



20

21

— Consolidated interim financial report —
at 30 June 2021

Gruppo



Banco Desio





Contents

Directors and Officers (Banco di Desio e della Brianza S.p.A.)	3
The Banco Desio Group	4
Introduction	5
Interim report on operations at 30 June 2021	6
Key figures and ratios	7
The macroeconomic scenario	9
The distribution network	14
Significant events	15
Human resources	19
Results of operations	20
Performance of consolidated companies	39
Other information	44
Outlook for the rest of the year and principal risks and uncertainties	45
Condensed interim financial statements at 30 June 2021	46
Financial statements	47
Explanatory notes	54
Basis of preparation and accounting policies	55
Information on fair value	83
Main balance sheet and income statement captions	92
Information on risks and related hedging policy	137
Information on transactions with related parties	170
Segment reporting	173
Certification of the condensed interim financial statements pursuant to art. 81-ter of Consob Regulation 11971 of 14 May 1999	176
Auditors' report	178
Attachment - Consolidated income statement – quarter by quarter	181

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>Chief Executive Officer and General Manager</u>	Alessandro Maria Decio*
<u>Directors</u>	Graziella Bologna* Valentina Maria Carla Casella Ulrico Dragoni Cristina Finocchi Mahne Agostino Gavazzi* Tito Gavazzi Giulia Pusterla Laura Tulli

* Members of the Executive Committee

Board of Statutory Auditors

<u>Chairman</u>	Emiliano Barcaroli
<u>Acting Auditors</u>	Rodolfo Anghileri Stefania Chiaruttini
<u>Substitute Auditors</u>	Stefano Antonini Silvia RE Massimo Celli

General Management

<u>Chief Executive Officer and General Manager</u>	Alessandro Maria Decio
--	------------------------

Financial Reporting Manager as per art. 154-bis CFA

<u>Financial Reporting Manager</u>	Mauro Walter Colombo
------------------------------------	----------------------

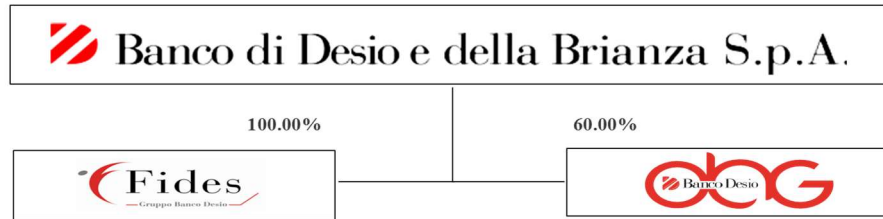
Independent Auditors

<u>Independent Auditors</u>	KPMG S.p.A.
-----------------------------	-------------



The Banco Desio Group

The scope of consolidation of the Banco Desio Group at 30 June 2021 includes the following companies:



Introduction

This consolidated interim financial report at 30 June 2021 of the Banco Desio Group, made up of the Interim report on operations and the condensed interim financial statements, has been prepared pursuant to art. 154-ter of Legislative Decree 58/1998 ("Consolidated Finance Act" or CFA), implementing Legislative Decree 195 of 6 November 2007 (the so-called "Transparency Directive") as well as for the determination of the profit for the period in order to calculate own funds and drawn up in accordance with International Financial Reporting Standards as endorsed by the European Community under Regulation 1606 of 19 July 2002 and as specifically indicated in the chapter "Basis of preparation and accounting policies".

In particular the Interim report on operations has been prepared in compliance with IAS 34 "Interim Financial Statements", as well as the provisions issued by the Bank of Italy in its Circular 262 of 22 December 2005 and subsequent updates.

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

Among the main factors of uncertainty that could affect the future scenarios in which the Group will have to operate, the negative effects on the global and Italian economy, directly or indirectly linked to developments in the Covid-19 epidemic, must not be underestimated.

The section entitled "Risks, uncertainties and impacts of the Covid-19 epidemic" in the notes to the consolidated financial statements at 31 December 2020, to which reference should be made, gave a detailed explanation of the estimation processes that require the use of significant elements of judgement in the selection of underlying hypotheses and assumptions, particularly conditioned by the negative effects of the pandemic. Then there is an explanation of the practical solutions adopted by the Group, well aware of its role in providing the necessary support to its stakeholders, both individuals and companies, characterised in the current context by significant levels of uncertainty and volatility.

The exceptional characteristics of the current crisis from which economic and financial consequences on people and businesses may derive, depending on the duration of the health and social emergency, as well as the measures already defined and being defined by the Italian government and EU authorities which, for their amount and characteristics, are likely to mitigate the effects of the crisis, make the application of accounting standards based on current market values and forward-looking valuations particularly complex.

This consolidated interim report is subject to a limited audit by KPMG S.p.A.

This is a translation of the Italian original "Relazione Finanziaria Semestrale Consolidata al 30 giugno 2021" and has been prepared solely for the convenience of international readers. In the event of any ambiguity, the Italian text will prevail.



**Interim report on operations
at 30 June 2021**

Key figures and ratios

Balance sheet

Amounts in thousands of Euro	30.06.2021	31.12.2020	Change	
			amount	%
Total assets	17,269,485	15,663,522	1,605,963	10.3%
Financial assets	3,645,612	3,543,697	101,915	2.9%
Due from banks ⁽¹⁾	2,095,661	1,034,768	1,060,893	102.5%
Loans to customers ⁽¹⁾	10,882,543	10,473,228	409,315	3.9%
Property, plant and equipment ⁽²⁾	219,935	222,483	-2,548	-1.1%
Intangible assets	18,866	18,513	353	1.9%
Non-current assets and disposal groups held for sale	2,440		2,440	
Due to banks	3,383,733	2,412,244	971,489	40.3%
Due to customers ⁽³⁾	10,506,316	10,203,490	302,826	3.0%
Debt securities in issue	1,596,923	1,608,927	-12,004	-0.7%
Shareholders' equity (including Net profit/loss for the period)	1,073,402	995,071	78,331	7.9%
Own Funds	1,110,202	1,057,064	53,138	5.0%
Total indirect deposits	17,437,262	16,520,360	916,902	5.6%
of which: Indirect deposits from ordinary customers	10,857,552	10,160,527	697,025	6.9%
of which: Indirect deposits from institutional customers	6,579,710	6,359,833	219,877	3.5%

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

⁽²⁾ the balance of this item at 30 June 2021 includes the right of use ("RoU Assets") equal to Euro 51.0 million for operating lease contracts falling within the scope of application of IFRS 16 Leases, which came into effect on 1 January 2019

⁽³⁾ the balance of this item does not include the liability recognised in Due to customers for operating lease contracts falling within the scope of application of IFRS 16, which came into effect on 1 January 2019

Income statement ⁽⁴⁾

Amounts in thousands of Euro	30.06.2021	30.06.2020	Change	
			amount	%
Operating income	223,470	192,216	31,254	16.3%
of which: Net interest income	121,131	104,759	16,372	15.6%
Operating costs	132,342	130,550	1,792	1.4%
Result of operations	91,128	61,666	29,462	47.8%
Charges relating to the banking system	6,795	3,443	3,352	97.4%
Profit (loss) from continuing operations after tax	29,268	10,091	19,177	190.0%
Non-recurring profit (loss) after tax	7,575	-493	8,068	n.s.
Net profit (loss) for the period	36,843	9,598	27,245	283.9%

⁽⁴⁾ from the reclassified income statement.



Key figures and ratios

	30.06.2021	31.12.2020	Change amount
Capital/Total assets	6.2%	6.4%	-0.2%
Capital/Loans to customers	9.9%	9.5%	0.4%
Capital/Due to customers	10.2%	9.8%	0.4%
Capital / Debt securities in issue	67.2%	61.8%	5.4%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) ^{(5) (6)}	15.5%	14.7%	0.9%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) ^{(5) (6)}	15.5%	14.7%	0.8%
Total Own Funds/Risk-weighted assets (Total capital ratio) ^{(5) (6)}	15.7%	15.1%	0.7%
Financial assets/Total assets	21.1%	22.6%	-1.5%
Due from banks/Total assets	12.1%	6.6%	5.5%
Loans to customers/Total assets	63.0%	66.9%	-3.9%
Loans to customers/Direct customer deposits	89.9%	88.7%	1.2%
Due to banks/Total assets	19.6%	15.4%	4.2%
Due to customers/Total assets	60.8%	65.1%	-4.3%
Debt securities in issue/Total assets	9.2%	10.3%	-1.1%
Direct customer deposits / Total assets	70.1%	75.4%	-5.3%

	30.06.2021	30.06.2020	Change amount
Cost/Income ratio	59.2%	67.9%	-8.7%
(Operating costs + Charges relating to the banking system)/Operating income (Cost/Income ratio)	62.3%	69.7%	-7.4%
Net interest income/Operating income	54.2%	54.5%	-0.3%
Result of operations/Operating income	40.8%	32.1%	8.7%
Profit (loss) from continuing operations after tax/Capital ^{(7) (8)}	5.5%	3.5%	2.0%
Profit (loss) from operations after tax/Capital ^{(7) (R.O.E.) (8) (9)}	6.3%	2.4%	3.9%
Profit (loss) from continuing operations before tax/Total assets (ROA) ⁽⁸⁾	0.5%	0.3%	0.2%

	30.06.2021	31.12.2020	Change amount
Net doubtful loans/Loans to customers	1.1%	1.1%	-0.1%
Net non-performing loans/Loans to customers	2.6%	2.9%	-0.2%
% Coverage of doubtful loans	63.2%	61.0%	2.2%
% Coverage of doubtful loans, gross of cancellations	64.3%	62.2%	2.0%
% Total coverage of non-performing loans	50.6%	47.5%	3.1%
% Coverage of non-performing loans, gross of cancellations	51.3%	48.4%	2.9%
% Coverage of performing loans	0.77%	0.72%	0.05%

Structure and productivity ratios

	30.06.2021	31.12.2020	Change amount	Change %
Number of employees	2,180	2,179	1	0.0%
Number of branches	239	249	-10	-4.0%
<i>Amounts in thousands of Euro</i>				
Loans and advances to customers per employee ⁽¹⁰⁾	4,993	4,786	207	4.3%
Direct deposits from customers per employee ⁽¹⁰⁾	5,553	5,397	156	2.9%

	30.06.2021	30.06.2020	Change amount	Change %
Operating income per employee ^{(8) (10)}	205	184	21	11.4%
Result of operations per employee ^{(8) (10)}	84	58	26	44.8%

⁽⁵⁾ Consolidated capital ratios for Banco Desio. The ratios for the scope of consolidation for regulatory purposes at Brianza Unione level at 30 June 2021 are: Common Equity Tier1 11.7%; Tier 1 12.5%; Total capital ratio 13.6%.

