under finance leases				
Total	(2,045)			(2,045)

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

Section 15 - Other operating charges/income - caption 220

15.1 Other operating charges: breakdown

	31.12.2017	31.12.2016
Amortisation of leasehold improvements	(2,257)	(2,427)
Losses on disposal of property, plant and equipment	(212)	(2)
Charges on non-banking services	(3,056)	(2,394)
Total	(5,525)	(4,823)

"Charges on non-banking services" include: charges for insurance deductibles and fraudulent withdrawals for Euro 126 thousand, charges related to the "Spoleto Mortgages 2011" securitised portfolio for Euro 323 thousand, losses from the disposal of other tangible assets for Euro 192 thousand and contingent liabilities not attributable to a specific item for Euro 735 thousand.

15.2 Other operating income: breakdown

	31.12.2017	31.12.2016
Recovery of taxes from third parties	29,059	28,680
Recharge of costs of current accounts and deposits	9,136	11,825
Rental and leasing income	52	47
Other expense recoveries	12,150	12,061
Gains on disposal of property, plant and equipment	3	2
Other	988	1,151
Total	51,388	53,766

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 6,270 thousand (Euro 9,133 thousand in the comparative period) and other recoveries for various communications to customers of Euro 2,684 thousand (Euro 2,463 thousand in the previous year).

"Other expense recoveries" include, in particular, recoveries of legal costs relating to various non-performing loans of Euro 4,398 thousand (Euro 5,462 thousand at 31 December last year), the recovery of investigation costs of various loans for Euro 1,511 thousand (Euro 1,415 thousand last year), recovery of appraisals in connection with mortgage loans of Euro 440 thousand (Euro 387 thousand), the recovery of sundry expenses relating to lease applications of Euro 381 thousand (Euro 517 thousand last year).

The caption "Other" includes, in particular, sundry out of period income of Euro 784 thousand.

Section 16 - Profit (loss) from equity investments - caption 240

16.1 Profit (loss) from equity investments: breakdown

Income item/Amounts	31.12.2017	31.12.2016
1) Companies subject to joint control		
A. Income		
1. Revaluations		
2. Gains on disposal		
3. Write-backs		
4. Other income		
B. Losses		
1. Write-downs		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result		
2) Associates (subject to significant influence)		
A. Income		7,616
1. Revaluations		
2. Gains on disposal		2,212
3. Write-backs		
4. Other income		5,404
B. Losses		
1. Write-downs		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result		7,616
Total		7,616

The "Gains on disposal" in the comparative period derive from the sale of the investments giving significant influence in Istifid (loss of Euro 0.4 million) and Chiara Assicurazioni (gain of Euro 2.6 million, including a price adjustment of Euro 0.4 million relating to the earlier disposal of 34% of Chiara Assicurazioni S.p.A. on 24 April 2013).

Caption "2) A.4 Other income" in the comparative period comprises the difference between the residual equity and the value at the end of the prior year of the liquidated companies, Rovere (Euro 0.1 million) and CPC (Euro 5.3 million), net of the estimated cost of cancelling them from the Companies Register.



Section 18 - Goodwill impairment - caption 260

The results of the testing of the recoverability of goodwill recognised in the consolidated financial statements did not indicate the need for any write-downs.

Section 19 - Gains (losses) on disposal of investments - caption 270

19.1 Gains (losses) on disposal of investments: breakdown

Income item/Amounts	31.12.2017	31.12.2016
A. Property	41	
- Gains on disposal	41	
- Losses on disposal		
B) Other assets		
- Gains on disposal		
- Losses on disposal		
Net result	41	

Caption "A. Property" refers to gains/losses on the disposal of properties used in operations by Group companies.

Section 20 - Income taxes on current operations - caption 290**20.1 Income taxes on current operations: breakdown**

Income items/Amounts	31.12.2017	31.12.2016
1. Current taxes (-)	(6,072)	(2,635)
2. Change in prior period income taxes (+/-)	1,161	42
3. Reduction in current taxes (+)		
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	(17,809)	(2,916)
5. Change in deferred tax liabilities (+/-)	3,084	3,493
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	(19,636)	(2,016)

Taxation for the prior year benefited from the step-up for tax purposes (pursuant to art. 15, paragraph 10, of Legislative Decree 185/2008) of the goodwill recorded by Banca Popolare di Spoleto in the balance sheet for the contribution of the former branches of Banco Desio Toscana and Banco Desio Lazio by the Parent Company for a total of Euro 8,068 thousand. The positive effect on net profit for the year is Euro 1,377 thousand, due to the difference between the substitute tax paid of Euro 1,291 thousand (shown in caption 1) and the change in deferred tax assets of Euro 2,668 thousand (shown in caption 4).

Caption "2. Change in prior period income taxes" refers mainly to the recalculation, carried out for the purpose of the tax return, of current IRAP accrued to 31/12/2016, in relation to loans sold in 2016, for which adjustments and write-backs recorded in the income statement from 2008 to 2012 were not recognised for IRAP purposes at the time of their inclusion.

Caption "4. Change in deferred tax assets" comprises the balance of captions "2.1 Deferred tax assets recognised during the year" and "3.1 Deferred tax assets cancelled in the year" (booked as a contra-entry to the income statement).

Caption "5. Change in deferred taxes" comprises the balance of the captions "2.1 Deferred tax liabilities recognised during the year" and "3.1 Deferred tax liabilities cancelled during the year" (booked as a contra-entry to the income statement).



20.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	64,595		64,595	
Costs not deductible for IRAP purposes			40,959	
Revenue not taxable for IRAP purposes			(25,882)	
Sub total	64,595		79,672	
Theoretical tax charge 27.5% IRES - 5.57% IRAP		(17,763)		(4,437)
Temporary differences taxable in subsequent years	(1,571)		(1,329)	
Temporary differences deductible in subsequent years	13,046		13,170	
Reversal of prior year temporary differences	(57,817)		(41,385)	
Differences that will not reverse in subsequent years	(4,512)		(8,967)	
Taxable income	13,741		41,161	
Current taxes for the year 27.5% IRES - 5.57% IRAP		(3,783)		(2,292)

Section 22 - Minority interests - caption 330**22.1 Details of caption 330 "Minority interests"**

Company name	31.12.2017	31.12.2016
Consolidated equity investments with significant minority interests		
Banca Popolare Spoleto	1,261	(14)
Desio OBG		
Profit/(loss) of minority interests	1,261	(14)

Section 24 - Earnings per share

	31.12.2017		31.12.2016	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Net profit of the Group attributable to the various classes of shares (thousands of euro)	38,486	5,212	22,503	3,048
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)	0.33	0.40	0.19	0.23
Diluted earnings per share (Euro)	0.33	0.40	0.19	0.23

24.1 Average number of ordinary shares (fully diluted)

There were no operations on share capital during the year and nor were there any issues of financial instruments that could lead to the issue of shares; accordingly, the average number of shares used to calculate diluted earnings per share is equal to 117,000,000 ordinary shares and 13,202,000 savings shares.

24.2 Other information

There is no other information to be disclosed.



PART D - CONSOLIDATED COMPREHENSIVE INCOME

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Captions	31.12.2017		Net amount
	Gross amount	Income taxes	
10. Net profit (loss) for the period			44,959
Other elements of income, without reversal to income statement			
20. Property, plant and equipment			
30. Intangible assets			
40. Defined-benefit pension plans	(802)	220	(582)
50. Non-current assets and disposal groups held for sale			
60. Portion of the valuation reserves of the equity investments carried at equity			
Other elements of income, with reversal to income statement			
70. Foreign investment hedges:			
a) changes in fair value			
b) reversal to income statement			
c) other changes			
80. Exchange differences:			
a) changes in fair value			
b) reversal to income statement			
c) other changes			
90. Cash-flow hedges:	1,368	(452)	916
a) changes in fair value	1,368	(452)	916
b) reversal to income statement			
c) other changes			
100. Financial assets available for sale:	32,250	(4,592)	27,658
a) changes in fair value	24,703	(2,116)	22,587
b) reversal to income statement	7,149	(2,344)	4,805
- impairment adjustments	2,018	(667)	1,351
- gains/losses on disposal	5,131	(1,677)	3,454
c) other changes	398	(132)	266
110. Non-current assets and disposal groups held for sale:			
a) changes in fair value			
b) reversal to income statement			
c) other changes			
120. Portion of the valuation reserves of the equity investments carried at equity:			
a) changes in fair value			
b) reversal to income statement			
- impairment adjustments			
- gains/losses on disposal			
c) other changes			
130. Total other elements of income	32,816	(4,824)	27,992
140. Total comprehensive income (Captions 10+130)			72,951
150. Total comprehensive income pertaining to minority interests			(2,701)
160. Total consolidated comprehensive income pertaining to Parent Company			70,250

PART E - 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.

SECTION 1 – RISKS FACED BY THE BANKING GROUP

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 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.

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. As part of the process for adaptation of the Internal Control System (as per Circular 285), a "Credit Control" structure has been established within the Risk Management function with the task of verifying and supervising the monitoring of loans by the competent corporate functions and intervening, where necessary, in the classification of problem loans and ensuring that appropriate provisions are made.

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 ECAs.

2.3 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 relevant, 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.

2.4. Impaired financial assets

Non-performing loans are classified as follows:

- 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.
- Non-performing past due and/or overdrawn 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.

Forborne exposures are individual transactions to a debtor, regardless of their classification as non-performing or performing, which would represent the subject of a "forbearance" (refinancing or modification of the contractual terms favourable for the debtor), if that forbearance is subsequent to the recognition of a present or future state of difficulty on the part of the debtor.

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 expected loss is, in fact, 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 relative to the individual legal jurisdiction.



Quantitative information

A. Credit quality

A.1 Non-performing and performing loans: amounts, adjustments, trends and economic and territorial distribution

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

Portfolio/Quality	Doubtful loans	Unlikely to pay	Past due non-performing loans	Past due non-performing loans	Other performing exposures	Total
1. Financial assets available for sale	-	-	-	-	1,420,994	1,420,994
2. Financial assets held to maturity	-	-	-	-	748,696	748,696
3. Due from banks	-	-	-	-	1,218,060	1,218,060
4. Loans to customers	494,173	321,341	8,410	215,547	8,822,391	9,861,862
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-
Total 31.12.2017	494,173	321,341	8,410	215,547	12,210,141	13,249,612
Total 31.12.2016	481,440	412,052	16,714	236,742	10,435,911	11,582,859

A.1.2 Distribution of credit exposures by portfolio and quality of lending (gross and net values)

Portfolio/Quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
1. Financial assets available for sale	-	-	-	1,420,994	-	1,420,994	1,420,994
2. Financial assets held to maturity	-	-	-	748,696	-	748,696	748,696
3. Due from banks	-	-	-	1,218,060	-	1,218,060	1,218,060
4. Loans to customers	1,463,061	(639,137)	823,924	9,078,600	(40,662)	9,037,938	9,861,862
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-	-
Total 31.12.2017	1,463,061	(639,137)	823,924	12,466,350	(40,662)	12,425,688	13,249,612
Total 31.12.2016	1,509,201	(598,995)	910,206	10,720,240	(47,587)	10,672,653	11,582,859

Portfolio/Quality	Assets with an obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	1	13	12,487
2. Hedging derivatives	-	-	5
Total 31.12.2017	1	13	12,492
Total 31.12.2016	-	31	19,920

At 31 December 2017 the amount of partial cancellations made on non-performing financial assets in the portfolio of Loans to customers amounted to Euro 76,734 thousand.

The portfolio of Loans to customers 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 31 December 2017 amounted to Euro 153,304 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 loans at 31 December 2017 - considering non-performing loans of the subsidiary BPS with their write-downs - amounted to Euro 1,616 million and total write-downs to Euro 792 million.



A.1.3 Banking Group – On- and off-balance sheet credit exposures to banks: gross and net amounts and past due bands

Types of exposure/amounts	Gross exposure				Performing loans	Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans							
	Up to 3 months	From 3 to 6 months	From 6 to 12 months	Beyond 1 year				
A. CASH EXPOSURE								
a) Doubtful loans	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
b) Unlikely to pay	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
c) Past due non-performing loans	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
d) Past due performing loans	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
e) Other performing exposures	-	-	-	-	1,444,332	-	-	1,444,332
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
TOTAL A	-	-	-	-	1,444,332	-	-	1,444,332
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	-	-	-	-	-	-	-	-
b) Performing	-	-	-	-	17,142	-	-	17,142
TOTAL B	-	-	-	-	17,142	-	-	17,142
TOTAL (A+B)	-	-	-	-	1,461,474	-	-	1,461,474

A.1.4 Banking Group – On-balance sheet credit exposures to banks: changes in gross doubtful loans

There are no such credit exposures at the reporting date.

A.1.4 bis Banking Group – On-balance sheet credit exposures to customers: changes in exposures subject to gross forbearance broken down by credit quality

There are no such credit exposures at the reporting date.

A.1.5 Banking Group – On-balance sheet credit exposures to banks: changes in total adjustments

There are no such credit exposures at the reporting date.

A.1.6 On- and off-balance sheet credit exposures to customers: gross and net amounts and past due bands

Types of exposure/amounts	Gross exposure				Performing loans	Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans							
	Up to 3 months	From 3 to 6 months	From 6 to 12 months	Beyond 1 year				
A. CASH EXPOSURE								
a) Doubtful loans	16	5,564	40,124	965,122		516,653		494,173
- of which: exposures subject to forbearance	-	149	12,049	88,112		48,368		51,942
b) Unlikely to pay	199,386	47,793	54,959	140,457		121,254		321,341
- of which: exposures subject to forbearance	106,051	21,290	16,320	53,338		46,598		150,401
c) Past due non-performing loans	6,668	2,384	381	207		1,230		8,410
- of which: exposures subject to forbearance	4,413	243	15	2		626		4,047
d) Past due performing loans					218,395		2,848	215,547
- of which: exposures subject to forbearance					24,864		704	24,160
e) Other performing exposures					10,805,788		37,814	10,767,974
- of which: exposures subject to forbearance					159,220		2,203	157,017
TOTAL A	206,070	55,741	95,464	1,105,786	11,024,183	639,137	40,662	11,807,445
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	13,377	-	-	3		1,328		12,052
b) Performing					415,306		816	414,490
TOTAL B	13,377	-	-	3	415,306	1,328	816	426,542
TOTAL (A+B)	219,447	55,741	95,464	1,105,789	11,439,489	640,465	41,478	12,233,987

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 31 December 2017; details are provided below:

- a) Doubtful loans: Euro 144,225 thousand;
- b) Unlikely to pay: Euro 9,076 thousand;
- c) Non-performing past due and/or overdrawn exposures: Euro 3 thousand



A.1.7 Banking Group – On-balance sheet credit exposures to customers: changes in gross non-performing loans

Description/Categories	Doubtful loans	Unlikely to pay	Past due non-performing loans
A. Opening gross exposure	938,370	551,634	19,197
- of which: sold but not derecognised	9,899	13,006	846
B. Increases	263,765	206,930	26,879
B.1 transfers from performing positions	2,799	134,780	22,644
B.2 transfers from other categories of non-performing exposures	213,993	16,366	1,766
B.3 other increases	46,973	55,784	2,469
C. Decreases	191,309	315,969	36,436
C.1 transfers to performing positions	-	21,272	12,119
C.2 write-offs	80,807	17	-
C.3 collections	57,002	77,953	7,908
C.4 proceeds from disposal	45,319	-	-
C.5 losses on disposal	8,164	-	-
C.6 transfers to other categories of non-performing exposures	17	215,725	16,384
C.7 other decreases	-	1,002	25
D. Closing gross exposure	1,010,826	442,595	9,640
- of which: sold but not derecognised	-	1,561	162

A.1.7 bis Banking Group – On-balance sheet credit exposures to customers: changes in exposures subject to gross forbearance broken down by credit quality

Description/Categories	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. Opening gross exposure	311,287	184,838
- of which: sold but not derecognised	3,367	2,964
B. Increases	61,192	84,005
B.1 transfers from performing positions not subject to forbearance	31,739	62,752
B.2 transfers from performing positions subject to forbearance	14,421	
B.3 transfer from exposures subject to forbearance		19,237
B.4 other increases	15,032	2,016
C. Decreases	70,497	84,759
C.1 transfers to performing positions not subject to forbearance	2,381	44,100
C.2 transfers to performing positions subject to forbearance	22,754	
C.3 transfer to exposures subject to forbearance deteriorate		14,421
C.4 write-offs	2,724	-
C.5 collections	41,082	18,811
C.6 proceeds from disposal	1,556	-
C.7 losses on disposal	-	-
C.8 other decreases	-	7,427
D. Closing gross exposure	301,982	184,084
- of which: sold but not derecognised	501	2,826

A.1.8 Banking Group – On-balance sheet credit exposures to customers: changes in total adjustments

Description/Categories	Doubtful loans		Unlikely to pay		Past due non-performing loans	
	Total	Of which: exposures subject to forbearance	Total	Of which: exposures subject to forbearance	Total	Of which: exposures subject to forbearance
A. Total opening adjustments	456,930	27,341	139,582	58,592	2,483	1,584
- of which: sold but not derecognised	3,966	228	2,399	471	109	68
B. Increases	199,722	26,593	68,355	13,281	1,306	401
B.1 write-downs	104,640	17,851	57,140	7,983	1,003	371
B.2 losses on disposal	8,164	-	-	-	-	-
B.3 transfers from other categories of non-performing exposures	61,504	7,993	733	484	300	-
B.4 other increases	25,414	749	10,482	4,814	3	31
C. Decreases	139,999	5,566	86,683	25,275	2,559	1,360
C.1 measurement write-backs	24,145	610	16,788	8,781	1,178	780
C.2 write-backs on collection	19,235	167	8,434	2,860	291	68
C.3 gains on disposal	7,644	-	-	-	-	-
C.4 write-offs	80,807	730	17	-	-	-
C.5 transfers to other categories of non-performing exposures	3	-	61,444	7,993	1,090	474
C.6 other decreases	8,165	4,059	-	5,641	-	28
D. Total closing adjustments	516,653	48,368	121,254	46,598	1,230	626
- of which: sold but not derecognised	-	-	66	14	12	5

A.2 Classification of exposures on the basis of external rating

A.2.1 Banking Group - Distribution of cash and "off-balance sheet" exposures by external rating class (book values)

Exposures	External rating class						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposures	97,381	650,535	3,085,927	725,535	109,636	47,451	8,535,312	13,251,777
B. Derivatives	43	94	669	14			8,705	9,525
B.1 Financial derivatives	43	94	669	14			8,705	9,525
B.2 Credit derivatives								
C. Guarantees given		43,738	64,364	21,238	5,372	4,090	161,842	300,644
D. Commitments to disburse funds		23,769	11,838	8,034	979	698	88,197	133,515
E. Other								
Total	97,424	718,136	3,162,798	754,821	115,987	52,239	8,794,056	13,695,461

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

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



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

A.2.2 Banking Group – Distribution of cash and "off-balance sheet" exposures by internal rating class

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 31.12.2017	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
Cash exposures	69.49%	23.85%	5.58%	1.08%	100%
Off-balance sheet exposures	82.19%	14.73%	2.24%	0.84%	100%

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Banking Group – Guaranteed credit exposures to banks

There are no such credit exposures at the reporting date.

A.3.2 Banking Group – Guaranteed credit exposures to customers

Amount of net exposures	Secured guarantees (1)				Unsecured guarantees (2)					Total (1)+(2)		
	Property, Mortgages	Property under finance leases	Securities	Other secured guarantees	Credit derivatives				Endorsement credits			
					Other derivatives				Other public entities		Banks	Other parties
					CLN	Government and central banks	Other public entities	Banks				
1. Guaranteed on-balance sheet exposures:	6,351,690	4,280,194	196,611	229,646	149,401				146,623	243	1,288,662	6,291,380
1.1. totally guaranteed	5,966,889	4,153,261	196,611	188,742	127,103				72,428	55	1,220,636	5,958,836
- of which: non-performing	581,698	459,688	13,561	3,325	9,832				1,941	30	91,887	580,264
1.2. partially guaranteed	384,801	126,933		40,904	22,832				74,195	188	68,026	332,544
- of which: non-performing	149,063	122,688		506	794				1,823	1	10,783	136,595
2. Guaranteed off-balance sheet exposures:	170,507	11,658		23,432	25,995					665	97,181	158,931
2.1. totally guaranteed	144,000	11,658		19,801	22,504						89,503	143,466
- of which: non-performing	6,485	320		448	321						5,397	6,486
2.2. partially guaranteed	26,507			3,631	3,491					665	7,678	15,465
- of which: non-performing	76										43	43



B. Distribution and concentration of credit exposures

B.1 Banking Group – Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

p.1

Exposures/Counterparties	Governments			Other public entities			Financial companies		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures									
A.1 Doubtful loans	-	-	-	-	-	-	604	(918)	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	16	(58)	-
A.2 Unlikely to pay	-	-	-	442	(344)	-	6,544	(4,544)	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	138	(186)	-
A.3 Past due non-performing loans	9	(1)	-	-	-	-	26	(5)	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	25	(5)	-
A.4 Performing loans	1,816,483	-	-	4,181	-	-	213,560	-	(925)
- of which: exposures subject to forbearance	-	-	-	-	-	-	3,936	-	(192)
Total A	1,816,492	(1)	-	4,623	(344)	-	220,728	(5,467)	(925)
B. Off-balance sheet exposures									
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-
B.3 Other doubtful loans	-	-	-	-	-	-	-	-	-
B.4 Performing loans	353	-	-	12,198	-	-	1,971	-	(7)
Total B	353	-	-	12,198	-	-	1,971	-	(7)
Total (A+B) 31.12.2017	1,816,845	(1)	-	16,821	(344)	-	222,705	(5,467)	(932)
Total (A+B) 31.12.2016	1,664,625	-	-	16,498	(425)	(5)	358,360	(1,546)	(2,090)

B.1 Banking Group – Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

p.2

Exposures/Counterparties	Insurance companies			Non-financial companies			Other parties		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures									
A.1 Doubtful loans	-	-		371,065	(551,753)		122,504	(108,207)	
- of which: exposures subject to forbearance	-	-		38,421	(38,975)		13,505	(9,335)	
A.2 Unlikely to pay	-	-		227,954	(102,403)		86,401	(23,039)	
- of which: exposures subject to forbearance	-	-		110,496	(37,712)		39,767	(8,700)	
A.3 Past due non-performing loans	-	-		5,701	(877)		2,674	(350)	
- of which: exposures subject to forbearance	-	-		3,125	(481)		897	(140)	
A.4 Performing loans	3,687		(1)	5,799,200		(33,996)	3,146,410		(5,740)
- of which: exposures subject to forbearance	-		-	132,556		(2,456)	44,685		(259)
Total A	3,687	-	(1)	6,403,920	(655,033)	(33,996)	3,357,989	(131,596)	(5,740)
B. Off-balance sheet exposures									
B.1 Doubtful loans	-	-		1,362	(715)		11	(1)	
B.2 Unlikely to pay	-	-		9,707	(607)		67	(4)	
B.3 Other doubtful loans	-	-		318	(1)		64	-	
B.4 Performing loans	209		(3)	359,836		(797)	39,923		(9)
Total B	209	-	(3)	371,223	(1,323)	(797)	40,065	(5)	(9)
Total (A+B) 31.12.2017	3,896	-	(4)	6,775,143	(656,356)	(34,793)	3,398,054	(131,601)	(5,749)
Total (A+B) 31.12.2016	6,418	-	(1,687)	6,605,156	(644,805)	(42,349)	3,143,886	(137,478)	(6,094)



B.2 Banking Group – Territorial distribution of on- and off-balance sheet credit exposures to customers (book value)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures										
A.1 Doubtful loans	493,978	(660,657)	193	(174)	2	(6)	-	-	-	(41)
A.2 Unlikely to pay	321,007	(130,302)	334	(28)	-	-	-	-	-	-
A.3 Past due non-performing loans	8,409	(1,233)	1	-	-	-	-	-	-	-
A.4 Performing loans	10,599,061	(40,614)	329,891	(47)	54,138	-	431	(1)	-	-
Total A	11,422,455	(832,806)	330,419	(249)	54,140	(6)	431	(1)	-	(41)
B. Off-balance sheet exposures										
B.1 Doubtful loans	1,374	(715)	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	9,774	(611)	-	-	-	-	-	-	-	-
B.3 Other doubtful loans	381	(2)	-	-	-	-	-	-	-	-
B.4 Performing loans	413,877	(816)	613	-	-	-	-	-	-	-
Total B	425,406	(2,144)	613	-	-	-	-	-	-	-
Total A+B 31.12.2017	11,847,861	(834,950)	331,032	(249)	54,140	(6)	431	(1)	-	(41)
Total A+B 31.12.2016	11,778,953	(835,814)	15,007	(614)	429	(6)	552	(1)	2	(44)

B.3 Banking Group – Territorial distribution of on- and off-balance sheet credit exposures to banks (book value)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past due non-performing loans	-	-	-	-	-	-	-	-	-	-
A.4 Performing loans	1,354,286	-	80,034	-	2,829	-	1,628	-	5,555	-
Total A	1,354,286	-	80,034	-	2,829	-	1,628	-	5,555	-
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other doubtful loans	-	-	-	-	-	-	-	-	-	-
B.4 Performing loans	10,999	-	5,675	-	-	-	468	-	-	-
Total B	10,999	-	5,675	-	-	-	468	-	-	-
Total A+B	31.12.2017	1,365,285	-	85,709	-	2,829	-	2,096	-	5,555
Total A+B	31.12.2016	219,597	-	8,389	-	2,438	-	4,867	-	83



B.4 Large exposures

With reference to current supervisory regulations, the situation at 31 December 2017 is reported below:

<i>Description</i>	<i>Nominal amount</i>	<i>Weighted amount</i>	<i>Number of positions</i>
Large exposures	3,175,236	165,279	4

The four positions indicated relate to exposures to the Bank of Italy, the Treasury Ministry, the Spanish Government and the Guarantee Fund as per Law 662 of 23.12.1996.

C. Securitisation transactions

Not applicable

D. Disclosures on structured entities not consolidated from an accounting point of view (other than SPVs)

Not applicable

E. Asset disposals

A. Financial assets sold and not fully derecognised

Qualitative information

The prior year figures in this section relate entirely to repurchase agreements with ordinary customers.

Assets (table E.1) include the fair value and the book portfolio of debt securities used as collateral in such transactions; liabilities (table E.2) include the present value of the amounts due to customers generated by such funding transactions.

The assets transferred (which continue to be fully recognised in the financial statements) cannot be used by the Group in other transactions of this type, nor can they be sold before expiry of the repurchase agreements.

As in all transactions of this type, the Group is exposed to counterparty risk, which is the risk that the lending party does not return the underlying notional on maturity.

Quantitative information**E.1 Banking Group - Financial assets sold but not derecognised: book value and full value**

p.1

Technical forms/Portfolio	Financial assets held for trading			Financial assets designated at fair value through profit and loss		
	A	B	C	A	B	C
A. Cash assets						
1. Debt securities						
2. Equity instruments						
3. Mutual funds						
4. Loans						
B. Derivatives						
Total 31.12.2017						
<i>of which: non-performing</i>						
Total 31.12.2016						
<i>of which: non-performing</i>						

E.1 Financial assets sold but not derecognised: book value and full value

p.2

Technical forms/Portfolio	Financial assets available for sale			Financial assets held to maturity		
	A	B	C	A	B	C
A. Cash assets						
1. Debt securities						
2. Equity						
3. Mutual funds						
4. Loans						
B. Derivatives						
Total 31.12.2017						
<i>of which: non-performing</i>						
Total 31.12.2016						104,256
<i>of which: non-performing</i>						

E.1 Financial assets sold but not derecognised: book value and full value

p.3

Technical forms/Portfolio	Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	31.12.2017	31.12.2016
A. Cash assets								104,256
1. Debt securities								104,256
2. Equity instruments								
3. Mutual funds								
4. Loans								
B. Derivatives								
Total 31.12.2017								
<i>of which: non-performing</i>								
Total 31.12.2016								104,256
<i>of which: non-performing</i>								

Key

- A = Financial assets sold and recognised in full (book value)
 B = Financial assets sold and recognised in part (book value)
 C = Financial assets sold and recognised in part (full value)



E.4. Banking Group - Covered bonds

2017 saw the launch of the "Covered Bond - Desio OBG" programme, designed to achieve benefits in terms of funding (diversification of deposits, lower funding cost and funding sources with longer maturities). The Programme, which is multi-seller in nature, involves:

- Banco di Desio e della Brianza (Parent Company) in the role of (1) originator bank, (2) lending bank, and (3) bank issuing the covered bonds;
- Banca Popolare di Spoleto, in the role of (1) originator bank and (2) lending bank;
- Desio OBG S.r.l. (Vehicle or SPV), as a special purpose vehicle for the sale of eligible assets by BDB and BPS, 60% owned by the Parent Company;
- BNP Paribas, as the counterparty in the swap taken out to hedge the potential risk generated by the mismatch between the fixed rate on the covered bond and the mix of rates on the portfolio.

More specifically, the "Covered Bond - Desio OBG" programme envisages:

1. the non-revolving sale without recourse of a residential mortgage loan portfolio made up 70.1% by mortgages of the Parent Company and 29.9% by loans of BPS;
2. simultaneous disbursement of a subordinated loan to the SPV by BDB and BPS, pro-quota for their share of the loan portfolio transferred;
3. issuance by BDB of covered bonds for Euro 500 million with a maturity of 7 years (first issue on 5 September 2017), subsequently integrated on 31 October 2017, bringing the total issue of covered bonds to Euro 575 million.
4. disbursement by the Parent Company to BPS of a loan of Euro 171.9 million, in proportion to its participation in the Programme, at the same terms as those obtained by issuing the covered bonds.
5. a liability swap on the covered bonds issued taken out by the SPV for a notional amount of Euro 300 million with a counterparty external to the Group (BNP Paribas);
6. a back-swap taken out by BDB for the same notional amount of Euro 300 million with the same counterparty, as a mirror-image of the previous one;
7. another back-swap taken out by BDB for a notional amount of Euro 89.7 million (or 29.9% of the notional value of the previous derivatives) with BPS as counterparty, as a mirror-image of the previous one.

The main characteristics of the issue are summarised below:

- a) *SPV name*: Desio OBG S.r.l.
- b) *Type of underlying loans*: Residential mortgage loans;
- c) *Value of the loans sold*: total of Euro 831 million, of which Euro 272 million sold by the Parent Company and Euro 249 million by Banca Popolare di Spoleto;
- d) *Amount of subordinated loan*: Euro 831 million, of which Euro 582 million disbursed by the Parent Company and Euro 249 million by Banca Popolare di Spoleto;
- e) *Nominal value of the covered bonds issued*: Euro 575 million;
- f) *Interest rate on covered bonds issued*: fixed rate of 0.875%.

On 31 December 2017, the loan portfolio sold by the two Group banks has a book value of about Euro 785 million.

F. Banking Group - Credit risk measurement models

Group companies do not use internal portfolio models for measuring exposure to credit risk.

1.2 Banking Group - 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 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

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

EURO

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	1	579	6	2	-	1,531	-
1.1 Debt securities	-	1	579	6	2	-	1,531	-
- with early redemption option	-	-	579	-	-	-	-	-
- other	-	1	-	6	2	-	1,531	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	181	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	181	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	1,167	111	-	-
+ Short positions	-	-	-	-	1,093	185	-	-
- Other derivatives								
+ Long positions	-	419,103	5,901	4,343	213	-	1,214	-
+ Short positions	8,182	403,908	6,597	4,524	1,528	2,241	4,582	-

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives
OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	400,821	5,613	4,342	-	-	-	-
+ Short positions	-	400,034	5,613	4,342	-	-	-	-

2. Regulatory trading book: distribution of exposures concerning equities and equity indices by the main countries where they are listed

Type of operation / equity index	Listed			Unlisted
	Italy	United States	Other	
A. Equity instruments	3,183		1,459	
long positions	3,183		1,459	
short positions				
B. Unsettled transactions in equity securities				
long positions				
short positions				
C. Other equity security derivatives	174		7	
long positions	174		7	
short positions				
D. Equity index derivatives				
long positions				
short positions				



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

The monitoring of the "trading portfolio reported for supervisory purposes" in 2017 evidenced a structure with limited market risks. Related VaR at 31.12.2017 amounted to €0.147 million, with a percentage of 1.32% 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.

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 volatility 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 performed through parallel shifts in the yield curve. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

B. 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 amortizing 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.

C. 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.



Quantitative information

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

EURO

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	1,146,920	7,108,247	1,079,244	277,047	2,346,720	769,719	403,189	2,202
1.1 Debt securities	-	308,278	690,264	-	977,874	170,803	9,115	-
- with early redemption option	-	37,345	-	-	5,595	4,585	-	-
- other	-	270,933	690,264	-	972,279	166,218	9,115	-
1.2 Loans to banks	53,616	1,097,955	-	-	-	-	1,346	-
1.3 Loans to customers	1,091,604	5,702,014	388,980	277,047	1,369,846	598,916	392,728	2,202
- current accounts	910,399	633,161	6,018	127,317	127,070	-	-	-
- other loans	181,205	5,068,853	382,962	264,730	1,242,776	598,916	392,728	2,202
- with early redemption option	120,714	4,082,853	277,159	174,903	604,006	359,629	386,774	2,202
- other	60,491	986,000	105,803	89,827	638,770	239,287	5,954	-
2. Cash liabilities	7,024,364	1,726,819	459,554	589,341	2,154,430	585,394	11,541	-
2.1 Due to customers	6,879,708	1,422,559	325,989	363,210	131,527	8,550	8,384	-
- current accounts	6,696,697	1,407,075	321,920	336,112	93,392	-	-	-
- other payables	183,011	15,484	4,069	27,098	38,135	8,550	8,384	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	183,011	15,484	4,069	27,098	38,135	8,550	8,384	-
2.2 Due to banks	(460,148)	-	-	-	1,592,800	-	-	-
- current accounts	(548,705)	-	-	-	-	-	-	-
- other payables	88,557	-	-	-	1,592,800	-	-	-
2.3 Debt securities	34,260	306,435	133,565	226,131	430,103	576,844	3,157	-
- with early redemption option	-	18,616	-	-	-	-	-	-
- other	34,260	287,819	133,565	226,131	430,103	576,844	3,157	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	184	353	-	152	-	-	-
+ Short positions	-	660	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	24,597	40,399	75,900	213,574	74,251	31,111	-
+ Short positions	-	396,391	4,695	-	20,063	38,681	-	-
- Other derivatives								
+ Long positions	-	138,260	-	-	-	-	-	-
+ Short positions	-	88	90	183	131,381	1,639	4,878	-
4. Other off-balance sheet transactions								
+ Long positions	(60,673)	-	-	-	-	-	-	-
+ Short positions	60,673	-	-	-	-	-	-	-

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	28,064	70,786	1,772	-	13,360	-	-	-
1.1 Debt securities	-	-	-	-	13,360	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	13,360	-	-	-
1.2 Loans to banks	26,657	34,844	590	-	-	-	-	-
1.3 Loans to customers	1,407	35,942	1,182	-	-	-	-	-
- current accounts	498	-	-	-	-	-	-	-
- other loans	909	35,942	1,182	-	-	-	-	-
- with early redemption option	909	3,595	626	-	-	-	-	-
- other	-	32,347	556	-	-	-	-	-
2. Cash liabilities	92,035	6,179	1,425	-	-	-	-	-
2.1 Due to customers	91,894	3,586	1,425	-	-	-	-	-
- current accounts	91,894	3,586	1,425	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	141	2,593	-	-	-	-	-	-
- current accounts	1	-	-	-	-	-	-	-
- other payables	140	2,593	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet								
+ Long positions	-	(217)	-	-	-	-	-	-
+ Short positions	-	217	-	-	-	-	-	-



2. 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 31 December 2017, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 31.12.2017

	+100 bps	-100 bps
<i>% of the expected margin</i>	4.52%	-24.28%
<i>% of net interest and other banking income</i>	2.31%	-12.52%
<i>% of the result of the year</i>	14.96%	-81.04%
<i>% of shareholders' equity</i>	0.69%	-3.72%

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 31.12.2017

	+100 bps	-100 bps
<i>% of the economic value</i>	-7.69%	5.93%

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 different from 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 considering the possibility of taking advantage of any market opportunities. Transactions that involve taking on exchange risk are managed through appropriate hedging strategies.



Quantitative information

1. Distribution by currency of denomination of assets, liabilities and derivatives

Captions	Currencies				
	US Dollar	Pound Sterling	Yen	Swiss Franc	Other currencies
A. Financial assets	97,178	5,670	3,183	3,967	8,656
A.1 Debt securities	8,225				5,134
A.2 Equity instruments	3,978				454
A.3 Loans to banks	52,577	4,451	18	2,304	2,983
A.4 Loans to customers	32,398	1,219	3,165	1,663	85
A.5 Other financial assets					
B) Other assets	252	234	51	85	87
C. Financial liabilities	84,589	5,581	2,884	3,837	2,993
C.1 Due to banks	140		2,593		243
C.2 Due to customers	84,449	5,581	291	3,837	2,750
C.3 Debt securities					
C.4 Other financial liabilities					
D. Other liabilities	2,733	19	5	36	8
E. Financial derivatives					
- Options					
+ Long positions					
+ Short positions					
- Other					
+ Long positions	319,330	43,981	42,599	1,436	3,442
+ Short positions	318,109	43,997	42,892	1,541	3,456
Total assets	416,760	49,885	45,833	5,488	12,185
Total liabilities	(405,431)	(49,597)	(45,781)	(5,414)	(6,457)
Net balance (+/-)	11,329	288	52	74	5,728

2. Internal models and other methodologies for 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.

1.2.4 Financial instruments

A. Financial derivatives

A.1 Regulatory trading book: notional values at the end of period

Underlying assets/Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	19,246		32,500	
a) Options	1,469		5,726	
b) Swap	17,777		26,774	
c) Forward				
d) Futures				
e) Other				
2. Equities and equity indices	181		19	
a) Options	181		19	
b) Swap				
c) Forward				
d) Futures				
e) Other				
3. Currency and gold	812,970		477,733	
a) Options				
b) Swap				
c) Forward	812,970		477,733	
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	832,397		510,252	



A.2 Banking book: period-end notional values

A.2.1 Hedging

Underlying assets/Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	144,715	-	171,887	-
a) Options	6,455	-	9,577	-
b) Swap	138,260	-	162,310	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlyings	-	-	-	-
Total	144,715	-	171,887	-

A.2.2 Other derivatives

Underlying assets/Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	-	-	53,700	-
a) Options	-	-	35,800	-
b) Swap	-	-	17,900	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlyings	-	-	-	-
Total	-	-	53,700	-



A.3 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Positive fair value			
	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	10,339		12,156	
a) Options	181		23	
b) Interest rate swaps	5,613		9,887	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	4,545		2,246	
f) Futures				
g) Other				
B. Banking book - hedging	5		2,591	
a) Options	5		10	
b) Interest rate swaps			2,581	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives			535	
a) Options				
b) Interest rate swaps			535	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	10,344		15,282	

A.4 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Negative fair value			
	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	7,976		6,230	
a) Options				
b) Interest rate swaps	3,450		4,074	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	4,526		2,156	
f) Futures				
g) Other				
B. Banking book - hedging	4,724		6,637	
a) Options				
b) Interest rate swaps	4,724		6,637	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	12,700		12,867	



A.5 OTC financial derivatives – regulatory trading book: notional values, positive and negative gross fair values by counterparty – contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value							213
- positive fair value							13
- negative fair value							
- future exposure							1
2. Equities and equity indices							
- notional value				54		127	
- positive fair value				54		127	
- negative fair value							
- future exposure				54		127	
3. Currency and gold							
- notional value			396,972	141,278		24,796	249,925
- positive fair value			4,153	109		273	10
- negative fair value			217	1,270		208	2,831
- future exposure			3,970	1,413		248	2,499
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

A.6 OTC financial derivatives – trading portfolio for supervisory purposes: notional values, positive and negative gross fair values by counterparty – contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest							
- notional value			19,033				
- positive fair value			5,600				
- negative fair value (offsetting)			3,450				
2. Equities and equity indices							
- notional value							
- positive fair value (offsetting)							
- negative fair value (offsetting)							
3. Currency and gold							
- notional value							
- positive fair value (offsetting)							
- negative fair value (offsetting)							
4. Other instruments							
- notional value							
- positive fair value (offsetting)							
- negative fair value (offsetting)							

A.8 OTC financial derivatives – banking book: notional values, positive and negative gross fair values by counterparty – contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value			144,715				
- positive fair value				5			
- negative fair value				4,724			
2. Equities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
3. Currency and gold							
- notional value							
- positive fair value							
- negative fair value							
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							

A.9 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Trading portfolio for supervisory purposes	820,969	2,206	9,222	832,397
A.1 Financial derivatives linked to debt securities and interest rates	7,999	2,025	9,222	19,246
A.2 Financial derivatives linked to equities and stock indices		181		181
A.3 Financial derivatives linked to exchange	812,970			812,970
A.4 Financial derivatives linked to other				
B. Banking book	361	131,381	12,973	144,715
B.1 Financial derivatives linked to debt securities and interest rates	361	131,381	12,973	144,715
B.2 Financial derivatives linked to equities and stock indices				
B.3 Financial derivatives linked to exchange				
B.4 Financial derivatives linked to other				
Total 31.12.2017	821,330	133,587	22,195	977,112
Total 31.12.2016	564,846	63,936	107,058	735,840



C. Financial and credit derivatives

C.1 OTC Financial and credit derivatives: net fair values and future exposure by counterparty

	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non- financial companies	Other parties
1) Bilateral financial derivative agreements			13,131				
- positive fair value			4,786				
- negative fair value			7,355				
- future exposure			989				
- net counterparty risk							
2) Bilateral credit derivative agreements							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3) Cross product agreements							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							

1.3. Banking Group - 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.

Self-securitisation transactions

On 9 December 2011, the subsidiary Banca Popolare di Spoleto completed a self-securitisation, which led to the sale of a package of Euro 425 million of residential mortgages to the SPV "Spoleto Mortgages 2011 - Società per la Cartolarizzazione Srl". The Notes issued by the SPV were all acquired by Banca Popolare di Spoleto.

On 23 November 2017, Banca Popolare di Spoleto repurchased without recourse all of the loans sold to Spoleto Mortgages 2011, excluding those fully repaid at 31 October 2017 (included), completing early termination of the self-securitisation.

Quantitative information**1. Distribution of financial assets and liabilities by residual contractual duration**

EURO

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	1,698,243	14,580	153,024	208,107	968,813	582,979	804,444	4,835,201	3,026,391	1,098,106
A.1 Government securities	-	-	136	-	253	43,824	43,124	1,240,002	458,453	-
A.2 Other debt securities	19	1	-	14,281	3,398	2,429	1,635	265,705	85,502	-
A.3 Mutual funds	38,162	-	-	-	-	-	-	-	-	-
A.4 Loans	1,660,062	14,579	152,888	193,826	965,162	536,726	759,685	3,329,494	2,482,436	1,098,106
- Banks	(50,238)	-	-	-	-	-	-	-	1,346	1,098,106
- Customers	1,609,824	14,579	152,888	193,826	965,162	536,726	759,685	3,329,494	2,481,090	-
Cash liabilities	7,755,351	24,397	16,864	57,006	616,116	438,865	612,332	2,487,999	600,338	-
B.1 Deposits and current accounts	7,714,672	16,192	15,427	55,816	522,186	326,356	364,323	125,312	-	-
- Banks	(23,884)	-	-	-	-	-	-	-	-	-
- Customers	7,690,788	16,192	15,427	55,816	522,186	326,356	364,323	125,312	-	-
B.2 Debt securities	2,258	8,205	1,437	1,190	93,930	95,970	231,470	705,672	582,141	-
B.3 Other liabilities	38,421	-	-	-	-	16,539	16,539	1,657,015	18,197	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	3,397	315	150,288	249,070	6,040	4,343	224	-	-
- Short positions	-	4,697	305	150,362	249,027	5,680	4,337	218	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	5,613	-	-	-	-	-	-	-	-	-
- Short positions	3,450	-	-	88	241	327	657	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	21,318	-	5	(109)	979	518	1,064	9,191	12,793	-
- Short positions	78,065	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	1	-	-	-	17	30	13	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-



1. Distribution of financial assets and liabilities by residual contractual duration

OTHER CURRENCIES

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	31,220	8,360	14,836	25,616	22,376	1,911	67	13,613	450	-
A.1 Government securities	-	-	-	-	-	36	36	8,338	-	-
A.2 Other debt securities	-	-	-	-	-	54	-	5,081	13	-
A.3 Mutual funds	3,849	-	-	-	-	-	-	-	-	-
A.4 Loans	27,371	8,360	14,836	25,616	22,376	1,821	31	194	437	-
- Banks	26,652	8,360	10,404	12,543	3,600	595	-	-	-	-
- Customers	719	-	4,432	13,073	18,776	1,226	31	194	437	-
Cash liabilities	92,038	-	2,593	-	3,591	1,431	-	-	-	-
B.1 Deposits and current accounts	91,898	-	2,593	-	3,591	1,431	-	-	-	-
- Banks	1	-	2,593	-	-	-	-	-	-	-
- Customers	91,897	-	-	-	3,591	1,431	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	140	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	4,371	302	149,196	246,952	5,613	4,342	-	-	-
- Short positions	-	3,576	311	149,196	246,951	5,613	4,342	-	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	-	217	-	-	-	-	-	-	-	-
- Short positions	-	217	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.4 Banking Group - Operational risk

Qualitative information

A. General aspects, management and measurement of operational risk

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

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

As regard to, 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 (active since 2007);
- 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 some time ago that is capable of providing information concerning the events in question: number of events, amount of losses, gross and net of any recoveries, at predefined intervals.

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.



The 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. A summary table of legal disputes with the related provisions is shown below:

	Number	Claim	Provisions
Claw-back suits	16	€ 12.404 million	€ 0.899 million
Other lawsuits	654	€ 84.674 million	€ 12.421 million

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

- CLAIM € 1.833 million. Litigation initiated by the user of a property leased by Banco di Desio e della Brianza S.p.A. to seek invalidation of the effects of certain clauses of the lease agreement, as well as the reimbursement of € 1.833 million, being an amount allegedly paid by the counterparty as a penalty for the termination of the agreement. The Bank appeared before the court to request that the claims be dismissed given that the disputed clauses were expressly approved by the company, while the claim for damages was based on the erroneous assumption that the amount of € 1.833 million was paid as a penalty, whereas it was an advance payment of lease instalments for the use of the leased property. The Court of Rome, with a ruling filed on 18 November 2017 accepting an exception raised by the Bank, declared its territorial incompetence and set a legal deadline (three months) for the counterparty to resume the case before the Court of Monza, which is competent;
- CLAIM: € 2 million. By writ of summons, the counterparty brought legal proceedings against Banco di Desio e della Brianza S.p.A. 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 Banco di Desio e della Brianza S.p.A. to return an amount that was lower than the claim. The counterparty lodged an appeal. Banco di Desio e della Brianza S.p.A. 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 € 1.103 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by Banco di Desio e della Brianza S.p.A. 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 € 1.2 million and Banco Desio has opposed the injunction, mainly by reason of the legitimacy of the request, including the stance that, in the meantime, 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 Banco Desio to pay a sum of € 1.2 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 concerning the appeal lodged by Banco Desio against the Court of Appeal's decision;
- CLAIM € 2.784 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than the legal and usury rates and the

application of expenses, value dates, fees and commissions that had never been agreed. The judge appointed an expert witness whose report appears to be in favour of Banco Desio della Brianza S.p.A.; the counterparty appealed, but the court has rejected the petition. The ruling has been challenged by the company and the guarantors by an appeal to the Supreme Court, but, as things now stand, a date has not yet been set for the hearing by the Supreme Court;

- CLAIM € 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 a handwriting expert appraisal.