⁽⁶⁾ Capital ratios at 30.06.2021 are calculated in application of the transitional arrangements introduced by EU Regulation 2017/2395; the ratios calculated without application of these arrangements are the following: Common Equity Tier1 14.8%; Tier 1 14.8%; Total capital ratio 15.0%

⁽⁷⁾ equity excluding net profit (loss) for the period;

⁽⁸⁾ the amount reported at 30.06.2020 is the final figure at the end of 2020;

⁽⁹⁾ the annualised ROE at 30.06.2021 does not take into consideration the annualisation of the Net non-recurring operating profit;

⁽¹⁰⁾ based on the number of employees calculated as a straight average between the end of the period and the end of the preceding period.

The macroeconomic scenario

The macroeconomic picture

International scenario

Despite the presence of critical factors that have not yet been fully resolved, the impact of the pandemic on global economic activity is beginning to ease; however, this is revealing a significant level of geographic differentiation which depends on a wide variety of elements such as demographic factors, the level of development, effectiveness of containment strategies and vaccination campaigns, the intensity of compensatory fiscal measures and the spread of new variants.

The vaccination campaign is boosting the resilience of the health system, becoming a deciding factor for economic recovery. However, most emerging countries remain on the sidelines of the process and, among the advanced ones, Europe and Japan have a larger gap to recover than the United States. In the coming months, the availability of vaccines will probably expand with the introduction of new products and the flow of daily administrations is expected to intensify. However, the doses administered cover just over 5% of the world population.

The support of expansionary, monetary and budgetary government measures has so far contained permanent damage even if, on the supply side, the recovery is still very uneven between sectors with capacity utilisation levels below the pre-crisis levels and therefore potentially still with a high risk of insolvency and structural downsizing. The countries most dependent on international tourism are suffering the most detrimental effects. On the employment front, government support measures will dilute the effects, not yet fully deployed, caused by the fall in demand, with an accentuation of inequalities in income distribution over longer periods of time.

While the situation seems to be slowly improving from the health point of view, there are still limitations and restrictions, in particular on travel between countries, with consequent implications for air transport and tourism; moreover, maintaining social distancing affects companies' productivity, in many cases requiring an organisational rethink, not at zero cost. On the investment front, the high level of uncertainty about demand due to households' still low propensity to consume and the reduction in profit margins are holding back business investments.

United States

In the first quarter of 2021, the United States' GDP increased by +1.6% on the previous quarter, bringing it back to the level at the end of 2019 and continuing the positive trend seen in the fourth quarter of 2020 (+1% on a quarterly basis). The improvement in the labour market continues, while maintaining a significant distance from the pre-crisis level, despite the fact that there are plenty jobs in the offing. The probability of a generalised increase in prices is growing, in conjunction with the reduction of the pandemic emergency, due to a probable temporary inadequacy of supply and the possibility that sales prices will be increased to expand profit margins after a disappointing year like 2020. Inflation is expected to reach 3.8% in 2021, and then drop to 3% in 2022. After approval of the American Rescue Plan (the plan approved by Congress and wanted by President Biden which provides for 1.9 trillion dollars in aid to the economy), on top of the 900 billion dollars approved at the end of December 2020 and the 2,450 billion introduced by the Trump administration in 2020, an investment plan of 900 billion over ten years focused on infrastructure and



combating climate change seems to be on its way. The economic support plans are expected to boost GDP growth by around +2.5 percentage points in 2021 and +1.8 percentage points in 2022, bringing average annual growth to +6.7% this year and +4.3% in 2022.

Japan

After a 2.8% recovery in growth in the fourth quarter of 2020, in the first quarter of 2021 there was a decrease in Japan's GDP of -1% compared with the previous quarter, mainly due to the dynamics of domestic demand. In fact, the state of emergency that characterised the first quarter of 2021 together with the slow start of the vaccination campaign reduced consumption (-1.5%) and the climate of confidence amongst households. The effect on consumption will also be penalised by the effects on the current balance linked to the Olympic Games which will be held without the presence of any foreign tourists. Despite weak consumption, the situation of Japanese industry is improving: its characteristics combined with the recovery in foreign markets has favoured the growth in industrial output (+2.5% in April). In particular, the Japanese economy will maintain the important growth supports for 2021 stemming from the performance of the Chinese economy and the broad US fiscal stimulus, although there is a risk that the shortage of electronic components could hamper supply. Despite an expected economic slowdown also in the second quarter, the support policies approved in December 2020, the additional public support approved in March 2021 and the accommodative monetary policy will continue to safeguard growth prospects. GDP in 2021 is expected to grow by +3.7%, while inflation should rise slightly above parity to +0.7%.

Emerging Economies

After a 2020 that saw a negative change in GDP in the main emerging countries as well (except for China, which grew by +2.2%), a robust increase in GDP is expected for 2021; critical issues could emerge from inflation which is expected on the rise (again with the exception of China).

After growth of more than +3% in the fourth quarter of 2020, China decelerated in the first quarter of 2021 (+0.6%). The trend figures at the beginning of 2021, although not easy to interpret compared with those at the beginning of 2020 due to the pandemic period, show sustained growth: GDP is up by +18.3% with a contribution related to consumption (+11.6%) and net exports (+2.2%). In the following months, despite the slowdown witnessed by the main economic indicators, the growth of the Chinese economy can be considered robust. The Purchasing Managers' Index (PMI) for manufacturing and services points to strong growth over the course of 2021. In particular, manufacturing will be driven by exports. Critical issues could be generated by the growing scarcity of products that has lengthened delivery times, generating bottlenecks and increasing the cost of primary goods (inputs). As for inflation, albeit on the rise in May (+1.3%), it remains far from the objectives of the central bank which, for now, is not willing to change monetary policy. After a period of expansion, fiscal policy is moving towards normalisation. While maintaining some measures for the sectors most affected, it will remove support for growth, bringing it back to around +5% in the medium term. For 2021, GDP is expected to grow by +8.7%, while inflation could be around +2.3%

In India GDP grew by 1.6% in the first quarter. In the second quarter there was a resumption of the pandemic which proved even more violent in its effects. The PMI has fallen sharply, only health developments and the progress of the vaccination campaign will determine the speed of exit from this phase of the economy. Despite inflation at +6.3% in May, monetary policies to support the economy are continuing, based on this

uncertainty: a restrictive intervention could, in fact, be premature and dangerous. Also from a fiscal point of view, the main expenses foreseen in the budget could be brought forward to continue the investment stimulus. The forecasts for 2021 see a +7.2% increase in GDP and inflation which will remain at high levels (+5.9%, up from +4.0% in 2020).

In Brazil GDP in the first quarter of 2021 rose by +1.2%, down on +3.2% in the fourth quarter of 2020. The slowdown in growth is attributable to the second wave of the pandemic which caused an increase in infections and deaths. Investments are on the rise (+4.6% on the previous period), whereas private consumption is at a standstill. The global recovery may favour the recovery of the Brazilian economy; however, it will have to deal with high interest rates, inflation expected at +7.0% at the end of 2021 and high unemployment. For 2021, however, a +5.6% increase in GDP is expected. In Russia GDP is substantially stable year-on-year, whereas the headline rate is down by -0.7%. The recovery is being driven by manufacturing and the sectors exposed to health problems, while the extractive sector continues to contract due to the OPEC agreements that limit production quotas. Inflation in May hit a 5-year high at +6%. For this reason, the Central Bank has tightened monetary policy, while there is still room for manoeuvre for fiscal policies to support the economy. The GDP increase forecast for 2021 is +3.1%, while inflation is expected to rise to +5.7% compared with +4.2% in 2020.

Eurozone

In the first quarter of 2021 GDP in the Eurozone decreased by -0.3% compared with the previous quarter, with a headline rate of -1.3%. Within the Zone, economic activity was very heterogeneous due to the different types of restrictions adopted by individual member countries. The only country not to record a contraction in GDP was Italy, where the recovery began in February.

In Germany GDP in the first quarter of 2021 recorded a q/q fall of -1.8%, due to a strongly negative contribution from domestic demand (-2.7%) and foreign demand (-0.7%), while inventories have had a positive impact (+1.6%). The manufacturing sector continues its recovery path while the service sector is suffering a hefty decline (-0.9%). In France GDP in the first quarter of 2021 did not grow (-0.1%) compared with the previous quarter. With the exception of imports, the components of demand are stagnating. Moderate growth can be seen only for the manufacturing and construction sectors, while the private services sector has contracted (-0.4%). In Spain GDP in the first quarter decreased by -0.4% compared with the last quarter of 2020. The country remains the furthest away from its pre-pandemic levels (-9.3%). The contribution of domestic demand is negative (-0.7%), the foreign component remains unchanged while inventories contribute positively (0.3%). Investments also fell, especially those in construction and means of transport. On the supply side, the country is the only one with an improvement in the private services sector, while the agricultural and manufacturing sectors have contributed negatively to GDP.

The GDP of the Eurozone is expected to grow by +4.3% in 2021: the global economic recovery and the EU Next Generation Plan will lead to a predictable rebound of all European economies and inflation at +1.8%. Just as the recession within the Zone has shown a high degree of heterogeneity between member countries, the recovery will also be very different between the major economies. GDP growth of +3.2% is expected in Germany, while more sustained growth is expected in France and Spain, at +5.2% and +5.6% respectively.

Italy

After an overall decline of -8.9% at the end of 2020, Italy's GDP shows q/q growth of +0.1% in the first quarter of 2021. Domestic demand continues to contribute negatively to GDP (-0.1%), as does foreign demand (-0.5%). Positive contributions, on the other hand, come from the change in inventories and investments (both



+0.7%). The drop in domestic demand reflects the decline in household consumption (-0.7%). On the supply side, the first quarter presents very different results from sector to sector: the strong growth in construction continues, the manufacturing component is also improving, while private services are still slipping (-0.4%). The sectors most penalised are those of trade, motor vehicle and motorcycle repairs, logistics and accommodation/catering services. Financial and insurance activities and those of information and communication, on the other hand, are holding up. The dynamics of professional, technical and scientific activities maintained their positive trend (+4.3%) which as a result turned in growth for the third consecutive quarter. Rising unemployment (in April 2021 it stood at 10.7%, up from 10.4% the previous month and 7.4% twelve months earlier) reflects the weakness of the labour market. As is well known, the blocking of dismissals with recourse to the state redundancy fund has allowed companies to keep their staff employed while reducing the hours worked in various ways. The employment rate is also stable compared with the previous month, coming in at 56.9% (56.8% the previous month; 57% a year earlier).

For 2021, GDP is expected to grow by +5.3% while inflation is forecast at +1.5%. The unemployment rate is expected to stand at 10.7%.

Capital markets and the banking system in Italy

Money and financial markets

On 10 June 2021, the ECB confirmed the interest rates (zero the reference rate, -0.50% on deposits). The Governing Council confirmed the endowment of the Anti-Pandemic Crisis Purchase Programme (PEPP) at 1,850 billion euro, together with a forecast that it will continue net purchases "at least until the end of March 2022 and, in any case, until the critical phase of the pandemic is deemed concluded". The Federal Reserve confirmed its monetary policy in its meeting at the end of April 2021. The rates therefore remained unchanged between 0% and 0.25%. The US central bank has confirmed that it will keep interest rates at these levels until the economy reaches full employment and the inflation rate stabilises at 2% over the long term.

In the first ten days of June, the 3-month Euribor was negative again (-0.54 unchanged m/m); the 10-year IRS rate, on the other hand, was 0.11% (vs. 0.14% in May). On the bond market, 10-year benchmark rates grown in the USA (1.61%, having been 0.86% at the end of 2020) and in the Eurozone; in Germany, the benchmark rate came to -0.17% (from -0.53% at the end of 2020), while in Italy it was 0.71% (from 0.63%).

International share prices mainly grew on a monthly basis. The Dow Jones Euro Stoxx index rose by +1.4% m/m (+28% y/y), the Standard & Poor's 500 index rose by +0.8% (+43% y/y) and the Nikkei 225 index fell by -2.9% (+40% y/y). The major European stock market indices improved during the month; the FTSE Mib rose by +0.8% (+42% y/y), in France the CAC40 rose by +2.4% (+41% y/y), while in Germany the DAX30 rose by +0.6% (+39% y/y). The main banking indices tended to be rising on a monthly basis: the Italian FTSE Banks index rose by +6.8% m/m (+59% y/y), the Dow Jones Euro Stoxx Banks by +8.9% m/m (+59% y/y) and the S&P 500 Banks rose by +6.4% m/m (+83% y/y).

Banking markets

With regard to the banking market, in the first quarter 2021, the annual trend in deposits from resident customers increased (+6.8%). Internally, short-term deposits continued to grow (+8.9%, +10.5% at the end of 2020), while bonds decreased (-8.1%, -8.3% at the end 2020). The rise in volumes was accompanied by a slight fall in the overall remuneration (0.47%, compared with 0.49% at the end of 2020). In terms of lending, the latest available data confirms the positive trend in loans to the private sector (+3.3%, compared with

+4.7% at the end of 2020) thanks to the continuation of the economic measures envisaged by the Liquidity Decree; the sector has been driven by loans to businesses (+4.6%, +8.1% at the end of 2020), and to a lesser extent by loans to households (+4.0%, +2.2% at the end of 2020). Lending to the productive sector anyway influenced by the trend in investments and the economic cycle remains muted, despite the public support put in place following the Covid emergency. In June rates on loans to households and businesses remained very low (2.20%). Within them, the interest rate on home purchase loans to households was 1.44% (1.25% in December 2020), while for loans to businesses it came to 1.16% (1.38% at the end of 2020).



The distribution network

The Banco Desio Group is present in Italy in 10 regions (Lombardy, Piedmont, Veneto, Emilia Romagna, Liguria, Umbria - as Banca Popolare di Spoleto - Lazio, Tuscany, Marche and Abruzzo).

The distribution network of the Banco Desio Group at 30 June 2021 consists of 239 branches, compared with 249 at the end of the previous year. In the first half of 2021, 10 branches were closed: Roma La Storta, Collazzone Collepepe, Terni Borgo Rivo, Perugia Briganti, Foligno La Paciana, Città di Castello Riosecco, Perugia S.Egidio, Castel Ritaldi La Bruna, Arrone and Bologna Santa Viola.

Greater efficiency within the distribution network is a key element of the 2021-2023 Business Plan, continued in July with the closure of 5 branches (Rescaldina, Cannara, Montepulciano, Scheggino and Visso).

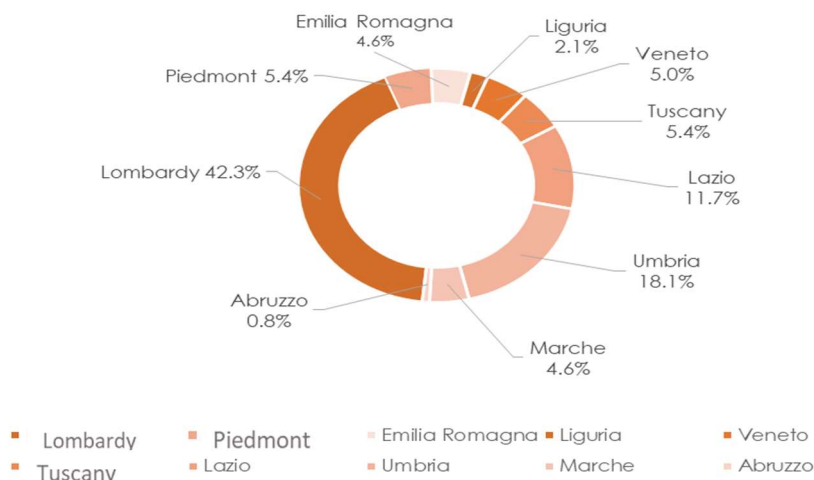
In order to respond more and more pro-actively to customers' needs, primary importance is given to the continuous evolution of the Distribution Model, to be implemented through an integrated "omnichannel" approach, offering our customers each product/service with the desired channel and with increasingly flexible methods. The organisational model envisages:

- the organisation of 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 Business Account Managers (formerly Corporate Account Managers) and the Branch Network;
- Private Bankers reporting hierarchically and functionally to the Wealth Management Area.

The most characteristic event of the first half of 2021 was the review of the organisational structure and service model of the Bank's Commercial Network which led not only to a reduction in the Bank's territorial areas from 13 to 8, but also the definition of new roles at Territorial Area level (Head of the Business Area, Retail Specialists, Personal Account Manager) and at branch level, with the launch of the segment represented by the Small Business Account Manager and a review of the role of the Individuals Account Manager; in particular, the "renewed" segment represented by the Individuals Account Manager involved - from a professional development perspective - the appointment of about 60 new Individuals Account Manager.

The following chart shows the breakdown of the Company's distribution network by region.

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



Significant events

Approval of Banco Desio's financial statements and allocation of the 2020 result

The Ordinary Shareholders' Meeting of 15 April 2021 approved the financial statements at 31 December 2020. In this context, the Shareholders' Meeting has approved the distribution to shareholders of a dividend of Euro 0.0603 for each of the 122,745,289 ordinary shares and of Euro 0.0724 for each of the 13,202,000 savings shares. In accordance with the Recommendation of the Bank of Italy of 16 December 2020, payment may possibly be made after 30 September 2021 if allowed by the legislative/regulatory framework and/or by the recommendations of the Prudential Supervisory Authority, as positively assessed by the Board of Directors and subsequently by the Shareholders' Meeting and, in any case, in compliance with the Recommendations issued from time to time.