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

- CLAIM € 1.933 million: the receivership summoned Banca Popolare di Spoleto S.p.A. 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. The first hearing before the Court of Appeal of Perugia is scheduled for 26 April 2018;
- CLAIM € 4.7 million: the Receivership summoned Banca Popolare di Spoleto S.p.A. before the Court of Perugia for it to be ordered to refund € 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 BPS and the bankruptcy of the company. During 2017 the expert appraisal was filed, stating that the Bank was not responsible;
- CLAIM € 1.461 million: with an appeal served in 2013, a former employee appealed against the interruption of his employment contract by Banca Popolare di Spoleto S.p.A., asking for the Bank to be condemned to pay the salary disparity allegedly not paid, his re-employment or, as an alternative, an order to pay damages. The Bank appealed, arguing the legality of the dismissal which was for serious acts performed by the former employee. The next hearing will be held on 15 March 2018 for a discussion between the parties;
- CLAIM € 1.526 million: by writ notified in 2015, the counterparty summoned Banco di Desio e della Brianza S.p.A. and Banca Popolare di Spoleto S.p.A. 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 S.p.A. 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. The next hearing is scheduled for 19 April 2018 when there will be a formal interrogation of the counterparty;
- CLAIM € 2.305 million: the receivership summoned Banca Popolare di Spoleto S.p.A. 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) € 1.9 million as penalty for the corporate and accounting crimes perpetrated by former officers and (b) € 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;

- CLAIM € 7.310 million: with a writ notified in 2013, the Receivership summoned Banca Popolare di Spoleto S.p.A. 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, and therefore about three years before the declaration of bankruptcy (judgement 21 March 2013), Banca Popolare di Spoleto, 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 public administration, for an amount of € 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 instances proposed by the Receivership. The Judge scheduled the hearing for 4 April 2018 for clarification of the conclusions without carrying out a preliminary investigation.
- CLAIM € 1.744 million: the company, as well as the guarantors, sued Banca Popolare di Spoleto S.p.A. 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 € 338 thousand for interest allegedly not due, in addition to € 169 thousand by way of damages for the company and € 730 thousand for each guarantor in compensation for damages for breach of the principles of fairness and good faith. The judge has reserved judgement on the evidence. This case appears to be unfounded, given the favourable jurisprudence regarding similar situations and the general nature of the application for damages;
- CLAIM € 3.366 million: in a summons rejecting the injunction, the counterparty brought legal proceedings against Banca Popolare di Spoleto alleging that the injunction was illegitimate for various reasons. The counterparty has counterclaimed, requesting that the Bank and another three counterparties be ordered to pay damages totalling € 3.3 million. The Bank promptly appeared in court to contest all claims and exceptions. The judge rejected the request to suspend provisional enforcement of the opposing injunction, limiting the scope of the matter to the following issues: compound interest charges and departure from contractual conditions; the judge also referred the counterclaim advanced by the counterparty to the special business section of the Perugia Court. The appraisal prepared by the Bank's expert has identified that the claims of the counterparty in the opposing injunction are essentially unfounded. The judge scheduled a hearing for 9 January 2018 for the submission of documents and the admission of any evidence. During this last hearing, the Judge postponed negotiations to 20 March 2018, given the clear desire to come to an agreement between the parties for abandonment of the court case.
- CLAIM € 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 the Bank) and asked that they be convicted, jointly and severally among them and the cooperative, to pay the sum of € 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 € 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 € 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. After the mediation process was completed, the case was postponed to 28 March 2018 after the filing of the statements pursuant to art. 183, paragraph VI, of the Code of Civil Procedure (terms currently pending).

* * *

Banca Popolare di Spoleto, as jointly liable, has taken steps to maintain appropriate funds set up with reference to penalties imposed to two employees that the Ministry of Economy accused of money laundering (in accordance with Law 197/91) for events dating back to 2005 and 2006 of which the Bank only became aware in 2008. The hearing of the conclusions has been scheduled for 15 February 2018.

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 € 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.



Quantitative information

The number of detrimental events recorded by the Group in 2017 comes to 2,717. 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	0.15%	6.06%	3.90%	37.52%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetrated by third parties	1.99%	13.22%	13.59%	0.29%
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	0.22%	11.72%	12.08%	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)	17.85%	43.21%	44.54%	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	0.66%	0.51%	0.53%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.33%	0.78%	0.80%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	78.80%	24.51%	24.56%	2.76%
TOTAL Banco Desio e della Brianza Group	100.00%	100.00%	100.00%	2.99%

The gross operating loss comes to Euro 6.014 million, for which provisions were made during the year of Euro 3.507 million. Of the total gross loss, an amount was recovered of Euro 179 thousand, resulting in a net operating loss of Euro 5.835 million.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY

A. Qualitative information

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

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

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

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



B. Quantitative information

B.1 Patrimonio consolidato: ripartizione per tipologia di impresa

Voci del patrimonio netto	Gruppo Bancario	Imprese di assicurazione	Altre imprese	Elisioni e aggiustamenti da consolidament	31.12.2017
Capitale sociale	125.457				125.457
Sovrapprezzi di emissione	31.594				31.594
Riserve	739.042				739.042
- di utili:	721.430				721.430
a) legale	93.426				93.426
b) statutaria	535.468				535.468
c) azioni proprie	51				51
d) altre	92.485				92.485
- altre	17.612				17.612
Strumenti di capitale (Azioni proprie)	(51)				(51)
Riserve da valutazione:	38.840				38.840
- Attività finanziarie disponibili per la vendita	20.199				20.199
- Attività materiali					
- Attività immateriali					
- Copertura di investimenti esteri					
- Copertura dei flussi finanziari	(867)				(867)
- Differenze di cambio					
- Attività non correnti in via di dismissione					
- Utili (perdite) attuariali relativi a piani previdenziali a benefici definiti	(3.388)				(3.388)
- Quote delle riserve da valutazione relative alle partecipate valutate al patrimonio netto					
- Leggi speciali di rivalutazione	22.896				22.896
Utile (perdita) d'esercizio (+/-) del gruppo e di terzi	44.959				44.959
Patrimonio netto	979.841				979.841

B.2 Valuation reserves for financial assets available for sale: breakdown

Assets/Amounts	Banking Group		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	2,873	(6,448)							2,873	(6,448)
2. Equity instruments	24,105								3,703	24,105
3. Mutual funds		(1,215)							960	
4. Loans										
Total 31.12.2017	26,978	(7,663)							26,978	(7,663)
Total 31.12.2016	4,321	(11,188)							4,321	(11,188)

B.3 Valuation reserves pertaining to financial assets available for sale: changes in the year

	Debt securities	Equity instruments	Mutual funds	Loans
1. Opening balance	(8,657)	2,553	(2,233)	
2. Positive changes	9,908	21,560	2,339	
2.1 Fair value increases	2,575	21,560		
2.2 Reversal to income statement of negative reserves	6,259		2,339	
- from impairment			1,351	
- from disposals	6,259		988	
2.3 Other changes	1,074			
3. Negative changes	(4,826)	(8)	(1,321)	
3.1 Fair value decreases	(1,210)		(340)	
3.2 Impairment adjustments				
3.3 Reversal to income statement from positive reserve: from disposals	(2,811)		(981)	
3.4 Other changes	(805)	(8)		
4. Closing balance	(3,575)	24,105	(1,215)	

With reference to equities, note that the bank recorded a total (gross) revaluation of Euro 23,170 thousand of the minority investment held in Cedacri, in consideration of the price paid for the shares in transactions between various shareholders and the Italian Strategic Fund, which in this way has acquired 27% of the company.

B.4 Valuation reserves related to defined-benefit pension plans: changes of the year

Valuation reserves related to defined-benefit pension plans generated a positive effect of Euro 582 thousand (net of the related tax effect of Euro 221 thousand) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.



SECTION 2 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS

2.1 Scope of application and regulations

The scope of consolidation, defined in accordance with current prudential regulations, includes banks, financial and product/service companies, controlled directly or indirectly by the Parent Company and which applies the line-by-line consolidation method;

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

2.2 Bank own funds

A. Qualitative information

Own funds, as the basis of the capital adequacy requirements that banks must satisfy, are calculated 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.

As at 31 December 2017, Banco Desio Group's Own Funds consist of the following:

Description	31.12.2017	31.12.2016
Common Equity Tier 1 (CET 1)	923,610	877,773
Additional Tier 1 capital (AT1)	10,646	11,432
Tier 2 capital (T2)	154,865	195,782
Total Own Funds	1,089,121	1,084,987

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

1. 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.

2. Additional Tier 1 - AT1

The components of Additional Tier 1 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.

3. Tier 2 - 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.

B. Quantitative information

Own Funds

	31.12.2017	31.12.2016
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	941,194	885,675
of which: CET 1 capital instruments subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	-1	-18
C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)	941,193	885,657
D. Items to be deducted from CET 1	18,709	18,594
E. Transitional provisions – Impact on CET 1 (+/-)	1,126	10,710
F. Total Common Equity Tier 1 (CET 1) (C – D +/- E)	923,610	877,773
G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions	14,079	14,178
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 (+/-)	-3,433	-2,746
L. Total Additional Tier 1 (AT1) (G - H +/- I)	10,646	11,432
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions	152,419	195,407
of which: T2 capital instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional provisions – Impact on T2 (+/-)	2,446	375.00
P. Total Tier 2 (T2) (M - N +/- O)	154,865	195,782
Q. Total Own Funds (F + L + P)	1,089,121	1,084,987



2.3 Capital adequacy

A. Qualitative information

Banco Desio Group's Own Funds, computed in accordance with the foregoing regulatory requirements, include Common Equity Tier 1 capital that accounts for 84.80% of the Group's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 0.98% and 14.22%, respectively, of Own Funds.

For prudential supervisory purposes, Banco Desio's Board of Directors also approved the exclusion from Own Funds, as from 1 January 2014, of unrealised gains and losses relating to exposures to central administrations classified as "Financial assets available for sale", thus exercising its right under the "transitional provisions" contained in Bank of Italy Circular no. 285 of 17 December 2013, which was reiterated in the communication dated 23 January 2017 in which the Bank of Italy allowed "less significant" banks not to include in their Own Funds the gains and losses deriving from exposures to central administrations recorded in the "Financial assets available for sale" portfolio.

In consideration of the foregoing, this capital structure results in the following ratios:

- CET 1/risk-weighted assets	11.516%
- T1 /risk-weighted assets	11.649%
- Total Own Funds/risk-weighted assets	13.580%

These figures are again well above the Group's minimum requirements as decided by the Bank of Italy on 4 April 2017 at the end of the Supervisory Review and Evaluation Process (2016 SREP), which assigned the following minimum levels for our consolidated capital ratios:

- **6% for the Common Equity Tier 1 ratio**, binding - pursuant to art. 67-ter TUB - to the extent of 4.8% (of which 4.5% for the minimum regulatory requirements and 0.3% for additional requirements) and for the remainder from the capital conservation buffer;
- **7.6% for the Tier 1 ratio**, binding - pursuant to art. 67-ter TUB - to the extent of 6.4% (of which 6.0% for the minimum regulatory requirements and 0.4% for additional requirements) and for the remainder from the capital conservation buffer;
- **9.75% for the Total Capital ratio**, binding - pursuant to art. 67-ter TUB - to the extent of 8.5% (of which 8% for the minimum regulatory requirements and 0.5% for additional requirements) and for the remainder from the capital conservation buffer.

The Board of Directors of the Parent Company periodically reviews and approves the aggregates that make up Own Funds in order to check their consistency with the risk profile and their adequacy for the Bank's development plans.

On 23 January and 25 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 the IFRS 9, 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 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.

B. Quantitative information

Description/Amounts	Unweighted amounts		Weighted amounts/Requirements	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
A. ASSETS AT RISK				
A.1 Credit and counterparty risk	14,093,352	12,468,280	7,205,874	7,216,913
1. <i>Standardised methodology</i>	14,093,352	12,467,808	7,205,874	7,216,442
2. <i>Methodology based on internal ratings</i>				
2.1 Basic				
2.2 Advanced				
3. <i>Securitisations</i>	-	471	-	471
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 Credit and counterparty risk			576,470	577,353
B.2 Risk of credit valuation adjustment			637	1,446
B.3 Regulatory risk				
B.4 Market risks			1,077	1,045
1. <i>STANDARDISED METHODOLOGY</i>			1,077	1,045
2. <i>INTERNAL MODELS</i>				
3. <i>CONCENTRATION RISK</i>				
B.5 Operational risk			63,436	64,447
1. <i>BASIC APPROACH</i>			63,436	64,447
2. <i>STANDARDISED APPROACH</i>				
3. <i>ADVANCED APPROACHES</i>				
B.6 Other items			0	0
B.7 Total precautionary requirements			641,620	644,291
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			8,020,244	8,053,639
C.2 Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)			11.516%	10.899%
C.3 Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			11.649%	11.041%
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio)			13.580%	13.472%

For the purpose of calculating point C "Risk assets and capital ratios" the EU regulation provides for a facilitated weighting (with a support factor of 0.7619) for Small and Medium-sized Enterprises (SMEs)



PART H - TRANSACTIONS WITH RELATED PARTIES

1 - Information on the remuneration of managers with strategic responsibilities

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

2 - Related party disclosures

The Internal Procedure for the management of transactions with related parties and entities included in the scope of application of art. 136 of the CBA, adopted in accordance with Consob Regulation no. 17221/2010 and supplemented in accordance with the Minimum Capital Requirement in respect of risk assets and conflicts of interest with respect to persons linked to the Bank or the Banking Group pursuant to art. 53 TUB, is explained in the Annual Report on Corporate Governance. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents" 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 Regulation²;
- 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 were no transactions worthy of note apart from the Covered Bond Programme and the various transactions that it involved, as explained in the section on "Significant events" in the Report on Operations.

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

In this context, there are no transactions outstanding at 31 December 2017 that present particular risk profiles compared with those considered part of the normal course of business 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, included entities treated as per art 136 of CBA also in compliance with Italian laws), highlighting, in particular, the balance of current accounts and of the securities portfolio at the end of the year and, lastly, any relationships for the provision of services or of some other nature.

² with respect to the level of significance of the transactions with related parties, the Internal Procedure refers to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised at the date of adoption of the Procedure)

I - Parent company

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado SapA at Banco Desio amounted to Euro 156.5 million, of which Euro 154.8 million, relating to the securities portfolio. There are no outstanding payables held by the same Company.

During the year, 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 III) below).

II - Transactions with Officers and parties related to them

As for the granting of credit lines approved in 2017 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 Bank and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 40 positions existing at 31 December 2017 comes to some Euro 11.4 million and the related utilisations amount in total to some Euro 6.5 million.

As regards funding relationships held by Banco Desio directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2017 amounted to Euro 142.1 million in amounts due to customers (including approximately Euro 106.4 million in securities portfolios).

The above computation excludes transactions and balances with the parent company and with subsidiaries as per paragraphs I and II above.

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

	Balances at 31.12.2017 (in €/million)
<u>Lending transactions:</u>	
Amount granted	11.4
Amount drawn down	6.5
<u>Funding transactions:</u>	
C/c and d/r amount (a)	35.7
Amount of securities portfolios (b)	106.4
Total (A+B)	142.1

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 basically insignificant.



PART I – 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 vehicle company Desio OBG S.r.l., set up for the guaranteed bank bond issue programme.

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 three columns described above is the amount reported in the consolidated financial statements of the Banco Desio Group.

Income statement	Banking	Near-banking	Consolidation adjustments	Total 31.12.2017
Net profit from financial and insurance activities ⁽¹⁾	461,234	17,057	(14,396)	463,895
Fixed costs ⁽²⁾	(314,013)	(6,147)	6,909	(313,251)
Provisions and adjustments ⁽³⁾	(85,518)	(572)		(86,090)
Profit (loss) from equity investments carried at equity				
Gains (losses) on disposal of investments	41			41
Profit (loss) from current operations before tax	61,744	10,338	(7,487)	64,595

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 31.12.2017
Financial assets	1,534,581	15	(2,143)	1,532,453
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



Income statement	Banking	Near-banking	Consolidation adjustments	Total 31.12.2016
Net profit from financial and insurance activities ⁽¹⁾	457,704	14,890	(12,547)	460,047
Fixed costs ⁽²⁾	(345,440)	(5,677)	7,187	(343,930)
Provisions and adjustments ⁽³⁾	(95,620)	(560)		(96,180)
Profit (loss) from equity investments carried at equity	13,379		(5,763)	7,616
Gains (losses) on disposal of investments	-			-
Profit (loss) from current operations before tax	30,023	8,653	(11,123)	27,553

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 31.12.2016
Financial assets	1,872,346	15	(1,553)	1,870,808
Due from banks	587,459	3,238	(477,859)	112,838
Loans to customers	9,679,616	562,021	(521,529)	9,720,108
Due to banks	1,435,925	521,674	(995,354)	962,245
Due to customers	8,729,165	3,047	(2,621)	8,729,591
Debt securities in issue	1,395,185		(1,301)	1,393,884
Indirect deposits, under administration and management	13,540,651		(66,522)	13,474,129

Notes:

⁽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

**Certification of the consolidated financial
statements**

**Pursuant to Art. 154 bis of legislative
decree 58/98**



CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned, Stefano Lado, Chairman, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 bis of Legislative Decree 58 of 24 February 1998:

- the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements with respect to the Company and their
- effective application during 2017.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2017 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.

3. We also certify that:

3.1. the consolidated financial statements:

- a. have been prepared in accordance with the applicable IAS/IFRS recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002;
- b. agree with the books of account and accounting records;
- c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the consolidation.

3.2. the Report on Operations includes a reliable analysis of the results of operations and of the situation of the issuer and the companies included in the consolidation, together with a description of the principal risks and uncertainties faced by them.

Desio, 08 February 2018

Chairman

Stefano Lado

Financial Reporting Manager

Mauro Walter Colombo

Auditor's Report

**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014**

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Banco di Desio e della Brianza S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the statement of consolidated comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement for the year then ended, and the consolidated explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Banco di Desio e della Brianza S.p.A. (the "Bank") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<p>Key audit matters – Classification and valuation of non performing loans to customers</p>	<p>Audit procedures performed in response to the Key Audit Matters</p>
<p>As represented in Consolidated explanatory notes <i>Part B – Information on the consolidated balance sheet</i> and <i>Part E – Information on risks and related hedging policy</i>, as at 31 December 2017 non-performing loans to customers of Banco di Desio e della Brianza Group amount to a gross book value of Euro 1,616 million (Euro 1,693 million at the end of 2016), allowances for impairment to Euro 792 million (Euro 783 million at the end of 2016); the coverage ratio moves from 46.2% to 49.0%. Doubtful loans coverage is equal to 57.2% (56.3% at the end of 2016); unlikely to pay coverage is equal to 28.9% (27.9% at the end of 2016); past due non-performing loans coverage is equal to 12.8% (13.0% at the end of 2016).</p> <p>In order to classify loans in uniform risk categories, the Group refers to applicable law, integrated by internal regulations that establish rules in terms of loans' classification and transfer in such categories.</p> <p>As better specified in Consolidated explanatory notes Part A Accounting policies, non-performing loans assessment takes place on an analytical basis, and considers the estimated recovery amount, the expected collection period, and collaterals whereas in place, according to methodologies set out in Group credit policies for each category in which loans are classified.</p> <p>In consideration of the complexity of the estimation process held by the Board of Directors, that involves classification activity into homogeneous risk categories, as well as the significance of the judgmental process inherent in the estimate nature of the recoverable amount, we consider that the classification and valuation of such loans and the related classification and impairment process represent a key area for the audit of the consolidated financial statements of Banco di Desio e della Brianza Group.</p>	<p>As part of the audit procedures, we preliminary understand the Group lending process which includes, in particular, the recognition and the understanding of the organizational and procedural controls implemented by the Group itself in order to guarantee the monitoring of loan quality and the right classification and evaluation according to applicable accounting standards and sector's policies. For this purpose, we make use of IT experts belonging to the Deloitte network to verify the proper data's recording and managing. As part of this process we also understand methods and assumptions adopted by the Group related to non-performing loans recoverable amount according to applicable accounting standards and sector's policies.</p> <p>As a result of these activities, audit procedures are defined to test data used to calculate the recoverable amount and verify the estimation process. Under these procedures, have been carried, among others, the following activities:</p> <ul style="list-style-type: none"> - check, on sample basis, of the appropriateness of the recoverable amount determined by the Group through the recalculation of the amount itself and the analysis of the reasonableness of criteria related to classification and valuation, financial hypothesis and assumptions applied by the Group; - obtain and review the written confirmations from lawyers in order to gather information and evidences to support the Group's evaluation; - comparative analysis procedures, in historical series and for each class of non-performing loans, through the calculation of hedging indices and the comparison of such indices with the comparable information relating to previous periods and with data derived from market; - analysis of events occurred after the reference date in order to make considerations regarding the evaluations that have been made. <p>Furthermore, we analyzed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.</p>

Key audit matters – Classification and valuation of performing loans to customers	Audit procedures performed in response to the Key Audit Matters
<p>As represented in Consolidated explanatory notes <i>Part B – Information on the consolidated balance sheet</i> and <i>Part E – Information on risks and related hedging policy</i>, as at 31 December 2017 performing loans to customers of Banco di Desio e della Brianza Group amount to a gross book value of Euro 9,079 million (Euro 8,857 million at the end of 2016), allowances for impairment to Euro 41 million (Euro 48 million at the end of 2016); the coverage ratio remains stable and equal to 0.5%.</p> <p>As better specified in Consolidated explanatory notes <i>Part A Accounting policies</i>, performing loans are measured on a general basis by dividing them into consistent risk classes.</p> <p>In consideration of the significance of the amount of performing loans to customers in consolidated financial statements, the complexity of the estimation process held by the Board of Directors, based also on a structured classification process in homogeneous risk categories, as well as the significance of the inherent judgmental process, we consider that the classification and valuation of such loans and the related impairment process represent a key area for the audit of the consolidated financial statements of Banco di Desio e della Brianza Group.</p>	<p>As part of the audit procedures, we preliminary understand the Group lending process which includes, in particular, the recognition and the understanding of the organizational and procedural controls implemented by the Group itself in order to guarantee the monitoring of loan quality and the right classification and evaluation according to applicable accounting standards and sector’s policies. For this purpose, we make use of IT experts belonging to the Deloitte network to verify the proper data’s recording and managing.</p> <p>As a result of these activities, audit procedures are defined to test data used to classify performing loans in consistent risk classes as well as the estimation process. Under these procedures, have been carried, among others, the following activities:</p> <ul style="list-style-type: none"> - examination of the classification criteria adopted by the Group in order to split the performing loans to customers’ portfolio into homogeneous risk categories; - examination of the evaluation models and the assumptions adopted by the Group; - verification, on a sample of performing loans, of the proper classification; - comparative analysis procedures, in historical series, through the calculation of hedging indices and the comparison of such indices with the comparable information relating to previous periods and with data derived from market; - analysis of events occurred after the reference date in order to make considerations regarding the classification and evaluation that have been made. <p>Furthermore, we analyzed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.</p>

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15, and, within the terms established by law, for such internal control as the Directors determine is

necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the parent company Banco di Desio e della Brianza S.p.A. or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Banco di Desio e della Brianza S.p.A. has appointed us on 26 April 2012 as auditors of the Bank and the Group for the years from 31 December 2012 to 31 December 2020.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Banco di Desio e della Brianza Group as at 31 December 2017, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Banco di Desio e della Brianza Group as at 31 December 2017 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure is consistent with the consolidated financial statements of Banco di Desio e della Brianza Group as at 31 December 2017 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Maurizio Ferrero
Partner

Milan, Italy
5 March 2018

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

**Attachment to the consolidated
financial statements**

DISCLOSURE COUNTRY BY COUNTRY

(pursuant to the Bank of Italy's Circular 285 of 17 December 2013 "Supervisory Provisions for Banks" - 20th update of 21 November 2017)

The information relating to points a), b), c), d), e) and f) of Attachment A to the First Part, Title III, Chapter 2 of the Supervisory Instructions for banks is presented below.

Situation taken from the consolidated financial statements at 31 December 2017

Following the corporate events that have taken place in recent years and which were disclosed to the public each time by press releases or inclusion in the periodic financial reports, at 31 December 2017 the Banco Desio Group is now based solely in Italy.

a) Name of company and nature of the activity

Banco di Desio e della Brianza S.p.A., with head office in Desio, via E. Rovagnati 1, is the Parent Company of the Banco Desio Group, register of Banking Groups no. 3440.

The Banco Desio Group consists of the Parent Company Banco di Desio e della Brianza S.p.A., Banca Popolare di Spoleto S.p.A., with head office in Spoleto, piazza Pianciani 5, Fides S.p.A., with head office in Rome, via Ombrone 2/G and the SPV Desio OBG S.r.l. based in Conegliano.

In addition to traditional banking intermediation, Banco di Desio e della Brianza and Banca Popolare di Spoleto also offer asset management services, life and non-life bancassurance products, payment systems, factoring, leasing and consumer credit products, in part via Fides, a financial intermediary that is registered pursuant to art. 106 TUB, which makes loans to the employees of public and private companies.

Information/Geographical Area		Italy
b) Turnover ⁽¹⁾	Euro/thousand	418,032
c) Number of employees on full-time equivalent basis ⁽²⁾	Number	1,945
d) Profit (loss) before taxes	Euro/thousand	64,595
e) Income taxes	Euro/thousand	(19,636)

Notes:

⁽¹⁾ The figure represents caption 120 "Net interest and other banking income" of the consolidated income statement

⁽²⁾ the number of employees is determined by taking the total number of hours actually worked by all employees, excluding overtime, divided by the number of hours worked per week in accordance the full-time labour contract, multiplied by 52 weeks less 25 days - as established by convention - for the holiday period.

Financial Statements



Directors and Officers

Board of Directors

<u>Chairman</u>	Stefano Lado
<u>Deputy Chairman</u>	Tommaso Cartone**
<u>Directors</u>	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

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

General Management

<u>General Manager</u>	Angelo Antoniazzi*
<u>Senior Deputy General Manager</u>	Mauro Walter Colombo
<u>Deputy General Manager "Corporate Affairs"</u>	Maurizio Ballabio
	* from 19 July 2017

Financial Reporting Manager as per art. 154-bis CFA

<u>Financial Reporting Manager</u>	Mauro Walter Colombo
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Independent Auditors

<u>Independent Auditors</u>	Deloitte & Touche S.p.A.
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Report on Operations

Introduction

The figures and ratios in this Report on Operations, as well as the comments on the composition of the various captions and any changes to them, to the extent that they can be traced back, refer to the balance sheet included in the financial statements and to the reclassified income statement, which has been prepared on the basis of the financial statements.



1 - Key figures and ratios

Balance sheet

	31.12.2017	31.12.2016	Change	
			amount	%
Total assets	10,459,327	8,925,882	1,533,445	17.2%
Financial assets	1,972,882	1,492,482	480,400	32.2%
Due from banks	1,562,664	500,276	1,062,388	212.4%
Loans to customers	6,251,542	6,247,053	4,489	0.1%
Property, plant and equipment	135,293	135,219	74	0.1%
Intangible assets	3,044	3,238	-194	-6.0%
Due to banks	1,760,234	1,011,518	748,716	74.0%
Due to customers	5,988,799	5,622,898	365,901	6.5%
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	1,602,047	1,226,467	375,580	30.6%
Shareholders' equity (including Net profit/loss for the period)	912,371	865,567	46,804	5.4%
Own Funds	1,037,014	1,037,658	-644	-0.1%
Total indirect deposits	12,222,163	11,661,761	560,402	4.8%
of which: Indirect deposits from ordinary customers	7,057,209	6,648,082	409,127	6.2%
of which: Indirect deposits from institutional customers	5,164,954	5,013,679	151,275	3.0%

Income statement ⁽¹⁾

	31.12.2017	31.12.2016	Change	
			amount	%
Operating income	274,873	260,838	14,035	5.4%
of which: Net interest income	131,991	134,617	-2,626	-2.0%
Operating costs	174,448	174,006	442	0.3%
Result of operations	100,425	86,832	13,593	15.7%
Profit (loss) from operations after tax	40,689	33,281	7,408	22.3%
Non-recurring profit (loss) after tax	-2,693	-1,602	-1,091	n.s.
Net profit for the year	37,996	31,679	6,317	19.9%

⁽¹⁾ from the reclassified income statement

Key figures and ratios

	31.12.2017	31.12.2016	Change amount	
Capital/Total assets	8.7%	9.7%	-1.0%	
Capital/Loans to customers	14.6%	13.9%	0.7%	
Capital/Due to customers	15.2%	15.4%	-0.2%	
Capital/Debt securities in issue and Financial liabilities designated at fair value through profit and loss	57.0%	70.6%	-13.6%	
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio)	17.1%	16.3%	0.8%	
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio)	17.2%	16.4%	0.8%	
Total Own Funds/Risk-weighted assets (Total capital ratio)	19.9%	19.9%	0.0%	
Financial assets/Total assets	18.9%	16.7%	2.2%	
Due from banks/Total assets	14.9%	5.6%	9.3%	
Loans to customers/Total assets	59.8%	70.0%	-10.2%	
Loans to customers/Direct customer deposits	82.4%	91.2%	-8.8%	
Due to banks/Total assets	16.8%	11.3%	5.5%	
Due to customers/Total assets	57.3%	63.0%	-5.7%	
Debt securities in issue and Financial liabilities designated at fair value through profit and loss / Total assets	15.3%	13.7%	1.6%	
Direct customer deposits/Total assets	72.6%	76.7%	-4.1%	

	31.12.2017	31.12.2016	Change Amount	
Cost/Income ratio	63.5%	66.7%	-3.2%	
Net interest income/Operating income	48.0%	51.6%	-3.6%	
Result of operations/Operating income	36.5%	33.3%	3.2%	
Profit (loss) from operations after tax/Capital ⁽²⁾	4.7%	4.0%	0.7%	
ROE ⁽²⁾	4.3%	3.8%	0.5%	
Profit (loss) from operations before tax/Total assets (ROA)	0.6%	0.5%	0.1%	

	31.12.2017	31.12.2016	Change Amount	
Net doubtful loans/Loans to customers	3.9%	4.1%	-0.2%	
Net impaired loans/Loans to customers	6.5%	7.2%	-0.7%	
% Coverage of doubtful loans	57.7%	55.0%	2.7%	
% Coverage of doubtful loans, gross of cancellations	64.8%	63.3%	1.4%	
% Total coverage of impaired loans	50.2%	46.3%	3.9%	
% Coverage of impaired loans, gross of cancellations	56.4%	53.4%	3.0%	
% Coverage of performing loans	0.40%	0.48%	-0.08%	

Structure and productivity ratios

	31.12.2017	31.12.2016	Change	
			amount	%
Number of employees	1,371	1,410	-39	-2.8%
Number of branches	146	149	-3	-2.0%
Loans and advances to customers per employee ⁽³⁾	4,496	4,429	67	1.5%
Direct deposits from customers per employee ⁽³⁾	5,459	4,856	603	12.4%

	31.12.2017	31.12.2016	Change	
			amount	%
Operating income per employee ⁽³⁾	198	185	13	7.0%
Result of operations per employee ⁽³⁾	72	62	10	16.1%

⁽²⁾ excluding net profit (loss) for the period;

⁽³⁾ based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.

2 - Underlying scenario

Reference should be made to the Consolidated Report on Operations for an explanation of the macroeconomic scenario and of the capital markets and the banking system in Italy.



3 - Regional market presence and corporate issues

3.1 - The distribution network

The distribution network of the Bank at 31 December 2017 consists of 146 branches, compared with 149 at the end of the previous year; as part of the ongoing work to rationalise and improve the efficiency of the distribution network, on 20 March 2017 the Bank closed four branches, namely Milan – Via Mauri, Brembate, Cinisello – Via Lincoln and Desio – Via Volta. A new branch was also opened in Como on 9 January 2017.

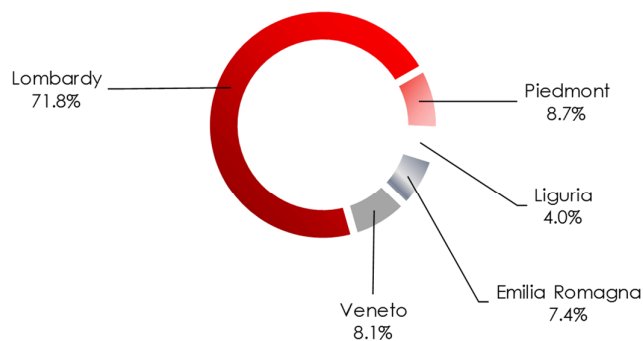
The distribution network gives top priority to customer relationships. The Bank is present in Northern Italy in 5 regions (Lombardy, Piedmont, Veneto, Emilia Romagna and Liguria).

The organisational model envisages:

- a distribution network divided into eight Territorial Areas, each of which is supervised by an Area Manager, who acts as the principal commercial representative in the area, with clearer hierarchical and functional reporting lines by specialised professional figures (Corporate Bankers, Private Bankers, etc.) and the Branch Network;
- the assignment of specific roles to the resources working at branch level in order to guarantee a more targeted and specialised service to customers, as well as to promote career paths for employees based on their professional characteristics and management potential.

The following chart shows the breakdown of the Company's distribution network by region at the end of 2017.

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



3.2 - Significant events

Increase in capital and renewal of the corporate bodies of Fides S.p.A.

On 21 March 2017, the Extraordinary Shareholders' Meeting of Fides S.p.A. authorised an increase in share capital for payment from Euro 25 million to Euro 35 million by the issue of 10,000,000 ordinary shares, par value Euro 1.00 each, that were subscribed for in full by the Parent Company (sole shareholder).

On the same date, the Ordinary Shareholders' Meeting renewed the Board of Directors for a three-year period (the Board of Statutory Auditors was renewed for three years in the prior year).

Renewal of the corporate bodies of Banca Popolare di Spoleto S.p.A.

On 30 March 2017, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto appointed the Board of Directors and the Board of Statutory Auditors for the years 2017-2019.

On 17 July 2017, the Board of Directors of Banca Popolare di Spoleto approved the appointment of Ippolito Fabris as General Manager with effect from 19 July 2017. Ippolito Fabris, previously Deputy General Manager of BPS, has been identified in a logic of management continuity (from 2014 to 2016 he acted as Deputy General Manager of Corporate Affairs of the Parent Company Banco di Desio e della Brianza and, prior to that, he held senior positions in other banks of a comparable size). At the same time, Massimo Barazzetta was appointed as Deputy General Manager of BPS, having previously headed up the Parent Company's Organisation and Systems Department (prior to that, he held the position of head of the Internal Audit Department). Ippolito Fabris replaces Angelo Antoniazzi who was appointed General Manager of Banco di Desio e della Brianza from 19 July.

On 24 October 2017, the Board of Directors of Banca Popolare di Spoleto resolved to appoint Giorgio Federico Rossin (Manager in charge of the Planning, Management Control and Equity Investments Department at the Parent Company) as a new Director, in line with the "theoretical profile" and in accordance with the Supervisory Authority's recommendations in this area; Giorgio Federico Rossin was also appointed as a member of the subsidiary's Executive Committee. At the same time, the Board decided to appoint Argante Del Monte, Independent Director and Chairman of the Risk Control Committee since 2014, as the Deputy Chairman of Banca Popolare di Spoleto.

Renewal of directors and officers of Banco di Desio e della Brianza S.p.A.

On 6 April 2017, the Ordinary Shareholders' Meeting appointed the Board of Directors and the Board of Statutory Auditors for the years 2017-2019. The composition of these bodies - after appropriate resolutions had been passed by the Board that met at the end of the Shareholders' Meeting - is that reported in the initial part of this document and reflects the events mentioned below.

On 11 July 2017, the Board of Directors approved the appointment of Angelo Antoniazzi as General Manager of the Bank, effective as of 19 July 2017, taking over from Luciano Camagni, who, in accordance with a termination agreement signed on 11 July, ceased to act as General Manager and relinquished all of the positions that he held at the Banco Desio Group.

The professional profile of Angelo Antoniazzi is characterised by extensive experience in banking and finance gained in senior positions at Group banks, also as General Manager of Banca Popolare di Spoleto from 2014 when the bank became part of the Banco Desio Group.



Subordinated loan granted to Banca Popolare di Spoleto S.p.A.

On 22 June 2017, the Board of Directors of the Bank granted the subsidiary Banca Popolare di Spoleto (BPS) a fixed term (10 year) subordinated loan of Euro 18 million, aimed at strengthening the latter's Tier 2 capital, pursuant to European Union supervisory regulations, to enable it to comply fully with the provisions of EU Regulation no. 575/2013 of 26 June 2013 concerning prudential requirements for credit institutions and investment firms, having taken account of the transitional arrangements for its application.

Given the fact that an autonomous rating has not been assigned to BPS, the loan was granted by Banco Desio at the market conditions that BPS would have obtained with its own rating, taking account, however, of the subsidiary's specific situation vis-à-vis Banco Desio Group as a whole.

Guaranteed bank bonds issue programme (OBG)

In connection with the structuring and implementation of the covered bond programme approved by the Board of Directors pursuant to art. 7-bis of Law 130/99 (the "Programme"), on 29 June 2017, the Bank completed the acquisition of a 60% equity interest in Desio OBG S.r.l., an SPV that had been set up specifically for this purpose and which became a member of the Group from that date.

The Programme, which was aimed at obtaining benefits in terms of funding (diversification of deposits, reduction of the cost thereof and lengthening of the maturity of sources of funding), is multi-seller in nature with the consequence that, in addition to the Parent Company, Banco di Desio e della Brianza, it is also envisaged that the subsidiary Banca Popolare di Spoleto will assume a role as seller and lender to the SPV. The Bank can therefore issue covered bonds for a total amount that does not exceed, from time to time, Euro 3 billion. This maximum amount can be increased as envisaged by the Programme.

The two banks entered into agreements relating to the sale to the SPV of residential mortgage loans originated by the former.

On 21 July, Banco Desio obtained the approval for the Programme's "Basic Prospectus". Consequently, on 5 September 2017, it made a first issue of fixed-rate covered bonds for Euro 500 million with a 7-year maturity, receiving a strong interest from investors, with a final order book of over Euro 1,6 billion and the participation of around 100 institutional investors.

On 12 September, the Bank granted Banca Popolare di Spoleto a loan of Euro 149.5 million, in proportion to its participation in the plan, on equivalent terms to those obtained by issuing the first series of OBG.

Given the particularly favourable market conditions, on 31 October the Bank increased its total issue of covered bonds to Euro 575 million, recognising a proportional increase in the loan granted to Banca Popolare di Spoleto for Euro 22.4 million.

Banca Popolare di Spoleto S.p.A. Warrants 2015 – 2017 exercise period ended

30 June 2017 was the expiry date to exercise the Banca Popolare di Spoleto S.p.A. Warrants 2015-2017 (the "BPS Warrants") that had been issued in accordance with a resolution adopted by the Extraordinary Shareholders' Meeting of BPS held on 30 March 2015 (of up to a maximum of 11,104,626), which were allocated free of charge to the holders of BPS ordinary shares - other than Banco Desio - at a ratio of 12 BPS Warrants for every 31 BPS ordinary shares held; the BPS Warrants granted the right to subscribe newly issued BPS ordinary shares (the "Conversion Shares") at a ratio of 1 ordinary share for every 1 BPS Warrant exercised at a subscription price of Euro 1.812 per share. During the exercise period, from 30 June 2015 to

30 June 2017, 72,898 BPS Warrants were converted into the same number of conversion shares; as a result, the investment held by Banco di Desio e della Brianza is 81.67%.

Inspections by the Bank of Italy on Anti-Money Laundering (AML)

On 3 August, the Bank of Italy informed the Bank of the positive outcome of its AML inspection, which involved both Group banks, aimed at verifying compliance with the anti-money laundering legislation, with particular reference to the methods for identifying "Politically Exposed Persons" (PEP) and related procedures for the correct fulfilment of the tighter verification requirements.

Contributions to the Single Resolution Mechanism and Deposit Guarantee Scheme

Being that the "binding event" has taken place, in accordance with the interpretation of IFRIC 21, Banco Desio has recorded:

- the ordinary contribution to the Single Resolution Mechanism (SRM) for the current year, amounting to Euro 2.4 million gross (previously Euro 2.8 million). The contribution was paid in June;
- current year's standard contribution to the Deposit guarantee scheme (DGS) of about Euro 2.1 million gross (Euro 2.1 million). The contribution was paid in December.

"Voluntary scheme ("SVI") of the Interbank Deposit Protection Fund (FITD)

On 18 September, the banks of the Banco Desio Group reported to the Voluntary Intervention Scheme that they wanted to exercise their right of withdrawal pursuant to art. 47 paragraph 8 of the FITD's by-laws; this communication was sent following the contrary vote by the General Meeting of the Volunteer Intervention Scheme of 7 September, at which, while expressing a positive assessment of the motion (and agreeing entirely with the systemic reasoning behind it), the Meeting did not accept the proposal made by the banks of the Banco Desio Group to postpone the General Meeting so that a change could be made to the provisions of the FITD's by-laws relating to the Voluntary Scheme as concerns (i) the removal of any time limitation on exercising the right of withdrawal (subject to reasonable notice), (ii) the possibility of exercising the right of withdrawal also on the additional contributions submitted to the General Meetings in which the motion is voted against and not only on the subsequent contributions, (iii) the introduction of a quantitative limit on the amount of contributions.

On 21 December 2017, the FITD's Voluntary Intervention Scheme completed:

- the recapitalisation of Cassa di Risparmio di Rimini (Carim), Cassa di Risparmio di Cesena (Caricesena) and Cassa di Risparmio di San Miniato (Carismi) by the VIS for a total of Euro 470 million;
- the sale to Crédit Agricole Cariparma of the controlling interests in the three banks for a total of Euro 130 million;
- the subscription of Euro 158 million of junior tranches and Euro 12 million of mezzanine tranches of the securitisation of non-performing loans of the three banks sold.

To finalise the transaction, two contributions were requested (in September and December, respectively) for a total of Euro 2.5 million to Banco Desio, which have to be added to the amount already held at 31 December 2016 (Euro 1.0 million). Consequently, the Banco Desio has:

- recognised in the income statement under item 100.b "Losses on disposal or repurchase of financial assets available for sale" both the contribution for the increase in capital of the three banks and the loss on sale to Crédit Agricole Cariparma with respect to the book value (Euro 2.7 million);



- recorded a financial asset in the "AFS" portfolio for the payments made to the VIS to subscribe the tranches of the securitisation (Euro 0.8 million);
- recognised in the income statement an impairment loss on this financial asset based on the valuation at 31 December 2017 provided by the VIS on 19 January 2018 (Euro 0.6 million).

Delisting of the ordinary shares of Banca Popolare di Spoleto S.p.A.

On 25 September 2017, Borsa Italiana S.p.A. announced that it had decided to delist the ordinary shares of Banca Popolare di Spoleto S.p.A. on the MTA (screen-based equities market) from 3 October 2017, with the result that it would lose its status as a listed company, only keeping that of a "Widespread Issuer" (i.e. "an issuer of financial instruments widely distributed among the public" within the meaning of articles 2-bis and 108 (4) of the Issuers Regulation).

Rovere Société de Gestion S.A. in liquidation (closure of the procedure)

On 29 September 2017, there was an Extraordinary General Meeting which closed the procedure, approving the final liquidation accounts with the related distribution plan in favour of the shareholders. This shows that Banco di Desio e della Brianza should collect the entire amount due to it. You are reminded that in 2016 Banco di Desio e della Brianza considered the investment definitively disposed of as a result of losing control over it; consequently it was derecognised from the balance sheet, at the same time recording a claim from the Liquidator. On 4 October 2017, the Liquidator made the first repayment for an amount of Euro 0.4 million, equal to the nominal value of the shares. The company was cancelled from the Luxembourg "Registre de Commerce ed des Sociétés" (Companies Register) on 27 October 2017. To date, there is a receivable of Euro 0.2 million still to be collected.

Compliance with non-financial declarations

With reference to the provisions of Legislative Decree no. 254 of 30 December 2016, on 30 November 2017, the Board of Directors of Banco di Desio e della Brianza S.p.A., as the Parent Company, decided to publish a consolidated non-financial report as a separate document from the consolidated financial statements entitled "Sustainability Report of the Banco Desio Group", which contains the information required by this Decree; consequently, on 19 December 2017, the Board of Directors of Banca Popolare di Spoleto resolved to take advantage of the exemption provided for in art. 6, paragraph 1 of this Decree, with the result that the subsidiary does not prepare a separate report of a non-financial nature as the information required is included in the consolidated non-financial report of the Banco Desio Group.

FSI becomes a shareholder of Cedacri S.p.A.

On 22 December 2017 a binding contract was signed for the purchase of 27% of the share capital of Cedacri S.p.A. by "FSI mid market growth equity fund", a closed-end private equity fund managed by FSI and promoted by Cassa Depositi e Prestiti. The other 73% remains in the hands of some of the banks currently present (the so-called "stable shareholders"), including Banco Desio and Banca Popolare di Spoleto, which maintain a total of around 10%, remaining among the first shareholders not to have sold any of their shares. The operation is geared, among other things, to favouring stabilisation of the outsourcer's governance through specific shareholder agreements, also laying down rules for circulation of shares in the coming years. The agreements also envisage strengthening the company from an operational point of view (especially in terms of the residual duration of existing service agreements and

related way-out), considering the possibility of a project to list the shares of Cedacri S.p.A. on a regulated market.

In consideration of the purchase price of the shares of Cedacri S.p.A. within this transaction, which saw several shareholders as sellers, the Bank recognised a revaluation of Euro 16.4 million in an equity reserve of the minority investment held in the AFS portfolio.

Fondo Atlante

At the reporting date of 31 December 2017, the Bank had paid an amount of Euro 6.5 million relating to calls received from time to time, against a total commitment assumed of Euro 7.0 million.

In view of recent developments concerning the principal equity investments held by the Fund, by applying "look through" measurement logic, an impairment loss was recognised in the period of Euro 3.6 million, gross of the tax effect. This amount, together with the impairment loss recognised in the prior period of Euro 2.1 million, reflects a complete write-down of the carrying amount of the above equity investments in the two Veneto banks as a consequence of their having been subjected to a compulsory administration liquidation procedure.

Participation in "TLTRO II" refinancing operation

During the first quarter of 2017, the Banco Desio Group participated in the recent "TLTRO II" operation, by which the Eurosystem made long-term liquidity available (4 years at a fixed rate equal to that for Main Refinancing Operation (MRO) at the date of each TLTRO II auction - currently equal to zero - with the possibility of rate reductions linked to the volume of approved net lending), in order to facilitate private sector access to loans and stimulate the offer of loans to the real economy. The Banco Desio Group was assigned Euro 800 million in addition to the Euro 800 million obtained at the time of the first auction in June 2016.

Given the credit policies implemented during the year by the Banco Desio Group in order to achieve a higher credit net lending than the target needed to benefit fully from negative interest expense at a rate of 0.40%, in December 2017, the Bank recorded negative interest for a total of Euro 7.2 million (of which Euro 2.6 million attributable to Banca Popolare di Spoleto).

Sale of the non-performing loan (NPL) portfolios

In line with the pro-active strategy for the management of non-performing loans previously disclosed by the Banco Desio Group as part of the prior year financial reporting process and in compliance with the guidelines issued by the European Central Bank, a number of transactions had been entered during the year for the sale to specialist intermediaries of loan portfolios consisting of non-performing loans, amounting to a total nominal value of Euro 44.6 million, which were sold for a consideration of approximately Euro 20.8 million.