Payment of part of the dividend for 2019

In compliance with the maximum limit on the payment of dividends referred to in the Bank of Italy's Recommendation equal to the lower of 15% of cumulative profits made in 2019-20 or 20 basis points of the CET1 ratio, the Shareholders' Meeting on 15 April passed a resolution, based on the net profit for 2019 destined to the shareholders (as resolved by the Shareholders' Meeting of 23 April 2020), the payment to shareholders of a total dividend of Euro 9,410,368.12 (equal to Euro 0.0679 for each of the 122,745,289 ordinary shares and Euro 0.0815 for each of the 13,202,000 savings shares), with an ex-coupon date (coupon no. 29) of 19 April 2021, a record date of 20 April 2021 and a payment date of 21 April 2021.

The residual amount of the net profit for 2019 destined to the shareholders (as resolved by the Shareholders' Meeting of 23 April 2020), equal to Euro 4,948,372.62 (Euro 0.0357 for each of the 122,745,289 ordinary shares and 0.0429 for each of the 13,202,000 savings shares) may possibly be paid after 30 September 2021 if allowed by the regulatory framework and/or by the recommendations of the Prudential Supervisory Authority, as positively assessed by the Board of Directors and subsequently by the Shareholders' Meeting and, in any case, in compliance with the instructions issued from time to time by the Bank of Italy.

Sale of the investment in Cedacri S.p.A.

On 5 March 2021, the shareholders of Cedacri, the main Italian operator in the IT services outsourcing market for banks and financial institutions, signed a binding agreement which provides for the sale of their respective shareholdings to ION. Considering that the shareholding was sold on 3 June, the buyer (the newco Cedacri Mergeco S.p.A.) paid the Bank the agreed sum of Euro 114.7 million, the final sale price used for the valuation of the shares held (stake of 10.072%) as a contra-entry to the valuation equity reserve before turning the latter into a specific reserve of retained earnings due to the realization event with simultaneous cancellation of the shareholding.

As regard the costs incurred for completion of the sale, charges of Euro 1 million were recognised under caption "190.b Other Administrative Costs".

Participation in TLTRO 3

In March 2021, the Bank participated in the TLTRO III auction for an amount of Euro 1.0 billion, thus bringing the total of TLTRO III loans in place to Euro 3.4 billion.

Proposal for the mandatory conversion of savings shares into ordinary shares

In order to comply with the recommendations of the "Opinion of the European Banking Authority on the prudential treatment of legacy instruments", EBA/Op/2020/17, 21 October 2020, achieving, in summary, a simplification of the capital structure and governance of the Company, the Board of Directors of Banco Desio (the "Company"), which met on 17 June 2021, resolved to submit to the Shareholders' Meeting a



proposal for the mandatory conversion of the savings shares into ordinary shares (the "Conversion"), with the simultaneous elimination of the par value of the shares and related amendments to the Articles of Association. The proposal provides for a conversion ratio of:

- 0.88 ordinary shares for each savings share in the event of prior distribution of 2019 dividends (for the undistributed part) and 2020 dividends (so-called "ex dividend"); or
- 0.90 ordinary shares for each savings share in the event of no prior distribution of 2019 dividends (for the undistributed part) and 2020 dividends (so-called "cum dividend"),

in the terms specified below. There is not expected to be a balance payable in cash.

The Board of Directors therefore resolved to call an Extraordinary Shareholders' Meeting on 4 October 2021, at first calling and, if necessary, on 5 October 2021, at second calling, for the approval of the mandatory Conversion proposal, elimination of the par value of the shares and the related amendments to the articles of association, as well as the further amendments to the Articles of Association explained towards the end of this report. In accordance with the law and the Articles of Association, a Special Meeting of the Savings Shareholders to vote on the Conversion and the related amendments to the Articles of Association was convened by the Board of Directors on the same dates.

In terms of capital, the Conversion is expected to give a marginally positive effect overall on the fully loaded coefficients of the "CRR" Brianza Unione Group - in the hypothesis of full conversion, essentially due to a marginal increase in the portion of Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A¹ that would be included in the consolidation.

It should be noted that, in consideration of the Bank of Italy's emergency recommendations which first prohibited and more recently limited the possibility for banks to distribute dividends, as per the resolution of the Company's Shareholders' Meeting of 15 April 2021 to which reference should be made - part of the 2019 and 2020 dividends respectively due pursuant to the Articles of Association to the ordinary shares and savings shares may be paid after 30 September 2021 where permitted by the legislative and regulatory framework and by the Supervisory Board's recommendations and positively assessed by the corporate bodies of Banco Desio. Therefore, the methods and timing, as well as the terms of the Conversion are related to those of the dividend payment: taking into account that the Conversion is expected to be completed by 31 December 2021 for the reasons set out above, two alternative conversion ratios have been calculated, depending on whether the effective date of the Conversion is subsequent to the payment of dividends (so-called conversion ratio *ex dividend*) or whether the dividends have not yet been paid at the effective date of the Conversion (so-called conversion ratio *cum dividend*).

In both of these hypotheses, the conversion ratio was determined by the Board of Directors with the help of a report by the independent financial consultant EY Advisory S.p.A., appointed by the Company. The conversion ratio incorporates an implicit premium on the price of the savings shares by placing itself (both *ex dividend* and *cum dividend*) above a market range that from an analysis of stock market prices is between 0.79x and 0.85x *ex dividend* and between 0.80x and 0.86x *cum dividend*.

The Conversion is subject to the issue (before approval by the Extraordinary Shareholders' Meeting) of the Bank of Italy's assessment provision, pursuant to art. 56 and 61 of the Consolidated Law on Banking, regarding the amendments to the Articles of Association relating to the Conversion; if approved by the Extraordinary Shareholders' Meeting, the Conversion will be effective on condition that it is also approved

¹ As a result of the Conversion, the consolidated portion pursuant to art. 11 and 99 of the EU Regulation 575/2013 ("CRR") of Brianza Unione would prospectively increase from 49.882%, as reported at the date of the board resolution, to 49.933% in the hypothesis of conversion "cum dividend" (conversion ratio 0.9x) or 49.944% in the hypothesis of conversion "ex dividend" (conversion ratio 0.88x).

by the Special Meeting of the Savings Shareholders. Banco Desio will announce the fulfilment or non-fulfilment of these conditions in the manner required by law.

The Conversion proposal makes it advisable to eliminate the par value of the Company's shares in order to avoid a reduction in capital due to the Conversion. In any case, the lack of a par value for the shares is an element of flexibility in the configuration of the items that make up shareholders' equity and in transactions involving the share capital.

Since the resolution approving the Conversion involves an amendment to the Articles of Association concerning the voting and participation rights of the outstanding savings shares, the savings shareholders who have not taken part in approving the resolution of the Special Meeting will be entitled to exercise a right of withdrawal pursuant to art. 2437, paragraph 1, letter g), of the Italian Civil Code. The liquidation value of each savings share has been calculated in accordance with art. 2437-ter paragraph 3 of the Italian Civil Code and set at Euro 2.422, which is the average of the closing prices of the Company's savings shares on the market in the six months preceding the date of publication of the notice calling the Special Meeting of the Savings Shareholders (which took place on 17 June 2021).

Should certain Savings Shareholders exercise the right of withdrawal, it will be necessary to liquidate their shareholdings according to the liquidation procedure provided for in art. 2437-*quater* of the Italian Civil Code. In the context of this procedure, the Company may be required to repurchase the shares of withdrawing Shareholders that have not been purchased by the other Shareholders to whom they will be offered under option in accordance with the law or placed on the market at the liquidation value. In light of this, the authorisation to dispose of any shares purchased in the context of this procedure also has to be submitted to the Extraordinary Shareholders' Meeting.

If approved by the Shareholders' Meetings and there are no withdrawals, the Conversion will result in a maximum dilution of the voting rights of the ordinary Shareholders of 9.46% in the hypothesis of a conversion ratio *ex dividend* and 9.68% in the hypothesis of a conversion ratio *cum dividend*.

It should be noted that the controlling shareholder Brianza Unione di Luigi Gavazzi and Stefano Lado S.A.p.A. (at 15 June 2021, owner of a stake representing 50.44% of the ordinary shares and 44.69% of the savings shares) has communicated to Banco Desio that: (i) it intends to vote at the Shareholders' Meetings of the Company in favour of the Conversion proposal and the related resolution proposals and (ii) in compliance with the relevant legislation, particularly on internal dealing and blocking periods, it intends to purchase on the market sufficient ordinary and/or savings shares of Banco Desio to maintain its controlling interest by law, also as a result of the dilution deriving from the Conversion.

At 30 June 2021, the controlling shareholder announced, in accordance with the applicable provisions, that it had acquired sufficient ordinary and savings shares to give it an overall post-conversion stake equal to 50.012% in the hypothesis of a conversion ratio of 0.88x and 50.002% in the hypothesis of a conversion ratio of 0.90x.

Also taking the above into account, no significant changes in the ownership structure of the Company are expected as a result of the Conversion.

As a result of these purchases, the consolidation quota pursuant to art. 11 and 99 of the EU Regulation 575/2013 (CRR) stands at 49.96% at the reference date of 30 June 2021 (50.47% for the ordinary shares and 45.15% for the savings shares).

Death of a Director

The Director Egidio Gavazzi passed away on 19 June 2021. The replacement resolution was remitted by the Board of Directors directly to the Ordinary Shareholders' Meeting, which is already scheduled to be called for 4 October 2021.



Step-up of carrying amounts of goodwill and property

Art. 110, para. 8 and para. 8-bis, of Legislative Decree 104/2020 (the so-called "August Decree") provided for the possibility of realigning the tax values to the higher statutory carrying amounts of business assets, by subjecting the difference to a 3% substitute tax for Ires, the Ires surcharge and Irap.