As a result of these sales, taking account of doubtful items, total losses of Euro 0.6 million were recorded, gross of the related tax effect.

Transitional provisions to mitigate the impact on own funds of introducing IFRS 9

Regulation (EU) 2395 of 12 December 2017 (the "Regulation") amended Regulation (EU) 575/2013 regarding the transitional provisions to mitigate the impact of introducing IFRS 9 on own funds; if the



opening balance sheet of a bank on the date when it first applies IFRS 9 shows a decrease in Common Equity Tier 1 capital due to the increase in adjustments for expected losses on performing and non-performing loans, the Regulation offers a chance to include part of these higher loan adjustments in Tier 1 capital gradually, year after year, over a five-year transition period.

Taking into account the fact that adjustments for expected losses on performing loans incurred after the date of first-time application of the standard could increase unexpectedly due to a worsening of the macroeconomic prospects, banks are also given a chance to make use of this benefit later on in the transition period, also in the event of an increase in expected losses on performing loans compared with the date of first-time application of the standard.

The regulation envisages an obligation to communicate the decision by each bank that decides to apply the transitional regime (in full or exclusively for increased provisions on first-time application of the standard) to the competent supervisory authority by 1 February 2018. If the bank has received prior authorisation from the competent authority, the initial decision can be revoked during the transition period.

On 25 January 2018, the Board of Directors of the Bank, taking account of a best estimate of the higher adjustments for expected losses on performing and non-performing loans on first-time application of the standard, resolved to join the transitional regime for the determination of own funds and capital ratios, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time application of the standard and to the increase in expected losses on performing loans compared with the date of first-time application of the standard.

Approval of the 2018-2020 Group Business Plan

On 11 January 2018, the Bank's Board of Directors approved the Group Business Plan for 2018-2020: in a particularly complex and competitive market scenario, it lays down a strategy aimed at reaffirming the commercial bank model, at the service of private customers and small-medium businesses, according to a process of continuous streamlining of business lines and a gradual reorientation of the model in order to profitably support a range of banking services more and more linked to the technological and behavioural evolution of customers.

The Plan envisages a significant evolution in the distribution model to be realised through an integrated "omnichannel" approach with an off-site offering leading to a steady increase in revenues from the financial advisory channel and the online channel compared with that of the branches; as far as the financial advisors are concerned, over the three years of the Plan the development programme envisages the creation of a network of 100 consultants with a specific investment plan and a target of more than 700 million in additional assets under management (AUM).

With particular reference to non-performing loans, in line with the market context, including implementation of the Supervisory guidelines, the Business Plan envisages the development of a programme for further sales, also having recourse to GACS (*Garanzia Cartolarizzazione Sofferenze*, a State guarantee for the securitisation of NPLs), with a view to reducing the ratio of non-performing loans to gross loans to 10% over the three-year period and the ratio of non-performing loans to net loans ratio to nearly 5%, with a average coverage ratio at the end of the three-year period of around 50%.

4 - Legislative Decree 231/2001

With reference to measures implemented concerning the administrative liability of companies for offences committed by their officers and/or employees, in 2004 the Board of Directors of the Bank approved the adoption of an Organisation and Management Model for the prevention of criminal offences contemplated by Legislative Decree no. 231/2001 (hereinafter "Model 231"). This Model has been implemented over time in compliance with subsequent provisions of the law and is published on the Group's website.

Further information on Model 231 and on the Supervisory Body pursuant to the aforementioned Legislative Decree 231/2001 (the role of which has been performed since 2012 by the Board of Statutory Auditors) is provided in the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.



5 - Human resources

5.1 - Management and breakdown of resources

The activities that characterised management of human resources during the year were geared to:

- the new territorial structure of the Bank's Commercial Network with a view to more effective commercial action on the territory, which led to the establishment of the new Genoa Area consisting of 8 branches previously belonging to the Turin Area, now reorganised for 15 branches. Consequently, it was necessary to structure the new Area with the same professional figures that feature in all of the Bank's Territorial Areas;
- the opening of a new branch in Como and the closure of four branches (Brembate, Cinisello - via Lincoln, Desio - via Volta and Milan - via Mauri), redistributing the staff around the network and at head office, bearing in mind their professional careers and growth potential;
- closure in the afternoon of cashier operations at another 26 branches of Banco Desio (involving a total of 46 branches), redistributing the staff around the network;
- revision of the General Management structure with the introduction of:
 - a) a Product and Market Department, reporting directly to the Deputy General Manager of the Business Affairs Department;
 - b) an NPL department, reorganising debt recovery activities with the creation of new offices dedicated to specific activities using personnel with adequate specialised skills to improve their efficiency and effectiveness;
 - c) a Network Governance Support Department that pursues - among other things - the launch of a new Financial Advisors Office with the specific objective of creating an alternative distribution channel to the traditional one represented by the branch network; the new Financial Advisors channel will consist of freelancers with particular experience in fund-raising activities (acquisition of new customers, development of their investment portfolios, etc.). This Department is also divided into three new Organisational Functions represented by the Coordinators in the three customer segments, "Business", "Private Banking" and "Retail", with specific skills acquired through training and experience.
- activation from October 2017 of the first "window" of voluntary access to the Solidarity Fund for 39 members of staff of the Bank (who terminated their employment on 30 November 2017), as defined by the agreement with the Trade Unions of 29 November 2016 (140 members of staff involved at Group level) and which took the form of signing of a conciliation report at the offices of ABl, as a neutral location.

As a result of what was previously described, at 31 December 2017, the Bank had 1,371 employees, 39 fewer (-2.8%) than at the end of the previous year.

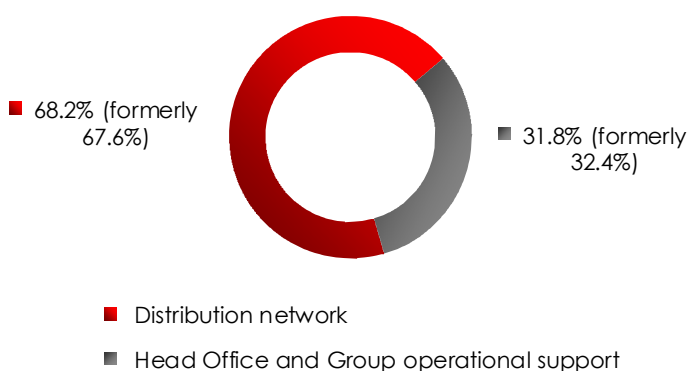
The following table provides a breakdown of employees by level at the end of 2017, compared with the previous year.

Table no. 1 - BREAKDOWN OF EMPLOYEES BY LEVEL

No. of Employees	31.12.2017		31.12.2016		Change	
		%		%	Amount	%
Managers	24	1.8%	26	1.8%	-2	-7.7%
3rd and 4th level middle managers	343	25.0%	342	24.3%	1	0.3%
1st and 2nd level middle managers	401	29.2%	416	29.5%	-15	-3.6%
Other personnel	603	44.0%	626	44.4%	-23	-3.7%
Employees	1,371	100.0%	1,410	100.0%	-39	-2.8%

The following chart provides a breakdown of the workforce at the year end.

Chart no. 2 - BREAKDOWN OF EMPLOYEES BY AREA



5.2 - Training

Training activities continued in line with the directives and procedures envisaged at Group level, in the awareness that personnel growth and development is extremely important.

A total of 83,346 hours of training were delivered during the year, considering internal courses, conferences, external seminars and on-line training, which represents 11,113 man/days, an average of 8.11 training days for each employee (formerly 6.18). 59% of training hours were delivered through e-learning methods (formerly 54%). Approximately 17% of the training hours provided in the classroom were taught by internal staff (5,889 man-hours).

The activities were carried out following the guidelines drawn up at the beginning of the year and taking into account any new needs that emerge from time to time, with the aim of:

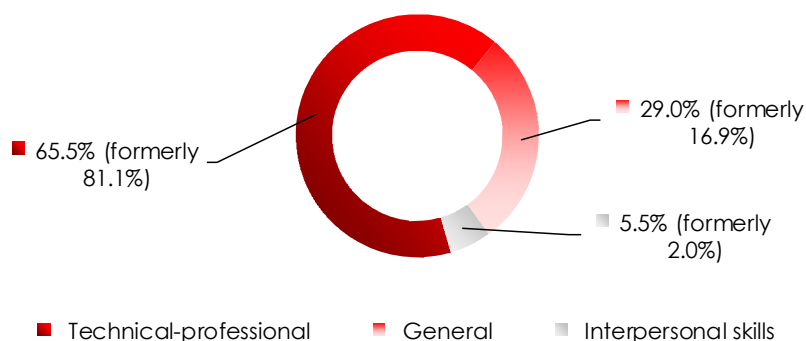
- Aligning advisory skills in investment services;
- Improving the ability to select and monitor credit;
- Strengthening the methods of offering products and services and sales efficiency;
- Constantly providing regulatory updates to staff to reduce operational risks.



The programme comprises "General" training courses for all professional families, with a view to developing cross-functional knowledge (including the training required by law), and "Technical-professional" that comprises courses aimed at developing the technical skills of persons required to perform specific duties, or who are interested in consolidating and further improving the skills required by their roles. Last but not least, the programme addresses "Interpersonal skills" in order to develop behavioural skills, facilitate the dissemination of Company culture and internalise Company values.

The following chart shows the breakdown in percentage terms of training days that were held in the year in the three areas mentioned above.

Chart no. 3 - BREAKDOWN OF TRAINING DAYS IN 2017 BY TYPE OF TRAINING OFFERED



The main "General" training initiatives included the following activities intended to keep personnel constantly up-to-date about regulatory requirements:

- Anti-Money Laundering: a new on-line form was released during the year with the title: "Fight against the financing of international terrorism and the proliferation of weapons of mass destruction" which was followed by "remote" training through Skype for Business on the use of the Intranet 347 ADV Enhanced application, involving 144 Branch Managers, and "targeted" classroom training interventions focused on issues emerging in the exercise of self-assessment of the risks of money laundering and terrorist financing in 2017;
- Transparency: an on-line training course produced by ABL was released;
- Training on Safety at Work: in addition to classroom training for new hires and new supervisors (for First Aid and Fire-Fighting), the obligatory three-year updates on First Aid and Fire-Fighting were also carried out. During the first half of the year, training was given on the monitoring of business risks for Branch Managers, Commercial Area Managers and Head Office Area Managers in collaboration with an external consultancy.

"Technical-professional" training included:

- in the field of Credit and Loans, as in the previous year, training activities continued on strengthening skills in the process of analysing and assessing creditworthiness, completing the training programme for personnel operating in the credit chain on the evolution of credit processes and historical and prospective analysis models, with the purpose of illustrating the logic of the new instructions and the practical effects of adopting the models and analysis methods required. A special focus was reserved for the Corporate segment with ad-hoc training relating to

the analysis of Economic Groups. With reference to the introduction of IFRS 9, the first courses were organised for Head Office and Area Managers and for branch personnel, with the aim of raising awareness about the new regulations by examining the main innovations and their impact on the Bank's operational processes and financial statements;

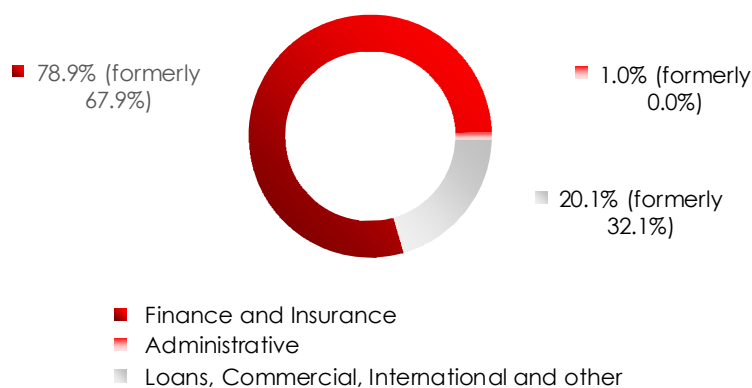
- in the Finance area, in the light of the ESMA guidelines on the assessment of knowledge and skills, a training project was carried out with SDA Bocconi aimed at "certifying", at the end of the course, the skills of members of staff providing investment services; at the end of the year, an alignment course was held for resources operating in the field of investment services on regulatory innovations (and their impact on operating processes), deriving from the entry into force of the "MIFID II directive".

As foreseen by IVASS Regulation no. 6 of 2 December 2014, the training plan for the two-year period 2017-2018 was launched in e-learning mode.

Lastly, during the year, specific training was carried out for members of staff working in the sales network to support the launch of new products.

The following schedule analyses the "Technical-professional" training provided by topic.

Chart no. 4 - **BREAKDOWN OF "TECHNICAL-PROFESSIONAL" TRAINING IN 2017 BY TOPIC**



As part of "Relationship" training, a course was held for front-office resources (Customer Assistants) to strengthen their contact skills to support cross-selling and up-selling campaigns. The course also involved, firstly, 124 Branch Managers who had the task of supporting and monitoring their colleagues in the development of relationship techniques to increase the number of appointments held at the branch; subsequently, two training sessions were held for 157 Customer Assistants to try out telephone techniques through practical exercises.

As part of the training on equal opportunities, a course was held during the year for new mothers just back from maternity leave on the topic of "work/life balance", as well as a course on "female leadership" aimed at high potential members of staff.

As was done last year, a training course on the topic of Leadership was held for new Branch and Head Office Managers: the course lasted a total of 4 days in the classroom, interspersed with a month of on-the-job experience.



5.3 – Trade Unions relations

During the course of 2017, negotiations commenced with the Trade Unions to settle certain matters regarding the agreements reached at the end of 2016.

As regards loans to current members of staff, on 23 March 2017, an agreement was signed that provides for the possibility of switching between fixed and variable rates (and vice versa) and the reduction of the floor rate also on loans for restructuring and changing one's first home referred to in "Title II".

On the same date, negotiations began on the subject of "Integrated Welfare Plans - Company Bonuses 2016" with the sharing and signing of a Framework Agreement which defined the rules to be applied in calculating the bonus granted in 2017 (based on the 2016 results), with a forecast of the indicator at Group level of the increase in "loans per capita". This agreement permitted the activation of tax relief in accordance with the provisions of the Ministerial Decree of 25 March 2016, envisaging the use of integrated welfare plans, as in the previous year.

In particular, on 12 May 2017 the agreement on V.A.P. (productivity bonus) was signed with the Trade Unions. It has more or less confirmed the previous years' values, with a new increase if specific percentage gates on Welfare are achieved (the final results regarding the choice made by the staff on how to use this bonus have led to an effective payment with a surcharge, given that the quorum of welfare participation has exceeded 45%).

Also in May, the Trade Unions agreed on the Regulations to be adopted for the election of the Workers' Safety Representatives (W.S.R.); on 30 May 2017 the related Agreement was signed and during the last quarter (25 October 2017) the names of the W.S.R. elected were announced and they promptly began a training course designed specifically for them.

At the end of July, the Group finalised negotiations to participate in the 2017 Banking and Insurance Fund, signing the related agreement on 27 September 2017. This agreement was preliminary to the presentation of a contribution to the Banking and Insurance Fund mainly in relation to the Training Plan entitled "Orienting and developing business skills" (in addition to the provision of specialised training plans for individual development) for the reference time frame October 2017 / September 2018.

Lastly, in November management met with the Trade Unions to discuss the setting up of a Group Committee for "Commercial Policies and Work Organisation", as envisaged by the agreement signed on 24 July 2017, highlighting a substantial convergence on the characteristics and regulations of the Committee, but postponing the signing of the document to a date to be defined.

5.4 - Future activities

Considering the lines of strategy underlying the Group's Business Plan for the three-year period 2018-2020 approved by Banco Desio's Board of Directors on 11 January 2018 and subsequent announcement to the market, the Resources Department will define the activities to be undertaken in the set time frame. In particular, these actions will be aimed at supporting the evolution of the Group's distribution model towards an "omnichannel" integrated approach, with a particular focus on skills and training plans in consideration of the need for role retraining, dictated above all by the technological evolution under way (digitization) and the behavioural trends of customers. The initiatives that will be undertaken within the sphere of resources will also be correlated to the evolution of commercial decisions for the business and the related organisational and IT processes underlying the banking services offered by the Group.

6 - Control activities

6.1 - The levels of control in the management control and coordination function

In exercising its management control and coordination function, the Bank, acting as Parent Company, uses a triple level of control over subsidiaries, in order to put into effect the specific "coordination model" that has been chosen, taking into account the nature and the size of the activities performed by each company, as well as its specific location, and by identifying the competent internal functions for the specific control mechanisms.

The first level, of strategic nature, is aimed to constantly verifying the guidelines provided by the Parent Company and is put into effect mainly by means of the presence on the Boards of Directors of each subsidiary of a certain number of its own officers.

The second level is of management type and regards the performance of analysis and the systematisation and measurement of periodic information flows from the subsidiaries, in order to verify the pursuit of strategic objectives in compliance with regulatory provisions, the preparation of adequate reporting on trends and earnings, the analysis of development, research or investment projects and of strategic opportunities, forecast cash flows and the other information needed for the preparation of the Group budget.

The third level is defined as technical-operational and mainly consists of monitoring the internal control system.

Further information on management control and coordination activities is included in paragraph 2.3 of the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

6.2 - The internal control system

The internal control system consists of a set of principles of conduct, rules and organisational procedures, which - in compliance with the law, Supervisory Authorities' regulations and corporate strategies - enables proper management of all of the Group's activities, with the involvement of corporate bodies and senior management and, generally, all the personnel.

Detailed information on the internal control system, as well as on the Financial Reporting Manager, and also on systems for risk management and for internal control in relation to the financial reporting process, are included in paragraphs 1 and 7 of the Annual Report on Corporate Governance which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

6.3 - Risk measurement and management

As regards the specific activities performed by the Bank's Risk Management Department, with the objective of ensuring that controls over the management of various types of risk by means of the adoption of integrated processes, reference should be made to Part E of the explanatory notes – Information on risks and related hedging policy.



7 - Results of operations

7.1 - Savings deposits: customer funds under management

Total customer funds under management continued along a growth trend similar to that of the previous year, reaching over Euro 19.8 billion at the end of 2017, with an annual growth of around Euro 1.3 billion (+7.0%), attributable above all to the 10.8% increase in direct deposits, as well as the positive performance of indirect deposits (+4.8%).

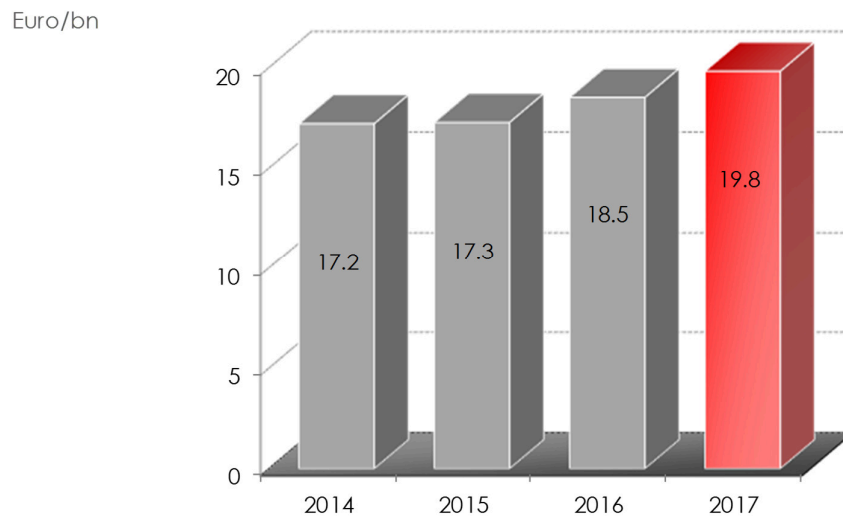
The composition and balances that make up this aggregate are shown in the following table.

Table no. 2 - CUSTOMER DEPOSITS

	31.12.2017		31.12.2016		Change	
	Amount	%	Amount	%	Amount	%
Due to customers	5,988,799	30.2%	5,622,898	30.4%	365,901	6.5%
Debt securities in issue and Financial liabilities designated at fair value t	1,602,047	8.1%	1,226,467	6.6%	375,580	30.6%
Direct deposits	7,590,846	38.3%	6,849,365	37.0%	741,481	10.8%
Ordinary customer deposits	7,057,209	35.6%	6,648,082	35.9%	409,127	6.2%
Institutional customer deposits	5,164,954	26.1%	5,013,679	27.1%	151,275	3.0%
Indirect deposits	12,222,163	61.7%	11,661,761	63.0%	560,402	4.8%
Total customer deposits	19,813,009	100.0%	18,511,126	100.0%	1,301,883	7.0%

The trend in total deposits since 2014 is shown in the following graph, which shows an average annual growth rate of 4.8%.

Chart no. 5 - TREND IN DIRECT DEPOSITS IN RECENT YEARS



Direct deposits

Direct deposits at the end of 2017 came to Euro 7.6 billion, up 10.8% on the previous year's figure, because of the increase in amounts due to customers (+6.5%) and in the balance of Debt securities in issue and Financial liabilities designated at fair value through profit and loss (+30.6%), mainly influenced by the issuance of covered bank bonds for Euro 0.6 billion.

Due to customers of Euro 6.0 billion represents the most significant component as it makes up 78.9% of the total balance, of which some Euro 5.1 billion relates to demand deposits, that is, current accounts and savings deposits, while some Euro 0.9 billion relates to restricted deposits and the remainder relates to other payables.

Debt securities in issue relate to bonds issued and placed of some Euro 1.6 billion (including some Euro 0.2 billion of subordinated bonds) and certificates of deposits for the balance.

Debt securities in issue show the following breakdown by maturity based on their nominal value:

- within one year Euro 393 million (of which Euro 13 million subordinated securities);
- between 1 and 3 years Euro 448 million (of which Euro 100 million subordinated securities);
- between 3 and 5 years Euro 211 million (of which Euro 130 million subordinated securities);
- beyond 5 years Euro 579 million (of which Euro 0 million subordinated securities).

Indirect deposits

Indirect deposits increased overall during the year by Euro 0.6 billion, up 4.8%, to about Euro 12.2 billion.

This trend is attributable to deposits from institutional customers, up by Euro 0.2 billion (+3.0%) to Euro 5.2 billion, and ordinary customer deposits, which rose by Euro 0.4 billion to Euro 7.1 billion (+6.2%), due to the performance of assets under management (+12.7%), partially offset by a decrease in assets under administration (-4.1%).

Table no. 3 - **INDIRECT DEPOSITS**

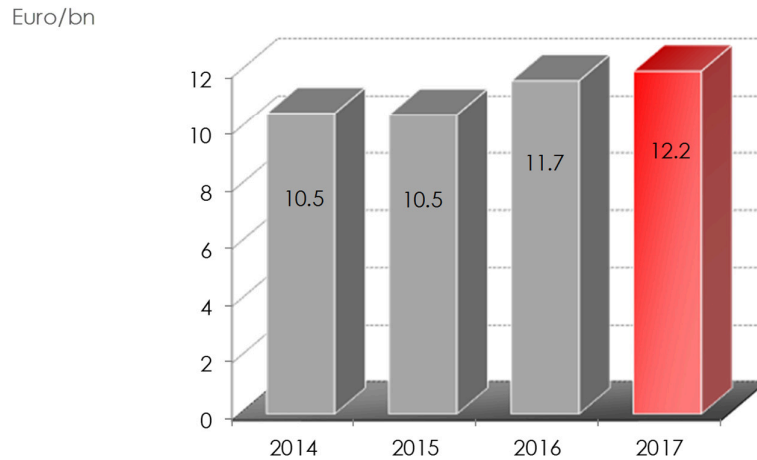
Amounts in thousands of Euro	31.12.2017		31.12.2016		change	
		%		%	Amount	%
Assets under administration	2,478,774	20.3%	2,585,726	22.2%	-106,952	-4.1%
Assets under management	4,578,435	37.4%	4,062,357	34.8%	516,078	12.7%
<i>of which: Mutual funds and Sicavs</i>	1,760,813	14.4%	1,351,542	11.6%	409,271	30.3%
<i>Managed portfolios</i>	735,398	6.0%	657,749	5.6%	77,649	11.8%
<i>Bancassurance</i>	2,082,224	17.0%	2,053,066	17.6%	29,158	1.4%
Ordinary customer deposits	7,057,209	57.7%	6,648,082	57.0%	409,127	6.2%
Institutional customer deposits ⁽¹⁾	5,164,954	42.3%	5,013,679	43.0%	151,275	3.0%
Indirect deposits ⁽¹⁾	12,222,163	100.0%	11,661,761	100.0%	560,402	4.8%

(1) Institutional customer deposits at 31.12.2017 include ordinary customers securities underlying the Bancassurance segment, amounting at about Euro 2 billions

The trend in indirect deposits in recent years can be seen in the following chart, which shows them growing at an average annual rate of 6.9% from 2014.



Chart no. 6 - TREND IN INDIRECT DEPOSITS IN RECENT YEARS



The following graph shows the breakdown in percentage terms of indirect ordinary customer deposits while the one below focuses on the breakdown of assets under management. Compared with the previous year's total, it highlights the increase in the majority share in favour of assets under management as opposed to assets under administration, in line with the previous year.

Chart no. 7 - BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2017

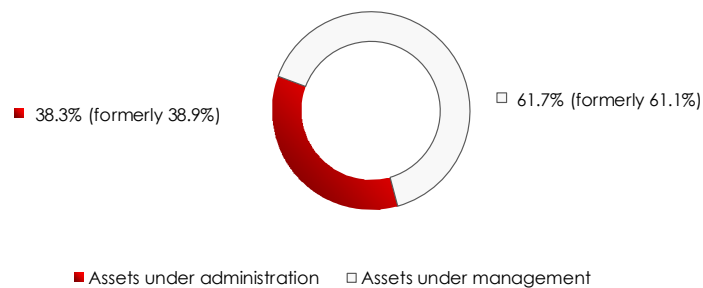
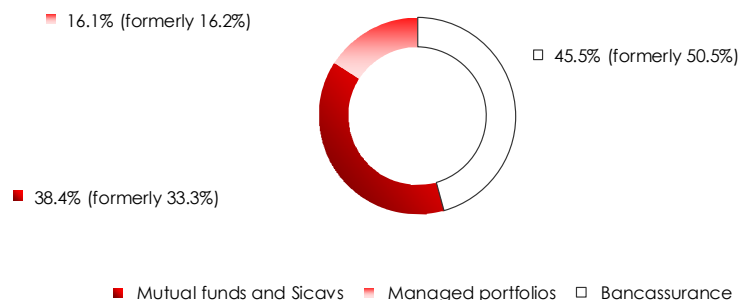


Chart no. 8 - BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2017



The macroeconomic environment remained stable throughout the year, thanks to solid synchronized growth and a persistent lack of inflationary pressures. As far as shares are concerned, during the year the combination of expansive monetary policies and an improving economy led to a sharp rise in equity markets, which focused on the securities and sectors most linked to the economic cycle, to the detriment of defensive ones. At a geographical level, the highest increases were achieved by the United States and Emerging Markets; however, performances in the Eurozone were also interesting with Italy distinguishing itself - in a positive way. As for the bond market, the Central Banks again dictated its trend. The search for returns has led investors to reduce more and more the quality of the assets in their portfolios and this has produced a significant reduction in spreads. Government bonds have maintained extremely high prices already reached in recent years.

As regards Managed Portfolios, the interest rate risk in the bond segment remained below that of the benchmark for the entire period. More generally, management policy was aimed, on the one hand, at maintaining an important exposure to supranational bonds; on the other hand, the most interesting returns were found in subordinated securities of the financial sector and bonds of emerging countries.

In equities, as part of a good diversification, the preference went to Europe compared with the USA (though its weighting still remained significant). With regard to the US market, exposure to medium-small capitalisations has been increased; the exposure to Emerging Markets is still marginal. At a product level, there was an overexposure to the sectors most correlated with the economic trend (industrial, cyclical and technological consumption), to the detriment of the telephony and utilities sectors. Lastly, stocks with high dividends were favoured.

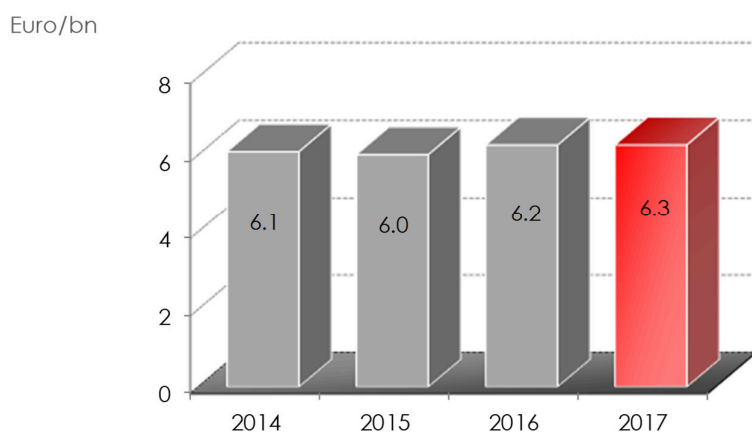


7.2 - Credit management: loans to customers

Lending to customers at 31 December 2017 totalled about Euro 6.3 billion, substantially in line with the previous year. Considering the net balance of loans to institutional customers in the previous year (Euro 0.2 billion), net loans to ordinary customers show an increase of Euro 0.2 billion (+3.6%), confirming the contribution made by the Bank in terms of access to credit by the private sector and the provision of loans to the real economy and the development of credit policies aimed at achieving a higher credit net lending than the target foreseen as part of the "TLTRO II" refinancing operations.

The following chart shows the trend in loans in the last three years, reflecting an average annual compound growth rate of 2.9%.

Chart no. 9 - TREND IN CUSTOMER LOANS IN RECENT YEARS



Changes in the amounts of the components of loans to customers by technical form are summarised in the following table, while the subsequent table shows changes in the year by customer grouping.

Table no. 4 - LOANS TO CUSTOMERS

Amounts in thousands of Euro	31.12.2017	%	31.12.2016	%	Change	
					Amount	%
Current accounts	1,585,818	25.4%	1,563,490	25.0%	22,328	1.4%
Mortgages and other long-term loans	3,777,673	60.4%	3,617,638	57.9%	160,035	4.4%
Other	888,051	14.2%	854,244	13.7%	33,807	4.0%
Loans to ordinary customers	6,251,542	100.0%	6,035,372	96.6%	216,170	3.6%
Loans to institutional customers	0	0.0%	211,681	3.4%	-211,681	-100.0%
Loans to customers	6,251,542	100.0%	6,247,053	100.0%	4,489	0.1%

Table no. 5 - BREAKDOWN OF LOANS TO CUSTOMERS BY TYPE OF CUSTOMER

Amounts in thousands of Euro	31.12.2017		31.12.2016		Change	
		%		%	Amount	%
Households	1,522,098	24.3%	1,415,250	22.7%	106,848	7.5%
Non-financ cos, artisans and other fam. bus.	4,169,752	66.7%	4,087,059	65.4%	82,693	2.0%
Financial companies	518,705	8.3%	720,980	11.5%	-202,275	-28.1%
Private and other social institutions ⁽¹⁾	40,987	0.7%	23,764	0.4%	17,223	72.5%
Loans to customers	6,251,542	100.0%	6,247,053	100.0%	4,489	0.1%

⁽¹⁾ inclusive of financial and non-financial companies in the rest of the world

Loans to non-financial companies, artisans and family businesses amounted to about Euro 4.2 billion, up by 2%. This still represents the bulk (66.7%) of total lending to customers (65.4% in the comparative period).

The following chart shows the percentage breakdown of loans at the end of 2017, analysed by type of customer, while the subsequent chart focuses on the loans made to non-financial companies, artisans and family businesses, analysed by business sector.

Chart no. 10 - % BREAKDOWN OF LOANS TO CUSTOMERS AT 31.12.2017, ANALYSED BY TYPE OF CUSTOMER

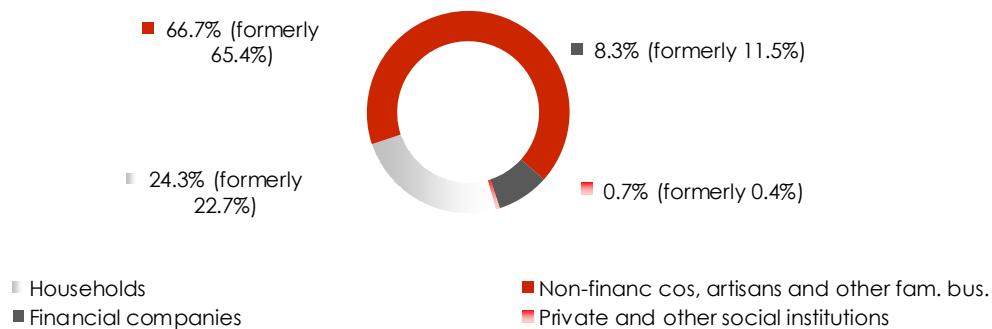
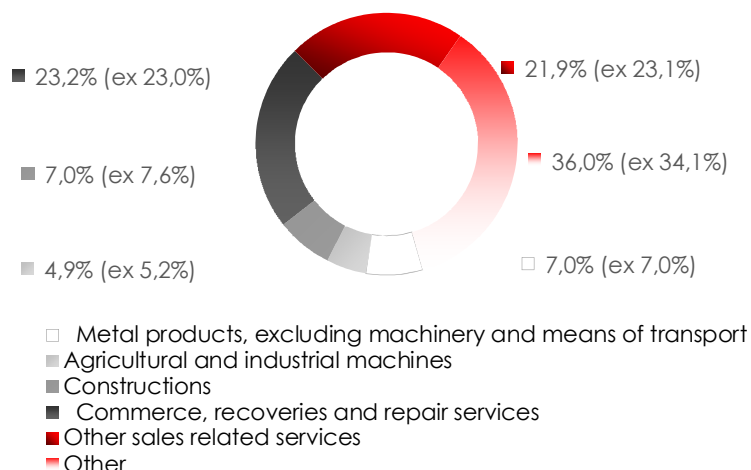




Chart no. 11 - BREAKDOWN OF LOANS TO CUSTOMERS AT 31.12.2017 REGARDING NON-FINANCIAL COMPANIES, ARTISANS AND FAMILY BUSINESSES



Loans to customers in the service sector generally continue to be very important, especially those in other sales related services, wholesale and retail services, recoveries and repairs and the construction industry. Taken together, these loans represent 52.1% (54.2 last year) of the total corresponding to some Euro 2.2 billion.

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of 2017 continues to reflect a high degree of risk diversification, although amounts are decreasing as can be seen from the following table.

Table no. 6 - RATIOS OF CONCENTRATION OF CREDIT ON LARGEST CUSTOMERS

Number of customers ⁽¹⁾	31.12.2017	31.12.2016
First 10	1.67%	1.86%
First 20	2.82%	3.04%
First 30	3.80%	4.03%
First 50	5.51%	5.70%

⁽¹⁾ net of loans to the subsidiary FIDES S.p.A. and to Cassa di Compensazione e Garanzia S.p.A.

None of the largest customers are "Large Exposures" for supervisory purposes at the reference date; in fact, "Large exposures" only comprise Group companies, the Bank of Italy, the Ministry of the Treasury, the Spanish Government and the Guarantee Fund under Law no. 662 of 23.12.1996, with a total nominal value (including guarantees given and commitments) of Euro 4.1 billion, corresponding to a weight total of Euro 0.1 billion.

The Bank's total amount of net non-performing loans made up of doubtful loans, unlikely to pay, non-performing past due and/or overdrawn exposures, came to Euro 408.2 million, net of adjustments of Euro 411.5 million, compared with Euro 449.9 million in the previous year. In particular, net doubtful loans totalled Euro 246.0 million, unlikely to pay, Euro 157.8 million and non-performing past due and/or overdrawn exposures Euro 4.4 million.

The following table summarises the gross and net indicators relating to credit risk; in particular, the incidence of gross and net non-performing loans has decreased due to disposal of loans with a nominal value of Euro 44.6 million.

Table no. 7 - INDICATORS OF CREDIT RISK VERSUS CUSTOMERS

<i>% of gross loans</i>	31.12.2017	31.12.2016
Gross non-performing loans to customers	12.26%	12.57%
<i>of which:</i>		
- gross doubtful loans	8.71%	8.45%
- unlikely to pay, gross	3.48%	4.02%
- non-performing past due and/or overdrawn exposures, gross	0.08%	0.11%
<i>% of net loans</i>	31.12.2017	31.12.2016
Net non-performing loans to customers	6.53%	7.20%
<i>of which:</i>		
- net doubtful loans	3.93%	4.05%
- unlikely to pay, net	2.52%	3.05%
- non-performing past due and/or overdrawn exposures, net	0.07%	0.10%

The main indicators for the coverage of non-performing loans are shown below, also considering, for doubtful loans, the amount of direct write-downs made over the years, together with those relating to performing loans, which show higher levels of coverage than at the end of the previous year for non-performing loans, doubtful loans in particular.

Table no. 8 - INDICATORS OF COVERAGE OF LOANS TO CUSTOMERS

<i>% Coverage of impaired and performing loans</i>	31.12.2017	31.12.2016
% Coverage of doubtful loans	57.75%	55.03%
% Coverage of doubtful loans, gross of cancellations	64.76%	63.34%
% Total coverage of impaired loans	50.20%	46.30%
% Coverage of impaired loans, gross of cancellations	56.37%	53.40%
% Coverage of performing loans	0.40%	0.48%



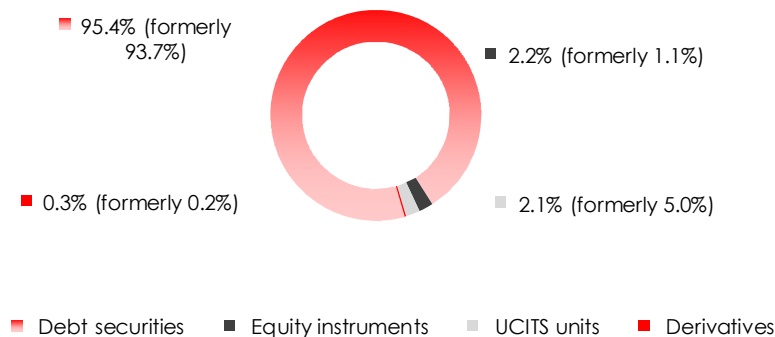
7.3 - The securities portfolio and interbank position

Securities portfolio

At 31 December 2017, the total financial assets of the Bank amounted to Euro 2.0 billion, an increase of 32.2% compared with the end of the previous year.

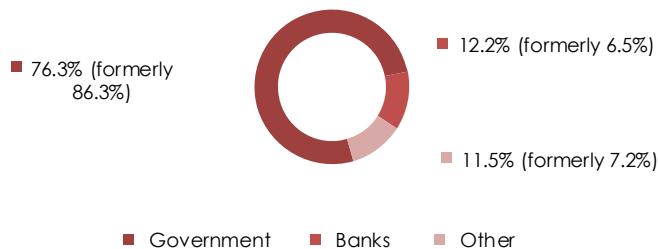
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (95.4%) of the investments still consist of debt securities.

Chart no. 12 - BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2017 BY TYPE OF SECURITIES



With reference to the issuers of securities, of the total portfolio at the end of the year, 76.3% relates to government securities, 12.2% to securities issued by leading banks and the remainder to other issuers, as shown by the following chart.

Chart no. 13 - BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2017 BY TYPE OF ISSUER



2017 was a positive year for stock exchanges in a context of very low volatility; in particular, the S&P 500 index recorded an annual growth of 19.4%. Very similar performance was also recorded for the Nikkei 225 index (+19.1%), and globally for the MSCI World (+20.1%). Despite a French electoral result appreciated by the markets and an economic recovery that has progressively strengthened, also extending to the countries of Southern Europe, Eurozone prices turned in lower performances than the world indices (for example, 6.5% growth by the Eurostoxx 50 index).

One of the main reasons for these lower performances by Europe was certainly the strength of the euro against the US dollar (+14.2% on an annual basis, the largest variance since 2003).

From a monetary policy point of view, the divergence between USA and Europe intensified as the FED implemented three rate hikes of 0.25% each, while the ECB announced that quantitative easing will continue in the first nine months of 2018, albeit at half its previous level. As a result, the interest rate differential between the dollar and the euro progressively increased, despite a moderate steepening of the euro curve (the 10-year swap rate increased by around 20 b.p. compared with a short-term part that was substantially unchanged). At the end of the year, the yield on the 10-year Bund was 0.43%, that of the Treasury 2.41%, while that of the BTP was 2.02%.

As regards government bond spreads between Italy and Germany, there was a period when spreads widened during the first four months, but then there was a recovery that brought them back to what they were at the start of the year on the 10-year maturity and a narrowing of spreads on the shorter end of the curve.

The debt performance of Portugal and Greece, countries that were considered higher risk at the beginning of the year, was excellent, having benefited from a strong rally in their bonds.

During the year, Banco Desio operated mainly in Italian government bonds, setting strategies that made it possible to achieve economic results that were better than the budget.

In particular, it reflects the creation of the Held to Maturity Portfolio during the year, which stood at Euro 743.5 million at the end of the period. Government bonds and bonds diversified by issuer, geographical area and by type of rate have a maximum maturity of 5 years.

Debt securities classified among the securities available for sale, on the other hand, have a duration of 3.2 years.

Note that, for the application of the counterparty risk mitigation policies for transactions in OTC (i.e. non-regulated) derivatives, the Bank uses bilateral netting agreements that, in the event of counterparty default, make it possible to offset receivable and payable positions. The Bank has therefore signed ISDA Master Agreements with all of the counterparties with which it operates in such instruments. In addition, specific bilateral Credit Support Annex agreements have been put in place with counterparties to regulate the collateral guarantee.

Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 31 December 2017 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.



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

		31.12.2017				Total	31.12.2016	
		Italy	France	Spain	USA		Italy	Total
Financial assets available for trading	Nominal value					0	1,500	1,500
	Book value					0	1,353	1,353
Financial assets available for sale	Nominal value	931,709			8,338	940,047	1,289,288	1,289,288
	Book value	932,825			8,225	941,050	1,286,804	1,286,804
Financial assets held to maturity	Nominal value	320,000	80,000	160,000		560,000		
	Book value	321,699	79,917	162,051		563,667		
Sovereign debt	Nominal value	1,251,709	80,000	160,000	8,338	1,500,047	1,290,788	1,290,788
	Book value	1,254,524	79,917	162,051	8,225	1,504,717	1,288,157	1,288,157

Table no. 10 - SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO, ISSUER AND MATURITY

Amounts in thousands of Euro		Italy	France	Spain	USA	31.12.2017	
						Nominal value	Book value
Financial assets available for sale	up to 1 year	-	-	-	-	0	0
	1 to 3 years	190,000	-	-	8,338	198,338	198,553
	3 to 5 years	450,000	-	-	-	450,000	454,072
	over 5 years	291,709	-	-	-	291,709	288,425
	Total	931,709	-	-	8,338	940,047	941,050
Financial assets held to maturity	up to 1 year	-	-	-	-	0	0
	1 to 3 years	205,000	-	-	-	205,000	206,216
	3 to 5 years	115,000	80,000	160,000	-	355,000	357,451
	over 5 years	-	-	-	-	0	0
Total	320,000	80,000	160,000	-	560,000	563,667	
Sovereign debt	up to 1 year	-	-	-	-	0	0
	1 to 3 years	395,000	-	-	8,338	403,338	404,769
	3 to 5 years	565,000	80,000	160,000	-	805,000	811,523
	over 5 years	291,709	-	-	-	291,709	288,425
	Total	1,251,709	80,000	160,000	8,338	1,500,047	1,504,717

Net interbank position

The net interbank position at year-end is negative for Euro 0.2 billion, compared with the position at the end of the previous year, which was also negative for Euro 0.5 billion.

In 2017, the Bank was constantly committed to optimizing funding sources and levels, in particular through participation in the last "TLTRO II" auction in March, and then with the placement of the covered bonds, as mentioned previously. At the reference date, the Bank also took a long liquidity position due to significant disinvestments from the securities portfolio which, despite the aforementioned TLTRO II and Covered Bond transactions, still made it possible to reduce the net interbank borrowing position in question.

7.4 - Shareholders' equity and capital adequacy

Shareholders' equity at 31 December 2017, inclusive of net profit for the year, increased to Euro 912.4 million compared with Euro 865.6 million at the 2016 year end.

After a payout of 35.0% (based on the proposed allocation of net profit to be approved at the Shareholders' Meeting), capital for supervisory purposes, otherwise known as Own Funds, at 31 December 2017 amounts to Euro 1,037.0 million (CET 1 + AT1 Euro 893.2 million + T2 Euro 143.8 million). This is Euro 0.7 million lower than the amount reported at the end of the prior year, Euro 1,037.7 million, due to the comprehensive income for the year, offset by the reduction in class 2 capital since 31 December 2016.

At 31 December 2017, the Common Equity Tier 1 (CET1/Risk-weighted assets) was 17.1% (16.3% at 31 December 2016). The Tier 1 ratio (T1/Risk-weighted assets) was 17.2% (16.4% at 31 December 2016), while the Total capital ratio (total Own Funds/Risk-weighted assets) was 19.9% (19.9% at 31 December 2016).

The minimum capital required by law for 2017 for banks that belong to a banking group, including the capital conservation buffer of 1.25%, amounted to 5.75% for the Common Equity Tier 1 ratio, 7.25% for the Tier 1 ratio and 9.25% for the Total Capital ratio.

The new prudential regulations have imposed a capital reserve that is in addition to the minimum regulatory requirements, with the objective of equipping the banks with high quality capital to be used in times of market stress to prevent any malfunctioning of the banking system and to avoid interruptions in the credit granting process.



7.5 - 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 financial statements and which forms the basis of the specific comments below.

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";
- the "Net profit (loss) for the period" has been split between "Profit (loss) from operations after taxes" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 190 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers and flat-rate tax on long-term loans, as well as amortisation of leasehold improvements, reclassified respectively as a reduction to caption 150b) "Other administrative expenses" and as an increase in caption 180 "Net adjustments to intangible assets", net of other decreases in item 150a) "Payroll costs" included in "Operating expenses";
- dividends receivable from investments in subsidiaries have been reclassified from caption 70 "Dividends and similar income" to the caption "Dividends from investments in subsidiaries" below "Result of operations";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of loans" of "Operating income" is reclassified to the appropriate caption "Gains (losses) on disposal or repurchase of loans" after "Result of operations";
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 190 "Net provisions for risks and charges" to caption 130a) "Net impairment adjustments to loans and advances", both captions coming after the "Result of operations";
- provisions and expenses of an extraordinary nature or which are "one-off", adjustments for impairment of financial assets which are not ordinary investments by the Bank, as well as extraordinary dividends from assets available for sale, have been reclassified to "Extraordinary provisions for risks and charges/other provisions and expenses/extraordinary dividends from financial assets held for sale";
- the tax effect on "Non-recurring profit (loss)" is reclassified from caption 260 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

As shown in the following table, which presents the reclassified income statement, 2017 closed with a net profit of Euro 38.0 million. This represents an increase of Euro 6.3 million (+19.9%) compared with the prior year of Euro 31.7 million; this trend is primarily attributable to the Euro 7.4 million growth (+22.3%) in the positive *Profit (loss) from operations after tax*, partly offset by the rise of Euro 1.1 million (+68.1%) in the negative contribution from the *Non-recurring profit (loss) after tax* caused by a surplus of non-recurring expense items.

The increase in the *Profit (loss) from operations after tax* is mainly due to the Euro 14.0 million increase (+5.4%) in *Operating income* due, in particular, to the significant positive contribution of *Net commission income* which also rose by Euro 12.8 million (+12.9%).