The Bank did all that was necessary to exercise the option to step up the tax values of goodwill and property to their higher carrying amounts as approved by the Board of Directors on 24 June. The effects were recognised in June with the payment of the substitute tax. Given that the option for the realignment will be resolved after the date of approval of the financial statements at 31 December 2020, the restriction on reserves will have to be established at the next Shareholders' Meeting. The realignment of goodwill and property resulted in the overall recognition in the income statement of revenue of Euro 9.4 million under item 300 (Income taxes on current operations).

Start of inspection

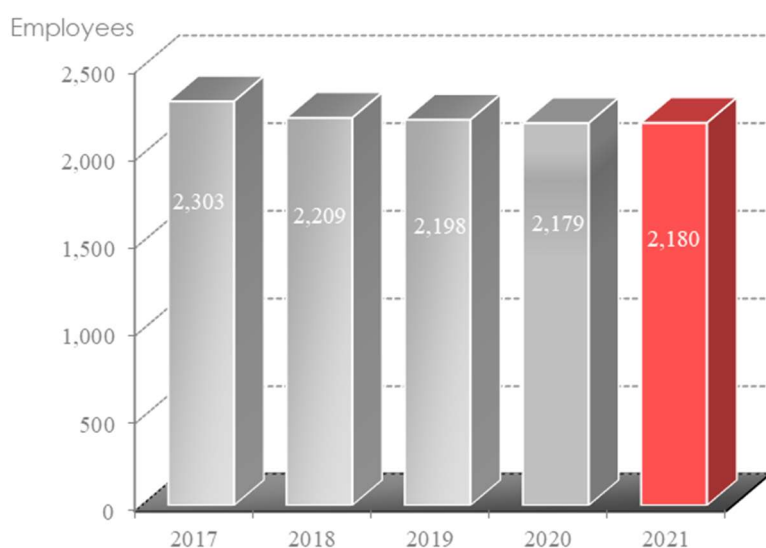
As part of its campaign of themed inspections for 2021, on 28 June 2021 the Bank of Italy began an inspection aimed at assessing compliance with the anti-money laundering legislation, with specific reference to customers benefiting from loans guaranteed by the State.

Human resources

At 30 June 2021, the Group had 2,180 employees, an increase of 1 person compared with the end of the previous period.

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

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



The following table provides a breakdown of employees by level at the end of the first half of the year, compared with 2020.

Table no. 1 - BREAKDOWN OF GROUP EMPLOYEES BY LEVEL

No. Employees	30.06.2021		31.12.2020		Change	
		%		%	Amount	%
Managers	32	1.5%	35	1.6%	-3	-8.6%
3rd and 4th level middle managers	466	21.4%	467	21.4%	-1	-0.2%
1st and 2nd level middle managers	572	26.2%	566	26.0%	6	1.1%
Other personnel	1,110	50.9%	1,111	51.0%	-1	-0.1%
Group employees	2,180	100.0%	2,179	100.0%	1	0.0%

As a result of the Agreement signed with the trade unions on 26 November 2020, 43 Banco Desio employees have left the Bank as they have been able to access the Solidarity and/or Retirement Fund from 1 July 2021.



Results of operations

Savings deposits: customer funds under management

Total customer funds under management at 30 June 2021 reached Euro 29.5 billion, representing an increase for some Euro 1.2 billion with respect to the 2020 year end balance (4.3%), attributable to the upward trend in both indirect (+5.6%) and direct deposits (+2.5%).

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

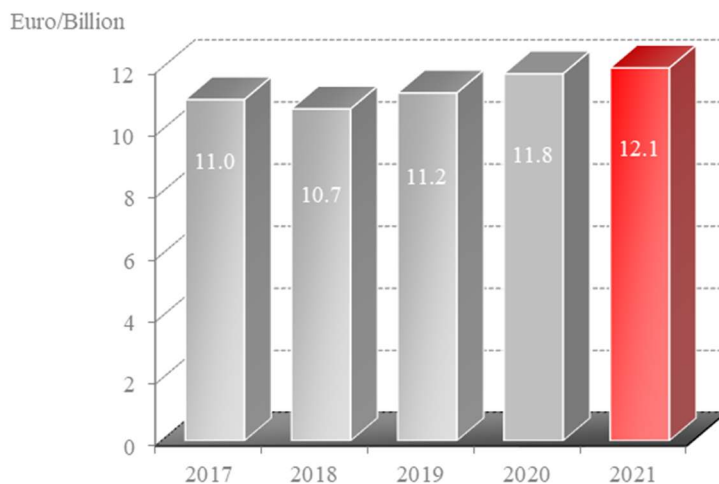
Table no. 2 - TOTAL CUSTOMER DEPOSITS

Amounts in thousands of Euro	30.06.2021		31.12.2020		Change	
		%		%	Amount	%
Due to customers	10,506,316	35.6%	10,203,490	36.0%	302,826	3.0%
Debt securities in issue	1,596,923	5.4%	1,608,927	5.7%	-12,004	-0.7%
Direct deposits	12,103,239	41.0%	11,812,417	41.7%	290,822	2.5%
Ordinary customer deposits	10,857,552	36.8%	10,160,527	35.9%	697,025	6.9%
Institutional customer deposits	6,579,710	22.2%	6,359,833	22.4%	219,877	3.5%
Indirect deposits	17,437,262	59.0%	16,520,360	58.3%	916,902	5.6%
Total customer deposits	29,540,501	100.0%	28,332,777	100.0%	1,207,724	4.3%

Direct deposits

Direct deposits at the end of the first half amounted to Euro 12.1 billion, an increase of 2.5% which comes from the higher amounts due to customers of Euro 0.3 billion (+3.0%), partially offset by a reduction in debt securities in issue (-0.7%). The trend in direct deposits in recent years is shown in the following chart.

Graph no. 3 - TREND IN DEPOSITS IN RECENT YEARS



Indirect deposits

Overall, at 30 June 2021 indirect deposits posted an increase of 5.6% compared with the end of the previous year, coming in at Euro 17.4 billion.

In particular, the trend is attributable to deposits from institutional customers (+3.5%), as well as to deposits from ordinary customers (+6.9%) thanks to the performance of assets under management (+8.0%) and assets under administration (+4.4%).

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

Table no. 3 - **INDIRECT DEPOSITS**

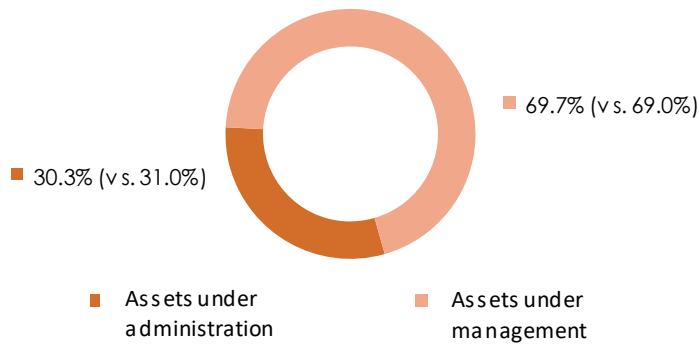
Amounts in thousands of Euro	30.06.2021		31.12.2020		Change	
		%		%	Amount	%
Assets under administration	3,288,898	18.9%	3,150,381	19.1%	138,517	4.4%
Assets under management	7,568,654	43.4%	7,010,146	42.4%	558,508	8.0%
<i>of which: Mutual funds and Sicavs</i>	3,899,863	22.4%	3,444,821	20.8%	455,042	13.2%
<i>Managed portfolios</i>	1,063,808	6.1%	1,007,369	6.1%	56,439	5.6%
<i>Bancassurance</i>	2,604,983	14.8%	2,557,956	15.5%	47,027	1.8%
Ordinary customer deposits	10,857,552	62.3%	10,160,527	61.5%	697,025	6.9%
Institutional customer deposits⁽¹⁾	6,579,710	37.7%	6,359,833	38.5%	219,877	3.5%
Indirect deposits⁽¹⁾	17,437,262	100.0%	16,520,360	100.0%	916,902	5.6%

(1) institutional customer deposits include securities of the Bancassurance segment of ordinary customers for Euro 2.5 billion (Euro 2.6 billion at 31.12.2020).

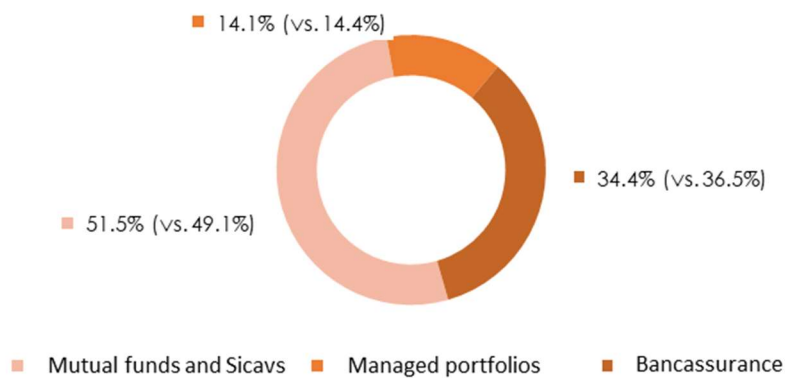


The graph below shows the breakdown of indirect deposits from ordinary customers by sector at 30 June 2021. The subsequent chart focuses on the composition of assets under management in the same period, highlighting how mutual funds and Sicavs are increasing in particular.