Table no. 11 - RECLASSIFIED INCOME STATEMENT

Captions		31.12.2017	31.12.2016	Change	
				Amount	%
Amounts in thousands of Euro					
10+20	Net interest income	131,991	134,617	-2,626	-2.0%
70	Dividends and similar income	625	1,288	-663	-51.5%
40+50	Net commission income	111,985	99,196	12,789	12.9%
80+90+100 +110	Net results on financial assets and liabilities	24,069	17,755	6,314	35.6%
190	Other operating income/expense	6,203	7,982	-1,779	-22.3%
	Operating income	274,873	260,838	14,035	5.4%
150 a	Payroll costs	-113,009	-113,522	513	-0.5%
150 b	Other administrative costs	-53,890	-52,735	-1,155	2.2%
170+180	Net adjustments to property, plant and equipment and intangible assets	-7,549	-7,749	200	-2.6%
	Operating costs	-174,448	-174,006	-442	0.3%
	Result of operations	100,425	86,832	13,593	15.7%
100a+130a	Cost of credit	-47,330	-44,362	-2,968	6.7%
130 b	Net impairment adjustments to financial assets available for sale	-2,235	-16	-2,219	n.s.
130 d	Net impairment adjustments to other financial assets	74	19	55	289.5%
160	Net provisions for risks and charges	407	-2,748	3,155	n.s.
	Dividends from equity investments in subsidiaries	6,640	5,640	1,000	17.7%
	Profit (loss) from operations before tax	57,981	45,365	12,616	27.8%
260	Income taxes on current operations	-17,292	-12,084	-5,208	43.1%
	Profit (loss) from operations after tax	40,689	33,281	7,408	22.3%
210	Profit (loss) from equity investments	0	13,379	-13,379	-100.0%
	Extraordinary provisions for risks and charges, other provisions and extraordinary expenses/dividends of financial assets available for sale	-4,966	-22,833	17,867	-78.3%
	Non-recurring result before tax	-4,966	-9,454	4,488	-47.5%
	Income taxes from non-recurring items	2,273	7,852	-5,579	-71.1%
	Non-recurring result after tax	-2,693	-1,602	-1,091	68.1%
290	Net profit (loss) for the period	37,996	31,679	6,317	19.9%

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 31.12.2017

Captions	As per financial statements								Reclassified income statement	
	31.12.2017	Tax/expense recoveries	Dividends from equity investments	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	31.12.2017	
Amounts in thousands of Euro										
10+20	Net interest income	131,991							131,991	
70	Dividends and similar income	11,339	-10,714						625	
40+50	Net commission income	111,985							111,985	
80+90+100+110	Net results on financial assets and liabilities	19,210			631		4,228		24,069	
190	Other operating income/expense	32,976	-28,100	1,327					6,203	
	Operating income	307,501	-28,100	-10,714	1,327	631	0	4,228	0	274,873
150 a	Payroll costs	-117,898	4,873				16		-113,009	
150 b	Other administrative costs	-77,117	23,227				0		-53,890	
170+180	Net adjustments to property, plant and equipment and intangible asset	-6,222		-1,327					-7,549	
	Operating costs	-201,237	28,100	-1,327			16	0	0	-174,448
	Result of operations	106,264	0	-10,714	0	631	16	4,228	0	100,425
100a+130a	Cost of credit	-46,406				-631	-293			-47,330
130 b	Net impairment adjustments to financial assets available for sale	-9,271						7,036		-2,235
130 d	Net impairment adjustments to other financial assets	2,314						-2,240		74
160	Net provisions for risks and charges	114					293			407
	Dividends from equity investments in subsidiaries			6,640						6,640
	Profit (loss) from operations before tax	53,015	0	-4,074	0	0	16	9,024	0	57,981
260	Income taxes on current operations	-15,019							-2,273	-17,292
	Profit (loss) from operations after tax	37,996	0	-4,074	0	0	16	9,024	-2,273	40,689
	Extraordinary provisions for risks and charges, other provisions and expenses/gains on disposal of financial assets available for sale			4,074			-16		-9,024	-4,966
	Non-recurring result before tax	0	0	4,074	0	0	-16	-9,024	0	-4,966
	Income taxes from non-recurring items								2,273	2,273
	Non-recurring result after tax	0	0	4,074	0	0	-16	-9,024	2,273	-2,693
290	Net profit (loss) for the period	37,996	0	0	0	0	0	0	0	37,996



Table no. 13 – RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 31.12.2016

Captions	As per financial statements	Reclassifications						Reclassified income statement	
		Tax/expense recoveries	Dividends from equity investments	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions and expenses	Income taxes		
	31.12.2016							31.12.2016	
Amounts in thousands of Euro									
10+20	Net interest income	134,617							134,617
70	Dividends and similar income	10,133		-8,845					1,288
40+50	Net commission income	99,196							99,196
80+90+100	Net results on financial assets and liabilities								
+110		18,464				-709			17,755
190	Other operating income/expense	35,631	-28,980		1,331				7,982
	Operating income	298,041	-28,980	-8,845	1,331	-709	0	0	260,838
150 a	Payroll costs	-135,491	5,059				16,910		-113,522
150 b	Other administrative costs	-83,903	23,921				7,247		-52,735
170+180	Net adjustments to property, plant and equipment and intangible asset	-6,418			-1,331				-7,749
	Operating costs	-225,812	28,980		-1,331		24,157	0	-174,006
	Result of operations	72,229	0	-8,845	0	-709	24,157	0	86,832
100a+130a	Cost of credit	-45,013				709	-58		-44,362
130 b	Net impairment adjustments to financial assets available for sale	-1,876							-16
130 d	Net impairment adjustments to other financial assets	-468					-1,571		19
160	Net provisions for risks and charges	-2,340					-408		-2,748
	Dividends from equity investments in subsidiaries			5,640					5,640
	Profit (loss) from operations before tax	22,532	0	-3,205	0	0	22,120	0	45,365
260	Income taxes on current operations	-4,232						-7,852	-12,084
	Profit (loss) from operations before tax	18,300	0	-3,205	0	0	22,120	-7,852	33,281
210	Profit (loss) from equity investments	13,379							13,379
	Extraordinary provisions for risks and charges, other provisions and expenses/gains on disposal of financial assets available for sale			3,205			-22,120		-22,833
	Non-recurring result before tax	13,379	0	3,205	0	0	-22,120	0	-9,454
	Income taxes from non-recurring items							7,852	7,852
	Non-recurring result after tax	13,379	0	3,205	0	0	-22,120	7,852	-1,602
290	Net profit (loss) for the period	31,679	0	0	0	0	0	0	31,679



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

Operating income

Core revenues increased by about Euro 14.0 million with respect to the comparative period (+5.4%), amounting to Euro 274.9 million. In addition to the positive contribution made by net commission income, an increase of Euro 12.8 million, there has also been an increase in the *Net results on financial assets and liabilities* of Euro 6.3 million (+35.6%), partially offset by net interest income, which has fallen by Euro 2.6 million (-2.0%), due to the expansive monetary policy that has been strongly compressing interest income, partly offset by the recognition of the interest income connected to the "TLTRO II" operation for Euro 4.6 million. A similar trend also characterises *other operating income/expense* down by Euro 1.8 million mainly due to the reduction in recharge of costs of current accounts and deposits for rapid preliminary investigation fees. Lastly, dividends come in at Euro 0.6 million.

The following table analyses *net commission income* by type.

Table no. 14 - **BREAKDOWN OF NET COMMISSION INCOME BY TYPE OF SERVICE**

Amounts in thousands of Euro	31.12.2017		31.12.2016		Change	
	31.12.2017	%	31.12.2016	%	Amount	%
Collection and payment services	16,264	14.5%	15,917	16.0%	347	2.2%
Placement of securities	15,231	13.6%	13,182	13.3%	2,049	15.5%
Managed portfolios and order taking	11,061	9.9%	9,293	9.4%	1,768	19.0%
Distribution of insurance products	13,972	12.5%	6,452	6.5%	7,520	116.5%
Maintenance and management of current accounts	45,524	40.6%	44,497	44.9%	1,027	2.3%
Other commission	9,933	8.9%	9,855	9.9%	78	0.8%
Net commission income	111,985	100.0%	99,196	100.0%	12,789	12.9%

Operating costs

Operating costs, which include *payroll costs*, *other administrative expenses* and *net adjustments to property, plant and equipment and intangible assets* come to around Euro 174.5 million in line with the previous period.

In particular, other administrative expenses have increased by Euro 1.1 million (+2.2%). The balance includes Euro 4.5 million for the ex-ante ordinary gross contributions to the Single Resolution Mechanism (SRM) and to the Deposit Guarantee Scheme (DGS) for 2017 (Euro 5.0 million gross in the prior year).

Payroll costs have decreased by 0.5% on the prior period, whereas the balance of net adjustments to property, plant and equipment and intangible assets came to Euro 7.5 million (-2.6%).

Result of operations

The result of operations at 31 December 2017 therefore amounts to Euro 100.4 million, up by Euro 13.6 million compared with the prior year (+15.7%).

Net profit (loss) from operations after tax

The *Result of operations* of Euro 100.4 million leads to a *Profit (loss) from operations after tax* of Euro 40.7 million, 22.3% up compared with Euro 33.3 million in the comparative period, considering:

- reduction in the *cost of credit (net impairment adjustments to loans and advances plus gains (losses) on disposal or repurchase of loans)* to about Euro 47.3 million, on Euro 44.4 million in the comparative period due to the slowdown in the deterioration of loans, despite maintaining high levels of coverage;
- *impairment adjustments to financial assets available for sale* of Euro 2.2 million;
- *net provisions for risks and charges* of Euro 0.4 million, which had a negative net balance of Euro 2.7 million in the comparative period;
- *dividends* from investments in subsidiaries for Euro 6.6 million (formerly Euro 5.6 million);
- *income taxes on current operations* of Euro 17.3 million (Euro 12.1 million last year).

Non-recurring profit (loss) after tax

Non-recurring profit (loss) after tax at 31 December 2017 was a loss of Euro 2.7 million. This mainly consists of:

- impairment adjustments (net of the use of provisions) recognised:
 - for Euro 2.1 million on a minority bank shareholding acquired during the period under a commitment made previously;
 - for Euro 3.6 million on the Atlante Fund following the write-off of the value of the banking interests held by the fund;
 both reclassified from *net impairment losses on available-for-sale financial assets*.
- the negative income components linked to participation in the Interbank Deposit Protection Fund's Voluntary Intervention Scheme (VIS), in particular:
 - Euro 2.7 million paid to the VIS during the year for the capital increases of the three banks sold to Cariparma in December, reclassified from the *net results on financial assets and liabilities*;
 - Euro 0.7 million for the impairment made on the nominal value of the securitisation tranches of NPLs subscribed by the VIS, reclassified from *net impairment adjustments to financial assets available for sale*;
- income of Euro 4.1 million from the special dividend paid by Cedacri S.p.A.;
net of the related (positive) tax effects of Euro 2.3 million.

The balance in the comparative period was negative for Euro 1.6 million and included the following items:

- *Profit on equity investments* of Euro 13.4 million consisting of:
 - Euro 8.0 million from the sale of the residual equity investment in Chiara Assicurazioni S.p.A. and a price adjustment on the shares sold in 2013;
 - Euro 4.2 million from the cancellation of the equity investment in CPC S.A. in liquidation,
 - Euro 1.1 million from the gain on the sale of the shares in Istifid S.p.A.;
 - Euro 0.1 million from the cancellation of the equity investment in Rovere S.d.G. in liquidation;
- *Non-recurring provisions for risks and charges, other provisions and expenses/special dividends from financial assets available for sale* with a negative balance of Euro 22.8 million due to:
 - one-time charges of Euro 16.9 million linked to the Income support solidarity fund with related discounting effect;
 - gross additional contribution to the Single Resolution Mechanism (SRM) of Euro 5.7 million;



- adjustments of Euro 1.5 million linked to the commitment to purchase a minority investment for more than fair value;
- adjustments of Euro 0.3 million in connection with the fair value alignment of the equity instrument recorded for the investment in Caricesena held through the Voluntary Scheme of the Interbank Fund;
- adjustments of Euro 2.1 million linked to the measurement of the investment in Fondo Atlante (and related commitment to pay funds, settled on 3 January 2017);
- income of Euro 3.2 million from the special dividend paid by Cedacri S.p.A.;
- release of Euro 0.5 million from the provision previously made to the "Solidarity Fund" established to cover the subordinated bondholders of bailed-out banks;

net of the related (positive) tax effects of Euro 7.8 million, essentially due to the more favourable tax treatment of income from equity investments and dividends under the participation exemption (Pex), being the principal component of non-recurring income, with respect to the non-recurring expenses recognised.

Profit for the period

The total of the *profit from operations* and the *non-recurring profit*, leads to a net profit at 31 December 2017 of Euro 38.0 million (formerly Euro 31.7 million).

8 - Other information

8.1 – Investments in Banco di Desio e della Brianza S.p.A. held by members of the Boards of Directors and Statutory Auditors, by the General Manager and by the Deputy General Manager holding office at the year end

Name and Surname	Offices held at Banco di Desio e della Brianza S.p.A.	Title/Nature of holding	Ordinary shares of 31.12.2016	%	Savings shares of 31.12.2016	%	Ordinary shares purchased	Savings shares purchased	Ordinary shares sold	Savings shares sold	Ordinary shares of 31.12.2017	%	Savings shares of 31.12.2017	%
Stefano Lado *	Chairman	Owned	2,137,611	1.827	196,000	1.485	7,500	0	0	0	2,145,111	1.833	196,000	1.485
		Registered to spouse	6,500	0.006	0	0.000	0	0	0	0	6,500	0.006	0	0.000
		Owned via Vega Finanziaria SpA	6,885,730	5.885	571,522	4.329	0	0	0	0	6,885,730	5.885	571,522	4.329
Tommaso Cartone	Deputy Chairman		27,500	0.024	0	0.000	0	0	0	27,500	0.024	0	0.000	
Sandro Appetiti	Director (left office on 6 April 2017)		0	0	0	0	0	0	0	0	0	0	0	0
Graziella Bologna	Director		0	0	0	0	0	0	0	0	0	0	0	0
Marina Brogi	Director (appointed by the Ordinary Shareholders' Meeting on 6 April 2017)		0	0	0	0	0	0	0	0	0	0	0	0
Nicolò Dubini	Director (appointed by the Ordinary Shareholders' Meeting on 6 April 2017)		0	0	0	0	0	0	0	0	0	0	0	0
Cristina Finocchi Mahne	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Agostino Gavazzi	Director	Owned	78,244	0.067	0	0.000	0	0	0	0	78,244	0.067	0	0.000
		Bare ownership	5,500	0.005	0	0.000	0	0	0	0	5,500	0.005	0	0.000
		Registered to spouse	2,900	0.002	0	0.000	0	0	0	0	2,900	0.002	0	0.000
Egidio Gavazzi	Director	Owned	15,000	0.013	0	0.000	0	0	0	15,000	0.013	0	0.000	
Paolo Gavazzi	Director	Owned	638,453	0.546	15,004	0.114	0	0	0	638,453	0.546	15,004	0.114	
Tito Gavazzi	Director		0	0.000	0	0.000	0	0	0	0	0.000	0	0.000	
Gerolamo Pellicano'	Director		0	0.000	0	0.000	0	0	0	0	0.000	0	0.000	
Gigliola Zecchi Balsamo	Director		0	0.000	0	0.000	0	0	0	0	0.000	0	0.000	
Luciano Camagni	General Manager (left office on 11 July 2017)		0	0.000	0	0.000	0	0	0	0	0.000	0	0.000	
Angelo Antoniazzi	General Manager (appointed by the BoD of 11 June 2017 from 19 July 2017)		0	0.000	0	0.000	0	0	0	0	0.000	0	0.000	
Eugenio Mascheroni	Chairman of the Board of Statutory Auditors (left office on 6 April 2017)		0	0.000	0	0.000	0	0	0	0	0.000	0	0.000	
Giulia Pusterla	Chairman of the Board of Statutory Auditors (appointed Chairman of the BoSA by Ordinary Shareholders' Meeting)		0	0.000	0	0.000	0	0	0	0	0.000	0	0.000	
Rodolfo Anghileri	Acting Statutory Auditor		0	0.000	20,000	0.151	0	0	0	0	0	0.000	20,000	0.151
Franco Fumagalli Romario	Acting Statutory Auditor (appointed by Ordinary Shareholders' Meeting on 6 April)		5,000	0.004	5,000	0.038	0	0	0	0	5,000	0.004	5,000	0.038
Giovanni Cucciani	Alternate Statutory Auditor (left office on 6 April 2017)	Owned	14,240	0.0122	1,000	0.008	0	0	0	0	14,240	0.0122	1,000	0.008
		Registered to spouse	6,800	0.00581	0	0.000	0	0	0	0	6,800	0.00581	0	0.000
Erminio Beretta	Alternate Statutory Auditor (appointed by Ordinary Shareholders' Meeting on 6 April 2017)		0	0.000	0	0.000	0	0	0	0	0.000	0	0.000	
Massimo Celli	Alternate Statutory Auditor (appointed by Ordinary Shareholders' Meeting on 6 April 2017)		0	0.000	0	0.000	0	0	0	0	0.000	0	0.000	
Elena Negonda	Alternate Statutory Auditor		0	0.000	0	0.000	0	0	0	0	0.000	0	0.000	
Paolo Pasqui	Alternate Statutory Auditor (left office on 6 April 2017)		2,000	0.002	0	0.000	0	0	0	2,000	0.002	0	0.000	
Maurizio Walter Colombo	Senior Deputy General Manager		0	0.000	0	0.000	0	0	0	0	0.000	0	0.000	
Maurizio Ballabio	Deputy General Manager "Corporate Affairs"		13,000	0.011	0	0.000	0	0	0	13,000	0.011	0	0.000	

* Mr. Stefano Lado has granted general power of attorney by his brother Mr. Luigi Lado by which he holds a stake of 0.2579% of the ordinary shares (30,538) of the Bank as well as the control of Vega Finanziaria S.p.A.; He also holds a stake of 0.246% of the savings shares (32,500) of the Bank.



8.2 – Investments in subsidiaries held by members of the Boards of Directors and Statutory Auditors, by the General Manager and by the Deputy General Manager holding office at the year end

At 31 December 2017, as was the case throughout the year, no equity investments were held in subsidiaries by members of the Boards of Directors and Statutory Auditors, by the General Manager or by the Deputy General Managers currently in office.

8.3 - Treasury shares and shares of the Parent Company

At 31 December 2017, as was the case at the previous year end, the Bank did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A. and it did not trade in treasury share or shares of its parent company, directly or through a trustee or other person.

8.4 – Transactions between Banco di Desio e della Brianza S.p.A. and the Parent Company and with subsidiaries or companies subject to significant influence

Set out below is a summary of balances at 31 December 2017 and transactions in the year then ended with the Bank's parent company and with its subsidiaries or companies subject to significant influence, by counterparty and by nature.

Table no. 15 - **TRANSACTIONS WITH THE PARENT COMPANY AND WITH SUBSIDIARIES OR COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE IN THE YEAR ENDED 31.12.2017**

<i>Amounts in thousands of Euro</i>	Assets	Liabilities	Guarantees/c ommitments	Income	Expenses
Parent Company					
Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A.	0	1,642	0	8	4
Subsidiaries					
Banca Popolare di Spoleto S.p.A.	367,520	70,631	15,299	8,968	4,717
FIDES S.p.A.	460,963	236	0	17,375	0
Desio OBG	0	0	0	0	0
Transactions by company	828,483	72,509	15,299	26,351	4,721
Breakdown of transactions by type					
Financial	824,912	72,210	577	19,481	826
Trade	0	0	14,722	848	92
Lease / management of assets	0	0	0	0	516
Supply of services	3,365	0	0	5,372	0
Other	206	299	0	650	3,287
Transactions by type	828,483	72,509	15,299	26,351	4,721

Note that, to the extent that it is possible to make a comparison, all of the above transactions were entered into by applying market conditions and rates, and in any case, they are justified by being in the Group's interest.

In compliance with art. 37 paragraph 2 of Consob's Market Regulations (Resolution 16191 of 29 October 2007), it is hereby disclosed that Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A., the Bank's parent company, as laid down by its articles of association, does not exercise any management control and coordination activities over the Bank and its subsidiaries and neither does it do so under banking legislation nor under civil law. For further details on the Group structure concerning the exercise of management control and coordination activities, reference should be made to paragraph 2.3 of the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations.

8.5 - Ratings

On 20 June 2017, following its annual review, Fitch Ratings confirmed all the ratings awarded to the Parent Company, Banco di Desio e della Brianza.

The updated ratings are the following:

- 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"

8.6 – Transactions with related parties and/or associated persons

For a more detailed description of the procedures that govern transactions with related parties (pursuant to art. 2391-bis of the Civil Code) and with associated persons (pursuant to art. 53 of the CFA), reference should be made to paragraph 5 of the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations.

Details of transactions with related parties approved by the Board of directors in the course of 2017 are disclosed in Part H of the explanatory notes.

8.7 – Information on incentive plans

At the reference date, there are no equity-based payments.

8.8 – Report on the adoption of the code of conduct for listed companies

Information about the adoption of the Code of Conduct for listed companies is provided in the Annual Report on Corporate Governance in compliance with art. 123-bis of the CFA, which is available on the Group's website, along with this report on operations, and to which reference should be made.



8.9 – Research and development activities

In its capacity as Parent Company, the Bank, as described in paragraph 6.1 "The levels of control in the management control and coordination function", undertakes development with a view to supporting and coordinating the companies belonging to the Group, as well as research and investment in operational solutions aimed, in particular, at continuous improvements in the customer relationship.

The Banco Desio Group is closely involved in the development of "multichannel" operations, in order to make banking services easier to use, in a way that is simple and flexible. Widespread connectivity, mobility, advanced payment services and user-friendly technology have led to an evolution in customers' access to banking services, new models of interpersonal relationships and, consequently, a growing digitisation of services, processes and multi-channel approach to relationships.

As a consequence of this evolution in digital services, the action to strengthen the Group's range of technological solutions offered to customers continued in 2017. In particular, during the year some important projects were finalized or launched in the areas of payment systems and telematic services:

- contactless Bancomat card: the "c.Jess" function has been added to the traditional Bancomat circuit card, which allows the holder to make fast and secure payments simply by putting their card close to the POS terminal;
- "& Si" prepaid card: a new rechargeable prepaid card Nexi (formerly Cartasi) equipped with "chip & Pin" technology able to make its use fast and secure for payments on physical POS and e.commerce;
- HCE (host card evolution) payments: through the "Nexi Pay" function, the bank's customers can associate their credit and prepaid Visa and Mastercard cards with an Android smartphone to make payments using the phone instead of the card. During the last quarter of the year, steps were taken to use this function also on Apple devices;
- repetitive bank transfers: the new home banking function allows customers to repeat payment orders arranged online automatically over time;
- top up prepaid cards: customers can top up their prepaid card directly through the home banking portal or via mobile banking;
- secure call: with this function, the use of home and mobile banking services will be even safer and faster. Secure call allows you to authorise transactions through a simple call from a mobile phone to a toll-free number.

Again in the context of web and mobile banking services, in the second part of the year the bases were laid for a revision of the web platforms dedicated to individuals and companies that will take place in 2018.

8.10 – Opt-out from obligation to publish information documents for extraordinary operations pursuant to Consob regulations

Pursuant to art. 3 of Consob resolution no. 18079 of 20 January 2012, the Bank has exercised its right to opt-out as provided by art. 70, paragraph 8 and by art. 71, paragraph 1-bis of Consob Regulation 11971/99, effectively exercising its right to opt-out from the obligation to publish information documents required by Attachment 3B of the aforementioned Consob Regulation for significant mergers, demergers, increases in capital by contribution in kind, acquisitions and disposals.

8.11 – Statement of a non-financial nature

In application of Legislative Decree no. 254 of 30 December 2016, Banco di Desio e della Brianza S.p.A., as the parent company, publishes a consolidated non-financial statement as a separate report with respect to the consolidated financial statements, called the "Banco Desio Group's Sustainability Report", which contains the information required by the Decree.

Publication of the Sustainability Report is announced in a press release that indicates the section of the Banco Desio's website where the consolidated non-financial statement is published.



9 - Outlook for the rest of 2017 and principal risks and uncertainties

The financial statements at 31 December 2017 have been prepared on a going concern basis, since there are no plausible reasons to believe the contrary for the foreseeable future. The capital and financial structure and operating performance of the business provide absolute confirmation of the foregoing.

In the paragraph on the macroeconomic scenario of the Consolidated Report on Operations, a description has been given of trends in the world economy and financial markets with the principal risks that they entail, while the controls over the Bank's operations and the various types of risk are explained in detail in Part E of the Notes – Information on risks and related hedging policy.

Furthermore, explanatory notes on the levels of control in the management control and coordination function and on the internal control system are included in the relevant paragraphs of this report, with references made, for further detailed information, to the Annual Report on Corporate Governance, which is available on the Parent Company's website pursuant to art. 123-bis of the CFA, along with this report on operations.

On the basis of the information that can be deduced from the strategic guidelines of the 2018-2020 Business Plan, for 2018, we envisage for the Bank:

- the start of the evolutionary process of the distribution model through an important programme of investments in fixed assets and training with which to create the backbone of a reorientation towards a multi-channel model (consisting of branches, financial advisors and the web) for the Group to expand its customer base even more decisively and to increase each mode of operational contact and customer assistance according to their behavioural profiles;
- a not particularly dynamic trend in the interest margin, taking into account the forecasts for a modest revision of the monetary policy objectives in 2018 by the European Central Bank and prudent management of the securities portfolio by composition and duration, against which growth in the commission margin will continue in line with the evolution of the business model which sees the progressive accentuation (also for the number of dedicated resources) of assistance to core customers (individuals, families and small-medium business) in terms of the range of products and advice offered;
- a further containment in the cost of credit, which is expected to be accentuated in the three years 2018-2020, consequent, on the one hand, to the expected decline in impairment rates (transfer to non-performing loans); and, on the other, to the systematic evolution in the management of non-performing loans as a result of a programme of sales (also with recourse to GACS), which is already expected to start having an effect in 2018, and of the organisational efficiency of the NPL sector according to the guidance of the ECB; even if there are still uncertainties about the impact of a revision of the provisioning policies due to new regulations;
- maintaining constant pressure to contain operating costs, while leaving space to complete the necessary adjustments organised in line with the model's evolution; in 2018, part of the benefits to personnel costs deriving from the voluntary exodus of 2016 will begin to be felt, without prejudice to continuation of the charges deriving from contributions to the National Resolution Fund and the Deposit Guarantee Scheme.

10 - Motion for approval of financial statements and allocation of net profit

Dear Shareholders,

we hereby submit for your approval the financial statements for the year ended 31 December 2017, which report a net profit for the year of Euro 37,995,628.03 as shown by the income statement.

Considering:

- the provisions of art. 31 of the Articles of Association;
- the Recommendation of the European Central Bank dated 11 January 2018, which requires:
 - i) the adoption of a dividend distribution policy that still makes it possible, after each distribution, for the bank to comply with its minimum capital requirements;
 - ii) for institutions like Banco Desio that on 31 December 2017 have already reached the fully loaded ratios required on full implementation of EU Regulation 575/2013, the distribution of dividends on an prudent basis, so as to continue to meet all of the minimum requirements, also in the event of poorer economic and financial conditions;
- the dividend distribution policies approved by the Board of Directors on 13 May 2014;

we propose the following allocation of the net profit:

- 10% to be allocated to the legal reserve	Euro	3,799,563.00
- 10% to be allocated to the statutory reserve	Euro	3,799,563.00
- to the shareholders:		
Euro 0.1001 for each of the 117,000,000 ordinary shares	Euro	11,711,700.00
Euro 0.1202 for each of the 13,202,000 savings shares	Euro	1,586,880.40
- to the charity reserve	Euro	80,000.00
- further allocation to the statutory reserve	Euro	17,017,921.63

Total net profit	Euro	37,995,628.03
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Desio, 8 February 2018

The Board of Directors
Banco di Desio e della Brianza S.p.A.

Financial Statements

BALANCE SHEET**ASSETS**

Assets	31.12.2017	31.12.2016	Change	
			Amount	%
10. Cash and cash equivalents	29,119,155	24,193,580	4,925,575	20.4%
20. Financial assets held for trading	15,675,341	9,588,487	6,086,854	63.5%
40. Financial assets available for sale	1,208,510,323	1,482,631,219	(274,120,896)	-18.5%
50. Financial assets held to maturity	748,696,322	-	748,696,322	
60. Due from banks	1,562,664,495	500,275,633	1,062,388,862	212.4%
70. Loans to customers	6,251,542,070	6,247,052,601	4,489,469	0.1%
80. Hedging derivatives	-	262,439	(262,439)	-100.0%
100. Equity investments	274,570,929	264,564,929	10,006,000	3.8%
110. Property, plant and equipment	135,292,877	135,219,149	73,728	0.1%
120. Intangible assets	3,043,863	3,238,199	(194,336)	-6.0%
of which:				
- goodwill	1,728,505	1,728,505		
130. Tax assets	124,686,767	141,774,714	(17,087,947)	-12.1%
a) current	16,131,271	20,218,065	(4,086,794)	-20.2%
b) deferred	108,555,496	121,556,649	(13,001,153)	-10.7%
of which Law 214/2011	93,715,711	102,254,855	(8,539,144)	-8.4%
150. Other assets	105,524,650	117,081,292	(11,556,642)	-9.9%
Total assets	10,459,326,792	8,925,882,242	1,533,444,550	17.2%



LIABILITIES

Liabilities and shareholders' equity	31.12.2017	31.12.2016	Change	
			Amount	%
10. Due to banks	1,760,233,555	1,011,517,894	748,715,661	74.0%
20. Due to customers	5,988,799,307	5,622,897,682	365,901,625	6.5%
30. Debt securities in issue	1,602,047,348	1,210,559,471	391,487,877	32.3%
40. Financial liabilities held for trading	4,530,526	2,164,084	2,366,442	109.4%
50. Financial liabilities designated at fair value through profit and loss	-	15,907,989	(15,907,989)	-100.0%
60. Hedging derivatives	1,414,056	2,778,490	(1,364,434)	-49.1%
80. Tax liabilities	12,343,107	11,362,214	980,893	8.6%
<i>b) deferred</i>	12,343,107	11,362,214	980,893	8.6%
100. Other liabilities	127,724,256	123,412,558	4,311,698	3.5%
110. Provision for termination indemnities	20,018,994	21,354,710	(1,335,716)	-6.3%
120. Provisions for risks and charges:	29,844,434	38,359,675	(8,515,241)	-22.2%
<i>b) other provisions</i>	29,844,434	38,359,675	(8,515,241)	-22.2%
130. Valuation reserves	35,927,907	15,800,277	20,127,630	127.4%
160. Reserves	754,597,546	734,237,940	20,359,606	2.8%
170. Share premium reserve	16,145,088	16,145,088		
180. Share capital	67,705,040	67,705,040		
200. Net profit (loss) for the period (+/-)	37,995,628	31,679,130	6,316,498	19.9%
Total liabilities and shareholders' equity	10,459,326,792	8,925,882,242	1,533,444,550	17.2%

INCOME STATEMENT

Captions	31.12.2017	31.12.2016	Change	
			Amount	%
10. Interest and similar income	163,755,218	177,670,231	(13,915,013)	-7.8%
20. Interest and similar expense	(31,764,404)	(43,053,467)	11,289,063	-26.2%
30. Net interest income	131,990,814	134,616,764	(2,625,950)	-2.0%
40. Commission income	116,400,259	103,748,078	12,652,181	12.2%
50. Commission expense	(4,414,844)	(4,552,098)	137,254	-3.0%
60. Net commission income	111,985,415	99,195,980	12,789,435	12.9%
70. Dividends and similar income	11,338,831	10,132,822	1,206,009	11.9%
80. Net trading income	2,525,355	3,488,006	(962,651)	-27.6%
90. Net hedging gains (losses)	32,173	(562,969)	595,142	n.s.
100. Gains (losses) on disposal or repurchase of:	16,660,998	15,600,414	1,060,584	6.8%
a) loans	(630,687)	709,477	(1,340,164)	n.s.
b) financial assets available for sale	15,727,420	16,114,464	(387,044)	-2.4%
c) financial assets held to maturity	2,183,237		2,183,237	n.s.
d) financial liabilities	(618,972)	(1,223,527)	604,555	-49.4%
110. Net results on financial assets and liabilities designated at fair value	(7,738)	(60,362)	52,624	-87.2%
120. Net interest and other banking income	274,525,848	262,410,655	12,115,193	4.6%
130. Net impairment adjustments to:	(53,363,062)	(47,357,032)	(6,006,030)	12.7%
a) loans	(46,405,960)	(45,013,431)	(1,392,529)	3.1%
b) financial assets available for sale	(9,270,890)	(1,875,617)	(7,395,273)	394.3%
d) other financial assets	2,313,788	(467,984)	2,781,772	n.s.
140. Net profit from financial activities	221,162,786	215,053,623	6,109,163	2.8%
150. Administrative costs:	(195,015,325)	(219,394,184)	24,378,859	-11.1%
a) payroll costs	(117,898,079)	(135,491,216)	17,593,137	-13.0%
b) other administrative costs	(77,117,246)	(83,902,968)	6,785,722	-8.1%
160. Net provisions for risks and charges	114,318	(2,340,350)	2,454,668	n.s.
170. Net adjustments to property, plant and equipment	(4,877,952)	(4,989,745)	111,793	-2.2%
180. Net adjustments to intangible assets	(1,344,597)	(1,428,291)	83,694	-5.9%
190. Other operating charges/income	32,975,283	35,631,341	(2,656,058)	-7.5%
200. Operating costs	(168,148,273)	(192,521,229)	24,372,956	-12.7%
210. Profit (loss) from equity investments		13,379,084	(13,379,084)	-100.0%
250. Profit (loss) from current operations before tax	53,014,513	35,911,478	17,103,035	47.6%
260. Income taxes on current operations	(15,018,885)	(4,232,348)	(10,786,537)	254.9%
270. Profit (loss) from current operations after tax	37,995,628	31,679,130	6,316,498	19.9%
290. Net profit (loss) for the period	37,995,628	31,679,130	6,316,498	19.9%



STATEMENT OF COMPREHENSIVE INCOME

Captions	31.12.2017	31.12.2016
10. Net profit (loss) for the period	37,995,628	31,679,130
Other elements of income, net of income taxes without reversal to income statement		
20. Property, plant and equipment	-	-
30. Intangible assets	-	-
40. Actuarial gains (losses) on defined-benefit pension plans	(383,214)	(326,908)
50. Non-current assets and disposal groups held for sale	-	-
60. Portion of the valuation reserves of the equity investments carried at equity:	-	-
Other elements of income, net of income taxes with reversal to income statement	-	-
70. Foreign investment hedges	-	-
80. Exchange differences	-	-
90. Cash-flow hedges	915,625	(1,845,381)
100. Financial assets available for sale	19,595,219	(4,650,566)
110. Non-current assets and disposal groups held for sale	-	-
120. Portion of the valuation reserves of the equity investments carried at equity	-	-
130. Total other elements of income (net of income taxes)	20,127,630	(6,822,855)
140. Total comprehensive income (Captions 10+130)	58,123,258	24,856,275

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2017

	Balance at 31.12.2016	Changes in opening balances	Balance at 01.01.2017	Allocation of prior year results		Changes during the year						Shareholders' equity at 31.12.2017	
				Reserves	Dividends and other allocations	Changes in reserves	Transactions on shareholders' equity						Comprehensive income at 31.12.2017
							Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares		
Share capital:													
a) ordinary shares	60,840,000	-	60,840,000									60,840,000	
b) other shares	6,865,040		6,865,040									6,865,040	
Share premium reserve	16,145,088		16,145,088									16,145,088	
Reserves:													
a) from profits	734,237,940		734,237,940	20,439,606	(80,000)							754,597,546	
b) other	-		-									-	
Valuation reserves	15,800,277		15,800,277								20,127,630	35,927,907	
Equity instruments	-		-									-	
Treasury shares	-		-									-	
Net profit (loss) for the period	31,679,130		31,679,130	(20,439,606)	(11,239,524)						37,995,628	37,995,628	
Shareholders' equity	865,567,475		865,567,475	-	(11,239,524)	(80,000)					58,123,258	912,371,209	

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31.12.2016



	Balance at 31.12.2015	Changes in opening balances	Balance at 01.01.2016	Allocation of prior year results		Changes during the year							Shareholders' equity 31.12.2016
				Reserves	Dividends and other allocations	Changes in reserves	Transaction on shareholders' equity					Comprehensive income at 31.12.2016	
							Issue of new share	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares		
Share capital:													
a) ordinary shares	60,840,000		60,840,000										60,840,000
b) other shares	6,865,040		6,865,040										6,865,040
Share premium reserve	16,145,088		16,145,088										16,145,088
Riserves:													
a) from profit	708,127,534		708,127,534	26,205,406		(95,000)							734,237,940
b) other shares	-		-										-
Valuation reserves:	22,623,132		22,623,132								(6,822,855)		15,800,277
Equity instruments													
Treasury shares													
Net profit (loss) for the period	37,444,929		37,444,929	(26,205,406)	(11,239,523)							31,679,130	31,679,130
Shareholders' equity	852,045,723		852,045,723		(11,239,523)	(95,000)						24,856,275	865,567,475

CASH FLOW STATEMENT

	31.12.2017	31.12.2016
A. OPERATING ACTIVITIES		
1. Cash generated from operations	98,788,267	94,121,319
- interest received (+)	159,877,588	174,797,604
- interest paid (-)	(33,581,507)	(44,458,702)
- dividends and similar income (+)	44,776	32,140
- net commission income (+/-)	112,563,639	99,816,193
- payroll costs (-)	(117,898,079)	(135,491,216)
- other costs (-)	(62,460,687)	(66,189,856)
- other revenues (+)	55,261,422	69,847,504
- taxation (-)	(15,018,885)	(4,232,348)
- costs/revenues for disposal groups, net of tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	(822,148,468)	(318,538,644)
- financial assets held for trading	(7,189,864)	(6,539,785)
- financial assets designated at fair value through profit and loss		
- financial assets available for sale	285,966,810	40,683,866
- loans to customers	(69,321,811)	(332,715,580)
- due from banks: on demand	(186,398,063)	(127,691,905)
- due from banks: other receivables	(875,990,799)	75,085,033
- other assets	30,785,259	32,639,727
3. Cash generated (absorbed) by financial liabilities	1,489,726,705	214,527,399
- due to banks: on demand	1,222,461	(9,001,204)
- due to banks: other payables	747,493,201	209,686,471
- due to customers	365,901,625	467,838,347
- debt securities in issue	393,487,148	(412,846,379)
- due from banks: on demand	2,329,977	(310,167)
- financial liabilities designated at fair value through profit and loss	(15,907,989)	(6,676,679)
- other liabilities	(4,799,718)	(34,162,990)
Net cash generated/absorbed by operating activities (A)	766,366,504	(9,889,926)
B. INVESTING ACTIVITIES		
1. Cash generated by	11,295,737	18,919,344
- sale of equity investments		8,818,662
- dividends collected on equity investments	11,294,054	10,100,682
- sale/redemption of financial assets held to maturity		
- sale of property, plant and equipment	1,683	
- sale of intangible assets		
- sale of businesses		
2. Cash absorbed by	(764,192,363)	(3,732,532)
- purchase of equity investments	(10,006,000)	
- purchase of financial assets held to maturity	(748,082,738)	
- purchase of property, plant and equipment	(4,953,363)	(2,637,908)
- purchase of intangible assets	(1,150,262)	(1,094,624)
- purchase of businesses		
Net cash generated/absorbed by investing activities (B)	(752,896,626)	15,186,812
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(11,239,524)	(11,239,523)
Net cash generated/absorbed by financing activities (C)	(11,239,524)	(11,239,523)
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	2,230,354	(5,942,637)



RECONCILIATION

	31.12.2017	31.12.2016
Cash and cash equivalents at beginning of period	24,193,580	27,408,982
Net increase (decrease) in cash and cash equivalents	2,230,354	(5,942,637)
Cash and cash equivalents: effect of change in exchange rates	2,695,221	2,727,235
Cash and cash equivalents at end of period	29,119,155	24,193,580

Explanatory Notes



PART A – ACCOUNTING POLICIES

A.1 GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation 1606 of 19 July 2002, the financial statements of Banco di Desio e della Brianza S.p.A. are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2016 and endorsed by the European Commission.

Section 2 - Basis of preparation

The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and the explanatory notes; they are also accompanied by the Directors' report on operations.

For the preparation of the financial statements, reference was made to the Bank of Italy Circular 262 of 22 December 2005 and subsequent updates. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The financial statements have been prepared in the interests of clarity and give a true and fair view of the balance sheet, financial position and results of operations for the year.

The financial statements have been prepared on a going-concern basis, in accordance with the accrual principle and, in the recognition and presentation of the results of operations, the principle of substance over form has been given precedence. The accounting policies are consistent with those used for the preparation of the financial statements of the previous year.

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

International accounting standards applicable from 2017

The following amendments approved by the European Commission on 6 November 2017 have become applicable from 1 January 2017:

Amendment to IAS 12

Income taxes (published by the IASB on 19 January 2016). The purpose of the document is to provide clarifications about the recognition of deferred tax assets on unrealised losses on financial instruments measured at fair value on the occurrence of certain circumstances and about estimating taxable income for future years. This amendment did not affect the balance sheet and income statement balances of these financial statements.

Amendment to IAS 7

Cash flow statement (published by the IASB on 29 January 2016). The document provides clarifications on how to improve disclosure on financial liabilities. In particular, the amendments require the provision of information that enables users of the financial statements to understand changes in liabilities arising from financing transactions, including changes that are the result of monetary movements and those that are the result of non-monetary movements. The changes do not provide for a specific format to be used for disclosures. However, the changes do require an entity to provide a reconciliation between the opening

and closing balances of liabilities arising from financial transactions. The presentation of comparative information relating to previous financial years is not required. The application of this amendment did not require the inclusion of additional information for the Bank.

International accounting standards endorsed at 31 December 2017 with application after 2017

IFRS 9 - Financial instruments

On 29 November 2016, EU Official Gazette L 323/1 published Commission Regulation (EU) 2016/2067 of 22 November 2016 on International Financial Reporting Standard (IFRS) 9 – *Financial Instruments* issued by the International Accounting Standards Board (IASB) on 24 July 2014.

This standard seeks to improve the disclosures made about financial instruments, in order to tackle the problems that emerged during the financial crisis. The adoption of IFRS 9 involves amendments to the following international accounting standards (IAS) 1, IAS 2, IAS 8, IAS 10, IAS 12, IAS 20, IAS 21, IAS 23, IAS 28, IAS 32, IAS 33, IAS 36, IAS 37, IAS 39, IFRS 1, IFRS 2, IFRS 3, IFRS 4, IFRS 5, IFRS 7, IFRS 13, the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) 2, IFRIC 5, IFRIC 10, IFRIC 12, IFRIC 16, IFRIC 19, and the interpretation of the Standing Interpretations Committee (SIC) 27, in order to ensure consistency among the various international accounting standards.

The new standard, which applies from 1 January 2018, introduces new criteria for the classification and measurement of financial assets:

- a) the business model adopted for the management of financial assets;
- b) the characteristics of their contractual cash flows.

Depending on these criteria, the standard provides for the following three categories:

- I. Amortised Cost (AC);
- II. Fair Value with allocation of changes in the other components of the Statement of Comprehensive Income (FVOCI);
- III. Fair Value through profit or loss (FVTPL).

With reference to the impairment model, the new standard requires that the estimate of loan losses is based on the model of "expected losses" (as opposed to "incurred losses") using information that has support and available without unreasonable charges or efforts that include historical, current and future data. The standard establishes, in particular, that:

- This impairment model applies to all financial instruments, namely financial assets measured at amortised cost, those measured at fair value with changes recognised under other components in the statement of comprehensive income, receivables from leases and trade receivables;
- To apply the model, financial instruments have to be classified in three categories (known as stages or buckets), each of which has specific procedures for defining and measuring write-downs.

Lastly, the standard introduces a new hedge accounting model in order to adapt the requirements of the current IAS 39 which were sometimes considered too stringent and not suitable to reflect companies' risk management policies. Among other actions, the standard expands the scope of risks for which hedge accounting of non-financial items can be applied, removes the compulsory quantitative effectiveness tests and no longer requires retrospective evaluation of the effectiveness of the hedge.

IFRS 15 – Revenue from contracts with customers

IFRS 15 "Revenue from contracts with customers" as adopted by Commission Regulation (EU) 2016/1905 of 22 September 2016, which was published in the Official Gazette L 295 of 29 October 2016, shall be applicable as of 1 January 2018. The adoption of IFRS 15, with effect from when it comes into force, implies the cancellation of IAS 18 "Revenues" and IAS 11 "Contract work", as well as the related Interpretations.



The standard establishes a new model for revenue recognition, which will apply to all contracts with customers except for those that fall within the scope of other IAS/IFRS, such as leases, insurance contracts and financial instruments. The new model, in particular, provides for the recognition of revenue based on the following 5 steps:

- identification of the contract with the customer: IFRS 15 applies to all contracts entered into with a customer that meet specific criteria. In certain specific cases, IFRS 15 requires an entity to combine/aggregate a number of contracts and to account for them as one sole contract;
- identification of the performance obligations in the contract: a contract constitutes a promise to transfer goods or services to a customer. If the goods or services are distinct, the promise qualifies as a performance obligation and is accounted for separately;
- determination of the price: the transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services. The transaction price may be a fixed amount, but at times it may include variable or non-cash components;
- allocation of the transaction price to the performance obligations in the contracts: an entity should allocate the transaction price to the various performance obligations in the contract by reference to the standalone selling prices of the distinct goods or services envisaged by the contract. If a standalone selling price is not directly observable, the entity will need to estimate it. The standard establishes when an entity should allocate a discount or a variable component to one or more performance obligations (or to distinct goods or services) covered by the contract;
- revenue recognition criteria when the entity satisfies a performance obligation: an entity recognises revenue when it satisfies its performance obligation by means of the transfer of goods or the rendering of a service, as envisaged by the contract, to a customer (i.e. when the customer obtains of the goods or service). The amount of revenue to be recognised is that allocated to the performance obligation that has been satisfied. A performance obligation may be satisfied either at a point in time (typically, in the case of a transfer of goods) or over time (typically, in the case of the provision of services). In the case of performance obligations that are satisfied over time, an entity recognises revenue over the relevant period by selecting an appropriate method to measure the progress made with respect to the complete satisfaction of the performance obligation.

With reference to first-time application of the new accounting standard, on the basis of various analyses that we have carried out, the impacts for the Bank will be mainly the request for more disclosures.

Section 3 – Subsequent events

Please read "Significant events" in the report on operations.

Section 4 - Other aspects

Implementation of IFRS 9 - Financial instruments

During 2016, the Banco Desio Group undertook a project to implement IFRS 9, which from 1 January 2018 replaces IAS 39 (used up to the preparation of these financial statements at 31 December 2017). As is known, IFRS 9 affects the methods used for the classification and measurement of financial instruments and the logic and methods used in calculating write-downs. In view of the pervasiveness of the effects of applying of the new accounting standard, not only in terms of financial reporting but also in terms of information systems, organisational and commercial processes, and therefore the business as a whole, the project was designed to analyse the various areas affected by the standard (essentially "*classification and measurement*" and "*impairment*"), to identify and implement the application and organisational measures that will be necessary, as well as to define the qualitative and quantitative impacts for the Group as a

whole and for each entity belonging to it.

A Steering Committee has been established, involving General Management, the Administration Department, the Risk Management function and the Organisational Processes and Products Department, in order to establish the guidelines, to direct the activities of the Work Group, to ratify the results and to take decisions in key areas for the project. Work on the project has been prepared and carried out with the active participation of the Group's many professional structures and skills.

In order to ensure that the project is developed organically, a specific coordination work group ("PMO") was created for the "*classification and measurement*" and "*impairment*" areas, supporting these two specific themes in addressing the choices of operational implementation of the standard that are in line with the best practices that have been established at a national and international level from time to time and to ensure the necessary coordination with other Group projects, as well as with IT outsourcer, in order to provide solutions able to realise coherent synergies among them (directing, where necessary, the approach chosen by the IT outsourcer).

The project has been developed for each of the two themes, "*classification and measurement*" and "*impairment*", using the same approach broken down into the following activities:

- initial assessment and preliminary decisions (mainly accounting and model related);
- design of the target operating model and definition of the related IT impact;
- implementation, in terms of organisational and application development and impact analysis.

As a result of the various project activities performed, on 22 November the Steering Committee ratified the overall picture of the choices and the application rules defined in the so-called "IFRS 9 Methodological Framework" and therefore reflected in the internal regulations that were submitted to the approval of the Board of Directors of the Group entities, starting with the Parent Company on 30 November.

Classification and Measurement

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

In this regard, the business models that will be adopted by the various Group entities and the procedures for carrying out the test on the contractual characteristics of the cash flows have been formalised (the so-called SPPI test, i.e. "solely payment of principal and interest", including the "benchmark test").

At the same time, the composition of existing receivables and securities portfolios was analysed in order to identify their correct classification at the time of the first-time adoption of the new standard, also taking into account the different options allowed by IFRS 9.

As for the business models, the census and analysis were completed at individual company level. Specifically:

- for the loan portfolio, only one HTC-type (Hold to Collect) business model was identified;
- for the proprietary securities portfolio, one HTC-type, one HTC&S-type (Hold to Collect and Sell) business model and one Trading-type business model were identified.

For the Hold to Collect portfolios the thresholds have been defined to allow sales that are frequent, but not particularly large (both individually and in aggregate), or those that are quite large but infrequent, as well as thresholds to allow sales that are close to maturity; at the same time, the parameters were established to identify sales that are consistent with this business model as they are attributable to an



increase in credit risk. Also any sales of financial assets as part of securitisations that do not qualify for derecognition are considered compliant with an HTC business model. In general terms, the current way of managing loans to both retail and corporate counterparties is attributable to a Hold to Collect business model. On the other hand, as regards the proprietary securities portfolio, based on our analyses, the securities classified at the reference date at amortised cost generally show a reduced level of movement in line with the management strategy of a Hold to Collect business model. As regards debt securities classified on the same date as Assets available for sale, the adoption of a Hold to Collect and Sell business model was defined for most of the portfolios. Only in limited cases, referring to a marginal portion of the portfolios, some category transfers are being defined (from HTM to HTC&S and from AFS to HTC).

As regards the second element of classification of financial assets (based on the characteristics of their cash flows), for the credit sector, the project carried out modular analyses taking into account the significance of the portfolios and their homogeneity. In this regard, different approaches were used for retail and corporate loan portfolios and, in this context, only marginal cases emerged which, by virtue of specific contractual clauses (covenants) or the nature of the loan, would lead to the SPPI test being failed; no significant impact is therefore expected for the credit and loans sector. As for the debt securities in the proprietary portfolio, we carried out a detailed examination of the characteristics of the cash flows of the instruments classified at amortised cost and in the category of financial assets available for sale according to IAS 39, without identifying any cases of failure to pass the SPPI test under IFRS 9. With reference instead to the investment funds (open and closed-end funds), based on the in-depth analyses that we performed and the recent clarifications provided by the IFRS Interpretation Committee, they will have to be measured at fair value through profit and loss, with a consequent increase in the volatility of the income statement for these instruments, which are currently classified as Assets available for sale. With regard to equity instruments, note that we have completed the in-depth analyses to assess which instruments present in the portfolio on the date of first-time adoption of IFRS 9 ought to take advantage of the option for classification at fair value through other comprehensive income (FVTOCI without recycling through profit and loss); we have also defined the guidelines for the "fully operational" choice and we are currently formalising the related organisational process. Lastly, note that at the end of a specific evaluation process, we decided not to use the fair value option (with separate recognition of changes in fair value attributable to own creditworthiness to equity) for the stock of financial liabilities outstanding at 1 January 2018.

Impairment

As regards impairment (for which specific approaches have been developed for the loan portfolio on one hand and the securities portfolio on the other), the main elements can be considered as follows:

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

As regards the tracking of the credit quality (i.e. the tracking of the significant increase in exposure risk), in line with the regulatory contents of the standard and the indications of the Supervisory Authorities regarding the methods that larger banks should use in applying it, we carried out - in the specific areas of

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

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

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

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

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

A specific consideration also has to be made for exposures classified in "stage 3" (equivalent to the current perimeter of the impaired portfolio): although no impact is expected from IFRS 9 with reference to the "classification" approach, the additional analyses carried out in the last few months of 2017, having regard to the IFRS Foundation's Agenda Paper 6 entitled "Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses" and subsequently considering the "Guidelines for less significant Italian banks on the management of non-performing loans" published by the Bank of Italy in January 2018 to encourage their proactive management, have also led banks to adjust the impairment



on the NPL portfolio to include forward-looking factors in the scenario assessments. We are currently finalising the application of multi-scenario hypotheses in which the so-called "disposal scenario" is also considered, in line with the declared objectives of the business plan for which the recovery of impaired assets is also foreseen through their transfer. The recoverable amount will consequently be determined on the basis of a weighted average of the expected recoveries through the internal work-out process and expected selling prices; both scenarios are weighted according to the expected level of sales in relation to the Group's NPE strategy.

Hedge accounting

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

Impacts on information systems

A coherent and effective process of implementing the innovations introduced by the new standard meant that we had to make significant changes to the technological infrastructure currently in use; to this end, we carried out specific analyses in coordination with the IT-outsourcer, which led to the identification of the main areas of impact, the definition of the target application architectures to be implemented; the applications and procedures to be adjusted were also identified, together with the changes to be made on the basis of a modular approach, establishing priorities, in order to comply with the new requirements set by the standard. The systems interventions that are being finalised have therefore concerned both the implementation of the necessary functionalities on pre-existing procedures and the integration of new applications.

In greater detail, with regard to the Classification and Measurement area, once we had outlined how to perform the SPPI test, we identified and, where necessary, adapted the applications and procedures for their implementation, both for securities and for credit exposures in a narrow sense.

As regards impairment, having made the key decisions about the parameters for assessing significant deterioration, as well as the methods for calculating the ECL, also taking forward-looking information into account, we then identified the risk management applications to track credit risk at the level of individual position and the calculation of the related ECL, as well as the necessary adjustments and upgrades. Similar analyses and interventions are in progress for adaptation of the accounting applications, also in order to guarantee adequate disclosures, as envisaged, among other things, by the new version of the FINREP and the updating of Bank of Italy Circular 262, which is valid from 1 January 2018.

Organisational impacts and further developments

In addition to interventions on IT systems, organisational measures are currently being completed with the revision and adaptation of the existing operational processes, the design and implementation of new processes and the corresponding control activities, with a redefinition of the operational, administrative and control skills needed in the various structures concerned.

The interventions relating to "Classification and Measurement" concerned the following structures: Network, Network Support & Governance, and Credit & Loans, in order to define the processes involved in managing and monitoring the SPPI test.

For impairment, the Group's objective is increasingly effective and integrated implementation of the ongoing methods of monitoring credit risk, in line with the provisions of IFRS 9. The purpose is to guarantee preventive interventions so as to monitor individual positions that could potentially "slide" into stage 2 and

to make timely adjustments based on the real credit risk. The introduction of IFRS 9 has also had an impact in terms of our products and services on offer, which meant reviewing and updating our catalogue.

With reference to the Group's accounting rules, the new rules on impairment and the application of the business model, the Banco Desio Group has prepared or updated policies and guidelines for the main operating processes involved. They have been submitted to the approval of the Board of Directors of the various Group entities, starting with the Parent Company on 30 November, as mentioned previously.

Impacts of first-time application on the balance sheet

For the Bank, the first financial report prepared in accordance with IFRS 9 will be the quarterly report at 31 March 2018 (which will be prepared for the purpose of determining Banco Desio's own funds and those of the Group). The analyses carried out to date, as summarised above, confirm that the main impacts expected from adoption of the new standard will mainly derive from: (a) application of the new impairment model based on the "expected loss" concept, which will result in an increase in value adjustments compared with those determined on the basis of the "incurred loss" impairment model used at the reference date in application of IAS 39, as well as (b) application of the new rules for the transfer of exposures between the different classification "stages" (1 and 2) and the "disposal scenario" for the assessment of impaired positions (stage 3) provided for under the new standard.

Taking into account the analyses and implementations underway with reference to the multi-scenario hypotheses, also related to the NPL strategy contained in the 2018-2020 business plan recently defined by management of the Parent Company and approved by the respective governance bodies of the Group banks, we believe that the effects deriving from adoption of IFRS 9, to be recognised as a balancing entry in equity on first-time adoption, can be estimated, net of tax, in a decrease in the Bank's fully loaded CET 1 ratio of between 15 and 22 basis points.

These effects are mainly due to the introduction of the transfer scenarios in the measurement of value adjustments on impaired credit exposures and lifetime ECL on credit exposures allocated to stage 2. The main elements of uncertainty that affect these estimates are mainly attributable to the application choices made in relation to the multi-scenario assumptions for stage 3 and definition of the overall tax impact deriving from FTA in relation to hypothetical taxable income.

As mentioned in the Report on Operations under Significant Events, we would recall that the Bank decided to adopt the transitional regime foreseen in Regulation (EU) 2017/2395 to mitigate the impact of applying the new accounting standard in determining own funds and capital ratios for supervisory purposes.

Use of estimates and assumptions in preparing the financial statements

Preparing the financial statements also requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement.

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

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

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

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

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

Domestic tax group election

Banco di Desio e della Brianza, Banca Popolare di Spoleto and Fides adopted the so-called "domestic tax group", governed by arts. 117-129 of the Consolidated Income Tax Law, which was introduced into tax legislation by Legislative Decree no. 344/2003. This law provides an optional system, under which the total income or tax loss of each subsidiary in the tax consolidation - together with withholdings, deductions and tax credits - are transferred to the parent company, which then calculates a single taxable income or tax loss to be carried forward (as resulting from the sum of its own taxable income or tax losses and those of the participating subsidiaries) and, consequently, a single tax liability or tax credit.

Legal audit

These financial statements have been audited by Deloitte & Touche S.p.A., pursuant to Legislative Decree 39 of 27 January 2010 and to the resolution of the Shareholders' Meeting of 26 April 2012.

A.2 MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

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

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

Financial assets held for trading

Recognition

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

Financial assets held for trading are designated on initial recognition as assets at fair value through profit and loss, corresponding to the price paid, without taking account of transaction costs or income that are recognised directly in the income statement.

Classification

"Financial assets held for trading" include debt securities, equities, positive derivatives held for trading and other assets that, according to the initial designation, are classified as financial instruments held for trading in the short term. Since classification derives from initial designation, subsequent transfers to other categories are generally not allowed for this category of financial assets, except as in rare circumstances specified in IAS 39. The transfer value is represented by the fair value at the time of reclassification.

Measurement

Equities, Italian and foreign government bonds and derivatives traded in an active market are measured at the closing price on the assessment date or, in its absence, in the most advantageous market (*fair value level 1*).

Italian and foreign government bonds, Italian and foreign corporate bonds, equities and derivatives not traded in an active market are measured by using valuation techniques (*fair value level 2 or 3*, based on the significance of unobservable inputs used in the valuation models).

Derecognition

Assets held for trading are derecognised when they are sold or cancelled.

Recognition of items affecting the income statement

Subsequent to initial recognition, financial assets held for trading are measured at fair value with value changes recognised in profit or loss.

Financial assets available for sale

Recognition

The initial recognition of financial assets available for sale takes place at the settlement date at fair value,



including any transaction costs or income directly attributable to the instrument concerned.

If, for those cases permitted by the applicable accounting standards, the recognition takes place upon a reclassification of financial assets held to maturity, the amount recognised is represented by the fair value at the time of transfer.

Classification

"Financial assets available for sale" include financial assets - derivatives excluded - not classified as Loans, Assets held for trading or as Assets held to maturity.

This caption thus includes, in addition to bonds that are not held for trading and which are not classified as Assets held to maturity, equity interests not held for trading and which do not qualify as controlling interests or as a placement as well as mutual fund units.

Financial assets can be transferred from "available for sale" to "held to maturity", but only in the following circumstances:

- a change in the intention or ability to continue holding the asset,
- in rare cases where a reliable measurement of fair value is not available.

A transfer to "Loans and receivables" is only allowed in particular circumstances.

Measurement

Subsequent to initial recognition, the price component of financial assets available for sale is measured at fair value, whereas the interest component is calculated at the actual rate of return.

For the purposes of determining fair value, the same criteria as for assets held for trading are applied.

For unquoted financial assets, inclusive of non-controlling interests, the fair value measurement is carried out using valuation techniques, that is, when a reliable determination of fair value is not possible, the assets in question are measured at cost (*Level 3*).

Mutual funds that are traded in an active market are measured at the closing price observable in the principal market on the assessment date or, in its absence, in the most advantageous market (*Level 1*). Mutual funds that are not traded in an active market (particularly closed-end funds and hedge funds) are measured at the latest published N.A.V. or the N.A.V. that has been provided by the fund manager, to which an appropriate adjustment is made (of 20%) to take account of the liquidity of the units (*Level 3*).

At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated, taking into account whether the issuer is in financial difficulty or other similar factors. As required by IAS 39, paragraph 61, for debt securities, listed and unlisted equities and for Mutual funds traded in an active market, "significant" (higher than 25%) or "extended" (more than 24 months) write-downs are considered to be objective impairment indicators. For Mutual funds not traded in an active market and equity investments in investees other than subsidiaries or associates, "significant" (higher than 30%) or "extended" (more than 60 months) write-downs are considered to be objective impairment indicators.

In accordance with internal policy, pre-established thresholds being exceeded is considered to be impairment, with the consequent recognition in the income statement of the accumulated impairment loss incurred since the date of initial recognition.

The amount of the impairment is the difference between the asset's book value and its recoverable amount.

Derecognition

Financial assets available for sale are derecognised when the asset is sold, cancelled or transferred to another category.

Recognition of items affecting the income statement

The effect of the assessment is recorded in shareholders' equity as a contra-entry to the valuation reserves, net of tax, until the asset is derecognised, while the amortised cost element is charged to the income statement.

On extinction, sale, transfer to another category or detection of an impairment loss, the cumulative amount in the valuation reserve is charged to the income statement.

If impairment losses recorded in the income statement no longer apply because of subsequent revaluations, the write-back, up to the amount of such losses, is recorded in the income statement for debt securities, and in an equity reserve for equities.

In the case of assets available for sale with fair value hedges, the change in fair value related to the risk being hedged is recognised in the income statement under "Net hedging gains (losses)", in the same way as the changes in fair value of the hedging instrument, while changes in fair value not related to the risk being hedged are recorded in equity to offset the valuation reserves.

In the presence of cash flow hedges of assets available for sale, the fair value changes are recorded under shareholders' equity; please refer to the section on "Hedging transactions" for a description of the gains and losses on the hedging instrument.

Financial assets held to maturity

Recognition

The initial recognition of financial assets held to maturity takes place at the settlement date at fair value, including any transaction costs or income directly attributable to the purchase.

Classification

"Financial assets held to maturity" comprise debt securities that have fixed or determinable contract payments and a fixed maturity, for which there is the intention and ability to hold them to maturity.

The category of financial assets held to maturity was created on the basis of specific resolutions passed by the corporate bodies, who also approve any subsequent movements on it, in compliance with IAS 39.

For those cases permitted by the applicable accounting standards, transfers are only permitted to Financial assets available for sale. The inclusion of financial assets in this category is no longer permitted in the current period and the next two years in the event of sales or transfers of a not insignificant amount, excluding investments that are close to maturity and isolated events that are beyond the Bank's control.

If the conditions that ban the use of this category come about, the assets concerned have to be reclassified to financial assets available for sale (under the so-called "tainting provision").

Measurement and recognition of items affecting the income statement

Measurements subsequent to initial recognition are recorded at amortised cost using the effective interest rate method with the contra-entry going to the income statement.



At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated. If they do exist, the impairment losses are recognised in the income statement.

If the reasons for making the impairment adjustment cease to apply, the related asset is written back 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.

Derecognition

Financial assets held to maturity are derecognised when the asset is sold, cancelled or transferred to another category.

Loans and receivables

Recognition

Loans and receivables are recognised at the contract date, which is usually equal to the date the loan is granted.

If the two dates do not coincide, upon the execution of the contract, a commitment is assumed to provide funds that terminates on the date the loan is granted. Loans and receivables are recognised at fair value, which normally equates to the amount granted, including any costs or income directly attributable to the loan and which are determinable at the outset of the transaction.

If the recognition in this category takes place as a result of a reclassification from Financial assets available for sale or from Financial assets held for trading, the fair value of the asset at the date of reclassification represents the new amortised cost of the asset.

Classification

"Loans and receivables" include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They generally comprise transactions with customers and banks and debt securities not quoted in an active market that have similar characteristics to receivables, excluding assets held for trading and available for sale.

They also include finance lease receivables and repurchase agreements with obligation to resale.

Transfers from "Financial assets available for sale" and "Financial assets held for trading" are only allowed in particular circumstances, as specified in IAS 39.

Measurement

Subsequent to initial recognition, loans and receivables are measured on the basis of the principle of amortised cost, calculated using the effective interest method.

The amortised cost is equal to the initial value net of any principal repayments, plus or minus adjustments and write-backs and the amortisation of the difference between the amount paid and the amount repayable at maturity.

The effective interest rate is the rate that makes the present value of future cash flows equal to the amount of the loan issued, adjusted by directly attributable costs or revenues.

Loans are assessed periodically and split between "performing" and "non-performing", depending on the degree of impairment of the loan.

The amortised cost method is not used in relation to short-term loans, which are measured at historical cost; the same method is applied to loans without a defined maturity or which can be revoked at any time.

Loans are subjected to assessment to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired.

This includes the various categories of non-performing loans established by the Bank of Italy: doubtful loans, unlikely to pay and non-performing past due and/or overdrawn exposures.

The loan portfolio is subject to periodic review at least at every annual or interim balance sheet date to identify and determine any objective impairment. This is done by applying the criteria laid down in the Lending Policies, taking into account the specific solvency situation of each debtor, as well as the local or national economic conditions relating to the debtor's business sector.

Performing loans have been evaluated on a general basis by dividing them into classes of risk. The Expected Loss (EL) is computed by applying the Probability of Default (PD) by risk class and the loss that would be incurred in the event of default (Loss Given Default - LGD) produced by the Credit Rating System. These parameters are derived from a historical-statistical analysis of the trend of a series of predictor variables for a probable future deterioration of credit quality. The expected loss is an estimation of the latent loss at the reference date.

Non-performing loans include all receivables for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted at the original effective interest rate. The valuation is analytical in nature and takes into account the presumed possibility of recovery, the expected timing of collection and any guarantees that are in place, according to the methods envisaged in the Lending Policies.

The EBA standards have also introduced the definition of forbore exposures. Credit exposures are "forborne" when, due to the deterioration of the economic-financial condition of the debtor (financial difficulties), the original contractual conditions are amended or the loan is refinanced, in whole or in part. The exposures subject to forbearance may be classified among the categories of impaired loan (non-performing, unlikely to pay, past due and impaired past due) or as performing loans. The accounting policies for the assessment of forbore exposures and the related provisions follow the general criterion established in IAS 39.

Receivables for interest on arrears accrued on impaired assets are only recorded in the financial statements once it has been collected.

The value of loans to non-residents is adjusted on a general basis in relation to the difficulties in servicing debt by the countries of residence.

The fair value of loans is calculated solely for the purpose of disclosure in the notes of any performing loans beyond the short term. Non-performing loans already evaluated analytically and short-term positions are shown at book value, which represents a reasonable approximation of their fair value.

The fair value is determined using a valuation technique that involves discounting the expected cash flows using discount factors that incorporate not just the risk free rate, but also a specific credit spread for each legal entity; in addition, for each relationship, credit risk is considered in terms of PD and LGD as measured by the CRS model. In general, they are classified at 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).



Derecognition

Loans are only derecognised if their sale involved the transfer of essentially all the risks and benefits associated with the loan. Conversely, if a significant part of the risks and benefits relating to loans that have been sold are retained, then they continue to be reported as assets in the balance sheet, even if formally ownership of the loans has been transferred.

Even if the transfer of essentially all the risks and benefits cannot be demonstrated, loans are derecognised if no form of control over them has been retained. By contrast, the partial or total retention of such control means that the related loans 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 loans sold and to changes in their cash flows. Lastly, loans sold are derecognised if there is retention of the contractual rights to collect the related cash flows, with a parallel commitment to pay all such flows, and only these, to third parties.

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.

Interest on arrears is only recorded in the income statement when collected.

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

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.

Hedging transactions

Recognition

Upon initial recognition of derivatives, inclusive of hedging instruments, they are measured at fair value.

The recognition of hedging transactions assumes:

- the involvement of external counterparties;
- 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.

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).

Measurement

The fair value of hedging instruments not quoted in an active market is determined using valuation models for estimating and discounting future cash flows (*fair value Level 2 or Level 3* - based on the significance of unobservable inputs used in the valuation models); with specific reference to OTC hedging derivatives, the model applied is the Credit Value Adjustment and Debit Value Adjustment.

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

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.

Classification

This item includes investments in subsidiaries and associates, as defined in IFRS 10 and IAS 28. Other equity investments are booked in accordance with IAS 39. They are classified as financial assets available for sale and follow the measurement criteria provided for that class of financial assets.

Measurement

Subsequent to initial recognition, investments in subsidiaries and associates are measured at cost.

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

Property, plant and equipment

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.

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.

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.

Solely for disclosure purposes, the fair value of investment property is measured at cost less accumulated depreciation. The fair value is estimated through the use of property market information sources, appropriately adjusted based on the specifics of the assets and as advised by independent external experts (Level 3).

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

Recognition

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

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

Classification

Intangible assets include goodwill, compensation for abandonment of leasehold premises and software purchase costs.

Leasehold improvements are booked to other assets.

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. 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.

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, with no possibility of a subsequent write-back.

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

Derecognition

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

Recognition of items affecting the income statement

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

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

Current and deferred taxation

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

Deferred tax assets are recognised when their recovery is probable, i.e. when it is expected that there will be sufficient future taxable income to recoup the asset. They are shown in the balance sheet under caption 130 "Deferred tax assets".

Conversely, deferred tax liabilities are shown on the liabilities side of the balance sheet under caption 80 "Deferred tax liabilities".

In the same way, current taxes not yet paid at the balance sheet date are recognized under caption 80 "Current tax liabilities". In the event of the payment of advances that exceed the final amount due, the recoverable amount is accounted for under caption 130 "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).

In this regard, it should be noted that Banco Desio, along with the other Italian Group companies, has elected to form part of a domestic tax group. In administrative terms, the tax affairs of the Bank and those of the other Group companies are managed separately.



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 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 - Other provisions

Classification

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.

Measurement

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.

Debts and debt securities in issue

Recognition

Recognition of these financial liabilities takes place on the date of the contract, which normally coincides

with the receipt of the amounts collected or on issue of the debt securities. The first recognition is at fair value of the liability, usually equal to the amount received, or at the issue price, adjusted for any costs or income directly attributable to the individual operation or issue.

Classification

This includes various forms of funding put in place by Banco Desio: amounts due to banks, amounts due to customers, bonds and certificates of deposit issued by the Bank, repurchase agreements with obligation to repurchase and other payables, which include cashier's checks and checks issued by Banco Desio.

Measurement and recognition of items affecting the income statement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, with the contra-entry going to the income statement.

Financial liabilities not measured at amortised cost are measured at the amount paid to transfer the liability.

Financial liabilities subject to fair value hedges follow the same measurement criteria as the hedging instrument, being limited to changes in the fair value since designation of the hedge, with the contra-entry going to the income statement.

If the hedging relationship is interrupted, the difference between the fair value determined at the discontinuing date and the amortised cost is recognised in the income statement over the residual life of the financial instrument.

Securities issued are shown net of any repurchases.

Solely for disclosure purposes, the fair value is determined of debt and securities issued; for issued debt and certificates of deposit, the fair value substantially equates to book value, which represents a reasonable approximation thereof (*Level 3*). For bonds issued by the Bank, the fair value is determined by using valuation models to estimate and discount future cash flows (*Level 2*).

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

The repurchase of previously issued bonds results in their derecognition; the difference between the carrying amount of the liability and the amount paid for its repurchase is recognised in the income statement.

The re-placement of own securities previously repurchased is considered as a new issue measured at the new sale value.

Financial liabilities held for trading

Recognition and classification

Liabilities held for trading are recorded at fair value.

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.

Derivative instruments traded in active markets are measured at the closing price observable in the principal market on the assessment date or, in the absence thereof, in the most advantageous market (Level 1).

Derivative instruments that are not traded in active markets are priced by using valuation techniques (Level 2 or Level 3 - based on the significance of unobservable inputs used in the valuation models).

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

Financial liabilities designated at fair value through profit and loss

Recognition

Recognition is at fair value, equal to the amount received, or at the issue price, adjusted for any costs or income directly attributable to the individual issue.

Classification

This caption includes financial liabilities designated at fair value through profit and loss.

In particular, this caption refers to the application of the fair value option for financial liabilities subject to "natural hedging", designed to achieve a better balance of the effects of measuring financial assets and liabilities on the income statement.

Financial liabilities may be designated at fair value through the income statement in the following cases:

- elimination or reduction of valuation inconsistencies
- evaluation of instruments containing embedded derivatives
- evaluation of groups of financial assets or liabilities on the basis of a documented risk management or investment strategy.

This category comprises bonds issued with an embedded derivative or financial hedge.

Measurement and recognition of items affecting the income statement

These are recorded at fair value, with the effects charged to the income statement.

The fair value is determined through valuation techniques using observable elements in active markets (Level 2). The methodology consisted of discounting cash flows using a zero coupon curve based on elements available in the market and the application of a credit spread calculated as the difference between the Euro OIS (EONIA) curve and the yield curve for a basket of bonds issued by Italian banks with ratings comparable to those of Banco Desio, whereas a specific curve was used for subordinated bonds.

Derecognition

Financial liabilities measured at fair value are derecognised on disposal, expiration or termination.

Repurchases of own issues substantially lead to the termination of the part subject to repurchase. The replacement of own securities previously repurchased is considered as a new issue at the sale value.

Currency transactions

Recognition

Currency transactions are recorded in accordance with IAS 21 - *Effects of changes in foreign exchange rates* at the time of settlement by converting them into Euro at the exchange rate ruling on the transaction date.

Measurement

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

- monetary items: conversion at the exchange rate ruling at the balance sheet date;
- non-monetary items measured at cost: converted at the exchange rate ruling at the transaction date;
- non-monetary items measured at fair value: conversion at the exchange rate ruling at the balance sheet date.

Recognition of items affecting the income statement

For monetary items, the effect of the measurements is recognised in the income statement.

For non-monetary items with recognition of gains and losses in the income statement, exchange differences are also recognised in the income statement; if gains and losses are recognised in shareholders' equity, any exchange differences are also booked to equity.

Other information

Valuation reserves

This caption includes valuation reserves of financial assets available for sale, derivative contracts to hedge cash flows, valuation reserves created under special laws in past years and reserves for the actuarial valuation of employee benefits under IAS 19. They also include the effects of the application of fair value as the deemed cost of property, plant and equipment upon first-time adoption of IAS/IFRS.

Recognition of costs and revenues

Revenues are recognised when they are earned or, in any case, when it is probable that benefits will be received and these benefits can be reliably measured. 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.
- default interest, which may be provided by contract, is recognised in the income statement only when actually collected;
 - dividends are recognised in the income statement when distribution has been approved;
 - commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;
 - revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (*Level 1 and Level 2*). If these values cannot easily be determined or have a reduced level of liquidity (*Level 3*), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;
 - gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
 - revenues from the sale of non-financial assets are recognised on completion of the sale, unless most of the risks and benefits associated with the asset have been retained.

Expenses are recognised in the income statement in the periods when the related revenues are booked. 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.

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.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

The amendments to IAS 39 and IFRS 7 "Reclassification of financial assets" approved by the IASB in 2008 allow companies to reclassify certain financial assets out of "assets held for trading" and "assets available for sale" after initial recognition.

In particular, it is possible to reclassify:

- financial assets held for trading or available for sale that would have met the definition provided by the International Accounting Standards for the loan portfolio (if such assets were not classified as held for trading or available for sale at initial recognition) if the entity has the intention and ability to hold them for the foreseeable future or until maturity;
- financial assets held for trading that at the time they were recorded did not meet the definition of loans, but "only in rare circumstances".

The Bank has not made any portfolio transfers during the reference period of this report.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

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

When a price is not detectable for the same asset or a liability, the fair value is estimated by applying a valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

As required by IFRS 13 and for the purpose of the determination of 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.

A.4.1 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:
 - o interest rates and yield curves observable at commonly quoted intervals;
 - o implied volatilities;
 - o credit spreads;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means ("market-corroborated inputs").

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

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

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

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

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

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

A.4.2 Process and sensitivity of valuations

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

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

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

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

A.4.3 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.

A.4.4 Other information

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

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities designated at fair value	31.12.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	8,662	2,475	4,538	5,531	1,814	2,244
2. Financial assets designated at fair value through profit and loss						
3. Financial assets available for sale	968,746	226,937	12,827	1,349,311	107,681	25,639
4. Hedging derivatives					262	
5. Property, plant and equipment						
6. Intangible assets						
Total	977,408	229,412	17,365	1,354,842	109,757	27,883
1. Financial liabilities held for trading			4,531			2,164
2. Financial liabilities designated at fair value through profit and loss					15,908	
3. Hedging derivatives		1,414			2,778	
Total		1,414	4,531		18,686	2,164

Key

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

Investments measured on the basis of unobservable inputs (Level 3) represent a very small percentage of total financial assets measured at fair value (1.42% at 31 December 2017 compared with 1.87% in the previous year).

These investments consist of Euro 39,084 thousand of non-controlling interests classified as "Financial assets available for sale". Given the nature and, in any case, the insignificance of the amount, as in the case of minority investments carried at cost because updated current values are unavailable or cannot be estimated and the valuation of units in mutual funds applying the liquidity discount envisaged in the policy, the sensitivity analysis for this caption was carried out in relation to the quotas in Fondo Atlante and the asset deriving from the Voluntary Scheme investment in NPL securitisations; considering the application of a liquidity discount of 20%, the analysis shows an insignificant reduction in the fair value of the level 3 "Financial assets available for sale" (below 1%).

At 31 December 2017, the impact of applying the Credit Value Adjustment and Debit Value Adjustment to the balance sheet values has not been calculated as all outstanding derivative contracts are backed by collateral agreements with counterparties to mitigate credit risk (CSA agreements).

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

	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	2,244		25,639			
2. Increases	4,538		9,403			
2.1. Purchases			7,385			
2.2. Profits posted to:						
2.2.1. Income statement	4,538					
- of which: capital gains	4,539					
2.2.2. Shareholders' equity						
2.3. Transfers from other levels						
2.4. Other increases			2,018			
3. Decreases	2,244		22,215			
3.1. Sales			1,009			
3.2. Redemptions						
3.3. Losses posted to:						
3.3.1. Income statement	2,244		9,271			
of which: capital losses	2,244		9,271			
3.3.2. Shareholders' equity			51			
3.4. Transfers to other levels			9,968			
3.5. Other decreases			1,916			
4. Closing balance	4,538		12,827			

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 and loss	Hedging derivatives
1. Opening balance	2,164		
2. Increases	4,531		
2.1. Issues			
2.2. Losses posted to:			
2.2.1. Income statement	4,531		
- of which: capital losses	4,531		
2.2.2. Shareholders' equity			
2.3. Transfers from other levels			
2.4. Other increases			
3. Decreases	2,164		
3.1. Redemptions			
3.2. Repurchases			
3.3. Profits posted to:			
3.3.1. Income statement	2,164		
- of which: capital gains	2,164		
3.3.2. Shareholders' equity			
3.4. Transfers to other levels			
3.5. Other decreases			
4. Closing balance	4,531		

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	31.12.2017				31.12.2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	748,696	570,327	186,804					
2. Due from banks	1,562,665			1,562,665	500,276			500,276
3. Loans to customers	6,251,542		3,414,520	3,052,047	6,247,053	3,392,018		3,112,540
4. Investment property	1,049			922	1,065			922
5. Non-current assets and disposal groups held for sale								
Total	8,563,952	570,327	3,601,324	4,615,634	6,748,394	3,392,018		3,613,738
1. Due to banks	1,760,234			1,760,234	1,011,518			1,011,518
2. Due to customers	5,988,799			5,988,799	5,622,898			5,622,898
3. Debt securities in issue	1,602,047		1,591,731	11,037	1,210,559	1,196,605		10,194
4. Liabilities associated with assets held for sale								
Total	9,351,080		1,591,731	7,760,070	7,844,975	1,196,605		6,644,610

Key:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.5 INFORMATION ON "DAY ONE PROFIT/LOSS"

IAS 39 requires a financial instrument upon initial recognition to be measured at fair value, which is normally the transaction price (i.e. 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 Banco Desio Group's operations and based on the internal valuation methodologies currently in use, the fair value of the financial instruments on initial recognition generally coincides with the transaction price; however, if a difference arises during the year between the transaction price and the amount determined using valuation techniques, this difference is immediately recognised to the income statement as shown in table 6.1 "Gains/losses on sale/repurchase: breakdown".

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - caption 10

1.1 Cash and cash equivalents: breakdown

	31.12.2017	31.12.2016
a) Cash	29,119	24,194
Total	29,119	24,194

Section 2 - Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities		2,475		3,220	1,279	
1.1 Structured securities				1,867		
1.2 Other debt securities		2,475		1,353	1,279	
2. Equity instruments	4,642			2,292		
3. Mutual funds	3,839					
4. Loans						
4.1 Repurchase agreements						
4.2 Other						
Total A	8,481	2,475		5,512	1,279	
B. Derivatives:						
1. Financial derivatives:	181		4,538	19	535	2,244
1.1 for trading	181		4,538	19		2,244
1.2 connected with the fair value option					535	
1.3 other						
2. Credit derivatives						
2.1 for trading						
2.2 connected with the fair value option						
2.3 other						
Total B	181		4,538	19	535	2,244
Total (A+B)	8,662	2,475	4,538	5,531	1,814	2,244

Caption 20 "Financial assets held for trading" comprises:

- cash assets held for trading;
- positive value of derivatives held for trading.

The prior year balance also includes the positive value of the derivatives for which the fair value option has been exercised, consisting of derivatives operationally linked to bond issues for which the Bank exercised the fair value option.

The policy adopted for the categorisation of financial instruments within the three levels of the fair value hierarchy is disclosed in the previous section "A.4 Information on fair value" in Part A "Accounting policies" of the explanatory notes.

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

The investments referred to in caption "3. Mutual funds" consist of investments in Exchange Traded Funds (ETFs).

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

Captions/Amounts	31.12.2017	31.12.2016
A. CASH ASSETS		
1. Debt securities	2,475	4,499
a) Government and central banks		1,353
b) Other public entities		
c) Banks	2,475	1,279
d) Other issuers		1,867
2. Equity instruments	4,642	2,292
a) Banks	1,131	513
b) Other issuers:	3,511	1,779
- insurance companies		141
- financial companies	735	492
- non-financial companies	2,776	1,146
- other		
3. Mutual funds	3,839	
4. Loans		
a) Government and Central Banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total A	10,956	6,791
B. DERIVATIVES		
a) Banks	4,262	2,203
b) Customers	457	595
Total B	4,719	2,798
Total (A+B)	15,675	9,589

Section 4 - Financial assets available for sale - caption 40

4.1 Financial assets available for sale: breakdown

Captions/Amounts	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	941,050	190,586		1,286,805	107,681	
1.1 Structured securities		2,033			7,701	
1.2 Other debt securities	941,050	188,553		1,286,805	99,980	
2. Equity instruments		36,351	2,900			13,557
2.1 Valued at fair value		36,351	168			10,963
2.2 Valued at cost			2,732			2,594
3. Mutual funds	27,696		9,927	62,506		12,082
4. Loans						
Total	968,746	226,937	12,827	1,349,311	107,681	25,639

Caption 40 "Financial assets available for sale" comprises:

- the bond portfolio and Mutual funds not held for trading,
- portions of equity investments in companies with voting rights of less than 20% of the share capital of companies that are not strategic investments for the Bank.

Caption 2 "equity securities" at level 2 shows the minority interest in Cedacri, on which the Bank recorded a total revaluation of Euro 16,383 thousand (gross), in consideration of the price paid for the shares in transactions between various shareholders and the Italian Strategic Fund, which in this way has acquired 27% of the company.

Mutual funds: breakdown by main category

	31.12.2017	31.12.2016
Equity funds	7,802	10,609
Bond funds	19,895	14,285
Flexible funds	0	37,613
Hedge funds	9	10
Closed-end real estate funds	9,173	9,441
Closed-end investment funds	744	2,630
Total	37,623	74,588

The table provides a breakdown of the main categories of investments made in mutual funds included in financial assets available for sale.

4.2 Financial assets available for sale: breakdown by borrower/issuer

Captions/Amounts	31.12.2017	31.12.2016
1. Debt securities	1,131,636	1,394,486
a) Government and Central Banks	941,051	1,286,805
b) Other public entities		
c) Banks	98,095	93,195
d) Other issuers	92,490	14,486
2. Equity instruments	39,251	13,557
a) Banks	10,141	
b) Other issuers:	29,110	13,557
- insurance companies		
- financial companies	2,104	2,931
- non-financial companies	27,006	9,996
- other		630
3. Mutual funds	37,623	74,588
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	1,208,510	1,482,631

Impairment tests of financial assets available for sale

As required by the accounting standards IAS 39, at the year end, financial assets available for sale are tested for impairment to verify the potential existence of negative events that might indicate that the carrying amount of the assets may not be fully recoverable.

The policy for the performance of impairment testing of financial assets available for sale is described in the specific section of "Part A - Accounting policies" of these explanatory notes.

Section 5 - Financial assets held to maturity - caption 50

5.1 Financial assets held to maturity: breakdown

Type of transaction/Amounts	31.12.2017				31.12.2016			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	748,696	570,327	186,804					
- structured								
- other	748,696	570,327	186,804					
2. Loans								

Key:

FV = fair value

BV = book value

During the first half of the year, the Held to Maturity Portafoglio has been reinstated; further information is provided in section 7.3 "The securities portfolio and interbank position" of the Report on operations.

Fair value measurements for the sole purpose of fulfilling market disclosure requests are classified on the basis of fair value hierarchy levels that reflect the relevance of the inputs used in the valuation.

5.2. Financial assets held to maturity: breakdown by borrower/issuer

Type of transaction/Amounts	31.12.2017	31.12.2016
1. Debt securities	748,696	
a) Government and central banks	563,667	
b) Other public entities		
c) Banks	124,492	
d) Other issuers	60,537	
2. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	748,696	
Total FV	757,131	

Section 6 - Due from banks - caption 60

6.1 Due from banks: breakdown

Type of transaction/Amounts	31.12.2017				31.12.2016			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	1,097,955			1,097,955	78,591			78,591
1. Restricted deposits								
2. Reserve requirement	1,097,955				78,591			
3. Repurchase agreements								
4. Other								
B. Due from banks	464,710				421,685			
1. Loans	464,710			464,710	421,685			421,685
1.1 Current accounts and	371,477				185,079			
1.2 Restricted deposits	36,593				10,195			
1.3 Other loans:	56,640				226,411			
- Repurchase agreements					222,503			
- Finance leases								
- Other	56,640				3,908			
2. Titoli di debito								
2.1. Structured securities								
2.2 Other debt securities								
Total	1,562,665			1,562,665	500,276			500,276

Key:

FV = fair value

BV = book value

Amounts due from central banks include the amount of the reserve requirement at the Bank of Italy. The Bank's commitment to maintain the reserve requirement, also on behalf of its subsidiary Banca Popolare di Spoleto, amounts to Euro 90.2 million at 31 December (versus Euro 87.5 million last year) of which Euro 58.6 million by Banco Desio and Euro 31.6 million by Banca Popolare di Spoleto S.p.A. For the purpose of maintaining the average level of the reserve in line with the requirement, its amount may fluctuate, even significantly, in relation to the contingent liquidity needs of the Bank. At the reference date, the Bank took a long liquidity position due to significant disinvestments from the securities portfolio.

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

The caption "Other loans - Other" includes the amount of liquidity deposited with the account bank of the Covered Bond issue programme for Euro 36 million.

Amounts due from the subsidiary Banca Popolare di Spoleto amount to Euro 364,702 thousand at the end of the year (Euro 399,730 thousand at the end of last year), of which:

- Euro 18,000 thousand related to the subordinated loan with fixed maturity (10 years) granted to the subsidiary to strengthen the Tier 2 capital of BPS pursuant to the EU Supervisory Regulations;
- Euro 345,542 thousand related to current accounts and unrestricted deposits;
- Euro 1,160 thousand related to restricted deposits.

6.2 Due from banks with a specific hedge

At the date of the financial statements there are no amounts due from banks with a specific hedge.

6.3 Finance leases

Banco Desio has no amounts due from banks linked to finance leases.

Section 7 - Loans to customers - caption 70

7.1 Loans to customers: breakdown

Type of transaction/Amounts	31.12.2017					31.12.2016						
	Book value		Fair value			Book value		Fair value				
	Performing loans	Non-performing loans		L1	L2	L3	Performing loans	Non-performing loans		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	5,843,320	408,222	3,414,520	3,052,047		5,797,149	449,904		3,392,018	3,112,540		
1. Current accounts	1,482,017	103,801				1,456,312	107,178					
2. Repurchase agreements						211,681						
3. Mortgage loans	3,248,994	280,621				2,980,293	319,362					
4. Credit cards, personal loans and assignments of one-fifth of salary	7,748	755				15,323	1,109					
5. Finance leases	223,325	16,230				284,550	17,001					
6. Factoring	24,781	934				35,236	290					
7. Other loans	856,455	5,881				813,754	4,964					
Debt securities												
8. Structured securities												
9. Other debt securities												
Total	5,843,320	408,222	3,414,520	3,052,047		5,797,149	449,904		3,392,018	3,112,540		

Gross loans amount to Euro 6,686,368 thousand (Euro 6,662,566 thousand at the prior year end), while total writedowns amount to Euro 434,826 thousand (Euro 415,513 thousand at the prior year end).

The table includes the amounts of receivables sold which have not been derecognised, constituting eligible assets for the Covered Bond programme; at 31 December 2017, these receivables amounted to Euro 550,352 thousand.

As regards non-performing loans, in addition to the disclosures made in the report on operations, reference should be made to "Section E" of these explanatory notes.

"Mortgage loans" also include collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 1,278,455 thousand (Euro 1,169,387 thousand at the prior year end).

Loans and receivables from companies belonging to the Banco Desio Group amount to Euro 460,828 thousand; they all relate to the subsidiary Fides S.p.A. (Euro 418,190 thousand last year).

This caption includes the interest accrued at 31 December 2017 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. Considering current conditions in the loan market, the fair value of non-performing loans might not represent their final exit price, as there is still a certain amount of chance associated with the elements used for the determination of price by potential third-party purchasers.

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amounts	31.12.2017			31.12.2016		
	Performing loans	Non-performing loans		Performing loans	Non-performing loans	
		Purchased	Other		Purchased	Other
1. Debt securities						
a) Governments						
b) Other public entities						
c) Other issuers						
- non-financial companies						
- financial companies						
- insurance companies						
- other						
2. Loans to:	5,843,320		408,222	5,797,149		449,904
a) Governments						
b) Other public entities						
c) Other parties	5,843,320		408,222	5,797,149		449,904
- non-financial companies	3,889,678		283,889	3,767,280		321,004
- financial companies	532,276		6,880	729,629		784
- insurance companies	2,027					
- other	1,419,339		117,453	1,300,240		128,116
Total	5,843,320		408,222	5,797,149		449,904

7.3 Loans to customers: assets with a specific hedge

At the date of the financial statements there are no loans to customers with a specific hedge.

7.4 Finance leases

The reconciliation among gross investment in leases and present value of minimum lease payments and unsecured residual value payable to lessor is reported below.

Type of transaction	31.12.2017				31.12.2016			
	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)
Finance lease	282,406	(47,420)	234,986	49,669	355,877	(59,781)	296,096	54,505
- of which leaseback agreements	22,825	(4,419)	18,406	4,378	27,982	(5,184)	22,798	5,533
Total	282,406	(47,420)	234,986	49,669	355,877	(59,781)	296,096	54,505

Falling due	31.12.2017			31.12.2016		
	Gross investment	Deferred profit	Net investment	Gross investment	Deferred profit	Net investment
- Within one year	7,968	(183)	7,785	10,151	(194)	9,957
- Between one and five years	80,969	(6,982)	73,987	92,926	(6,108)	86,818
- Beyond five years	193,469	(40,255)	153,214	252,800	(53,479)	199,321
Total	282,406	(47,420)	234,986	355,877	(59,781)	296,096

The net investment corresponds to the outstanding capital element of lease obligations at the year end.

Section 8 - Hedging derivatives - caption 80

8.1 Hedging derivatives: breakdown by type and level

Type of transaction/Amounts	31.12.2017				31.12.2016			
	FV			NV	FV			NV
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives						262		10,000
1) Fair value						262		10,000
2) Cash flows								
3) Foreign investments								
B) Credit derivatives								
1) Fair value								
2) Cash flows								
Total						262		10,000

Key:

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

For the comparative period, the table shows the positive balance sheet value of derivative hedging contracts relating to specific fair value hedges on bonds issued by Banco Desio. These derivatives, together with the respective covered bonds, expired during the 2017.

Section 10 - Equity investments - caption 100

10.1 Equity investments: details of holdings

Name	Registered office	Operational headquarters	% Held %	Voting rights %
A. Subsidiaries				
Fides S.p.A.	Rome	Rome	100.000	100.000
Banca Popolare di Spoleto S.p.A.	Spoleto	Spoleto	81.673	81.673
Desio OBG S.r.l.	Conegliano	Conegliano	60.000	60.000

10.2 Significant equity investments: book value, fair value and dividends received

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.2 of the Banco Desio Group's consolidated financial statements.

10.3 Significant equity investments: accounting information

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.3 of the Banco Desio Group's consolidated financial statements.

Impairment testing of equity investments

In compliance with the requirements of IAS 36 and taking account of the guidance laid down in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, details are provided below of impairment testing of equity investments held at the reporting date.

Impairment testing is designed to check that the carrying amount of equity investments does not exceed their recoverable amount, defined as the higher of fair value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the investment.

The recoverable amount of equity investments was determined, where there was no fair value arising from transactions concerning the target of the impairment test or from market transactions involving similar targets, by reference to the value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived from it, using an appropriate discount rate for the time period in which the cash flows will be generated.

In practice, for credit or financial companies, use is made of Free Cash Flow to Equity (FCFE) methodology, or, more specifically, an Excess Capital variant of the Dividend Discount Model (DDM). This methodology determines the value of a company based on future cash flows that it will be capable of distributing to its shareholders, without touching the assets needed to support its expected growth in compliance with regulatory capital requirements imposed by the Supervisory Authorities, discounted using a discount rate that reflects the specific risk premium. Note, however, that despite the term "Dividend Discount Model", the cash flows considered by the model are not dividends expected to be distributed to shareholders, but are cash flows from which a shareholder could benefit and which are surplus to operating capital requirements.