Graph no. 4 - BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 30.06.2021



Graph no. 5 - BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 30.06.2021

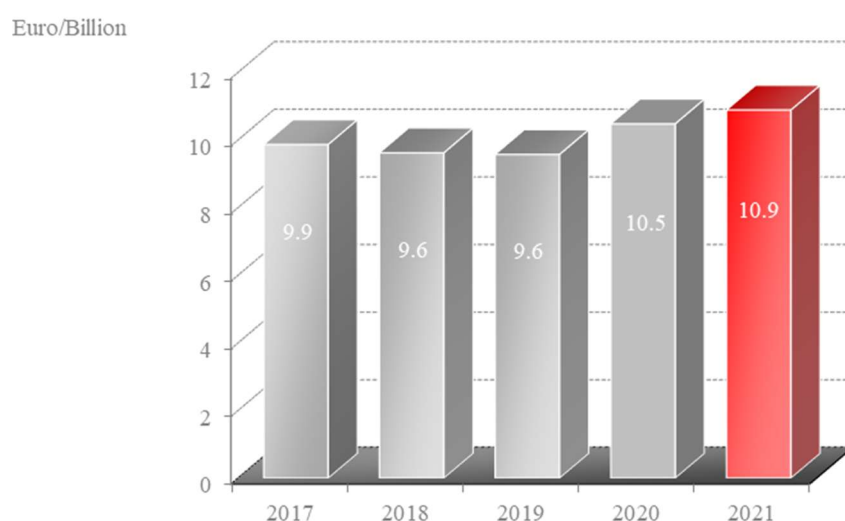


Loans to customers

The value of loans to ordinary customers² at 30 June 2021 amounted to Euro 10.9 billion, up on the previous year's balance (+3.9%), due to the continuation of the derisking of the portfolio in place since last year thanks to the disbursements of new liquidity (mortgages and medium/long-term loans) to companies with guarantees from Medio Credito Centrale and SACE.

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

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



The following table gives a breakdown of loans to customers by type at 30 June 2021 (compared with 31 December 2020), which shows a growth in medium/long-term mortgages and loans.

Table no. 4 - LOANS TO CUSTOMERS

Amounts in thousands of Euro	30.06.2021		31.12.2020		Change	
	Amount	%	Amount	%	Amount	%
Current accounts	979,897	9.1%	948,828	9.1%	31,069	3.3%
Mortgages and other long-term loans	9,152,851	84.1%	8,751,801	83.6%	401,050	4.6%
Other	749,795	6.8%	772,599	7.4%	-22,804	-3.0%
Loans to customers	10,882,543	100.0%	10,473,228	100.0%	409,315	3.9%
- of which non-performing loans	283,722	2.6%	305,020	2.9%	-21,298	-7.0%
- of which performing loans	10,598,821	97.4%	10,168,208	97.1%	430,613	4.2%

The Credit Department, with the support of the Risk Management Department, continued to implement the initiatives to really support the financial needs of businesses and households, including the extensive public credit guarantee programmes, granting legislative moratoria and internal initiatives. The Bank has also

² Excluding non-performing loans of Euro 2.4 million (net) classified as "assets held for sale" as they were sold in July.



adopted specific control measures in order to analyse the trend of the loan portfolio in relation to the negative impacts deriving from the Covid-19 health emergency.

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

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

<i>Number of customers</i>	30.06.2021	31.12.2020
First 10	1.15%	1.16%
First 20	1.91%	1.90%
First 30	2.53%	2.55%
First 50	3.62%	3.61%

The total amount of net non-performing loans made up of doubtful loans, unlikely-to-pay loans as well as past due and/or overdrawn exposures, was Euro 283.7 million, net of loan loss adjustments of Euro 290.0 million, with a decrease by Euro 21.3 million compared with Euro 305.0 million at the end of 2020 due to an increase in the coverage of NPLs and disposal transactions put in place in the period. In particular, net doubtful loans totalled Euro 116.2 million, unlikely to pay, Euro 161.6 million and non-performing past due and/or overdrawn exposures Euro 5.9 million.

The following table summarises the gross and net indicators of credit risk and the related coverage level, which show a further reduction in the ratio of "gross non-performing loans/gross loans" to 5.1% and "net non-performing loans/net loans" to 2.6%.

Table no. 6 - INDICATORS OF CREDIT RISK VERSUS CUSTOMERS AND RELATED COVERAGE

Amounts in thousands of Euro	30.06.2021					
	Gross exposure	% of total loans and receivables	Write-downs	Coverage ratio	Net exposure	% of total loans and receivables
Doubtful loans	315,842	2.8%	(199,680)	63.2%	116,162	1.1%
Unlikely to pay	251,647	2.2%	(89,998)	35.8%	161,649	1.5%
Past due impaired loans	6,278	0.1%	(367)	5.8%	5,911	0.1%
Total non-performing loans	573,767	5.1%	(290,045)	50.6%	283,722	2.6%
Exposures in stage 1	8,116,480	72.1%	(16,942)	0.2%	8,099,538	74.4%
Exposures in stage 2	2,564,379	22.8%	(65,096)	2.5%	2,499,283	23.0%
Performing exposures	10,680,859	94.9%	(82,038)	0.77%	10,598,821	97.4%
Total loans to customers	11,254,626	100.0%	(372,083)	3.3%	10,882,543	100.0%

Amounts in thousands of Euro	31.12.2020					
	Gross exposure	% of total loans and receivables	Write-downs	Coverage ratio	Net exposure	% of total loans and receivables
Doubtful loans	300,886	2.8%	(183,444)	61.0%	117,442	1.1%
Unlikely to pay	278,106	2.6%	(92,096)	33.1%	186,010	1.8%
Past due impaired loans	1,730	0.0%	(162)	9.4%	1,568	0.0%
Total non-performing loans	580,722	5.4%	(275,702)	47.5%	305,020	2.9%
Exposures in stage 1	7,880,023	72.8%	(17,311)	0.2%	7,862,712	75.1%
Exposures in stage 2	2,362,280	21.8%	(56,784)	2.4%	2,305,496	22.0%
Performing exposures	10,242,303	94.6%	(74,095)	0.72%	10,168,208	97.1%
Total loans to customers	10,823,025	100.0%	(349,797)	3.2%	10,473,228	100.0%

All indicators show improved coverage compared with the prior year.

The increase in non-performing past due loans compared with 31 December 2020 is affected by application of the new European supervisory regulations on the classification of "debtors in default", in force since 1 January 2021, because of the more restrictive thresholds in the calculation of past due loans and the propagation effect from the Parent Company to the subsidiary Fides S.p.A. (calculation of exceeding the thresholds at Group level).



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.

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

<i>% Coverage of non-performing and performing loans</i>	30.06.2021	31.12.2020
% Coverage of doubtful loans	63.22%	60.97%
% Coverage of doubtful loans, gross of cancellations	64.26%	62.23%
% Total coverage of non-performing loans	50.55%	47.48%
% Coverage of non-performing loans, gross of cancellations	51.33%	48.37%
% Coverage of performing loans	0.77%	0.72%

The securities portfolio and interbank position

Securities portfolio

At 30 June 2021, the Group's total financial assets amounted to Euro 3.6 billion, an increase of some Euro 0.1 billion compared with the end of 2020 (+2.9%). Long-term investment policy (held to collect portfolio) is characterised by a significant exposure to Italian government securities, albeit with participation in primary market operations on a select number of corporate issuers. The diversification policy continued with the inclusion in the portfolio of some tranches of Asset Backed Securities (ABS) with a low risk profile and low capital absorption.

Expectations for a prolonged period of accommodative monetary policy determined the conditions for increasing the duration of the portfolios, bringing it to 3.04 years for the HTC Portfolio at the end of the half year (from 2.32 at the end of the year) and for the HTCS Portfolio to 1.95 years (from 1.80 at the end of the year).

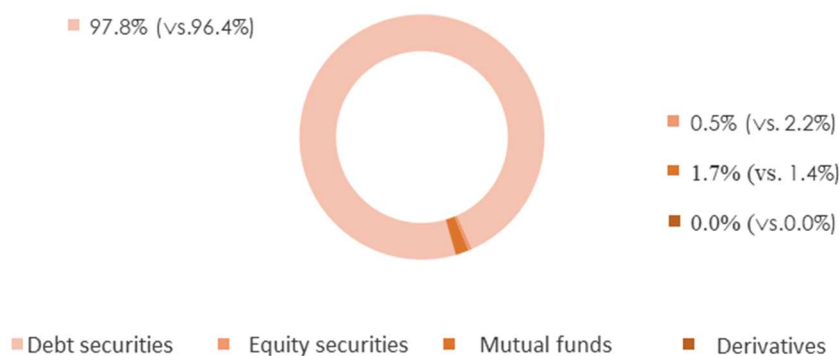
Considering the particularly favourable market conditions, in January Banco Desio carried out a new Private Placement of Covered Bonds with a duration of 10 years of Euro 100 million, coupon 0%, re-offer price 98.493.

The Bank continued to participate in the measures implemented by the ECB to support corporate liquidity, requesting the sum of Euro 1 billion in the March auction of the TLTRO III, thereby bringing the total outstanding to Euro 3.4 billion.

With reference to placement activities, it should be noted that in April Banco allowed the subscription of the new BTP Futura with a maturity of 16 years; the issue had an excellent response from our customers, with a total subscribed of Euro 106.5 million.

The portfolio broken down by type of security is illustrated in the following chart, which shows that the prevalent part (97.8%) of the investments still consists of debt securities.