Impairment testing has thus been performed on the basis of the criteria and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

To estimate the recoverable amount of an equity investment, reference is made to the so-called value in use (equity value for banks and financial intermediaries).

"Explicit" time period for the determination of future cash flows

The time horizon used is the same as the 2018-2020 Business Plan approved by the Directors on 11 January 2018, as well as the further development of this plan prepared by management. This contains projections of future results extended to include an explicit forecast period of five years. This is to minimise potential distortions from using only the time horizon of the Business Plan, which could be strongly influenced by a complex systemic situation because of the considerable uncertainty in forecasting the macroeconomic scenario due to the prolonged effects of the crisis, the lasting impacts that it had on the money market and on interest rates, or otherwise linked to extraordinary events for which it is worth trying to normalise the results so as to focus better on the effective medium/long term potential of the entity being tested.

Cash flows

For the valuation of banks and financial intermediaries, an equity side approach to DDM methodology is used for the determination of equity value, as, due to the characteristic activities undertaken by a financial intermediary (deposit taking and lending), it is particularly difficult to distinguish between financial payables and operating payables; furthermore, for the Excess Capital approach, cash flows available to shareholders are cash flows from which a shareholder could potentially benefit in excess of operating capital requirements and, thus, they take due account of regulatory capital absorption.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to K_e , the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity.

The equity value of the investment at the date of testing, determined on the basis of the above procedure, is then compared with the book value of the specific equity investment, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing

The main assumptions used for impairment testing are set out below.

Legal entity	Model	Input used	CAGR RWA	K_e	g	Plan flows	Capital ratios
Banca Popolare di Spoleto Spa	DDM	2018-2020 Business Plan extended to 2022	-0.57%	9.61%	2.00%	Net results	CET 1 8.50% (*)
Fides Spa	DDM	2018-2020 Business Plan extended to 2022	-3.77%	9.61%	2.00%	Net results	CET 1 8.50% (*)

(*) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)

As a result of the impairment testing performed, no writedown was needed of the aforementioned equity investments.

It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets and could be subject to changes, which are currently unforeseeable, that would consequently have an impact on the main assumptions applied and, thus, potentially, also on the results of future years that could be different from those set out herein.

c) Sensitivity analysis

Since the measurement of impairment is rendered particularly complex due to the current macroeconomic and market environment and by the consequent difficulties in forecasting long term

earnings, to support the testing performed, stress tests were carried out assuming a change in the main parameters applied for impairment testing.

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the equity investments match their carrying amounts.

Equity investments	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banca Popolare di Spoleto Spa	8.14%	75
Fides Spa	70.18%	Over 1,000

10.4 Not significant equity investments: accounting information

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to Table 10.4 of the Banco Desio Group's consolidated financial statements.

10.5 Equity investments: changes during the year

	31.12.2017	31.12.2016
A. Opening balance	264,565	317,809
B. Increases	10,006	
B.1 Purchases	10,006	
B.2 Write-backs		
B.3 Revaluations		
B.4 Other changes		
C. Decreases		53,244
C.1 Sales		7,416
C.2 Write-downs		
C.3 Other changes		45,828
D. Closing balance	274,571	264,565
E. Total revaluations		
F. Total write-downs		

Caption "B.1 Purchases" includes the following transactions that took place during the year:

- Acquisition of 60% in the share capital of the SPV "Desio OBG S.r.l." for 6 thousand euro;
- Subscription of 10,000,000 ordinary shares issued by Fides S.p.A as a result of the Extraordinary Shareholders' Meeting of 21 March 2017, that approved an increase in the Company's share capital for payment.

LISTING OF EQUITY INVESTMENTS AND SIGNIFICANT EQUITY INVESTMENTS**List of investments in subsidiaries (Caption 100. Equity investments)**

(amounts in Euro)

Equity investments	Number of shares or quotas	% held	Nominal value	Book value
Subsidiaries				
Banca Popolare di Spoleto S.p.A.	128,240,177	81.673	-	232,371,200
Fides S.p.A.	35,000,000	100.000	35,000,000	42,193,729
Desio OBG S.r.l.	1	60.000	6,000	6,000
Total Caption 100. Equity investments				274,570,929

List of equity investments (Caption 40. Financial assets available for sale)

(amounts in Euro)

Equity investments	Number of shares or quotas	% held	Nominal value	Book value
Cedacri S.p.A.	898	7.122	898,000	26,351,020
Bank of Italy	400	0.133	10,000,000	10,000,000
Carim	728,766	1.480	3,643,830	141,380
Be.Ve.Re.Co. S.r.l.	30,000	5.825	15,000	15,494
S.S.B. Società Servizi Bancari S.p.A.	51,491	0.030	6,694	3,640
Consorzio Bancario S.I.R. S.p.A.	882,939	0.057	883	274
S.W.I.F.T. - Brussels	10	0.009	1,250	5,572
AcomeA Sgr S.p.A.	50,000	8.658	500,000	1,451,000
Sviluppo Como - ComoNExt Spa	150,000	1.779	150,000	150,000
Unione Fiduciaria	15,050	1.394	82,775	485,212
Baires Produzioni s.r.l.	-	-	-	480,000
Total				39,083,592

During the period, the Bank recorded a total revaluation of Euro 16,383 thousand (gross), in consideration of the price paid for the shares in transactions between various shareholders and the Italian Strategic Fund, which in this way has acquired 27% of the company.

10.8 Significant restrictions

There are no significant 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.

Section 11 - Property, plant and equipment - caption 110

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

Assets/Amounts	31.12.2017	31.12.2016
1. Own assets	134,244	134,154
a) land	42,454	41,800
b) property	80,021	80,246
c) furniture	3,089	3,494
d) electronic systems	2,289	2,848
e) other	6,391	5,766
2. Land and property under finance lease		
a) land		
b) property		
c) furniture		
d) electronic systems		
e) other		
Total	134,244	134,154

As at the year end, there were no tangible fixed assets being purchased under finance leases.

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, all the other tangible fixed assets are measured at cost.

The expected useful lives of the main asset categories are as follows:

- property: 50 years,
- office furniture, fittings, miscellaneous plant and equipment, armoured counters and compasses and alarm systems: 10 years,
- terminals and PCs, mixed use vehicles: 4 years.

Within each asset category, where necessary, certain types of assets may be attributed different and specified useful lives.

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.

11.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	31.12.2017			31.12.2016				
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	1,049			922	1,065			922
a) land	448			378	448			378
b) property	601			544	617			544
2. Assets purchased under finance leases								
a) land								
b) property								
Total	1,049			922	1,065			922

The book value reflects the capitalisation of construction and/or renovation costs, in addition to taxes, particularly on new properties acquired, factors that the market value do not fully reflect.

11.3 Property, plant and equipment for business purposes: breakdown of revalued assets

As at the respective balance sheet dates, the Bank did not have any revalued property, plant and equipment for business purposes.

11.4 Investment property: breakdown of assets carried at fair value

As at the respective balance sheet dates, the Bank did not have any investment property measured at fair value.

11.5 Property, plant and equipment for business purposes: change of the year

Assets/Amounts	Land	Property	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	41,800	101,949	29,152	21,393	35,519	229,813
A.1 Total net writedowns		21,703	25,658	18,545	29,753	95,659
A.2 Net opening balance	41,800	80,246	3,494	2,848	5,766	134,154
B. Increases	654	1,847	537	5,859	2,501	11,398
B.1 Purchases	654	1,847	277	540	1,657	4,975
B.2 Capitalised improvement costs						
B.3 Write-backs						
B.4 Increase in fair value booked to:						
- a) shareholders' equity						
- b) income statement						
B.5 Exchange gains						
B.6 Transfer from investment property						
B.7 Other changes			260	5,319	844	6,423
C. Decreases		2,072	942	6,418	1,876	11,308
C.1 Sales			3		12	15
C.2 Depreciation		2,072	669	1,098	1,023	4,862
C.3 Impairment write-downs booked to:						
- a) shareholders' equity						
- b) income statement						
C.4 Decreases in fair value booked to:						
- a) shareholders' equity						
- b) income statement						
C.5 Exchange losses						
C.6 Transfers to:						
- a) investment property, plant and equipment						
- b) assets held for sale						
C.7 Other changes			270	5,320	841	6,431
D. Net closing balance	42,454	80,021	3,089	2,289	6,391	134,244
D.1 Net total write-downs		23,775	26,067	14,324	29,933	94,099
D.2 Gross closing balance	42,454	103,796	29,156	16,613	36,324	228,343
E. Measurement at cost						

The captions A.1 and D.1 – "Net total write-downs" relate to accumulated depreciations.

Captions "B.7 Other changes", "C.1 Sales" and "C.7 Other changes" include the effects of disposals and sales of property, plant and equipment during the year; in particular, caption "B.7 Other changes" includes the release of the accumulated depreciation on the assets sold and caption "C.7 Other changes" includes the release of the historical cost of the same assets.

As a result of the aforementioned disposals, losses of € 20 thousand were recorded to the income statement under caption 190 "Other operating charges/income".

11.6 Investment property: changes in the year

	Land	Total Property
A. Opening balance	448	617
B. Increases		
B.1 Purchases		
B.2 Capitalised improvement costs		
B.3 Positive changes in fair value		
B.4 Write-backs		
B.5 Foreign exchange gains		
B.6 Transfers from assets used in business		
B.7 Other changes		
C. Decreases		16
C.1 Sales		
C.2 Depreciation		16
C.3 Negative changes in fair value		
C.4 Impairment write-downs		
C.5 Foreign exchange losses		
C.6 Transfers to other asset categories		
a) assets used in business		
b) non-current assets and disposal groups held for sale		
C.7 Other changes		
D. Closing balance	448	601
E. Measurement at fair value		

11.7 Commitments to purchase property, plant and equipment (IAS 16/74.c)

At year-end there are no commitments to purchase property, plant and equipment.

FREEHOLD PROPERTY

(excluding property under finance lease)

Assets used in business

Location of the property		surface area of office space (sqm)	Net carrying amount (in thousands of euro)
ALBINO	Viale Libertà 23/25	332	666
ARCORE	Via Casati, 7	362	533
BAREGGIO	Via Falcone, 14	200	266
BESANA BRIANZA	Via Vittorio Emanuele, 1/3	625	787
BOLOGNA	Porta Santo Stefano, 3	1,223	8,527
BOLOGNA SANTA VIOLA	Via Della Ferriera, 4	200	965
BOVISIO MASCIAGO	Via Garibaldi, 8	382	406
BRESCIA	Via Verdi, 1	530	1,774
BRESCIA	1st floor Via Verdi, 1	190	1,054
BRIOSCO	Via Trieste, 14	430	393
BRUGHERIO	Viale Lombardia, 216/218	425	1,223
BUSTO ARSIZIO	Via Volta, 1	456	966
CADORAGO	Via Mameli, 5	187	284
CANTU'	Via Manzoni, 41	1,749	2,121
CARATE BRIANZA	Via Azimonti, 2	773	933
CARUGATE	Via XX Settembre, 8	574	590
CARUGO	Via Cavour, 2	252	364
CASTELLANZA	Corso Matteotti, 18	337	401
CESANO MADERNO	Corso Roma, 15	692	839
CHIAVARI	Piazza Matteotti	68	976
CINISELLO BALSAMO	Via Frova, 1	729	872
CINISELLO BALSAMO	Piazza Gramsci	26	15
COLOGNO MONZESE	Via Cavallotti, 10	128	45
COMO	Via Garibaldi, angolo Via Varese	548	2,218
CUSANO MILANINO	Viale Matteotti, 39	522	659
DESIO	Piazza Conciliazione, 1	1,694	1,999
DESIO	Via Rovagnati, 1	20,032	28,475
DESIO	Via Volta, 96	238	566
GARBAGNATE	Via Varese, 1	400	1,148
GIUSSANO	Via Addolorata, 5	728	890
LECCO	Via Volta, ang. Via Montello	615	1,642
LEGNANO	Corso Italia, 8	1,545	2,574
LISSONE	Via San Carlo, 23	583	1,284
MEDA	Via Indipendenza, 60	678	768
MILAN	Via della Posta, 8	1,912	7,594
MILAN	Via Foppa	223	766
MILAN	Via Menotti	825	2,848
MILAN	Via Moscova, 30/32	668	5,138
MILAN	Via Trau', 3	422	1,998
MILAN	Piazza De Angeli, 7/9	385	2,113
MISINTO	Piazza Mosca, 3	330	348
MODENA	Via Saragozza, 130	720	4,097
MONZA	Via Manzoni, 37	397	841

Location of the property		surface area of office space (sqm)	Net carrying amount (in thousands of euro)
MONZA	Piazza S. Paolo, 5	496	3,597
MONZA	Corso Milano, 47	453	705
MONZA	Via Rota, 66	330	523
NOVATE MILANESE	Via Matteotti, 7	462	649
ORIGGIO	Largo Croce, 6	574	731
PADUA	Via Matteotti, 20	550	3,359
PALAZZOLO MILANESE	Via Monte Sabotino, 1	605	628
PIACENZA	Via Vittorio Veneto, 67/a	486	1,380
REGGIO EMILIA	Via Terrachini, 1 ang. Via Risorgimento	713	2,543
RENATE	Piazza don Zanzi, 2	429	618
RHO	Via Martiri Libertà, 3	410	711
RUBIERA	Via Emilia Ovest, 7	310	1,336
SARONNO	Via Rimembranze, 42	530	732
SEGRATE	Via Cassanese, 200	170	280
SEREGNO	Via Trabattoni, 40	1,233	2,003
SESTO SAN GIOVANNI	Piazza Oldrini	377	750
SEVESO	Via Manzoni, 9	382	1,028
SOVICO	Via Frette, 10	673	1,026
TURIN	Via Filadelfia, 136	370	1,652
VAREDO	Via Umberto I°, 123	501	501
VEDUGGIO	Via Vittorio Veneto, 51	257	230
VERANO BRIANZA	Via Preda, 17	322	372
VERANO BRIANZA	Via Furlanelli, 3	790	672
VIGEVANO	Via Decembrio, 21	480	1,923
VIMERCATE	Via Milano, 6	338	909
Sub total		57,102	122,475
Investment property			
MEDA parking space	Via Indipendenza, 60	15	6
MILAN	1st floor Via Trau', 3	205	1,043
Sub total		220	1,049
Total		57,322	123,524

Table of revalued assets recognised in the financial statements

(pursuant to art. 10 of Law no. 72 of 19/3/1983)

(amounts in Euro)

	Revaluations in line with inflation			Revaluations to reflect change in value		TOTAL
	Law 576/75	Law 72/83	Law 413/91	Merger deficit	Voluntary revaluations	
DESIO, via Rovagnati		937,369	6,844,273			7,781,642
CINISELLO, P.zza Gramsci			1,173			1,173
CUSANO M.NO, Via Matteotti	10,170	25,483	19,944		12,925	68,522
CANTU', Via Manzoni		22,884	185,972	1,321,713		1,530,569
CARUGATE, Via XX Settembre			355		4,132	4,487
MILAN, Via della Posta			189,958		51,645	241,603
NOVATE M.SE, Via Matteotti			22,022	170,257		192,279
GIUSSANO, Via dell'Addolorata			26,067			26,067
MEDA, Via Indipendenza			51,616			51,616
MONZA, Corso Milano			227,521			227,521
BOVISIO, Via Garibaldi			26,357			26,357
PADERNO DUGNANO, Via Casati			24,339			24,339
LEGNANO, Corso Garibaldi			176,676			176,676
SOVICO, Via G. da Sovico			62,703			62,703
Total	10,170	985,736	7,858,976	1,491,970	68,702	10,415,554

Section 12 - Intangible assets - caption 120

12.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2017		31.12.2016	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		1,729		1,729
A.2 Other intangible assets	1,315		1,509	
A.2.1 Carried at cost:	1,315		1,509	
a) Intangible assets generated internally				
b) Other assets	1,315		1,509	
A.2.2 Carried at fair value:				
a) Other intangible assets generated internally				
b) Other assets				
Total	1,315	1,729	1,509	1,729

The Bank's intangible assets are valued at cost.

Goodwill recorded in the financial statements, having an indefinite useful life, is not amortised on a straight-line basis but subjected to impairment testing at least once a year, particularly at the year end reporting date or, in any case, any time circumstances arise that suggest that there may be impairment. The assessment at year-end showed no 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.

Impairment testing of goodwill

According to the provisions of IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, we report below information on the impairment test on cash generating units (CGU) carried out at the reporting date.

Impairment testing is designed to check that the carrying amount of the CGU does not exceed its recoverable amount, defined as the higher of fair value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the CGU.

The recoverable amount of the CGU has been determined with reference to its value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived from it, using an appropriate discount rate for the time period in which the cash flows will be generated.

In practice, for credit or financial companies, use is made of Free Cash Flow to Equity (FCFE) methodology, or, more specifically, an Excess Capital variant of the Dividend Discount Model (DDM). This methodology determines the value of a company based on future cash flows that it will be capable of distributing to its shareholders, without touching the assets needed to support its expected growth in compliance with regulatory capital requirements imposed by the Supervisory Authorities, discounted using a discount rate that reflects the specific risk premium. Note, however, that despite the term "Dividend Discount Model", the cash flows considered by the model are not dividends expected to be distributed to shareholders, but are cash flows from which a shareholder could benefit and which are surplus to operating capital requirements.

On a basis consistent with that of the prior year financial statements, individual legal entities have been identified as CGUs, taking account of the fact that the Banking Group envisages that the Parent Company shall provide guidance and strategic coordination aimed at the achievement of the objectives concerning the development and earnings of each legal entity and, as a consequence, results are reported autonomously (by means of the management reporting system) in a manner which sees the CGU coincide with the legal entity and, accordingly, management reports, as well as the budget process, analyse, monitor and forecast earnings and financial position based on this approach.

Impairment testing was thus conducted for the legal entity Banco di Desio e della Brianza Spa on the basis of the criteria and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

To estimate the recoverable amount of the goodwill pertaining to the specific legal entity, reference is made to the so-called "value in use" (equity value for banks and financial intermediaries).

"Explicit" time period for the determination of future cash flows

The time horizon used is the same as the 2018-2020 Business Plan approved by the Directors on 11 January 2018, as well as the further development of this plan prepared by management. This contains projections of future results extended to include an explicit forecast period of five years. This is to

minimise potential distortions from using only the time horizon of the Business Plan, which could be strongly influenced by a complex systemic situation because of the considerable uncertainty in forecasting the macroeconomic scenario due to the prolonged effects of the crisis, the lasting impacts that it had on the money market and on interest rates, or otherwise linked to extraordinary events for which it is worth trying to normalise the results so as to focus better on the effective medium/long term potential of the entity being tested.

Cash flows

For the valuation of banks and financial intermediaries, an equity side approach to DDM methodology is used for the determination of equity value, as, due to the characteristic activities undertaken by a financial intermediary (deposit taking and lending), it is particularly difficult to distinguish between financial payables and operating payables; furthermore, for the Excess Capital approach, cash flows available to shareholders are cash flows from which a shareholder could potentially benefit in excess of operating capital requirements and, thus, they take due account of regulatory capital absorption.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to K_e , the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity.

The equity value of the CGU at the date of testing, determined on the basis of the above procedure, after deducting the book value of shareholders' equity, is then compared with the book value of the specific goodwill pertaining to the CGU in question, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing

The main assumptions used for impairment testing are set out below.

CGU	Model	Input used	CAGR RWA	K_e	g	Plan flows	Capital ratio
Banco di Desio e della Brianza Spa	DDM	2018-2020 Business Plan extended to 2022	0.60%	9.61%	2.00%	Net results	CET 1 8.50% (*)

(*) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA)

As a result of the impairment testing performed, no writedown was needed of the aforementioned goodwill.

It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets and could be subject to changes, which are currently unforeseeable, that would consequently have an impact on the main assumptions applied and, thus, potentially, also on the results of future years that could be different from those set out herein.

c) Sensitivity analysis

Since the measurement of impairment is rendered particularly complex due to the current macroeconomic and market environment and by the consequent difficulties in forecasting long term earnings, to support the testing performed, stress tests were carried out assuming a change in the main parameters applied for impairment testing.

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the CGU, after having deducted the shareholders' equity allocated thereto, match the carrying amount of goodwill.

CGU	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banco di Desio e della Brianza Spa	38.37%	563

12.2 Intangible assets: changes in the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets:		Total
		LIM	UNLIM	LIM	UNLIM	
A. Gross opening balance	3,458			8,726		12,184
A.1 Total net writedowns	1,729			7,217		8,946
A.2 Net opening balance	1,729			1,509		3,238
B. Increases				1,150		1,150
B.1 Purchases				1,150		1,150
B.2 Increases in internally generated intangible assets						
B.3 Write-backs						
B.4 Positive changes in fair value						
- recognised in equity						
- recognised in income statement						
B.5 Foreign exchange gains						
B.6 Other changes						
C. Decreases				1,344		1,344
C.1 Sales						
C.2 Write-downs				1,344		1,344
- amortisation				1,344		1,344
- Write-downs						
+ shareholders' equity						
+ income statement						
C.3 Negative changes in fair value						
- recognised in equity						
- recognised in income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Foreign exchange losses						
C.6 Other changes						
D. Net closing balance	1,729			1,315		3,044
D.1 Total net write-downs	1,729			8,561		10,290
E. Gross closing balance	3,458			9,876		13,334
F. Measurement at cost						

Key

LIM: limited duration
UNLIM: unlimited duration

12.3 Other information

At year-end there are no commitments to purchase intangible assets.

Section 13 - Tax assets and liabilities - Asset caption 130 and Liability caption 80**13.1 Deferred tax assets: breakdown**

	Ires	Irap	31.12.2017	31.12.2016
A) With contra-entry to the income statement:				
Tax losses				
Tax deductible goodwill	2,300	466	2,766	2,985
Write-down of loans to customers deductible on a straight-line basis	81,033	10,267	91,300	99,698
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	164		164	122
Provision for guarantees and commitments and country risk	219		219	444
Provisions for personnel costs	5,639	995	6,634	7,813
Provision for lawsuits	2,084		2,084	2,832
Provision for claw-backs	121	25	146	533
Provision for sundry charges	187		187	231
Tax provision for termination indemnities	340		340	353
Other general expenses deductible in the following year		249	249	200
Other		1	1	1
Total A	92,393	12,003	104,396	115,519
B) With contra-entry to shareholders' equity:				
Tax provision for termination indemnities	219		219	73
Write-down of securities classified as AFS	2,314	469	2,783	4,799
Other	962	195	1,157	1,166
Total B	3,495	664	4,159	6,038
Total (A+B)	95,888	12,667	108,555	121,557

Probability test on deferred tax assets

In relation to the deferred tax assets described above, it should be noted that they refer for Euro 93,716 thousand to taxes as per Law 214/2011, which made it certain that they would be recovered, thereby making the IAS 12 probability test automatically satisfied.

The Parent Company Banco di Desio e della Brianza S.p.A. is not obliged to pay the annual guarantee fee for the transformation of deferred tax assets into tax credits as per Law 214/2011 as introduced by art. 11 of D.L. 59/2016, as the tax base, calculated according to regulations, is negative.

The additional deferred tax assets described above, which are outside the scope of Law 214/2011, have been recognised in view of the probability of their recovery, expecting there to be sufficient taxable income in the future to recover these assets. In particular, deferred tax assets have been analysed by type and by the timing of the reversal of the related temporary differences, considering the future profitability of the Bank and the related taxable income forecast in the business plan to 2022. The analysis showed that there will be sufficient taxable income in the future to recover these assets.

13.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2017	31.12.2016
A) With contra-entry to the income statement:				
Tax depreciation of buildings	6,689	872	7,561	7,563
Tax depreciation of property, plant and equipment		15	15	15
Tax amortisation of goodwill	476	96	572	571
Tax amortisation of deferred charges (software)	2	5	7	7
Tax provision as per art. 106, paragraph 3	20		20	20
Other	781	9	790	1,508
Total A	7,968	997	8,965	9,684
B) With contra-entry to shareholders' equity				
Cash-flow hedges	504	102	606	154
Revaluation of AFS securities	1,180	239	1,419	1,308
Revaluation of equity investments	268	1,085	1,353	216
Tax provision for termination indemnities				
Total B	1,952	1,426	3,378	1,678
Total (A+B)	9,920	2,423	12,343	11,362

13.3 Changes in deferred tax assets (with contra-entry to income statement)

	31.12.2017	31.12.2016
1. Opening balance	115,519	118,705
2. Increases	2,508	6,647
2.1 Deferred tax assets recognised during the year	2,366	6,563
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	2,366	6,563
2.2 New taxes or increases in tax rates		
2.3 Other increases	142	84
3. Decreases	13,631	9,833
3.1 Deferred tax assets cancelled in the year	13,631	9,782
a) reversals	13,631	9,782
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		51
a) Conversion to tax credits as per L. 214/2011		
b) Other		51
4. Closing balance	104,396	115,519

The deferred tax assets recognised during the year mainly comprised:

- Euro 1,973 thousand relating to non-deductible provisions to risks and charges and employee related provisions;

- Euro 110 thousand for non-deductible provisions for legal disputes and bankruptcy clawback actions.

The sub-caption "2.3 Other increases" relates to the recognition of a deferred tax asset as a result of the recomputation, made for the purpose of the tax return for the year 2016.

Deferred tax assets cancelled in the year are essentially due to:

- for Euro 8,398 thousand to the recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83 of 27 June 2015;
- for Euro 4,859 thousand from the use of taxed provisions.

13.3.1 Change in deferred tax assets as per L. 214/2011 (as a contra-entry to the income statement)

	31.12.2017	31.12.2016
1. Opening balance	102,255	107,643
2. Increases		
3. Decreases	8,539	5,388
3.1 Reversals	8,539	5,388
3.2 Conversion to tax credits		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other decreases		
4. Closing balance	93,716	102,255

"3.1 Reversals" refers to:

- for Euro 8,398 thousand from the recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83 of 27 June 2015;
- Euro 141 thousand relating to an adjustment to the deferred tax asset on the step-up for tax purposes of goodwill in 2012.

13.4 Change in deferred tax liabilities (as a contra-entry of the income statement)

	31.12.2017	31.12.2016
1. Opening balance	9,684	9,937
2. Increases	533	520
2.1 Deferred tax liabilities recognised during the year	310	376
a) relating to prior years		
b) due to changes in accounting policies		
c) other	310	376
2.2 New taxes or increases in tax rates		
2.3 Other increases	223	144
3. Decreases	1,252	773
3.1 Deferred tax liabilities cancelled during the year	1,252	771
a) reversals	1,252	771
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		2
4. Closing balance	8,965	9,684

The deferred tax liabilities recognised during the year mainly comprised:

- Euro 267 thousand on the voluntary contribution to the Interbank Deposit Protection Fund;
- Euro 42 thousand on dividends for the year that have not yet been collected.

The caption "2.3 Other increases" relates to the recognition of a deferred tax liabilities as a result of the recomputation, made for the purpose of the tax return for the year 2016.

Deferred tax liabilities cancelled during the year are mainly attributable:

- for Euro 621 thousand to the share of capital gains realised on financial assets in 2013, 2014, 2015 and 2016, deductible on a straight-line basis over the following four years in accordance of art. 86.4 of TUIR (Consolidated Income Tax Act);
- Euro 541 thousand on the voluntary contribution to the Interbank Deposit Protection Fund;
- for Euro 44 thousand to dividends pertaining to the previous year and collected during the current year;
- for Euro 43 thousand to the release recorded on recalculation of the Irap deduction from Ires in relation to the payroll costs incurred in prior years.

13.5 Changes in deferred tax liabilities (as a contra-entry to shareholders' equity)

	31.12.2017	31.12.2016
1. Opening balance	6,038	2,401
2. Increases	679	4,971
2.1 Deferred tax assets recognised during the year	679	4,971
a) relating to prior years		
b) due to changes in accounting policies		
c) other	679	4,971
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	2,558	1,334
3.1 Deferred tax assets cancelled in the year	2,558	1,334
a) reversals	2,558	1,334
b) written down as no longer recoverable		
c) due to changes in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	4,159	6,038

Deferred tax assets recognised during the year are attributable to:

- for Euro 535 thousand to the measurement of securities classified as financial assets available for sale;
- for Euro 145 thousand to the actuarial measurement of the Provision for termination indemnities.

Deferred tax assets cancelled in the year relate to the measurement of securities classified as Financial assets available for sale.

13.6 Changes in deferred tax liabilities (as a contra-entry to shareholders' equity)

	31.12.2017	31.12.2016
1. Opening balance	1,678	2,414
2. Increases	2,806	1,281
2.1 Deferred tax liabilities recognised during the year	2,806	1,281
a) relating to prior years		
b) due to changes in accounting policies		
c) other	2,806	1,281
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	1,106	2,017
3.1 Deferred tax liabilities cancelled during the year	1,106	2,017
a) reversals	1,106	2,017
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	3,378	1,678

Deferred tax liabilities recognised during the year are made up of:

- for Euro 2,354 thousand to the valuation of securities classified under Financial assets available for sale;
- for Euro 452 thousand to the change in the reserve for cash-flow hedges.

Deferred tax assets cancelled in the year relate to the measurement of securities classified as Financial assets available for sale.

13.7 Other information

Current tax assets

Captions	31.12.2017	31.12.2016
Ires	10,065	12,342
Irap	6,066	7,876
Total	16,131	20,218

Section 15 - Other assets – caption 150

15.1 Other assets: breakdown

	31.12.2017	31.12.2016
Tax credits: capital	7,132	7,264
Amounts recoverable from the tax authorities for advances paid	21,997	31,924
Cheques negotiated to be cleared	15,133	13,667
Invoices issued to be collected	874	296
Debtors for securities and coupons to be collected by third parties		12
Items being processed and in transit with branches	13,452	16,241
Currency spreads on portfolio transactions	2,512	66
Investments of the supplementary fund for termination indemnities	315	344
Leasehold improvement expenditure	9,470	10,656
Accrued income and prepaid expenses	963	644
Other items	33,677	35,967
Total	105,525	117,081

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

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

- a receivable for withholding tax on interest on deposits and current accounts of Euro 1,172 thousand;
- a receivable for virtual stamp duty of Euro 16,059 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 4,766 thousand, as per art. 2, para. 5, of Legislative Decree no. 133 of 30 November 2013.

The "Items being processed and in transit with branches" principally include cheques being processed, Euro 2,370 thousand; the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 2,167 thousand di euro, and the recovery of commissions on lines of credit made available to customers, Euro 5,561 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new year.

The amount of "Currency spreads on portfolio transactions" results from the offset of illiquid liability positions against illiquid asset 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. New investments of Euro 141 thousand have been made during the year; the related amortisation charge, which is recognised in the caption "190 – Other operating charges", amounts to Euro 1,327 thousand.

"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:

-
- Euro 1,701 thousand due from the liquidator of CPC S.A. in liquidation; this receivable is of a specific nature and is recoverable for the excess over the amount allocated to the provision for risks and charges in respect of the charges estimated for cancellation of the company (Euro 205 thousand);
 - Euro 170 thousand due from the liquidator of Rovere, which was cancelled in 2017;
 - Euro 4,074 thousand recognised following the authorisation given to distribute the profit reserves of Cedacri S.p.A.;
 - commissions and taxes awaiting collection for Euro 9,130 thousand;
 - consideration receivable of Euro 7,785 thousand arising from transactions carried out in 2017 for the sale to specialist intermediaries of non-performing loans;
 - invoices to be issued for Euro 1,107 thousand;
 - Euro 542 thousand due following currency transactions;
 - Euro 3,437 thousand due from Banca Popolare di Spoleto for services provided.

LIABILITIES

Section 1 - Due to banks - caption 10

1.1 Due to banks: breakdown

Type of transaction/Amounts	31.12.2017	31.12.2016
1. Due to central banks	1,592,800	800,000
2. Due to banks	167,434	211,518
2.1 Current accounts and demand deposits	48,615	47,392
2.2 Restricted deposits	35,754	38,919
2.3 Loans	83,065	125,207
2.3.1 Repurchase agreements		
2.3.2 Other	83,065	125,207
2.4 Payables for commitments to repurchase own equity instruments		
2.5 Other payables		
Total	1,760,234	1,011,518
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	1,760,234	1,011,518
Total fair value	1,760,234	1,011,518

"Due to central banks" reflects, for Euro 1,600 million, the funding facility assigned to the Bank by the Eurosystem as part of the "TLTRO II" operation, net of interest expense of Euro 7.2 million, of which Euro 2.6 million of the portion of Banca Popolare di Spoleto. As a guarantee for this loan, the Bank has lodged collateralised mortgage loans with the ECB (via the A.Ba.Co. procedure) for Euro 1,817,251 thousand (of which Euro 538,796 thousand of Banca Popolare di Spoleto).

Intragroup balances with Banco Popolare di Spoleto at the year end amount to Euro 70,149 thousand, of which Euro 31,589 thousand are restricted deposits for a compulsory reserve that the Bank holds on behalf of the subsidiary.

1.2 Details of caption 10 "Due to banks": subordinated loans

As at the reporting date, Banco Desio did not have any subordinated loans due to banks.

1.3 Details of "Due to banks": structured loans

As at the reporting date, Banco Desio did not have any structured loans due to banks.

1.4 Due to banks with a specific hedge

At the reference dates, Banco Desio did not have amounts due to banks with a specific hedge.

1.5 Finance lease payables

At the reference dates, Banco Desio did not have finance lease contracts with banks.

Section 2 - Due to customers - caption 20

2.1 Due to customers: breakdown

Type of transaction/Amounts	31.12.2017	31.12.2016
1. Current accounts and demand deposits	5,055,871	4,779,440
2. Restricted deposits	897,424	812,253
3. Loans		
3.1 Repurchase agreements		
3.2 other		
4. Payables for commitments to repurchase own equity instruments		
5. Other payables	35,504	31,205
Total	5,988,799	5,622,898
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	5,988,799	5,622,898
Fair value	5,988,799	5,622,898

The main components of "Other payables" relate to: cashier's checks for Euro 34,970 thousand and checks for Euro 535 thousand (last year cashier's checks for Euro 30,673 thousand and checks for Euro 528 thousand respectively).

The loans to companies belonging to the Banco Desio Group amount to Euro 236 thousand, all relating to the subsidiary Fides S.p.A. (Euro 33 thousand last year). Transactions are carried out at market rates.

2.2 Details of caption 20 "Due to customers": subordinated loans

As at the reporting date, Banco Desio did not have any subordinated loans due to customers.

2.3 Details of caption 20 "Due to customers": structured loans

As at the reporting date, Banco Desio did not have any structured loans due to customers.

2.4 Due to customers with a specific hedge

At the reference dates, Banco Desio did not have amounts due to customers with a specific hedge.

Section 3 - Debt securities in issue - caption 30

3.1 Debt securities in issue: breakdown

3.1 Debt securities in issue: breakdown

Type of security/Amounts	31.12.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,591,010	1,591,731			1,200,365	1,196,605		
1.1 structured					15,161	15,297		
1.2 other	1,591,010	1,591,731			1,185,204	1,181,308		
2. Other securities	11,037	11,037			10,194	10,194		
2.1 structured								
2.2 other	11,037	11,037			10,194	10,194		
Total	1,602,047	1,591,731	11,037		1,210,559	1,196,605	10,194	

This caption includes funding by means of securities, which include bonds and certificates of deposit, the book value of which is measured at amortised cost, inclusive of accrued interest thereon. The total funds collected are shown net of repurchased securities.

During the year, new debt securities were issued of a nominal value (N.V.) of Euro 699,681 thousand, while debt securities redeemed on maturity amounted to Euro 292,935 thousand (N.V.). Again, during the year, repurchases were made of securities for Euro 49,095 thousand (N.V.) and which were subsequently relocated for Euro 36,292 thousand (N.V.).

The caption "A.1.2 Bonds: other" includes the Guaranteed Bank Bonds (OBG) issued during the year for 575 million euro.

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 11,017 thousand were issued with a short term maturity and Euro 20 thousand were issued with a longer than short term maturity.

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

3.2 Details of caption 30 "Debt securities in issue": subordinated securities

Bonds	Issue date	Maturity date	Currency	Rate	31.12.2017	31.12.2016
<i>Issued by the Parent Company</i>						
ISIN code IT0004815855	15.06.2012	15.06.2017	EUR	FR		13,014
ISIN code IT0004921166	03.06.2013	03.06.2018	EUR	FR	12,485	13,022
ISIN code IT0005038085	28.08.2014	28.08.2019	EUR	FR	47,873	50,049
ISIN code IT0005070179	22.12.2014	22.12.2019	EUR	FR	48,097	49,919
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	79,382	79,454
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	49,481	49,873
Total					237,318	255,331

3.3 Debt securities in issue with a specific hedge

	31.12.2017	31.12.2016
1. Securities with specific fair value hedge:		10,203
a) interest rate risk		10,203
b) exchange rate risk		
c) other risks		
2. Securities with specific cash flow hedge:	128,864	129,327
a) interest rate risk	128,864	129,327
b) exchange rate risk		
c) other		

Section 4 - Financial liabilities held for trading - caption 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	31.12.2017					31.12.2016				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured										
3.1.2 Other bonds										
3.2 Other securities										
3.2.1 Structured										
3.2.2 Other										
Total A										
B. Derivatives										
1. Financial derivatives				4,531					2,164	
1.1 For trading				4,531					2,164	
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				4,531					2,164	
Total A+B				4,531					2,164	

Key:

FV = fair value

FV* = fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

NV = Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.2 Details of caption 40 "Financial liabilities held for trading": subordinated liabilities

At the reference dates, Banco Desio did not have subordinated financial liabilities held for trading.

4.3 Details of caption 40 "Financial liabilities held for trading": structured loans

As at the reporting date, Banco Desio's financial liabilities held for trading did not include any structured loans.

Section 5 - Financial liabilities designated at fair value through profit and loss - caption 50**5.1 Financial liabilities designated at fair value through profit and loss: breakdown**

Type of transaction/Amounts	31.12.2017					31.12.2016				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks										
1.1 Structured										
1.2 Other										
2. Due to customers										
2.1 Structured										
2.2 Other										
3. Debt securities						15,450	15,908			16,151
3.1 Structured						15,450	15,908			
3.2 Other										
Total						15,450	15,908			16,151

Key:

FV = fair value

FV* = fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

NV = Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Zero balances at the reporting dates; for the comparative period, the table shows financial liabilities that consist of bonds, issued by the Parent Company, which were measured at fair value and systematically hedged by the use of derivatives.

5.2 Details of caption 50 "Financial liabilities designated at fair value through profit and loss": subordinated liabilities

As at the reporting date, the Bank had not issued any subordinated bonds classifiable as financial liabilities designated at fair value through profit and loss.

Section 6 - Hedging derivatives - caption 60

6.1 Hedging derivatives: breakdown by type and level

	31.12.2017				31.12.2016			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial		1,414		130,000		2,778		130,000
1) Fair value								
2) Cash flows		1,414		130,000		2,778		130,000
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		1,414		130,000		2,778		130,000

Key:

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

6.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Operation/Type of hedge	Fair value					Cash flows			Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other risks				
1. Financial assets available for sale									
2. Loans and receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets									
1. Financial liabilities							1,414		
2. Portfolio									
Total liabilities							1,414		
1. Expected transactions									
2. Financial assets and liabilities portfolio									

Section 8 - Tax liabilities - caption 80

The breakdown and changes in the year of tax liabilities are disclosed in Section 13, Assets, together with information on deferred tax assets.

Section 10 - Other liabilities - caption 100

10.1 Other liabilities: breakdown

	31.12.2017	31.12.2016
Due to tax authorities	252	363
Amounts payable to tax authorities on behalf of third parties	17,249	15,574
Social security contributions to be paid	3,846	4,466
Dividends due to shareholders	4	4
Suppliers	9,612	8,945
Amounts available to customers	12,458	14,919
Interest and dues to be credited	20	15
Payments against bill instructions	724	312
Early payments on loans not yet due	613	55
Items being processed and in transit with branches	65,305	51,564
Currency differences on portfolio transactions		3,518
Due to personnel	7,495	8,376
Sundry creditors	8,505	11,274
Provisions for guarantees given and commitments	797	3,111
Accrued expenses and deferred income	844	917
Total	127,724	123,413

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 for payment to the tax authorities.

"Items being processed and in transit with branches" are generally settled in the early days of the new year. The main components thereof relate to bank transfers being processed of Euro 58,520 thousand (Euro 42,758 thousand at the prior year end) and to MAV (payment by advice) collections of Euro 1,242 thousand (Euro 1,302 thousand at the prior year end).

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 6,046 thousand (Euro 6,692 thousand last year) and the year end balance of the amount due for holiday pay of Euro 1,449 thousand (Euro 1,684 thousand at the prior year end).

The main items included under caption "Sundry creditors" refer to: sundry creditors from dealing in foreign exchange for Euro 1,865 thousand (Euro 1,106 thousand last year), creditors for bills withdrawn for Euro 1,440 thousand (Euro 623 thousand last year) and bank transfers being processed for Euro 1,319 thousand (Euro 439 thousand last year). The prior year balance also included the additional contribution to the SRM, Euro 5,676 thousand.

Section 11 - Provision for termination indemnities - caption 110

11.1 Provision for termination indemnities: changes during the year

	31.12.2017	31.12.2016
A. Opening balance	21,355	21,111
B. Increases	913	935
B.1 Provision for the year	385	484
B.2 Other changes	528	451
C. Decreases	2,249	691
C.1 Payments made	2,249	691
C.2 Altre variazioni		
D. Rimanenze finali	20,019	21,355

In accordance with international accounting standards, the provision for termination indemnities is classified as a defined benefit scheme and is therefore subject to actuarial measurement, for which the related assumptions applied are set out in the following paragraph.

The provision made in the year does not include amounts paid directly by the Bank, depending on the choice made by employees, to supplementary pension schemes or to the state pension scheme managed by INPS. The cost of the foregoing payments, which for the year just ended amounts to Euro 7,678 thousand (Euro 7,662 thousand last year), is recognised in Personnel expenses in the sub-caption "g) payments to external supplementary pension funds: defined contribution".

The captions "B.2 Other changes" and "C.2 Other changes" reflects the impact of discounting the provision for termination indemnities for statutory purposes (positive and negative).

The statutory liability to the employees of the Bank at year end amounts to Euro 18,380 thousand (Euro 20,197 thousand at the end of the prior year).

11.2 Other information

The actuarial assumptions used by the independent actuary for the measurement of the liability at the reporting date are the following:

Demographic assumptions

- for the probability of death, those determined by gender by the State General Accounting Department, denominated RG 48;
- for the probability of disability, those, by gender, adopted by the 2010 INPS forecasting model. These probabilities were arrived at by starting with the distribution by age and gender of pensions at 1 January 1987 with effect from 1984, 1985 and 1986 relating to personnel in the credit sector;
- for the retirement age for the general working population, it was assumed that the first of the pension requirements valid for compulsory social security insurance had been met;
- for the probability of leaving employment for reasons other than death, based on internal statistics, an annual frequency of 2.50% was used; account has also been taken of the Bank's redundancy plan;
- for the probability of advances, an annual amount of 4% was assumed;

Economic-financial assumptions

Technical measurement was performed on the basis of the following assumptions:

- technical discounting rate 0.88%
- annual inflation rate 1.50%
- total annual income growth rate 2.50%
- termination indemnity annual growth rate 2.63%.

As regards the discount rate, the iBoxx Eurozone Corporates AA 7-10 index at the valuation date has been taken as reference for the valuation of this parameter.

The following table gives a sensitivity analysis of the liability recognised on changes in the economic and financial assumptions:

	Increase in parameter (+)	Decrease in parameter (-)
Annual discounting rate (+/- 0.25%)	19,687	20,360
Annual inflation rate (+/- 0.25%)	20,227	19,814
Annual turn over rate (+/- 2.00%)	19,836	20,232

Section 12 - Provisions for risks and charges - caption 120**12.1 Provisions for risks and charges: breakdown**

Captions/Amounts	31.12.2017	31.12.2016
1. Pensions and similar commitments		
2. Other provisions for risks and charges	29,844	38,360
2.1 legal disputes	8,020	11,909
2.2 personnel expenses	20,875	24,499
2.3 other	949	1,952
Total	29,844	38,360

The "Legal disputes" caption includes provisions made for losses expected to arise from disputes, of which Euro 7,579 thousand relates to legal disputes (Euro 10,296 thousand at the prior year end) and Euro 441 thousand relates to bankruptcy clawback actions (Euro 1,613 thousand at the prior year end).

"Personnel expenses" mainly include estimated liabilities regarding the Solidarity fund, Euro 10,726 thousand (Euro 13,509 thousand last year); the bonus system, Euro 5,156 thousand (Euro 5,518 thousand last year), and the long-service and additional holiday awards, Euro 2,436 thousand (Euro 2,437 thousand last year).

The caption "Other" includes provisions for charges pertaining to other operating risks; it also includes the provisions recorded to cover the estimated cost of winding-up Credito Privato Commerciale S.A. in liquidation.

For further details of disputes concerning legal disputes and other operating risks, reference should be made to "Part E – Information on risks and hedging policies".

12.2 Provisions for risks and charges: changes in the year

	Pensions and similar commitments	Other provisions	Total
A. Opening balance		38,360	38,360
B. Increases		6,482	6,482
B.1 Provision for the year		6,464	6,464
B.2 Changes due to the passage of time		18	18
B.3 Changes due to changes in the discount rate			
B.4 Other changes			
C. Decreases		14,998	14,998
C.1 Utilisations during the year		14,469	14,469
C.2 Changes due to changes in the discount rate			
C.3 Other changes		529	529
D. Closing balance		29,844	29,844

"B.1 Provisions of the year" include provisions for:

- to the bonus fund of Euro 4,102 thousand,
- other employee related provisions of Euro 1,696 thousand,
- charges for legal disputes and bankruptcy of Euro 316 thousand.

The caption "B.2 Changes due to the passage of time" includes discount interest accrued during the year on the provision for legal disputes and on the staff provision for solidarity, due to the proximity of the expected maturities of the liabilities.

The caption "C.1 Utilisations in the year" includes direct utilisations of Provisions for risks and charges as a result of agreements and settlements executed in the year, as well as conditions having been met for the payment of provisions to the personnel. In particular, the utilisations mainly related to the coverage of legal disputes and claims from bankruptcy administrators, Euro 3,703 thousand; payments relating to the solidarity fund, Euro 2,796 thousand, and other operating risks, Euro 1,237 thousand.

12.3 Pensions and similar commitments - defined benefits

At the reference dates, the caption shows a zero balance.

12.4 Provisions for risks and charges: other provisions

	31.12.2017	31.12.2016
Legal disputes	8,020	11,909
Other operating risks	949	1,952
Solidarity fund	10,726	13,509
Long-service bonuses and additional holidays	2,436	2,437
Other employee related provisions	7,714	8,553
Total	29,844	38,360

Section 13 - Redeemable shares - caption 140

Banco Desio does not have this type of shares.

Section 14 - Shareholders' equity - captions 130, 150, 160, 170, 180, 190 and 200**14.1 "Share capital" and "Treasury shares": breakdown**

	31.12.2017	31.12.2016
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.

14.2 Share capital - Number of shares: changes in the year

	Ordinary	Other
A. Shares at the beginning of the year	117,000,000	13,202,000
- fully paid	117,000,000	13,202,000
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares in circulation: opening balance	117,000,000	13,202,000
B. Increases		
B.1 New issues		
- for payment		
- business combination		
- conversion of bonds		
- exercise of warrant		
- other		
- bonus issues		
- in favour of employees		
- in favour of directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Business sale transactions		
C.4 Other changes		
D. Shares in circulation: closing balance	117,000,000	13,202,000
D.1 Treasury shares (+)		
D.2 Shares at the end of the year	117,000,000	13,202,000
- fully paid	117,000,000	13,202,000
- not fully paid		

14.3 Share capital: other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

14.4 Revenue reserves: other information

In compliance with the requirements of art. 2427, paragraph 1.7 bis of the Civil Code, set out below is a summary of the components of shareholders' equity in accordance with their origin and with an indication of their possible use and distribution, as well as their utilisation in the previous three years.