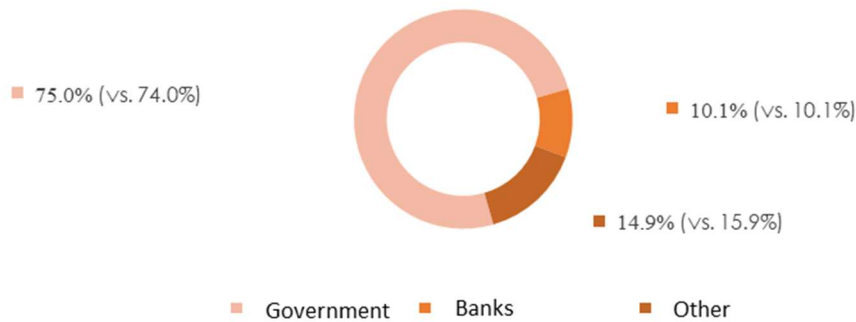
Chart no. 7 - BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2021 BY TYPE OF SECURITIES





With reference to the issuers of securities, the total portfolio at the end of the half-year is made up 75.0% of government securities, 10.1% of securities issued by primary banks and the remainder by other issuers, as represented graphically below.

Chart no. 8 - BREAKDOWN OF FINANCIAL ASSETS AT 30.06.2021 BY TYPE OF ISSUER



Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 30.06.2021 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

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

Amounts in thousands of Euro		30.06.2021			31.12.2020		
		Italy	Spain	Total	Italy	Spain	Total
Financial assets at fair value through other comprehensive income	Nominal value	575,000		575,000	565,000	-	565,000
	Book value	582,542		582,542	574,272	-	574,272
Financial assets at amortised cost	Nominal value	2,070,711	65,000	2,135,711	2,020,711	15,000	2,035,711
	Book value	2,085,685	65,508	2,151,193	2,031,967	16,127	2,048,094
Sovereign debt	Nominal value	2,645,711	65,000	2,710,711	2,585,711	15,000	2,600,711
	Book value	2,668,227	65,508	2,733,735	2,606,239	16,127	2,622,366

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

Amounts in thousands of Euro		Italy	Spain	30.06.2021	
				Nominal value	Book value
Financial assets at fair value through other comprehensive income	up to 1 year	-	-	-	-
	1 to 3 years	500,000	-	500,000	506,076
	3 to 5 years	-	-	-	-
	over 5 years	75,000	-	75,000	76,466
	Total	575,000	-	575,000	582,542
Financial assets at amortised cost	up to 1 year	385,000	-	385,000	385,483
	1 to 3 years	603,921	-	603,921	606,693
	3 to 5 years	277,000	-	277,000	280,137
	over 5 years	804,790	65,000	869,790	878,880
	Total	2,070,711	65,000	2,135,711	2,151,193
Sovereign debt	up to 1 year	385,000	-	385,000	385,483
	1 to 3 years	1,103,921	-	1,103,921	1,112,769
	3 to 5 years	277,000	-	277,000	280,137
	over 5 years	879,790	65,000	944,790	955,346
	Total	2,645,711	65,000	2,710,711	2,733,735

Net interbank position

The Group's net interbank position at 30 June 2021 is negative for Euro 1.3 billion, compared with the position at the end of the previous year, which was also negative for Euro 1.4 billion.



Shareholders' equity and capital adequacy

Shareholders' equity pertaining to the Parent Company at 30 June 2021, including net profit for the period, amounts to Euro 1,073.4 million, compared with Euro 995.1 million at the end of 2020. The positive change of Euro 78.3 million is attributable to the trend in the result for the period and the effect on reserves generated by the sale of the investment in Cedacri S.p.A., partially offset by the decrease caused by the Parent Company's resolution to distribute a 2020 dividend.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 30 June 2021, also explaining the financial and economic effects related to the consolidation of subsidiaries and associated companies.

Table no. 10 - RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES AT 30.06.2021

Amounts in thousands of Euro	Shareholders' equity	of which: net profit (loss) for the period
Balances of the Parent Company Banco Desio	1,065,763	37,232
Effect of consolidation of subsidiaries	7,639	1,815
Dividends declared during the period	-	-2,204
Consolidated balance of the Banco Desio Group	1,073,402	36,843

On 25 January 2018, the Board of Directors of the bank resolved to adopt the transitional arrangements introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of IFRS 9 on own funds and capital ratios. At the board meeting on 30 July 2020, the Board of Directors of the Parent Company also resolved to make use of the option provided for by Regulation 2020/873 i.e. the temporary treatment of unrealised profits and losses measured at fair value recognised in other comprehensive income for Government debt securities for the period 2020-2022 (exclusion factor of 1 in 2020, 0.70 in 2021 and 0.40 in 2022).

Following the periodic Supervisory Review and Evaluation Process (SREP), on 21 May 2020, the Bank of Italy informed Banco di Desio e della Brianza S.p.A. and the financial parent company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. of its decision regarding capital, ordering that the Brianza Unione Group was to adopt the following consolidated capital ratios:

- **CET1 ratio of 7.35%**, binding for 4.85% (minimum regulatory requirement of 4.5% and additional requirements of 0.35% after SREP) with the remainder represented by the capital conservation buffer;
- **Tier 1 ratio of 8.95%**, binding for 6.45% (minimum regulatory requirement of 6% and additional requirements of 0.45% as a result of the SREP), while the remainder is represented by the capital conservation buffer;
- **Total Capital Ratio of 11.10%**, binding for 8.60% (minimum regulatory requirement of 8% and additional requirements of 0.60% as a result of the SREP), while the remainder is represented by the capital conservation buffer.

When drafting the resolution plan, the Bank of Italy, as the National Resolution Authority, also determined the minimum requirement of own funds and eligible liabilities (MREL) for the Banco di Desio e della Brianza

Group. This requirement is equivalent to the amount needed to absorb losses and coincides with the greater of the binding total capital ratio required by the SREP (8.60% binding level) and financial leverage (3%).

Consolidated own funds calculated by the financial parent company Brianza Unione amount to Euro 959.5 million at 30 June 2021 (CET1 + AT1 of Euro 881.8 million, T2 of Euro 77.7 million), compared with Euro 927.1 million at the end of the previous year. The Common Equity Tier 1 ratio was 11.7% (11.2% at 31 December 2020). The Tier 1 ratio was 12.5% (12.0% at 31 December 2020), while the Total capital ratio was 13.6% (13.2% at 31 December 2020). The following table shows the consolidated regulatory requirements "CRR" Brianza Unione Group calculated with and without applying the transitional arrangements.

	30.06.2021		
	Application of the transitional arrangements	Without IFRS 9 transitional provisions	Fully loaded
OWN FUNDS			
Common Equity Tier 1 - CET 1	825,101		
Common Equity Tier 1 - CET1 without application of the transitional arrangements		791,740	791,755
Tier 1 capital	881,836		
Tier 1 capital without application of the transitional arrangements		847,836	847,663
Total own funds	959,460		
Total own funds without application of the transitional arrangements		924,872	924,748
RISK ASSETS			
Risk-weighted assets	7,062,071		
Risk-weighted assets without application of the transitional arrangements		6,982,213	6,982,213
CAPITAL RATIOS			
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	11.684%		
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional arrangements		11.339%	11.340%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	12.487%		
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional arrangements		12.143%	12.140%
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.586%		
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional arrangements		13.246%	13.244%

Consolidated Own Funds calculated at the Banco Desio Group level, after the pay-out of 40%, amounted to Euro 1,110.2 million at 30 June 2021 (CET1 + AT1 Euro 1,096.6 million + T2 Euro 13.6 million), compared with Euro 1,057.1 million at the end of the previous year. The Common Equity Tier 1 ratio was 15.5% (14.7% at 31 December 2020). The Tier 1 ratio was 15.5% (14.7% at 31 December 2020) and the Total capital ratio was 15.7% (15.1% at 31 December 2020). The following table shows the consolidated regulatory requirements of the Banco Desio Group calculated with and without applying the transitional arrangements.

	30.06.2021		
	Application of the transitional arrangements	Without IFRS 9 transitional provisions	Fully loaded
OWN FUNDS			
Common Equity Tier 1 - CET 1	1,096,218		
Common Equity Tier 1 - CET1 without application of the transitional arrangements		1,035,720	1,035,751
Tier 1 capital	1,096,595		
Tier 1 capital without application of the transitional arrangements		1,036,097	1,035,751
Total own funds	1,110,202		
Total own funds without application of the transitional arrangements		1,049,704	1,049,358
RISK ASSETS			
Risk-weighted assets	7,063,967		
Risk-weighted assets without application of the transitional arrangements		6,984,108	6,984,108
CAPITAL RATIOS			
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	15.518%		
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional arrangements		14.830%	14.830%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	15.524%		
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional arrangements		14.835%	14.830%
Total Own Funds/Risk-weighted assets (Total capital ratio)	15.716%		
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional arrangements		15.030%	15.025%

The solidity of the Group is confirmed, with respect to the requirements.



Reclassified income statement

To allow readers to see figures that better reflect the results of operations, we have prepared a reclassified version of the income statement with respect to the one in the Condensed interim financial statements, which forms the basis of the specific comments.