	31.12.2017	Possible uses	Unrestricted portion	Uses in the last three years	
				Loss coverage	Other uses
Share capital	67,705				
Share premium reserve	16,145	A,B,C	(1)	16,145	
Legal reserve	91,416	A, B	(2)		
Statutory reserve	528,905	A,B,C		528,905	
Merger surplus/deficit reserve	(27)				
Reserves for intercompany transactions	8,928	A, B	(3)		
Valuation reserves:					
- financial assets available for sale	15,369		(4)		
- actuarial measurement of provision for termination indemnities	(1,470)		(4)		
- special revaluation laws	22,199	A,B	(5)		
- revaluation reserve Law 413/1991	697	A,B,C		697	
- cash-flow hedges	(867)		(4)		
IAS transition reserve	121,936		(6)		
Charity reserve	70		(7)		175
Other	3,369	A,B,C		3,369	
Total	874,375			549,116	175

Key: A = increase in share capital B = for loss coverage C = for distribution

Notes:

(1) Pursuant to article 2431 of the Civil Code, that portion of the share premium reserve needed to ensure the legal reserve meets the minimum legal requirements (one fifth of share capital) is non distributable

(2) This may be used for increases in share capital, but only the portion that exceeds one fifth of the share capital

(3) Reserves deriving from the transfer of the business unit and purchase/sale of the Milan branch with BPS in connection with the application of OPI 1.

(4) Restricted reserve as per art. 6 of Legislative Decree 38/2005

(5) Reserve set up on first-time adoption of IAS/IFRS for the impact of the valuation at "deemed cost" of property and equipment, as envisaged in the "IAS Decree"

(6) The IAS/IFRS transition reserve complies with article 7 of Legislative Decree 38/2005

(7) Reserve for social-cultural contributions, as specified in the articles of association

14.5 Equity instruments: breakdown and changes in the year

None.

14.6 Other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

OTHER INFORMATION

1. Guarantees given and commitments

Transactions	31.12.2017	31.12.2016
1) Financial guarantees:	13,240	11,143
a) Banks	2,528	4,476
b) Customers	10,712	6,667
2) Commercial guarantees:	233,419	221,451
a) Banks	21,995	22,897
b) Customers	211,424	198,554
3) Irrevocable commitments to disburse loans	62,696	55,308
a) Banks	935	
i) certain to be called on	935	
ii) not certain to be called on		
b) Customers	61,761	55,308
i) certain to be called on	1,073	4,629
ii) not certain to be called on	60,688	50,679
4) Commitments underlying credit derivatives: sale of protection		
5) Assets pledged to guarantee third-party commitments		
6) Other commitments		
Total	309,355	287,902

2. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31.12.2017	31.12.2016
1. Financial assets held for trading		
2. Financial assets designated at fair value through profit and loss		
3. Financial assets available for sale	868,103	129,909
4. Financial assets held to maturity		
5. Due from banks		
6. Loans to customers	550,352	
7. Property, plant and equipment		

Caption "6. Loans to customers" shows the receivables assigned to the SPV Desio OBG Srl constituting assets eligible for the covered bond programme.

3. Information on operating leases

This is not foreseen in Banco Desio.

4. Administration and trading on behalf of third parties

Type of services	31.12.2017
1. Execution of orders on behalf of customers	
a) purchases	
1. Settled	37,363
2. Unsettled	3,569
b) sales	
1. Settled	43,874
2. Unsettled	3,257
2. Asset management	
a) Individual	970,085
b) Collective	569,983
3. Custody and administration of securities	
a) third-party securities on deposit as custodian bank (excluding portfolio management schemes)	
1. securities issued by the reporting bank	
2. other securities	
b) third-party securities held on deposit (excluding portfolio management schemes): other	
1. securities issued by the reporting bank	1,032,099
2. other securities	7,566,310
c) third-party securities deposited with third parties	8,564,060
d) portfolio securities deposited with third parties	1,942,239
4. Other transactions	

5. Financial assets subject to offsetting in the financial statements, or subject to framework offsetting agreements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2017 (f=c-d-e)	Net amount 31.12.2016
				Financial instruments (d)	Deposits of cash received as collateral (e)		
1. Derivatives	-	-	-	-	-	-	504
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total 31.12.2017	-	-	-	-	-	-	
Total 31.12.2016	797		797	293			504

6. Financial liabilities subject to offsetting in the financial statements, or subject to framework agreements for offsetting or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount 31.12.2017 (f=c-d-e)	Net amount 31.12.2016
				Financial instruments (d)	Cash deposits posted as collateral (e)		
1. Derivatives	1,414		1,414		1,570	156	(5)
2. Repurchase							
3. Securities lending							
4. Other transactions							
Total 31.12.2017	1,414		1,414		1,570	156	
Total 31.12.2016	2,778		2,778	293	2,490		(5)

Tables 5 and 6 show the positive fair values (Table 5 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") and the negative fair values (Table 6 column (a) "Gross amount of financial assets" and (c) "Net amount of financial assets reported in the financial statements") of derivatives for which there are ISDA agreements (Credit Support Annex). While these agreements do not comply with all of the requirements of IAS 32 paragraph 42 for offsetting in the financial statements, they do provide for mechanisms to mitigate the risk of counterparty default through the exchange of collateral on restricted deposits and allow the netting of receivables and payables relating to financial and credit derivatives on the occurrence of certain events such as the default of the counterparty. In line with the provisions of IFRS 7 and the latest provisions on rules for the preparation of banks' financial statements, in the compilation of tables, account has been taken of:

- the effects of the potential compensation of financial assets and liabilities, indicated in column (d) "Financial instruments";
- the effects of potential compensation of exposures with cash collateral, as indicated in column (e) "Cash deposits received as collateral".

These effects are calculated for counterparties with whom there is a framework netting agreement within the limits of the amount indicated in column (c) "Net amount of financial assets reported in the financial statements".

PART C - INFORMATION ON THE INCOME STATEMENT

Section 1 - Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2017	31.12.2016
1. Financial assets held for trading	154		46	200	642
2. Financial assets available for sale	8,559			8,559	8,111
3. Financial assets held to maturity	2,255			2,255	
4. Due from banks		1,468	4,621	6,089	333
5. Loans to customers		146,646		146,646	168,584
6. Financial assets designated at fair value through profit and loss					
7. Hedging derivatives					
8. Other assets			6	6	
Total	10,968	148,114	4,673	163,755	177,670

Caption "1. Financial assets held for trading – Other transactions" includes the positive net balance of differentials on derivative contracts.

Interest on "Loans to customers" is recognised net of default interest accrued in the year on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question amounts to Euro 2,967 thousand (Euro 2,675 thousand last year).

Conversely, the caption includes default interest collected in the year of Euro 346 thousand (Euro 517 thousand last year), of which Euro 334 thousand relates to prior years (Euro 496 thousand last year).

The caption includes interest payable to Group companies of Euro 12,689 thousand (Euro 12,523 thousand last year), of which:

- Euro 11,622 thousand on loans and receivables from Fides S.p.A. (Euro 12,459 thousand last year);
- Euro 1,067 thousand of repurchase agreements and loans and receivables from Banca Popolare di Spoleto S.p.A. (Euro 64 thousand last year).

Due to the credit policies implemented during the year by Banco Desio, which made it possible to exceed the target level of credit net lending at 31 December 2017, interest receivable on amounts "Due from banks" for "other transactions" includes Euro 4.6 million which refers to the benefit deriving from application of the negative interest rate of 0.40% on the line of credit assigned by the Eurosystem to the Banco Desio Group for the "TLTRO II" operation.

1.3 Interest and similar income: other information

Captions	31.12.2017	31.12.2016
Interest income on financial assets in foreign currency	1,307	1,098

1.3.2 Interest income from finance leases

Total interest recognised as income in the year is included in the caption "Loans to customers – loans" and amounts to Euro 5,547 thousand (Euro 7,867 thousand last year); of this, Euro 4,857 thousand relates to index-linked contracts, of which Euro 283 thousand relates to leaseback agreements (in 2016 Euro 7,023 thousand related to index-linked contracts, of which Euro 381 thousand related to leaseback agreements).

Financial income pertaining to subsequent years amounts to Euro 47,420 thousand, of which Euro 4,419 thousand relates to leaseback agreements (last year Euro 59,781 thousand and Euro 5,184 thousand, respectively).

1.4 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2017	31.12.2016
1. Due to central banks	(1,481)			(1,481)	(582)
2. Due to banks	(901)			(901)	(621)
3. Due to customers	(7,252)			(7,252)	(12,565)
4. Debt securities in issue		(21,264)		(21,264)	(28,288)
5. Financial liabilities held for trading					
6. Financial liabilities designated at fair value through profit and loss		(48)		(48)	(648)
7. Other liabilities and provisions			(69)	(69)	(114)
8. Hedging derivatives			(749)	(749)	(235)
Total	(9,634)	(21,312)	(818)	(31,764)	(43,053)

1.5 Interest and similar expense: differentials on hedging transactions

Captions	31.12.2017	31.12.2016
A. Positive differentials on hedging transactions	180	1,164
B. Negative differentials on hedging transactions	(930)	(1,399)
C. Balance (A-B)	(750)	(235)

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

Captions	31.12.2017	31.12.2016
Interest expense on foreign currency financial liabilities	(518)	(211)

1.6.2 Interest expense on finance leases

Banco Desio is not party to any finance lease agreements that generate interest expense.

Section 2 - Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2017	31.12.2016
a) guarantees given	2,138	2,176
b) credit derivatives		
c) management, brokerage and consulting services:	45,349	33,945
1. trading in financial instruments		
2. trading in foreign exchange	1,266	1,330
3. asset management	6,300	4,699
3.1. individual	5,703	4,202
3.2. collective	597	497
4. custody and administration of securities	1,272	1,351
5. custodian bank		
6. placement of securities	15,263	13,319
7. order taking	4,761	4,594
8. advisory services		
8.1 regarding investments		
8.2 regarding financial structuring		
9. distribution of third-party services	16,487	8,652
9.1 asset management	468	310
9.1.1. individual	468	310
9.1.2. collective		
9.2 insurance products	13,972	6,452
9.3 other products	2,047	1,890
d) collection and payment services	18,228	17,823
e) servicing related to securitisation		
f) services for factoring transactions	114	140
g) tax collection services		
h) management of multilateral trading systems		
i) maintenance and management of current accounts	45,524	44,498
j) other services	5,047	5,166
Total	116,400	103,748

Commission income from Group companies amounts to Euro 555 thousand (Euro 330 thousand last year).

Commissions for "other services" include recoveries of expenses on customer collection and payments for Euro 1,027 thousand, fees for the Internet banking service of Euro 724 thousand and recoveries of expenses on mortgage instalments for Euro 860 thousand.

2.2 Fee and commission income: product and service distribution channels

Channels/Amounts	31.12.2017	31.12.2016
a) at own branches		
1. portfolio management	6,300	4,699
2. placement of securities	15,263	13,319
3. distribution of third-party services and products	16,487	8,652
b) doorstep banking		
1. portfolio management		
2. placement of securities		
3. distribution of third-party services and products		
c) other distribution channels		
1. portfolio management		
2. placement of securities		
3. distribution of third-party services and products		

2.3 Commission expense: breakdown

Services/Amounts	31.12.2017	31.12.2016
a) guarantees received	(293)	(247)
b) credit derivatives		
c) management and brokerage services	(1,056)	(1,468)
1. trading in financial instruments	(66)	(89)
2. trading in foreign exchange		
3. asset management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities	(958)	(1,242)
5. placement of financial instruments	(32)	(137)
6. offer of securities, financial products and services through financial		
d) collection and payment services	(1,964)	(1,907)
e) other services	(1,102)	(930)
Total	(4,415)	(4,552)

Commissions for "other services" include fees for the presentation of customers and loans granted to them for Euro 700 thousand.

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2017		31.12.2016	
	Dividends	Income from mutual funds	Dividends	Income from mutual funds
A. Financial assets held for trading	45		32	
B. Financial assets available for sale	4,654		3,958	
C. Financial assets designated at fair value through profit and loss				
D. Equity investments	6,640		6,143	
Total	11,339		10,133	

In addition to the amounts of dividends received from subsidiaries, the table shows dividend income from non-controlling interests classified as financial assets available for sale.

The dividends in caption "B. Financial assets available for sale" include Euro 4,074 thousand recognised following the authorisation to distribute the profit reserves of Cedacri S.p.A. of 6 December 2017, (Euro 3,632 thousand in the previous year).

Dividend income from equity investments, as per caption "D. Equity investments", relates to:

- Fides S.p.A. Euro 4,870 thousand (formerly Euro 3,466 thousand)
- B.P.S. Euro 1,770 thousand (formerly Euro 1,565 thousand).

The balance for the financial year also includes the dividends collected from Chiara Assicurazioni for 503 thousand euro and Rovere Société de Gestion for 609 thousand euro.

Section 4 - 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	35	2,291	(1,733)	(856)	(263)
1.1 Debt securities	29	1,453	(116)	(469)	897
1.2 Equity instruments	6	647	(618)	(84)	(49)
1.3 Mutual funds		103	(999)	(303)	(1,199)
1.4 Loans					
1.5 Other		88			88
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	2,691
4. Derivatives	433	9,421	(1)	(9,657)	97
4.1 Financial derivatives:	433	9,421	(1)	(9,657)	196
- On debt securities and interest rates		7,173	(1)	(7,054)	118
- On equities and equity indices	433	1,699		(1,828)	304
- On currency and gold	x	x	x	x	(99)
- Other		549		(775)	(226)
4.2 Credit derivatives					
Total	468	11,712	(1,734)	(10,513)	2,525

The captions "1. Financial assets held for trading" and "4. Derivatives" include income from financial assets held for trading, with the exception of derivatives hedging financial instruments for which the fair value option was adopted and for which the measurement results are shown in Section 7.

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

Section 5 - Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31.12.2017	31.12.2016
A. Income relating to:		
A.1 Fair value hedges		
A.2 Hedged financial assets (fair value)		315
A.3 Hedged financial liabilities (fair value)	178	876
A.4 Cash flow hedges		
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	178	1,191
B. Charges relating to:		
B.1 Fair value hedges	(146)	(1,754)
B.2 Hedged financial assets (fair value)		
B.3 Hedged financial liabilities (fair value)		
B.4 Cash flow hedges		
B.5 Foreign currency assets and liabilities		
Total charges from hedging activity (B)	(146)	(1,754)
C. Net hedging gains (losses) (A-B)	32	(563)

The caption includes net hedging gains (losses). The various sub-captions indicate income components arising from the measurement process for hedged assets and liabilities – financial assets available for sale and bonds issued by the Bank, respectively – as well as from the related hedging derivatives.

Section 6 - Gains (losses) on disposal or repurchase - caption 100**6.1 Gains (losses) on disposal or repurchase: breakdown**

Caption/Income items	31.12.2017			31.12.2016		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks						
2. Loans to customers	2,249	(2,880)	(631)	4,773	(4,064)	709
3. Financial assets available for sale	26,037	(10,309)	15,728	21,747	(5,633)	16,114
3.1 Debt securities	21,067	(4,602)	16,465	19,541	(4,777)	14,764
3.2 Equity instruments		(4,230)	(4,230)			
3.3 Mutual funds	4,970	(1,477)	3,493	2,206	(856)	1,350
3.4 Loans						
4. Financial assets held to maturity	2,183		2,183			
Total assets	30,469	(13,189)	17,280	26,520	(9,697)	16,823
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities in issue	65	(684)	(619)	287	(1,511)	(1,224)
Total liabilities	65	(684)	(619)	287	(1,511)	(1,224)

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

The caption "2. Loans to customers" includes the net gain (loss) on disposal of non-performing loans.

The caption "3. Financial assets available for sale" includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect. The gains from the sale of Mutual funds include the related tax credit.

With particular reference to "3.2 losses on equity instruments", it essentially consists:

- for Euro 2,701 thousand, of the loss resulting from payments to the FITD Voluntary Scheme for the recapitalisation of the banks sold to Cariparma Crédit Agricole;
- for Euro 1,527 thousand, of the difference between the transaction price and the amount determined using valuation techniques (day one loss) on a minority shareholding acquired during the reference period.

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

Section 7 - Net results on financial assets and liabilities designated at fair value - caption 110

7.1 Net change in value of financial assets and liabilities designated at fair value: breakdown

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)] at 31.12.2017
1. Financial assets					
1.1 Debt securities					
1.2 Equity instruments					
1.3 Mutual funds					
1.4 Loans					
2. Financial liabilities		27			27
2.1 Debt securities		27			27
2.2 Due to banks					
2.3. Due to customers					
3. Other financial assets and liabilities: exchange differences					
4. Derivatives		2	(37)		(35)
Total		29	(37)		(8)

They also include the net gains (losses) from trading in our bonds.

Section 8 - Net impairment write-downs/write-backs - caption 130**8.1 Net impairment adjustments to loans and advances: breakdown**

Transactions/Income components	Write-downs (1)			Write-backs (2)				31.12.2017
	Specifiche		portfolio	Specific		Portfolio		
	Write-offs	Other		A	B	A	B	
A. Due from banks								
- Loans								
- Debt securities								
B. Loans to customers	(1,173)	(83,532)		11,705	22,442		4,152	(46,406)
Non-performing loans acquired								
- Loans								
- Debt securities								
Other receivables								
- Loans	(1,173)	(83,532)		11,705	22,442		4,152	(46,406)
- Debt securities								
C. Total	(1,173)	(83,532)		11,705	22,442		4,152	(46,406)

Key

A = Interest

B = Other write-backs

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-offs" column relates to losses of Euro 1,173 thousand (Euro 3,059 thousand last year) from the write-off of doubtful loans.

"Write-downs – Other", determined by the analytical assessment of the probability of recovery of doubtful loans and by discounting cash flows expected to be generated thereby, particularly from non-performing loans, relate to:

- | | | |
|---------------------------------|----------------------|----------------------------------|
| - doubtful loans | Euro 46,762 thousand | (Euro 54,477 thousand last year) |
| - unlikely-to-pay loans | Euro 36,186 thousand | (Euro 33,819 thousand last year) |
| - past due non-performing loans | Euro 584 thousand | (Euro 691 thousand last year) |

"Portfolio" write-backs, which amounted to Euro 4,152 thousand (write-downs of Euro 6,323 thousand last year), relate to the performing loans portfolio.

Specific "interest" write-backs relate to the release of interest linked to the discounting of loan principal which is deemed to be recoverable, of which Euro 8,902 thousand relates to doubtful loans (Euro 9,867 thousand last year) and Euro 2,758 thousand to unlikely-to-pay positions (Euro 3,337 thousand last year).

"Other" specific write-backs relate to:

- | | | |
|--|----------------------|----------------------------------|
| - doubtful loans written down in prior years | Euro 1,542 thousand | (Euro 1,998 thousand last year) |
| - collections of loans previously written down | Euro 16,184 thousand | (Euro 16,223 thousand last year) |
| - measurement write-backs | Euro 4,716 thousand | (Euro 9,158 thousand last year) |

8.2 Net impairment write-downs/write-backs of financial assets available for sale: breakdown

Transactions/Income components	Write-downs (1)		Write-backs (2)		31.12.2017	31.12.2016
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities						(15)
B. Equity instruments		(2,871)			(2,871)	(320)
C. Mutual funds		(6,400)			(6,400)	(1,541)
D. Loans to banks						
E. Loans to customers						
F. Total		(9,271)			(9,271)	(1,876)

Key

- A = Interest
- B = Other write-backs

Caption "B. Equity instruments" is made up:

- for Euro 2,231 thousand, of an adjustment of a minority bank shareholding acquired during the period under a commitment made previously as part of broader business agreements in connection with the sale of a stake held in the insurance business;
- for Euro 640 thousand, of the adjustment recorded on the equity instrument recorded for the contributions paid to the FITD Voluntary Scheme for the subscription of securities of the non-performing loan securitisation, on which a fair value adjustment was subsequently recognised.

Caption "C. Mutual funds" includes adjustments for Euro 4,165 thousand on the Atlante fund, of which:

- Euro 557 thousand, offset by the use of the same amount of the provision for the adjustment to the payment commitment made the previous year;
- for Euro 3,608 thousand following the write-off of the value of the banking interests held by the fund.

8.4 Net impairment adjustments to other financial assets: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				31.12.2017	31.12.2016
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given		(187)		254		2,247	2,314	(468)	
B. Credit derivatives									
C. Commitments to disburse									
D. Other transactions									
E. Total		(187)		254		2,247	2,314	(468)	

Key

A = Interest

B = Other write-backs

This table includes impairment write-downs/write-backs concerning guarantees given in relation to losses that have already occurred and expected to occur on enforcement of the guarantees.

The caption "Write-backs – portfolio" includes the use:

- for Euro 557 thousand, of the adjustment to the payment commitment versus the Atlante Fund recorded the previous year;
- for Euro 1,683 thousand, of the provision for the purchase of the minority holding in a bank recorded the previous year.

Section 9 - Administrative costs - caption 150

9.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2017	31.12.2016
1) Employees	(112,354)	(129,341)
a) Wages and salaries	(75,848)	(75,255)
b) Social security charges	(19,833)	(19,550)
c) Termination indemnities		
d) Pension expenses		
e) Provision for termination indemnities	(385)	(484)
f) Provision for post-retirement benefits and similar commitments:		
- defined contribution		
- defined benefit		
g) Payments to external supplementary pension funds:		
- defined contribution	(7,678)	(7,662)
- defined benefit	(7,678)	(7,662)
h) Equity-based payments		
i) Other personnel benefits	(8,610)	(26,390)
2) Other active employees	(311)	(417)
3) Directors and auditors	(2,805)	(3,278)
4) Retired personnel		
5) Recovery of cost of employees seconded to other companies	859	720
6) Reimbursement of cost of third-party employees seconded to the Company	(3,287)	(3,175)
Total	(117,898)	(135,491)

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 9.4 below.

Caption "6. Reimbursement of cost of third-party employees seconded to the Company" refers to employees of Banca Popolare di Spoleto seconded to Banco di Desio in connection with the operational concentration at the Parent Company.

9.2 Average number of employees by level

	31.12.2017	31.12.2016
1) Employees	1,403	1,410
a) managers	25	26
b) middle managers	762	757
c) other employees	616	627
2) Other personnel	1	1

9.3 Defined post-employment benefit obligations: costs and revenues

None.

9.4 Other personnel benefits

	31.12.2017	31.12.2016
Provision for sundry charges	(4,500)	(6,063)
Contributions to healthcare fund	(1,413)	(1,317)
Training and instruction costs	(416)	(331)
Rent expense of property used by employees	(192)	(299)
Redundancy incentives	(16)	(16,477)
Other	(2,073)	(1,902)
Total	(8,610)	(26,390)

The main components of the "Other" caption include company canteen costs of Euro 1,246 thousand (Euro 1,261 thousand last year) and costs relating to insurance premiums of Euro 271 thousand (Euro 246 thousand last year).

9.5 Other administrative costs: breakdown

	31.12.2017	31.12.2016
Indirect taxes and duties:		
- Stamp duty	(17,784)	(17,514)
- Other	(3,978)	(3,994)
Other costs:		
- IT expenses	(9,943)	(9,367)
- Lease of property and other assets	(7,982)	(8,118)
- Maintenance of buildings, furniture and equipment	(4,064)	(3,812)
- Post office and telegraph	(1,231)	(1,745)
- Telephone and data transmission	(3,870)	(3,550)
- Electricity, heating, water	(2,622)	(2,901)
- Cleaning services	(860)	(845)
- Printed matter, stationery and consumables	(657)	(736)
- Transport costs	(675)	(678)
- Surveillance and security	(1,261)	(1,122)
- Advertising	(1,392)	(1,353)
- Information and surveys	(930)	(915)
- Insurance premiums	(735)	(814)
- Legal fees	(4,270)	(4,794)
- Professional consulting fees	(5,443)	(4,620)
- Various contributions and donations	(90)	(108)
- Sundry expenses	(9,330)	(16,917)
Total	(77,117)	(83,903)

The caption "Sundry expenses" comprises the contributions of the year to Single Resolution Mechanism and to Deposit Guarantee Scheme for Euro 4,511 thousand (Euro 10,568 thousand in the previous year, including Euro 5,675 thousand of extraordinary contribution to the Single Resolution Mechanism) of which:

- Euro 2,402 thousand for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for the year (Euro 2,830 thousand in the previous period);

- Euro 2,109 thousand for the ex-ante ordinary contribution to the Deposit Guarantee Scheme (DGS) for the year (Euro 2,063 thousand in the previous year).

The comparative period figure also included the contribution to the Interbank Fund Voluntary scheme for the intervention in favour of Banca Tercas of Euro 1,576 thousand (upon completion of the repayment of the contribution previously paid to the Interbank Fund of Euro 1,571 thousand, classified as write-backs of other financial transactions).

It also includes the fees paid to the auditing firm Deloitte & Touche S.p.A. and/or to other entities of the same network, for services provided to Banco for a total of Euro 618 thousand, summarised below by type of service provided.

Type of services	Party which provided the service	Recipient	Fees (in thousands of euro)
Audit	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	276
Attestation services	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	104
Other services:			
Risk Management and IFRS9 Methodological Support	Deloitte Consulting S.r.l.	Banco di Desio e della Brianza	238
Total			618

The fees are shown net of expenses, the CONSOB contribution (where due) and VAT.

Section 10 - Net provisions for risks and charges - caption 160

10.1 Net provisions for risks and charges: breakdown

	Provision	Utilisations	31.12.2017	31.12.2016
charges for legal disputes	(1,914)	2,100	186	(1,854)
other	(234)	162	(72)	(486)
Total	(2,148)	2,262	114	(2,340)

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

Other charges include provisions for other operating risks, inclusive of tax disputes.

Section 11 - Net adjustments to property, plant and equipment - caption 170**11.1 Net adjustments to property, plant and equipment: breakdown**

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 31.12.2017
A. Property, plant and equipment				
A.1 Owned	(4,878)			(4,878)
- for business purposes	(4,863)			(4,863)
- for investment purposes	(15)			(15)
A.2 Held under finance leases				
- for business purposes				
- for investment purposes				
Total	(4,878)			(4,878)

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

Details, by asset category, of the impact on the income statement of adjustments to property, plant and equipment are shown in caption "C.2 Depreciation" of the table "11.5 and 11.6 Changes in the year" of Section 11, Assets.

Section 12 - Net adjustments to intangible assets - caption 180**12.1 Net adjustments to intangible assets: breakdown**

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 31.12.2017
A. Intangible assets				
A.1 Owned	(1,345)			(1,345)
- <i>Generated internally</i>				
- <i>Other</i>	(1,345)			(1,345)
A.2 Held under finance leases				
Total	(1,345)			(1,345)

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

Section 13 - Other operating charges/income - caption 190

13.1 Other operating charges: breakdown

	31.12.2017	31.12.2016
Amortisation of leasehold improvements	(1,327)	(1,495)
Losses on disposal of property, plant and equipment	(20)	
Charges on non-banking services	(869)	(492)
Total	(2,216)	(1,987)

13.2 Other operating income: breakdown

	31.12.2017	31.12.2016
Recovery of taxes from third parties	19,541	19,210
Recharge of costs of current accounts and deposits	5,218	6,866
Rental and leasing income	48	45
Other expense recoveries	4,465	5,560
Gains on disposal of property, plant and equipment	2	2
Other	5,917	5,935
Total	35,191	37,618

The "Recovery of taxes from third parties" caption principally includes the recovery of stamp duty on current accounts, deposit accounts and other customer investments totalling Euro 17,445 thousand, and the recovery of flat-rate taxes totalling Euro 2,097 thousand.

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 3,434 thousand (Euro 5,035 thousand at 31 December 2016) and other recoveries for various communications to customers of Euro 1,642 thousand (Euro 1,681 thousand in the previous year).

"Other expense recoveries" include, in particular, recoveries of legal costs relating to various doubtful loans of Euro 1,765 thousand (Euro 3,011 thousand at 31 December 2016), the recovery of investigation costs of various loans for Euro 1,149 thousand (Euro 1,130 thousand last year), recovery of appraisals in connection with mortgage loans of Euro 438 thousand (Euro 377 thousand), the recovery of sundry expenses relating to lease applications of Euro 381 thousand (Euro 517 thousand in 2016).

The main component of the "Other" caption relates to income from services rendered to Group companies totalling Euro 5,371 thousand (compared with Euro 5,570 thousand last year), of which Euro 5,261 thousand from the outsourcing contract with Banca Popolare di Spoleto S.p.A..

Section 14 - Profit (loss) from equity investments - caption 210**14.1 Profit (loss) from equity investments: breakdown**

Income item/Amounts	31.12.2017	31.12.2016
A. Income		13,379
1. Revaluations		
2. Gains on disposal		9,060
3. Write-backs		
4. Other income		4,319
B. Losses		
1. Write-downs		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result		13,379

The "Gains on disposal" caption in the comparative period derives from the sale of the investments giving significant influence in Istifid (loss of Euro 1,076 thousand) and Chiara Assicurazioni (Euro 7,984 thousand).

The "Other income" caption comprises the positive difference between the residual equity and the carrying amount of the liquidated companies, Rovere (Euro 150 thousand) and CPC (Euro 4,169 thousand), net of the estimated cost of deregistering them.

Section 16 - Goodwill impairment - caption 230

The outcome from impairment testing of goodwill recognised in the financial statements did not require any impairment adjustments to be made.

As regards the method adopted for the performance of the testing, reference should be made to "Section 12 – Intangible assets", Assets.

Section 18 - Income taxes on current operations - caption 260

18.1 Income taxes on current operations: breakdown

Income items/Amounts	31.12.2017	31.12.2016
1. Current taxes (-)	(5,154)	(1,453)
2. Change in prior period income taxes (+/-)	457	45
3. Reduction in current taxes (+)		
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	(11,264)	(3,219)
5. Change in deferred tax liabilities (+/-)	942	395
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	(15,019)	(4,232)

Caption "2. Change in prior period income taxes" refers mainly to the recalculation, carried out for the purpose of the tax return, of current IRAP accrued to 31/12/2016, in relation to loans sold in 2016, for which adjustments and write-backs recorded in the income statement from 2008 to 2012 were not recognised for IRAP purposes at the time of their inclusion.

The caption "4. Change in deferred tax assets" comprises the balance of captions "2.1 Deferred tax assets recognised during the year" and "3.1 Deferred tax assets cancelled in the year" (booked as a contra-entry to the income statement).

Caption "5. Change in deferred taxes" comprises the balance of the captions "2.1 Deferred tax liabilities recognised during the year" and "3.1 Deferred tax liabilities cancelled during the year" (booked as a contra-entry to the income statement).

18.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	53,015		53,015	
Costs not deductible for IRAP purposes			26,475	
Revenue not taxable for IRAP purposes			(13,043)	
Sub total	53,015		66,447	
Theoretical tax charge 27.5% IRES - 5.57% IRAP		(14,579)		(3,701)
Temporary differences taxable in subsequent years	(963)		(808)	
Temporary differences deductible in subsequent years	6,463		10,570	
Reversal of prior year temporary differences	(38,905)		(30,153)	
Differences that will not reverse in subsequent years	(8,282)		(9,445)	
Taxable income	11,328		36,611	
Current taxes for the year 27.5% IRES - 5.57% IRAP		(3,115)		(2,039)

The effective total tax charge of Euro 5,154 thousand is reported the "1. Current taxes" caption of table 18.1.

The difference between the theoretical Ires tax charge and the current Ires tax charge was principally due to:

- recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83 of 27 June 2015, for Euro 27,105 thousand;
- dividends received on shares other than those held for trading, classified in caption 70 of the income statement, totalling Euro 10,348 thousand.

These amounts are included in the "Differences that will reverse in subsequent years" and "Differences that will not reverse in subsequent years" lines of the table.

Section 21 - Earnings per share**21.1 Average number of ordinary shares (fully diluted)**

Please refer to the equivalent section in the Consolidated Financial Statements for the information on earnings per share.

21.2 Other information

There is no other information to be disclosed.

PART D – COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME

Captions	31.12.2017		Net amount
	Gross amount	Income taxes	
10. Net profit (loss) for the period			37,996
Other elements of income, without reversal to income statement			
20. Property, plant and equipment			
30. Intangible assets			
40. Defined-benefit pension plans	(529)	145	(384)
50. Non-current assets and disposal groups held for sale			
60. Portion of the valuation reserves of the equity investments carried at equity			
Other elements of income, with reversal to income statement			
70. Foreign investment hedges:			
a) changes in fair value			
b) reversal to income statement			
c) other changes			
80. Exchange differences:			
a) changes in fair value			
b) reversal to income statement			
c) other changes			
90. Cash-flow hedges:	1,368	(452)	916
a) changes in fair value	1,368	(452)	916
b) reversal to income statement			
c) other changes			
100. Financial assets available for sale:	22,887	(3,292)	19,595
a) changes in fair value	18,498	(1,837)	16,661
b) reversal to income statement	3,440	(1,141)	2,299
- impairment adjustments	2,018	(667)	1,351
- gains/losses on disposal	1,422	(474)	948
c) other changes	949	(314)	635
110. Non-current assets and disposal groups held for sale:			
a) changes in fair value			
b) reversal to income statement			
c) other changes			
120. Portion of the valuation reserves of the equity investments carried at equity:			
a) changes in fair value			
b) reversal to income statement			
- impairment adjustments			
- gains/losses on disposal			
c) other changes			
130. Total other elements of income	23,726	(3,599)	20,127
140. Total comprehensive income (Captions 10+130)			58,123

PART E - 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 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.

The Board of Directors of Banco Desio Brianza approves, at least once a year, the "Policy for risk management" as part of the Group's "Risk Appetite Framework (RAF)", defining the Bank's 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.

SECTION 1 – CREDIT RISK

Qualitative information

1. General aspects

The lending activity of Banco di Desio e della Brianza 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), medium and large companies and customers in the financial sector, mainly include the following products: loans and deposits in any form; financial, banking and payment services; factoring documentary credit; financial, insurance and asset management products; debit and credit cards.

Commercial policy is pursued through the Bank's branch network based on credit policies geared primarily to supporting local economies. Particular attention is paid to maintaining relationships established with customers and their development in the geographic areas where the Bank has traditionally been present and in new markets with the aim of acquiring new market shares and facilitate growth in business volumes. The Bank 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 Bank'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.

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 Bank 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 Bank 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. This review facilitates the identification of customers with anomalies in the conduct of their relationship as opposed to those with a regular trend. As part of its corporate risk management policy, the Bank 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 Chief Risk Officer activates an internal procedure for an intervention by the competent corporate functions in order to maintain a risk appetite level consistent with guidance provided by the RAF and risk management policy. As part of the process for adaptation of the Internal Control System (as per Circular 285), a "Credit Control" structure has been established within the Risk Management function with the task of verifying and supervising the monitoring of loans by the competent corporate functions and intervening, where necessary, in the classification of problem loans and ensuring that appropriate provisions are made.

For risk management purposes, Banco Desio 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, 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 ECAs.

2.3. Credit risk mitigation techniques

As part of the process leading up to the provision of credit, whenever possible, Banco Desio 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 Banco Desio 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.

2.4. Impaired financial assets

Non-performing loans are classified as follows:

- 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.

Forborne exposures are individual exposures (approach by transaction) to a debtor, regardless of their classification as non-performing or performing, which would represent the subject of a "forbearance" (refinancing or modification of the contractual terms favourable for the debtor), if that forbearance is subsequent to the recognition of a present or future state of difficulty on the part of the debtor.

The Bank 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 expected loss is, in fact, 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 Chief Risk Officer periodically monitors compliance with the doubtful collection percentages envisaged in the policy for managing non-performing loans, and reports potential discrepancies to the relevant functions for any realignment actions deemed necessary.

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.

Quantitative information

A. Credit quality

A.1. Performing and non-performing loans: amounts, adjustments, trends and economic and territorial distribution

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

Portfolio/Quality	Doubtful loans	Unlikely to pay	Past due non-performing loans	Past due performing loans	Other performing exposures	Total
1. Financial assets available for sale	-	-	-	-	1,131,635	1,131,635
2. Financial assets held to maturity	-	-	-	-	748,696	748,696
3. Due from banks	-	-	-	-	1,562,665	1,562,665
4. Loans to customers	245,958	157,834	4,430	71,722	5,771,598	6,251,542
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-
Total 31.12.2017	245,958	157,834	4,430	71,722	9,214,594	9,694,538
Total 31.12.2016	253,157	190,612	6,134	84,612	7,607,300	8,141,815

A.1.2 Distribution of credit exposures by portfolio and quality of lending (gross and net values)

Portfolio/Quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
1. Financial assets available for sale	-	-	-	1,131,635	-	1,131,635	1,131,635
2. Financial assets held to maturity	-	-	-	748,696	-	748,696	748,696
3. Due from banks	-	-	-	1,562,665	-	1,562,665	1,562,665
4. Loans to customers	819,715	(411,493)	408,222	5,866,653	(23,333)	5,843,320	6,251,542
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-
6. Financial assets being sold	-	-	-	-	-	-	-
Total 31.12.2017	819,715	(411,493)	408,222	9,309,649	(23,333)	9,286,316	9,694,538
Total 31.12.2016	837,745	(387,842)	449,903	7,719,584	(27,672)	7,691,912	8,141,815

At 31 December 2017 the amount of partial cancellations made on non-performing financial assets in the portfolio of Loans to customers amounted to Euro 76,734 thousand.

Portfolio/Quality	Assets with an obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	7,194
2. Hedging derivatives	-	-	-
Total 31.12.2017	-	-	7,194
Total 31.12.2016	-	31	7,528

A.1.3 On- and off-balance sheet credit exposures to banks: gross and net amounts and past due bands

Types of exposure/amounts	Gross exposure				Performing loans	Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans							
	Up to 3 months	From 3 to 6 months	From 6 to 12 months	Beyond 1 year				
A. CASH EXPOSURE								
a) Doubtful loans	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
b) Unlikely to pay	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
c) Past due non-performing loans	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
d) Past due performing loans	-	-	-	-	-	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
e) Other performing exposures	-	-	-	-	1,787,728	-	-	1,787,728
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-
TOTAL A	-	-	-	-	1,787,728	-	-	1,787,728
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	-	-	-	-	-	-	-	-
b) Performing	-	-	-	-	29,362	-	-	29,362
TOTAL B	-	-	-	-	29,362	-	-	29,362
TOTAL (A+B)	-	-	-	-	1,817,090	-	-	1,817,090

"Cash exposure" includes all on-balance sheet financial assets due from banks, regardless of the portfolio they are allocated to for accounting purposes (trading, available for sale, held to maturity, etc.).

"Off-balance sheet exposures" include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transaction (trading, hedging, etc.).

A.1.4 On-balance sheet credit exposures to banks: changes in gross doubtful loans

There are no such credit exposures at the reporting date.

A.1.4 bis On-balance sheet credit exposures to banks: changes in exposures subject to gross forbearance broken down by credit quality

There are no such credit exposures at the reporting date.

A.1.5 On-balance sheet credit exposures to banks: changes in total adjustments

There are no such contractual arrangements at the reporting date.

A.1.6 On- and off-balance sheet credit exposures to customers: gross and net amounts and past due bands

Types of exposure/amounts	Gross exposure				Performing loans	Specific adjustments	Portfolio adjustments	Net exposure
	Non-performing loans							
	Up to 3 months	From 3 to 6 months	From 6 to 12 months	Beyond 1 year				
A. CASH EXPOSURE								
a) Doubtful loans	-	3,108	25,079	553,915		336,145		245,958
- of which: exposures subject to forbearance	-	1	7,191	40,036		24,738		22,490
b) Unlikely to pay	108,448	26,914	31,217	65,928		74,673		157,834
- of which: exposures subject to forbearance	59,340	14,351	8,017	23,161		26,592		78,277
c) Past due non-performing loans	3,585	1,382	87	52		676		4,430
- of which: exposures subject to forbearance	2,283	43	13	2		315		2,026
d) Past due performing loans					73,008		1,286	71,722
- of which: exposures subject to forbearance					12,929		443	12,486
e) Other performing exposures					7,451,390		22,047	7,429,343
- of which: exposures subject to forbearance					90,104		1,251	88,853
TOTAL A	112,033	31,404	56,383	619,895	7,524,398	411,493	23,333	7,909,287
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	2,624	-	-	-		231		2,393
b) Performing					282,780		566	282,214
TOTAL B	2,624	-	-	-	282,780	231	566	284,607
TOTAL (A+B)	114,657	31,404	56,383	619,895	7,807,178	411,724	23,899	8,193,894

"Cash exposure" includes all on-balance sheet financial assets due from customers, regardless of the portfolio they are allocated to for accounting purposes (trading, available for sale, held to maturity, etc.). "Off-balance sheet exposures" include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transaction (trading, hedging, etc.).

A.1.7 On-balance sheet credit exposures to customers: changes in gross doubtful loans

Description/Categories	Doubtful loans	Unlikely to pay	Past due non-performing loans
A. Opening gross exposure	562,971	267,676	7,098
- of which: exposure sold but not derecognised	-	-	-
B. Increases	110,825	113,844	13,259
B.1 transfers from performing positions	2,340	80,230	11,832
B.2 transfers from other categories of non-performing exposures	99,946	7,338	4
B.3 other increases	8,539	26,276	1,423
- of which: business combinations	-	-	-
C. Decreases	91,694	149,013	15,251
C.1 transfers to performing positions	-	9,871	3,857
C.2 write-offs	29,069	-	-
C.3 collections	38,974	39,192	4,062
C.4 proceeds from disposal	20,765	-	-
C.5 losses on disposal	2,880	-	-
C.6 transfers to other categories of non-performing exposures	6	99,950	7,332
C.7 other decreases	-	-	-
- of which: business combinations	-	-	-
D. Closing gross exposure	582,102	232,507	5,106
- of which: exposure sold but not derecognised	-	1,133	70

A.1.7 bis On-balance sheet credit exposures to customers: changes in exposures subject to gross forbearance broken down by credit quality

Description/Categories	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. Opening gross exposure	158,884	125,348
- of which: exposure sold but not derecognised	-	-
B. Increases	37,890	44,450
B.1 transfers from performing positions not subject to forbearance	17,748	35,546
B.2 transfers from performing positions subject to forbearance	10,075	-
B.3 transfer from exposures subject to forbearance	-	8,015
B.4 other increases	10,067	889
C. Decreases	42,336	66,765
C.1 transfers to performing positions not subject to forbearance	1,823	37,709
C.2 transfers to performing positions subject to forbearance	10,291	-
C.3 transfer to exposures subject to forbearance deteriorate	-	10,075
C.4 write-offs	898	-
C.5 collections	28,707	14,036
C.6 proceeds from disposal	617	-
C.7 losses on disposal	-	-
C.8 other decreases	-	4,945
D. Closing gross exposure	154,438	103,033
- of which: exposure sold but not derecognised	205	2,046

A.1.8 Banking Group – On-balance sheet credit exposures to customers: changes in total adjustments

Description/Categories	Doubtful		Unlikely to pay		Past due non-performing loans	
	Total	Of which: exposures subject to forbearance	Total	Of which: exposures subject to forbearance	Total	Of which: exposures subject to forbearance
A. Total opening adjustments	309,814	13,149	77,064	31,616	964	580
- of which: exposure sold but not derecognised	-	-	-	-	-	-
B. Increases	82,611	12,583	36,495	8,555	599	222
B.1 write-downs	50,793	9,106	36,187	5,656	583	212
B.2 losses on disposal	2,880	-	-	-	-	-
B.3 transfers from other categories of non-performing exposures	27,395	2,770	308	241	16	-
B.4 other increases	1,543	707	-	2,658	-	10
- business combinations	-	-	-	-	-	-
C. Decreases	56,280	994	38,886	13,579	887	487
C.1 measurement write-backs	9,445	120	6,601	3,504	374	182
C.2 writebacks on collection	12,637	165	4,899	1,646	180	36
C.3 gains on disposal	2,249	-	-	-	-	-
C.4 write-offs	29,069	593	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	27,386	2,770	333	241
- business combinations	-	-	-	-	-	-
C.6 other decreases	2,880	116	-	5,641	-	28
D. Total closing adjustments	336,145	24,738	74,673	26,592	676	315
- of which: exposure sold but not derecognised	-	-	189	15	9	9

A.2 Classification of exposures on the basis of external and internal rating

A.2.1 Distribution of cash and "off-balance sheet" exposures by external rating class

Exposures	External rating class						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Cash exposures	97,381	527,844	2,472,779	489,744	61,648	22,303	6,025,316	9,697,015
B. Derivatives	43	29	656	14			3,977	4,719
B.1 Financial derivatives	43	29	656	14			3,977	4,719
B.2 Credit derivatives								
C. Guarantees given		33,661	50,223	15,402	4,004	3,505	139,864	246,659
D. Commitments to disburse funds		23,769	5,324	5,413	361		27,724	62,591
E. Other								
Total	97,424	585,303	2,528,982	510,573	66,013	25,808	6,196,881	10,010,984

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

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

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

A.2.2 Distribution of cash and "off-balance sheet" exposures by internal rating class

Banco Desio does not use internal rating models for the determination of capital requirements.

The Bank 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 31.12.2017	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
Cash exposures	72.69%	21.48%	4.72%	1.11%	100%
Off-balance sheet exposures	84.42%	13.06%	1.79%	0.73%	100%

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed credit exposures to banks

There are no such credit exposures at the reporting date.



A.3.2 Guaranteed credit exposures to customers

	Amount of net exposures	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)		
		Property, Mortgages	Property under finance leases	Securities	Other secured guarantees	Credit derivatives					Endorsement credits						
						CLN	Government and central banks	Other public entities	Banks	Other parties	Government and central banks	Other public entities	Banks	Other parties			
																Other derivatives	
1. Guaranteed on-balance sheet exposures:	3,600,835	2,256,482	196,611	183,364	104,286									138,807	199	680,043	3,559,792
1.1. totally guaranteed	3,387,612	2,242,384	196,611	148,187	88,983									64,870	24	640,244	3,381,303
- of which non-performing	326,340	269,476	13,561	1,299	6,188									1,941		32,960	325,425
1.2. partially guaranteed	213,223	14,098		35,177	15,303									73,937	175	39,799	178,489
- of which non-performing	20,748	13,529		398	212									1,565		4,148	19,852
2. Guaranteed off-balance sheet exposures:	111,059	4,185		19,226	17,240										665	60,457	101,773
2.1. totally guaranteed	88,919	4,185		15,781	14,980											53,958	88,904
- of which non-performing	1,110	6		439	137											527	1,109
2.2. partially guaranteed	22,140			3,445	2,260										665	6,499	12,869
- of which non-performing	35															2	2

B. Distribution and concentration of credit exposures**B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)**

p.1

Exposures/Counterparties	Governments			Other public entities			Financial companies		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposures									
A.1 Doubtful loans	-	-	-	-	-	-	500	(578)	
- of which: exposures subject to forbearance	-	-	-	-	-	-	16	(58)	
A.2 Unlikely to pay	-	-	-	-	-	-	6,354	(4,418)	
- of which: exposures subject to forbearance	-	-	-	-	-	-	137	(186)	
A.3 Past due non-performing loans	-	-	-	-	-	-	26	(5)	
- of which: exposures subject to forbearance	-	-	-	-	-	-	25	(5)	
A.4 Performing loans	1,504,717		-	-		-	652,377		(707)
- of which: exposures subject to forbearance	-		-	-		-	2,218		(183)
Total A	1,504,717	-	-	-	-	-	659,257	(5,001)	(707)
B. Off-balance sheet exposures									
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-
B.3 Other non-performing loans	-	-	-	-	-	-	-	-	-
B.4 Performing loans	353		-	-		-	1,797		(7)
Total B	353	-	-	-	-	-	1,797	-	(7)
Total (A+B) 31.12.2017	1,505,070	-	-	-	-	-	661,054	(5,001)	(714)
Total (A+B) 31.12.2016	1,288,545	-	-	-	-	-	740,816	(1,174)	(1,743)



B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

p.2

Exposures/Counterparties	Insurance companies			Non-financial companies			Other parties			
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	
A. Cash exposures										
A.1 Doubtful loans	-	-	-	174,431	(274,149)	-	71,027	(61,417)	-	
- of which: exposures subject to forbearance	-	-	-	15,356	(19,978)	-	7,118	(4,702)	-	
A.2 Unlikely to pay	-	-	-	106,392	(59,133)	-	45,088	(11,122)	-	
- of which: exposures subject to forbearance	-	-	-	52,102	(20,750)	-	26,038	(5,656)	-	
A.3 Past due non-performing loans	-	-	-	3,066	(464)	-	1,338	(207)	-	
- of which: exposures subject to forbearance	-	-	-	1,321	(202)	-	680	(108)	-	
A.4 Performing loans	2,027	-	-	3,922,605	-	(21,057)	1,419,339	-	(1,569)	
- of which: exposures subject to forbearance	-	-	-	74,111	-	(1,373)	25,017	-	(138)	
Total A	2,027	-	-	4,206,494	(333,746)	(21,057)	1,536,792	(72,746)	(1,569)	
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	868	(2)	-	11	-	-	
B.2 Unlikely to pay	-	-	-	1,271	(225)	-	13	(4)	-	
B.3 Other non-performing loans	-	-	-	215	-	-	15	-	-	
B.4 Performing loans	209	-	(3)	265,292	-	(549)	14,563	-	(7)	
Total B	209	-	(3)	267,646	(227)	(549)	14,602	(4)	(7)	
Total (A+B)	31.12.2017	2,236	-	(3)	4,474,140	(333,973)	(21,606)	1,551,394	(72,750)	(1,576)
Total (A+B)	31.12.2016	4,782	-	(1,685)	4,334,166	(312,753)	(25,363)	1,444,360	(74,213)	(1,693)

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers (book value)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures										
A.1 Doubtful loans	245,951	(336,127)	7	(17)	-	-	-	-	-	-
A.2 Unlikely to pay	157,805	(74,669)	29	(4)	-	-	-	-	-	-
A.3 Past due non-performing loans	4,429	(676)	1	-	-	-	-	-	-	-
A.4 Performing loans	7,118,027	(23,287)	328,583	(45)	54,026	-	432	(1)	-	-
Total A	7,526,212	(434,759)	328,617	(66)	54,026	-	432	(1)	-	-
B. Off-balance sheet exposures										
B.1 Doubtful loans	879	(2)	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	1,284	(229)	-	-	-	-	-	-	-	-
B.3 Other non-performing loans	230	-	-	-	-	-	-	-	-	-
B.4 Performing loans	281,601	(566)	613	-	-	-	-	-	-	-
Total B	283,994	(797)	613	-	-	-	-	-	-	-
Total A+B at 31.12.2017	7,810,206	(435,556)	329,230	(66)	54,026	-	432	(1)	-	-
Total A+B at 31.12.2016	7,798,883	(418,164)	12,896	(459)	337	-	552	(1)	-	-



B.3 Territorial distribution of on- and off-balance sheet credit exposures to banks (book value)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past due non-performing loans	-	-	-	-	-	-	-	-	-	-
A.4 Performing loans	1,697,686	-	80,030	-	2,829	-	1,628	-	5,555	-
Total A	1,697,686	-	80,030	-	2,829	-	1,628	-	5,555	-
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing loans	-	-	-	-	-	-	-	-	-	-
B.4 Performing loans	23,219	-	5,675	-	-	-	468	-	-	-
Total B	23,219	-	5,675	-	-	-	468	-	-	-
Total A+B at 31.12.2017	1,720,905	-	85,705	-	2,829	-	2,096	-	5,555	-
Total A+B at 31.12.2016	608,593	-	8,064	-	2,183	-	4,867	-	83	-

B.4 Large exposures

With reference to current supervisory regulations, the situation at 31 December 2017 is reported below:

<i>Description</i>	<i>Nominal amount</i>	<i>Weighted amount</i>	<i>Number of positions</i>
Large exposures	4,121,009	106,426	5

The five positions indicated relate to exposures to Group companies, the Bank of Italy, the Treasury Ministry, the Spanish Government and the Guarantee Fund as per Law 662 of 23.12.1996.

C. Securitisation transactions

Not applicable

D. Disclosures on structured entities not consolidated from an accounting point of view (other than SPVs)

Not applicable

E. Asset disposals**E.4 Covered bonds**

This section includes covered bond transactions in which the transferring bank and the financing bank coincide. 2017 saw the launch of the "Covered Bond - Desio OBG" programme, designed to achieve benefits in terms of funding (diversification of deposits, lower funding cost and funding sources with longer maturities). The Programme, which is multi-seller in nature, involves:

- Banco di Desio e della Brianza (Parent Company) in the role of (1) originator bank, (2) lending bank, and (3) bank issuing the covered bonds;
- Banca Popolare di Spoleto, in the role of (1) originator bank and (2) lending bank;
- Desio OBG S.r.l. (Vehicle or SPV), as a special purpose vehicle for the sale of eligible assets by BDB and BPS, 60% owned by the Parent Company;
- BNP Paribas, as the counterparty in the swap taken out to hedge the potential risk generated by the mismatch between the fixed rate on the covered bond and the mix of rates on the portfolio.

More specifically, the "Covered Bond - Desio OBG" programme envisages:

1. the non-revolving sale without recourse of a residential mortgage loan portfolio made up 70.1% by mortgages of the Parent Company and 29.9% by loans of BPS;
2. simultaneous disbursement of a subordinated loan to the SPV by BDB and BPS, pro-quota for their share of the loan portfolio transferred;
3. issuance by BDB of covered bonds for Euro 500 million with a maturity of 7 years (first issue on 5 September 2017), subsequently integrated on 31 October 2017, bringing the total issue of covered bonds to Euro 575 million.
4. disbursement by the Parent Company to BPS of a loan of Euro 171.9 million, in proportion to its participation in the Programme, at the same terms as those obtained by issuing the covered bonds.
5. a liability swap on the covered bonds issued taken out by the SPV for a notional amount of Euro 300 million with a counterparty external to the Group (BNP Paribas);
6. a back-swap taken out by BDB for the same notional amount of Euro 300 million with the same counterparty, as a mirror-image of the previous one;



7. another back-swap taken out by BDB for a notional amount of Euro 89.7 million (or 29.9% of the notional value of the previous derivatives) with BPS as counterparty, as a mirror-image of the previous one.

The main characteristics of the issue are summarised below:

- a) *SPV name:* Desio OBG S.r.l.
- b) *Type of underlying loans:* Residential mortgage loans;
- c) *Value of the loans sold:* total of Euro 831 million, of which Euro 272 million sold by Banco Desio and Euro 249 million by the subsidiary Banca Popolare di Spoleto;
- d) *Amount of subordinated loan:* Euro 831 million, of which Euro 582 million disbursed by the Parent Company and Euro 249 million by Banca Popolare di Spoleto;
- e) *Nominal value of the covered bonds issued:* Euro 575 million;
- f) *Interest rate on covered bonds issued:* fixed rate of 0.875%.

At 31 December 2017, the loan portfolio sold by the Bank has a book value of about Euro 550 million

F. Credit risk measurement models

The Bank does not use internal portfolio models for measuring credit risk exposure.

SECTION 2 – MARKET RISK

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 bank to changes in the economic value of assets and liabilities.

Banco Desio 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

Trading by the Finance Department 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 VAR (Value at Risk). 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 Bank also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the Risk Management function, which operates in complete autonomy from the operational areas.

For the quantification of generic risks, Banco Desio has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum potential loss of a static portfolio with reference to a specific time horizon and at a specific confidence level. This method has the advantage of allowing the aggregation of positions involving different risk factors; it also provides a summary number which, being a monetary expression, is easily used by the organisational structure involved.

The VaR model used is parametric. This is the so-called variance-covariance approach, with delta-gamma type approximation for optional instruments, using a confidence interval of 99% with a period of 10 days, in line with the recommendations set out by the Basel Committee. The model covers the assets, in terms of financial instruments, included in both the management and trading portfolios, as defined in the rules governing supervisory reports and subject to the capital requirements for market risks.

The model uses matrices that contain the standard deviations of each risk factor (interest rates, exchange rates and prices) and their correlations. The calculation of the volatilities and correlations is based on the modelling assuming normality in the daily logarithmic returns of the risk factors, using an exponential weighting based on a decay factor with a time interval of 250 observations. The application used to calculate the VaR is ALMpro, while the financial information needed to determine VaR (volatility, correlations, term structure of interest rates, exchange rates, equity indices and benchmark indices) are provided by RiskSize.

The VaR of equities is measured by taking into account the relationship (so-called "beta coefficient") that exists between the performance of an individual instrument to that of its benchmark index (equity index or benchmark index for mutual funds).



Stress tests are carried out through parallel shifts in the yield curve, assuming variations of +/-100 basis points only for positions that are sensitive to interest rates.

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

Quantitative information

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Euro

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	1,849	579	2	-	-	-	-
1.1 Debt securities	-	1,849	579	2	-	-	-	-
- with early redemption option	-	1,849	579	-	-	-	-	-
- other	-	-	-	2	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	181	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	181	-	-	-
3.2 Without underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	403,173	5,703	4,342	-	-	-	-
+ Short positions	-	403,836	5,697	4,340	-	-	-	-

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	400,890	5,629	4,342	-	-	-	-
+ Short positions	-	400,246	5,630	4,342	-	-	-	-

2. Regulatory trading book: distribution of exposures concerning equities and equity indices by the main countries where they are listed

Type of operation/equity index	Listed			Unlisted
	Italy	United States	Other	
A. Equity instruments	3,183		1,459	
long positions	3,183		1,459	
short positions				
B. Unsettled transactions in equity securities				
long positions				
short positions				
C. Other equity security derivatives	174		7	
long positions	174		7	
short positions				
D. Equity index derivatives				
long positions				
short positions				



3 Trading portfolio for supervisory purposes: internal models and other methodologies for the analysis of sensitivity

The monitoring of the "trading portfolio reported for supervisory purposes" in 2017 evidenced a structure with limited market risks. Related VaR at 31 December 2017 amounted to Euro 100 thousand, with a percentage of 1.09% of the trading portfolio.

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 risk management, which is autonomous with respect to operational areas. All of the Bank's business associated with the transformation of maturities of assets and liabilities, treasury operations and the respective hedging derivatives is monitored with Asset and Liability Management (ALM) methodologies using ALMpro. 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.

The model covers assets and liabilities exposed to interest rate risk included in the banking book and in the financial statements. 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 several variants of GapAnalysis in order to achieve more accurate estimates.

The changes in the economic value of assets and liabilities are analysed by applying Duration Gap and Sensitivity Analysis approaches.

The analyses are performed through parallel shifts in the yield curve and specific scenarios of changes in market interest rates.

B. Fair value hedges

The Bank's primary objective is to manage in a prudent and active manner the risks associated with operations, that is, to manage them with a specific risk profile, which permits any opportunities arising from changes in risk to be taken advantage of.

To date, the Bank does not take out any fair value hedges.

C. 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.

Banco Desio 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.

Quantitative information**1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities**

EURO

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	1,465,275	5,053,941	796,094	146,233	1,479,581	455,607	187,532	-
1.1 Debt securities	-	194,169	589,624	-	937,430	136,634	9,115	-
- with early redemption option	-	37,345	-	-	5,595	4,585	-	-
- other	-	156,824	589,624	-	931,835	132,049	9,115	-
1.2 Loans to banks	208,396	1,097,955	-	22,456	-	167,960	1,346	-
1.3 Loans to customers	1,256,879	3,761,817	206,470	123,777	542,151	151,013	177,071	-
- current accounts	1,168,861	334,974	4,420	6,400	72,738	-	-	-
- other loans	88,018	3,426,843	202,050	117,377	469,413	151,013	177,071	-
- with early redemption option	37,432	2,619,314	127,917	97,867	310,305	150,607	171,528	-
- other	50,586	807,529	74,133	19,510	159,108	406	5,543	-
2. Cash liabilities	4,508,901	1,291,867	332,102	480,584	2,028,577	576,639	-	-
2.1 Due to customers	4,383,815	984,775	200,526	258,252	70,173	-	-	-
- current accounts	4,342,641	984,770	200,517	258,250	70,173	-	-	-
- other payables	41,174	5	9	2	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	41,174	5	9	2	-	-	-	-
2.2 Due to banks	94,692	31,589	-	-	1,592,800	-	-	-
- current accounts	11,007	-	-	-	-	-	-	-
- other payables	83,685	31,589	-	-	1,592,800	-	-	-
2.3 Debt securities	30,394	275,503	131,576	222,332	365,604	576,639	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	30,394	275,503	131,576	222,332	365,604	576,639	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	184	353	-	587	-	-	-
+ Short positions	-	1,095	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	18,124	30,554	56,056	143,272	22,940	13,012	-
+ Short positions	-	282,766	1,191	-	-	-	-	-
- Other derivatives								
+ Long positions	-	130,000	-	-	-	-	-	-
+ Short positions	-	-	-	-	130,000	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	(44,709)	-	-	-	-	-	-	-
+ Short positions	44,709	-	-	-	-	-	-	-



1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	27,154	68,350	1,146	-	13,360	-	-	-
1.1 Debt securities	-	-	-	-	13,360	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	13,360	-	-	-
1.2 Loans to banks	26,657	36,003	590	-	-	-	-	-
1.3 Loans to customers	497	32,347	556	-	-	-	-	-
- current accounts	497	-	-	-	-	-	-	-
- other loans	-	32,347	556	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	32,347	556	-	-	-	-	-
2. Cash liabilities	89,302	6,180	1,425	-	-	-	-	-
2.1 Due to customers	52,314	2,014	1,425	-	-	-	-	-
- current accounts	52,314	2,014	1,425	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	36,988	4,166	-	-	-	-	-	-
- current accounts	36,988	-	-	-	-	-	-	-
- other payables	-	4,166	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	-	(217)	-	-	-	-	-	-
+ Short positions	-	217	-	-	-	-	-	-

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

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

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations.

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 31 December 2017, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 31.12.2017

	+100 bps	-100 bps
<i>% of the expected margin</i>	0.53%	-1.04%
<i>% of net interest and other banking income</i>	7.21%	-14.14%
<i>% of the result of the year</i>	37.35%	-73.20%
<i>% of shareholders' equity</i>	1.56%	-3.05%

In terms of economic value, the results, which were estimated with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, evidenced a risk exposure at 31 December 2017 that has been maintained at levels that do not significantly impact 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 31.12.2017

	+100 bps	-100 bps
<i>% of the economic value</i>	-7.68%	5.23%



2.3 EXCHANGE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

The Bank 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 Bank is marginally exposed to foreign exchange risk. The Operations Room of the Finance Department manages forex operations, with respect to which it:

- operates in domestic and international foreign exchange, interest rate and foreign currency deposits markets;
- executes spot and forward currency contracts on its own account and on behalf of customers;
- executes currency forwards and foreign currency deposits with resident and non resident counterparties.

Exchange rate risk is managed through "intraday" and "end-of-day" 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 Bank'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**1. Distribution by currency of denomination of assets, liabilities and derivatives**

Captions	Currencies				
	US Dollar	Pound Sterling	Yen	Swiss Franc	Other currencies
A. Financial assets	93,489	5,670	3,184	3,686	8,414
A.1 Debt securities	8,225				5,134
A.2 Equity instruments	3,978				454
A.3 Loans to banks	52,577	4,451	537	2,945	2,741
A.4 Loans to customers	28,709	1,219	2,647	741	85
A.5 Other financial assets					
B. Other assets	97	78	23	48	38
C. Financial liabilities	82,100	5,585	2,889	3,576	2,757
C.1 Due to banks	35,806	2,291	2,680	42	334
C.2 Due to customers	46,294	3,294	209	3,534	2,423
C.3 Debt securities					
C.4 Other financial liabilities					
D. Other liabilities	1,495	16		30	1
E. Financial derivatives					
- Options					
+ Long positions					
+ Short positions					
- Other					
+ Long positions	319,372	43,982	42,599	1,453	3,454
+ Short positions	318,272	44,038	42,892	1,541	3,475
Total assets	412,958	49,730	45,806	5,187	11,906
Total liabilities	(401,867)	(49,639)	(45,781)	(5,147)	(6,233)
Net balance (+/-)	11,091	91	25	40	5,673

2. Internal models and other methodologies for the analysis of sensitivity

The Bank'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.



2.4 DERIVATIVE INSTRUMENTS

A. Financial derivatives

A.1 Regulatory trading book: notional values at the end of period

Underlying assets/Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
2. Equities and equity indices	181		19	
a) Options	181		19	
b) Swap				
c) Forward				
d) Futures				
e) Other				
3. Currency and gold	813,003		477,733	
a) Options				
b) Swap				
c) Forward	813,003		477,733	
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	813,184		477,752	

A.2 Banking book: period-end notional values

A.2.1 Hedging

Underlying assets/Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	130,000	-	140,000	-
a) Options	-	-	-	-
b) Swap	130,000	-	140,000	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlyings	-	-	-	-
Total	130,000	-	140,000	-



A.2.2 Other derivatives

Underlying assets/Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	-	-	53,700	-
a) Options	-	-	35,800	-
b) Swap	-	-	17,900	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and equity indices	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	-	-	-	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlyings	-	-	-	-
Total	-	-	53,700	-

A.3 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Positive fair value			
	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	4,719		2,263	
a) Options	181		19	
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	4,538		2,244	
f) Futures				
g) Other				
B. Banking book - hedging			262	
a) Options				
b) Interest rate swaps			262	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives			535	
a) Options				
b) Interest rate swaps			535	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	4,719		3,060	



A.4 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Negative fair value			
	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	4,531		2,164	
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	4,531		2,164	
f) Futures				
g) Other				
B. Banking book - hedging	1,414		2,778	
a) Options				
b) Interest rate swaps	1,414		2,778	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	5,945		4,942	

A.5 OTC financial derivatives - regulatory trading book: notional values, positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
2. Equities and equity indices							
- notional value				54		127	
- positive fair value				54		127	
- negative fair value							
- future exposure				54		127	
3. Currency and gold							
- notional value			405,878	141,278		15,922	249,925
- positive fair value			4,262	109		157	10
- negative fair value			399	1,270		31	2,831
- future exposure			4,059	1,413		159	2,499
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

A.8 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest							
- notional value			130,000				
- positive fair value							
- negative fair value			1,414				
2. Equities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
3. Currency and gold							
- notional value							
- positive fair value							
- negative fair value							
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							



A.9 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Trading portfolio for supervisory purposes	813,003	181		813,184
A.1 Financial derivatives linked to debt securities and interest rates				
A.2 Financial derivatives linked to equities and stock indices		181		181
A.3 Financial derivatives linked to exchange rates and gold	813,003			813,003
A.4 Financial derivatives linked to other instruments				
B. Banking book		130,000		130,000
B.1 Financial derivatives linked to debt securities and interest rates		130,000		130,000
B.2 Financial derivatives linked to equities and stock indices				
B.3 Financial derivatives linked to exchange rates and gold				
B.4 Financial derivatives linked to other instruments				
Total 31.12.2017	813,003	130,181		943,184
Total 31.12.2016	541,433	50,019	80,000	671,452

C. Financial and credit derivatives

C.1 OTC Financial and credit derivatives: net fair values and future exposure by counterparty

	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Bilateral financial derivative			2,064				
- positive fair value							
- negative fair value			1,414				
- future exposure			650				
- net counterparty risk							
2) Bilateral credit derivative							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3) Cross product agreements							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							

SECTION 3 - LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Finance Department with the aim of meeting 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 Risk Management Department 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 (Available for Sale – AFS);
- repurchase of issued Bonds;
- use of available facilities for revocable lines of credit (call risk).

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



1. Idiosyncratic, defined as a loss of confidence by the Bank'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. Particular attention is paid to funding policy, which is coordinated by the Finance Department by organising bond issues on the retail market and on the Euromarket. The financing strategies adopted by the Bank 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.

Quantitative information**1. Distribution of financial assets and liabilities by residual contractual duration**

EURO

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	1,782,810	10,600	110,561	159,460	666,819	365,944	489,823	3,325,274	1,752,443	1,098,106
A.1 Government securities	-	-	-	-	83	3,136	2,841	1,200,000	291,709	-
A.2 Other debt securities	-	1	1	14,276	2,879	4,275	1,630	265,200	83,002	-
A.3 Mutual funds	37,614	-	-	-	-	-	-	-	-	-
A.4 Loans	1,739,196	10,599	110,560	145,184	663,857	358,533	485,352	1,860,074	1,377,732	1,098,106
- Banks	208,887	-	-	-	-	-	22,425	-	168,846	1,098,106
- Customers	1,530,309	10,599	110,560	145,184	663,857	358,533	462,927	1,860,074	1,208,886	-
Cash liabilities	5,052,879	12,195	6,388	54,970	417,735	293,237	501,902	2,360,768	580,263	-
B.1 Deposits and current accounts	5,017,318	12,192	5,791	54,449	322,640	200,997	259,462	70,042	-	-
- Banks	11,627	-	-	31,589	-	-	-	-	-	-
- Customers	5,005,691	12,192	5,791	22,860	322,640	200,997	259,462	70,042	-	-
B.2 Debt securities	56	3	597	521	91,095	76,828	227,028	639,747	579,000	-
B.3 Other liabilities	35,505	-	-	-	-	15,412	15,412	1,650,979	1,263	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	3,609	315	150,287	249,065	6,055	4,342	665	-	-
- Short positions	-	5,201	305	150,362	249,028	5,697	4,340	218	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	88	137	223	450	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	20,340	-	-	-	10	-	250	12,436	11,673	-
- Short positions	44,709	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-



1. Distribution of financial assets and liabilities by residual contractual duration

OTHER CURRENCIES

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	30,988	8,360	15,048	25,280	20,006	1,250	36	13,419	13	-
A.1 Government securities	-	-	-	-	-	36	36	8,338	-	-
A.2 Other debt securities	-	-	-	-	-	54	-	5,081	13	-
A.3 Mutual funds	3,849	-	-	-	-	-	-	-	-	-
A.4 Loans	27,139	8,360	15,048	25,280	20,006	1,160	-	-	-	-
- Banks	26,652	8,360	10,923	13,184	3,599	595	-	-	-	-
- Customers	487	-	4,125	12,096	16,407	565	-	-	-	-
Cash liabilities	89,304	-	2,593	-	3,591	1,431	-	-	-	-
B.1 Deposits and current accounts	89,304	-	2,593	-	3,591	1,431	-	-	-	-
- Banks	36,988	-	2,593	-	1,574	-	-	-	-	-
- Customers	52,316	-	-	-	2,017	1,431	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	4,440	302	149,196	246,952	5,629	4,342	-	-	-
- Short positions	-	3,788	311	149,196	246,951	5,630	4,342	-	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to										
- Long positions	-	217	-	-	-	-	-	-	-	-
- Short positions	-	217	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

SECTION 4 - OPERATIONAL RISK

Qualitative information

A. General aspects, management and measurement of operational risk

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

Banco Desio e della Brianza 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:

- 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 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 some time ago that is capable of providing senior management with information concerning the events in question: number of events, amount of losses, gross and net of any recoveries, at predefined intervals.

In compliance with Bank of Italy regulations (Circular 285/2013, Part I, Title IV, chap. 4, 5), Banco Desio set up the ICT Governance Function (within General Management) and the ICT Area and adopted:

1. Security Policy;
2. Procedure for Accident Management;
3. IT Risk Assessment methodology

As regards the management of risks impacting the Bank's 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", the



Bank has 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.

As regards legal risk, the various corporate functions operate with standard contracts that have previously been vetted by the appropriate business structure. Accordingly, it should be noted that most of the ongoing legal disputes at the year end relate to disputes concerning compensation for damages, alleged usury and compound interest charges.

Banco Desio e della Brianza, 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 year, together with the related provisions:

	Number	Claim	Provisions
Claw-back suits	9	€ 4.164 million	€ 0.443 million
Other lawsuits	302	€ 42.873 million	€ 7.541 million

The principal disputes (claims in excess of Euro 1 million) are described below:

- CLAIM € 1.833 million. Litigation initiated by the user of a property leased by Banco di Desio e della Brianza S.p.A. to seek invalidation of the effects of certain clauses of the lease agreement, as well as the reimbursement of € 1.833 million, being an amount allegedly paid by the counterparty as a penalty for the termination of the agreement. The Bank appeared before the court to request that the claims be dismissed given that the disputed clauses were expressly approved by the company, while the claim for damages was based on the erroneous assumption that the amount of € 1,833 million was paid as a penalty, whereas it was an advance payment of lease instalments for the use of the leased property. The Court of Rome, with a ruling filed on 18 November 2017 accepting an exception raised by the Bank, declared its territorial incompetence and set a legal deadline (three months) for the counterparty to resume the case before the Court of Monza, which is competent;
- CLAIM: € 2 million. By writ of summons, the counterparty brought legal proceedings against Banco di Desio e della Brianza S.p.A. 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 Banco di Desio e della Brianza S.p.A. to return an amount that was lower than the claim. The counterparty lodged an appeal. Banco di Desio e della Brianza S.p.A. 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 € 1.103 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by Banco di Desio e della Brianza S.p.A. 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 € 1.2 million and Banco Desio has opposed the injunction, mainly by reason of the legitimacy of the request,

including the stance that, in the meantime, 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 Banco Desio to pay a sum of € 1.2 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 concerning the appeal lodged by Banco Desio against the Court of Appeal's decision;

- CLAIM € 2.784 million. This case was initiated with a writ of summons which contested the application by Banco Desio e della Brianza S.p.A. of interest that was higher than the legal and usury rates and the application of expenses, value dates, fees and commissions that had never been agreed. The judge appointed an expert witness whose report appears to be in favour of Banco Desio della Brianza S.p.A.; the counterparty appealed, but the court has rejected the petition. The ruling has been challenged by the company and the guarantors by an appeal to the Supreme Court, but, as things now stand, a date has not yet been set for the hearing by the Supreme Court;
- CLAIM € 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 a handwriting expert appraisal.



Quantitative information

The number of detrimental events recorded by Banco Desio e Brianza in the course of 2017 comes to 1,179. The result of the process of collecting adverse events is summarised in the table below (monetary amounts are expressed in thousands of euro):

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	0.17%	14.8%	9.8%	38.49%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetrated by third parties	1.87%	5.1%	5.4%	1.90%
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	0.25%	1.4%	1.5%	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)	6.19%	42.2%	45.5%	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	0.51%	0.4%	0.4%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.42%	0.5%	0.5%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	90.59%	35.6%	36.9%	4.03%
TOTAL Banco Desio e della Brianza	100.00%	100.00%	100.00%	7.2%

The gross operating loss was Euro 2,404 thousand (net of the adjustments for events recognised and recorded in the period 2013-2015), in relation to which provisions totalling Euro 1,332 thousand were recorded during the year. Of the total gross loss, an amount was recovered of Euro 173 thousand, resulting in a net operating loss of Euro 2,231 thousand.

PART F - INFORMATION ON SHAREHOLDERS' EQUITY

Section 1 – Shareholders' equity

A. Qualitative information

The Board of Directors has always paid a great deal of attention to the Bank's capital. It is well aware of its importance in inspiring confidence in external providers of finance, as it can be used to absorb losses, and of its importance for purely operational and business development purposes. A good level of capitalisation allows us to address the question of business development with the necessary degree of autonomy and to preserve the stability of the Bank.

The concept of book equity used by Banco Desio 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.

The policy of the Board of Directors is thus to assign a considerable priority to capital, so as to use it in the best way possible to expand the Bank's business and to maximise the return for shareholders, while maintaining a prudent risk profile. As regards this last aspect, it should be borne in mind that the main component of mandatory minimum capital requirements relates to credit risk associated with a diversified loan portfolio focused on the core sector of local businesses and households.



B. Quantitative information

Captions/Amounts	31.12.2017	31.12.2016
1. Share capital	67,705	67,705
2. Share premium reserve	16,145	16,145
3. Reserves	754,597	734,238
- revenue reserves	754,597	734,238
a) legal reserve	91,417	88,249
b) statutory reserve	528,905	511,728
c) reserve for treasury shares		
d) other	134,275	134,261
- other		
3.bis Advance dividends		
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves	35,928	15,800
- Financial assets available for sale	15,369	(4,227)
- Property, plant and equipment		
- Intangible assets		
- Foreign investment hedges		
- Cash-flow hedges	(867)	(1,783)
- Exchange differences		
- Non-current assets and disposal groups held for sale		
- Actuarial gains (losses) on defined-benefit pension plans	(1,470)	(1,086)
- Portion of valuation reserves relating to investments carried at equity		
- Special revaluation laws	22,896	22,896
7. Net profit (loss) for the period	37,996	31,679
Total	912,371	865,567

B.2 Valuation reserves for financial assets available for sale: breakdown

Assets/Amounts	31.12.2017		31.12.2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	2,873	(4,500)	1,785	(6,526)
2. Equity instruments	18,128		2,883	
3. Mutual funds		(1,132)	864	(3,233)
4. Loans				
Total	21,001	(5,632)	5,532	(9,759)

B.3 Valuation reserves pertaining to financial assets available for sale: changes in the year

	Debt securities	Equity instruments	Mutual funds	Loans
1. Opening balance	(4,741)	2,883	(2,368)	
2. Positive changes	5,331	15,245	2,338	
2.1 Fair value increases	2,461	15,245		
2.2 Reversal to income statement of negative reserves	2,206		2,338	
- from impairment			1,351	
- from disposals	2,206		987	
2.3 Other changes	664			
3. Negative changes	(2,217)		(1,102)	
3.1 Fair value decreases	(808)		(238)	
3.2 Impairment adjustments				
3.3 Reversal to income statement from positive reserve: from disposals	(1,380)		(864)	
3.4 Other changes	(29)			
4. Closing balance	(1,627)	18,128	(1,132)	

With reference to equities, note that the Bank recorded a total (gross) revaluation of Euro 16,383 thousand of the minority investment held in Cedacri, in consideration of the price paid for the shares in transactions between various shareholders and the Italian Strategic Fund, which in this way has acquired 27% of the company.

B.4 Valuation reserves related to defined-benefit pension plans: changes of the year

Valuation reserves related to defined-benefit pension plans generated a positive effect of Euro 383 thousand (net of the related tax effect of Euro 145 thousand) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.



Section 2 – Own funds and capital adequacy ratios

2.1 OWN FUNDS

A. Qualitative information

Own funds, as the basis of the capital adequacy requirements that banks must satisfy, are calculated 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 June 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.

As of 31 December 2017, the own funds of the Banco di Desio e della Brianza consist of:

Description	31.12.2017	31.12.2016
Common Equity Tier 1 (CET 1)	889,796	851,798
Additional Tier 1 capital (AT1)	3,432	4,119
Tier 2 capital (T2)	143,786	181,741
Total Own Funds	1,037,014	1,037,658

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

Tier 1 capital

1. 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.

2. Additional Tier 1 - AT1

The components of Additional Tier 1 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.

3. Tier 2 - 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.

B. Quantitative information

	31.12.2017	31.12.2016
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	892,925	849,095
of which: CET 1 capital instruments subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	0	-15
C. CET 1 gross of amounts to be deducted and the effects of transitional provisions (A +/- B)	892,925	849,080
D. Items to be deducted from CET 1	2,465	2,660
E. Transitional provisions – Impact on CET 1 (+/-)	-664	5,378
F. Total Common Equity Tier 1 (CET 1) (C – D +/- E)	889,796	851,798
G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional provisions	6,865	6,865
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 (+/-)	-3,433	-2,746
L. Total Additional Tier 1 (AT1) (G - H +/- I)	3,432	4,119
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional provisions	142,021	181,575
of which: T2 capital instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional provisions – Impact on T2 (+/-)	1,765	166
P. Total Tier 2 (T2) (M - N +/- O)	143,786	181,741
Q. Total Own Funds (F + L + P)	1,037,014	1,037,658



2.2 - CAPITAL ADEQUACY

A. Qualitative information

Banco Desio's Own Funds, computed in accordance with the foregoing regulatory requirements, include Common Equity Tier 1 capital that accounts for 85.80% of the Bank's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 0.33% and 13.87%, respectively, of Own Funds.

For prudential supervisory purposes, the Bank's Board of Directors also approved the exclusion from Own Funds, as from 1 January 2014, of unrealised gains and losses relating to exposures to central administrations classified as "Financial assets available for sale", thus exercising its right under the "transitional provisions" contained in Bank of Italy Circular no. 285 of 17 December 2013, which was reiterated in the communication dated 23 January 2017 in which the Bank of Italy allowed "less significant" banks not to include in their Own Funds the gains and losses deriving from exposures to central administrations recorded in the "Financial assets available for sale" portfolio.

In consideration of the foregoing, this capital structure results in the following ratios:

- CET 1/risk-weighted assets	17.117%
- T1/risk-weighted assets	17.183%
- Total Own Funds/risk-weighted assets	19.949%

These values are still higher than the minimum capital required, including the capital conservation buffer, as shown below:

- CET 1/risk-weighted assets	5.75%
- T1/risk-weighted assets	7.25%
- Total Own Funds/risk-weighted assets	9.25%

The Board of Directors of Banco di Desio e della Brianza periodically reviews and approves the aggregates that make up Own Funds in order to check their consistency with the risk profile and their adequacy for the Bank's development plans.

On 25 January 2018, the Board of Directors, taking account of a best estimate of the higher adjustments for expected losses on performing and non-performing loans on first-time application of the standard, 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 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.

B. Quantitative information**Consolidated capital adequacy ratios**

Description/Amounts	Unweighted amounts		Weighted amounts/Requirements	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
A. ASSETS AT RISK				
A.1 Credit and counterparty risk	10,525,261	8,998,601	4,679,098	4,664,521
1. Standardised methodology	10,525,261	8,998,130	4,679,098	4,664,050
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisations	-	471	-	471
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 Credit and counterparty risk			374,328	373,162
B.2 Risk of credit valuation adjustment			50	35
B.3 Regulatory risk				
B.4 Market risks			972	790
1. STANDARDISED METHODOLOGY			972	790
2. INTERNAL MODELS				
3. CONCENTRATION RISK				
B.5 Operational risk			40,523	43,627
1. BASIC APPROACH			40,523	43,627
2. STANDARDISED APPROACH				
3. ADVANCED APPROACHES				
B.6 Other items				
B.7 Total precautionary requirements			415,872	417,614
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			5,198,405	5,220,172
C.2 Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)			17.117%	16.317%
C.3 Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			17.183%	16.396%
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio)			19.949%	19.878%



PART H - TRANSACTIONS WITH RELATED PARTIES

1 - Information on the remuneration of Managers with strategic responsibilities

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

2 - Related party disclosures

The Internal Procedure for the management of transactions with related parties and entities included in the scope of application of art. 136 of the CBA, adopted in accordance with Consob Regulation no. 17221/2010 and supplemented in accordance with the Minimum Capital Requirement in respect of risk assets and conflicts of interest with respect to persons linked to the Bank or the Banking Group pursuant to art. 53 TUB, is explained in the Annual Report on Corporate Governance. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents" 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 Regulation¹;
- 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 Bank;
- 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 Bank during the period.

During the period, reference is made to the Bank's implementation of the programme to issue covered bonds pursuant to art. 7-bis of Law 130/99, in which the subsidiary Banca Popolare di Spoleto also took on the role of seller and lender to Desio OBG S.r.l., the SPV set up specifically for this purpose, of which the Bank acquired 60% of the share capital. Banco Desio and Banca Popolare di Spoleto have joint obligations towards the SPV.

In relation to implementation of the various transactions involved in this programme - which qualify as more significant transactions with related parties as the value of the assets subject to sale to the SPV exceeds 5% of the countervalue referred to in the Procedure - the Related Party Transactions Committee, already involved in the preliminary investigation, in accordance with the internal procedures and regulations in force, unanimously expressed its binding favourable opinion on the existence of the interest on completion of the transaction and about the convenience and fairness of the terms and conditions.

On 12 September 2017, the Bank issued a first series of covered bonds for Euro 500 million, granting Banca Popolare di Spoleto a loan of Euro 149.5 million, in proportion to its participation in the Programme, at the same terms as those obtained by issuing the covered bonds. In relation to the

¹ with respect to the level of significance of the transactions with related parties, the Internal Procedure refers to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised at the date of adoption of the Procedure)

additional issue carried out on 31 October, Euro 75 million was recognised as a proportional increase in the loan granted to the subsidiary for Euro 22.4 million.

As regards transactions with the subsidiary Banca Popolare di Spoleto S.p.A, reference should be made to the report on operations and Part A and B of these notes.

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 following paragraphs summarise (in a prudential logic of unified management of potential conflicts of interest) existing relationships with the Parent Company, subsidiary companies and other related parties pursuant to art. 53 CBA and/or art. 2391-bis of the Italian Civil Code (including those treated in accordance with art. 136 CBA in compliance with the internal or external rules currently in force), highlighting, in particular, the balance of current account relationships and of the securities portfolios at the end of the year.

I - Parent company

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi & Stefano Lado SapA at Banco Desio amounted to Euro 156.5 million, of which Euro 154.8 million, relating to the securities portfolio. There are no outstanding payables held by the same Company.

During the year, 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 III) below).

II - Subsidiaries

Set out below is a summary of significant transactions with subsidiaries approved by the Board of Directors during the year and during board meetings held prior to the date of approval of the financial statements for the year ended 31 December 2017, in compliance with the above Procedure:

Counterparty	Nature of Transaction	Amounts/financial conditions (Euro)
Fides	Overdraft facility	Total increase from Euro 450 million to Euro 485 million
Fides	Revision of the economic conditions for the intercompany treasury regarding Fides S.p.A	Conditions detailed in the resolution
Desio OBG	Covered bond programme - Subordinated loan	Euro 1.2 billion
Banca Popolare di Spoleto	Covered bond programme (Desio OBG) - Loans granted to Banca Popolare di Spoleto for its contribution to the Covered Pool (Please read "Significant events" in the Report on Operations)	Loans for Euro 149.5 million and Euro 22.4 million
Banca Popolare di Spoleto	Financing related to ABACO operations	Granting of a line of credit of Euro 200 million relating to ABACO (<i>Attivi Bancari Collateralizzati</i> or Collateralized Banking Assets) transactions
Banca Popolare di Spoleto	Subordinated current account loan and renewal of lines of credit	Euro 18 million (subordinated loan between Banco di Desio e della Brianza and BPS) Resulting increase in lines of credit from Euro 269.5 million to Euro 287.5
Banca Popolare di Spoleto	Change in lines of credit	Reduction of the pre-existing line of credit on bank loan current account from Euro 250 million to Euro 100 million (with a consequent



Counterparty	Nature of Transaction	Amounts/financial conditions (Euro)
		reduction in lines of credit from Euro 287.5 million to Euro 137.5 million)
Banca Popolare di Spoleto	Lines of credit granted to Banco di Desio e della Brianza S.p.A.	Guarantees for commercial transactions of Euro 268 thousand
Banca Popolare di Spoleto	Amendment of the Service Agreement between Banca Popolare di Spoleto Spa and Banco di Desio e della Brianza Spa	Amount for 2017 in favour of the Parent Company Euro 6.2 million (VAT included)
Fides	Amendment of the Service Agreement between Fides SpA and Banco di Desio e della Brianza Spa	Amount for 2017 in favour of the Parent Company Euro 135 thousand (VAT included)
Desio OBG	Service agreement between Desio OBG Srl and Banco di Desio e della Brianza S.p.A.	n.a.
Fides	Adjustment of the financing rate to support the payment of Fides loans and the commission arrangement for placement of these loans	n.a.
Fides	Confirmation of overdraft facility on ordinary current account	Euro 485 million
Banca Popolare di Spoleto	Banca Popolare di Spoleto Spa 2015-2017 warrants	Please read "Significant events" in the Report on Operations.
Banca Popolare di Spoleto / Fides	Joining the tax consolidation for the years 2015-2016-2017	n.a.

The amounts of assets/liabilities, guarantees/commitments and income/costs arising from transactions with the aforementioned companies are disclosed in Para. 8.4 of the Report on Operations under the caption "subsidiaries".

III - Transactions with Officers and parties related to them

As for the granting of credit lines approved in 2017 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 Bank 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 31 positions existing at 31 December 2017 comes to some Euro 7.2 million and the related utilisations amount in total to some Euro 4.1 million.

As regards funding relationships held by Banco Desio directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2017 amounted to Euro 115.4 million in amounts due to customers (including approximately Euro 101.8 million in securities portfolios).

The above computation excludes transactions and balances with the parent company and with subsidiaries as per paragraphs I and II above.

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

	Balance at 31.12.2017 (in €/million)
<u>Lending transactions:</u>	
Amount granted	7.2
Amount drawn down	4.1
<u>Funding transactions:</u>	
C/c and d/r amount (a)	13.6
Amount of securities portfolios (b)	101.8
Total (a+b)	115.4

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.

**Certification of the financial
statements pursuant to art. 154
bis of legislative decree 58/98**

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned, Stefano Lado, Chairman, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 bis of Legislative Decree 58 of 24 February 1998:

– the adequacy of the administrative and accounting procedures for the preparation of the financial statements with respect to the Company and their

– effective application during 2017.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the financial statements at 31 December 2017 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.

3. We also certify that:

3.1. the financial statements:

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

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

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

3.2. the Report on Operations includes a reliable analysis of the results of operations and of the situation of the issuer, together with a description of the principal risks and uncertainties faced by them.

Desio, 08 February 2018

Chairman

Stefano Lado

Financial Reporting Manager

Mauro Walter Colombo

Auditor's Report

**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014**

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Banco di Desio e della Brianza S.p.A. (the "Bank"), which comprise the balance sheet as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement for the year then ended and the explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<p>Key audit matters – Classification and valuation of non performing loans to customers</p>	<p>Audit procedures performed in response to the Key Audit Matters</p>
<p>As represented in Explanatory notes <i>Part B – Information on the balance sheet</i> and <i>Part E – Information on risks and related hedging policy</i>, as at 31 December 2017 non-performing loans to customers of Banco di Desio e della Brianza S.p.A. amount to a gross book value of Euro 820 million (Euro 838 million at the end of 2016), allowances for impairment to Euro 411 million (Euro 388 million at the end of 2016); the coverage ratio moves from 46.3% to 50.2%. Doubtful loans coverage is equal to 57.7% (55.0% at the end of 2016); unlikely to pay coverage is equal to 32.1% (28.8% at the end of 2016); past due non-performing coverage is equal to 13.2% (13.6% at the end of 2016).</p> <p>In order to classify loans in uniform risk categories, the Bank refers to applicable law, integrated by internal regulations that establish rules in terms of loans’ classification and transfer in such categories.</p> <p>As better specified in Explanatory notes Part A Accounting policies, non-performing loans assessment takes place on an analytical basis, and considers the estimated recovery amount, the expected collection period, and collaterals whereas in place, according to methodologies set out in Bank credit policies for each category in which loans are classified.</p> <p>In consideration of the complexity of the estimation process held by the Board of Directors, that involves classification activity into homogeneous risk categories, as well as the significance of the judgmental process inherent in the estimate nature of the recoverable amount, we consider that the classification and valuation of such loans and the related classification and impairment process represent a key area for the audit of the financial statements of Banco di Desio e della Brianza S.p.A..</p>	<p>As part of the audit procedures, we preliminary understand the Group lending process which includes, in particular, the recognition and the understanding of the organizational and procedural controls implemented by the Group itself in order to guarantee the monitoring of loan quality and the right classification and evaluation according to applicable accounting standards and sector’s policies. For this purpose, we make use of IT experts belonging to the Deloitte network to verify the proper data’s recording and managing. As part of this process we also understand methods and assumptions adopted by the Group related to non-performing loans recoverable amount according to applicable accounting standards and sector’s policies.</p> <p>As a result of these activities, audit procedures are defined to test data used to calculate the recoverable amount and verify the estimation process. Under these procedures, have been carried, among others, the following activities:</p> <ul style="list-style-type: none"> - check, on sample basis, of the appropriateness of the recoverable amount determined by the Group through the recalculation of the amount itself and the analysis of the reasonableness of criteria related to classification and valuation, financial hypothesis and assumptions applied by the Group; - obtain and review the written confirmations from lawyers in order to gather information and evidences to support the Group’s evaluation; - comparative analysis procedures, in historical series and for each class of non-performing loans, through the calculation of hedging indices and the comparison of such indices with the comparable information relating to previous periods and with data derived from market; - analysis of events occurred after the reference date in order to make considerations regarding the evaluations that have been made. <p>Furthermore, we analyzed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.</p>

Key audit matters – Classification and valuation of performing loans to customers	Audit procedures performed in response to the Key Audit Matters
<p>As represented in Explanatory notes <i>Part B – Information on the balance sheet</i> and <i>Part E – Information on risks and related hedging policy</i>, as at 31 December 2017 performing loans to customers of Banco di Desio e della Brianza Group amount to a gross book value of Euro 9,079 million (Euro 8,857 million at the end of 2016), allowances for impairment to Euro 41 million (Euro 48 million at the end of 2016); the coverage ratio remains stable and equal to 0.5%.</p> <p>As better specified in Explanatory notes Part A Accounting policies, performing loans are measured on a general basis by dividing them into consistent risk classes.</p> <p>In consideration of the significance of the amount of performing loans to customers in financial statements, the complexity of the estimation process held by the Board of Directors, based also on a structured classification process in homogeneous risk categories, as well as the significance of the inherent judgmental process, we consider that the classification and valuation of such loans and the related impairment process represent a key area for the audit of the financial statements of Banco di Desio e della Brianza Group.</p>	<p>As part of the audit procedures, we preliminary understand the Group lending process which includes, in particular, the recognition and the understanding of the organizational and procedural controls implemented by the Group itself in order to guarantee the monitoring of loan quality and the right classification and evaluation according to applicable accounting standards and sector's policies. For this purpose, we make use of IT experts belonging to the Deloitte network to verify the proper data's recording and managing.</p> <p>As a result of these activities, audit procedures are defined to test data used to classify performing loans in consistent risk classes as well as the estimation process. Under these procedures, have been carried, among others, the following activities:</p> <ul style="list-style-type: none"> - examination of the classification criteria adopted by the Group in order to split the performing loans to customers' portfolio into homogeneous risk categories; - examination of the evaluation models and the assumptions adopted by the Group; - verification, on a sample of performing loans, of the proper classification; - comparative analysis procedures, in historical series, through the calculation of hedging indices and the comparison of such indices with the comparable information relating to previous periods and with data derived from market; - analysis of events occurred after the reference date in order to make considerations regarding the classification and evaluation that have been made. <p>Furthermore, we analyzed the completeness and the compliance of financial statements disclosure in accordance to accounting standards and applicable law.</p>

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Banco di Desio e della Brianza S.p.A. has appointed us on 26 April 2012 as auditors of the Bank and the Group for the years from 31 December 2012 to 31 December 2020.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Banco di Desio e della Brianza S.p.A. as at 31 December 2017, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Banco di Desio e della Brianza S.p.A. as at 31 December 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Banco di Desio e della Brianza S.p.A. as at 31 December 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Maurizio Ferrero
Partner

Milan, Italy
5 March 2018

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