The presentation criteria for this table are as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- breakdown of profit (loss) for the period between "Current result after tax" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 230 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers, flat-rate tax on long-term loans and recoveries of legal expense, as well as depreciation of leasehold improvements, reclassified respectively as a reduction to caption 180b) "Other administrative expenses" and as an increase in caption 220 "Net adjustments to intangible assets" included in "Operating expenses";
- the time value components of non-performing financial assets (calculated on the basis of the original effective interest rate) and impairment losses on interest on non-performing loans are reclassified from the item "Net interest income" to "Cost of credit";
- the net trading fees relating to consumer credit were transferred from "Net commission income" to "Net interest income";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of financial assets valued at amortised cost" of "Operating income" is reclassified, net of the component of gains (losses) on debt securities at amortised cost, to "Cost of credit" (which also includes caption 130a) "Net impairment adjustments to loans and advances") after "Operating profit";
- the balance of item 110 "Net result of other financial assets and liabilities designated at fair value through profit and loss" of "Operating income" for the part referring to closed UCITS units subscribed following completion of the assignment of non-performing loans is reclassified to the specific item "Cost of Credit" (which also includes item 130a) "Net impairment adjustments to loans and advances"), subsequent to the "Result of operations";
- the expected loss on securities at amortised cost included in caption 130a) "Net impairment adjustments to financial assets at amortised cost", has been reclassified to caption 130b) "Net adjustments to securities owned" (which also includes the balance of net adjustments for credit risk on securities at fair value with impact on overall profitability);
- costs for operating leases falling within the scope of IFRS 16 "Leases", booked to item "20. Interest and similar expense" and to item "210. Net adjustments to property, plant and equipment", have been reclassified to item "190 b) Other administrative costs", where the charges incurred on these contracts were recorded in the prior period";
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 200 "Net provisions for risks and charges - other" to caption "Cost of credit", both captions coming after the "Result of operations";

- ordinary contributions to the Single Resolution Mechanism (SRM) and to the Deposit Guarantee Scheme (DGS) are transferred from item 190 b) "Other Administrative Costs" to "Charges relating to the banking system";
- provisions and expenses of an extraordinary nature or which are "one-off" are reclassified to "Extraordinary provisions for risks and charges, other provisions and expenses";
- the tax effect on "Non-recurring profit (loss)", together with non-recurring taxes, is reclassified from caption 300 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

The profit for the period is up by around 27.2 million (+283.9%), having benefited from the positive trend in operations (+47.8%) and from a non-recurring profit of Euro 7.6 million (loss of Euro 0.5 million in the comparative period).

Table no. 11 - RECLASSIFIED INCOME STATEMENT

Captions		30.06.2021	30.06.2020	Change	
Amounts in thousands of Euro				Amount	%
10+20	Net interest income	121,131	104,759	16,372	15.6%
70	Dividends and similar income	514	586	-72	-12.3%
40+50	Net commission income	95,224	79,899	15,325	19.2%
80+90+100 +110	Net result of financial assets and liabilities	5,722	5,419	303	5.6%
230	Other operating income/expense	879	1,553	-674	-43.4%
	Operating income	223,470	192,216	31,254	16.3%
190 a	Payroll costs	-86,879	-83,013	-3,866	4.7%
190 b	Other administrative costs	-40,711	-42,802	2,091	-4.9%
210+220	Net adjustments to property, plant and equipment and intangible assets	-4,752	-4,735	-17	0.4%
	Operating costs	-132,342	-130,550	-1,792	1.4%
	Result of operations	91,128	61,666	29,462	47.8%
130a+100a	Cost of credit	-38,677	-39,977	1,300	-3.3%
130 b	Net adjustments to securities owned	-106	-1,325	1,219	-92.0%
140	Profit/losses from contractual changes without write-offs	-24	225	-249	n.s.
200 a	Net provisions for risks and charges - commitments and guarantees given	712	-1,878	2,590	n.s.
200 b	Net provisions for risks and charges - other	-2,536	-1,390	-1,146	82.4%
	Charges relating to the banking system	-6,795	-3,443	-3,352	97.4%
	Profit (loss) from continuing operations before tax	43,702	13,878	29,824	214.9%
300	Income taxes on continuing operations	-14,434	-3,787	-10,647	281.1%
	Profit (loss) from continuing operations after tax	29,268	10,091	19,177	190.0%
	Provisions for risks and charges, other provisions, one-off expenses and revenue	-2,270	-728	-1,542	211.8%
	Non-recurring result before tax	-2,270	-728	-1,542	211.8%
	Income taxes from non-recurring items	9,845	235	9,610	n.s.
	Non-recurring profit (loss) after tax	7,575	-493	8,068	n.s.
330	Net profit (loss) for the period	36,843	9,598	27,245	283.9%
340	Net profit (loss) pertaining to minority interests	0	0	0	n.s.
350	Parent Company net profit (loss)	36,843	9,598	27,245	283.9%



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 30.06.2021

Captions	As per financial statements 30.06.2021	Reclassifications						Reclassified income statement 30.06.2021			
		Measurement effects on non-performing loans	Fides brokerage commission	Tax/expense recoveries	Expected loss on securities at amortized cost	Depreciation of leasehold improvements	Gains (losses) on disposal or repurchase of loans		Provisions for risks and charges/other provisions, one-off expenses and revenue	System changes	Reclassifications IFRS 16 - Leases
10+20	Net interest income	125,183	-1,823	-2,612	-1,823	0	0	383			121,131
70	Dividends and similar income	514									514
40+50	Net commission income	93,401	1,823								95,224
80+90+100+110	Net result of financial assets and liabilities	7,460				-1,958	0				5,722
230	Other operating income/expense	16,014			-15,883	748					879
	Operating income	242,792	0	-2,612	-15,883	748	-1,958	0	383	0	223,470
190 a	Payroll costs	-85,963					-916				-86,879
190 b	Other administrative costs	-61,226			15,883		973		9,008		-40,711
210+220	Net adjustments to property, plant and equipment and intangible assets	-8,970				-748				4,966	-4,752
	Operating costs	-156,159	0	0	15,883	-748	0	57	9,008	-383	-132,342
	Result of operations	86,633	0	-2,612	0	0	-1,958	57	9,008	0	91,128
130a+100a	Cost of credit	-43,314		2,612		116		-49			-38,677
130 b	Net adjustments to securities owned	10				-116					-106
140	Profit/losses from contractual changes without write-offs	-24									-24
200 a	Net provisions for risks and charges - commitments and guarantees given	712									712
200 b	Net provisions for risks and charges - other	-2,585						49			-2,536
	Charges relating to the banking system								-6,795		-6,795
	Profit (loss) from continuing operations before tax	41,432	0	0	0	0	0	57	2,213	0	43,702
300	Income taxes on continuing operations	-4,589									-14,434
	Profit (loss) from continuing operations after tax	36,843	0	0	0	0	0	57	2,213	0	29,268
260	Net result of the measurement of fair value of property, plant and equipment and intangible assets	0									0
	Provisions for risks and charges, other provisions, one-off expenses and revenue			0				-57		-2,213	-2,270
	Non-recurring result before tax	0	0	0	0	0	0	-57	-2,213	0	-2,270
	Income taxes from non-recurring items										9,845
	Non-recurring profit (loss) after tax	0	0	0	0	0	0	-57	-2,213	0	7,575
330	Net profit (loss) for the period	36,843	0	0	0	0	0	0	0	0	36,843
340	Net profit (loss) pertaining to minority interests	0									0
350	Parent Company net profit (loss)	36,843	0	0	0	0	0	0	0	0	36,843



Table no. 13 - RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME STATEMENT AT 30.06.2020

Captions	As per financial statements	Reclassifications							Reclassified income statement			
		30.06.2020	Measurement effects on non-performing loans	Fides brokerage commission	Tax/expense recoveries	Expected loss on securities at amortized cost	Depreciation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans		Provisions for risks and charges/other provisions, one-off expenses and revenue	System charges	Reclassifications IFRS16 - Leases
Amounts in thousands of Euro												
10+20	Net interest income	108,461	-2,859	-1,388							545	104,759
70	Dividends and similar income	586										586
	Profit (loss) from equity investments in associates			1,388								0
40+50	Net commission income	78,511										79,899
80+90+100+110	Net result of financial assets and liabilities	2,030	0				3,749	-360				5,419
230	Other operating income/expense	17,769			-16,972	756		0				1,553
	Operating income	207,357	-2,859	-1,388	-16,972	0	3,749	-360	0	545	0	192,216
190a	Payroll costs	-83,013						0				-83,013
190b	Other administrative costs	-58,412			16,972					4,531		-42,802
210+220	Net adjustments to property, plant and equipment and intangible assets	-9,327				-756				5,348		-4,735
	Operating costs	-150,752	0	16,972	0	-756	0	0	0	4,531	0	-130,550
	Result of operations	56,605	-2,859	0	0	0	3,749	-360	4,531	0	0	61,666
130a+100a	Cost of credit	-40,257	2,859		1,209		-3,749	-39				-39,977
130b	Net adjustments to securities owned	-116			-1,209							-1,325
140	Profit/losses from contractual changes without write-offs	225										225
200a	Net provisions for risks and charges - commitments and guarantees given	-1,878						39				-1,878
200b	Net provisions for risks and charges - other	-1,429								-3,443		-1,390
	Charges relating to the banking system											
	Profit (loss) from continuing operations before tax	13,150	0	0	0	0	0	-360	1,088	0	0	13,878
300	Income taxes on current operations	-3,552										-3,787
	Profit (loss) from continuing operations after tax	9,598	0	0	0	0	0	-360	1,088	0	-235	10,091
250+280	Net result of the measurement at fair value of property, plant and equipment and intangible assets	0										0
	Provisions for risks and charges, other provisions, one-off expenses and revenue							360		-1,088		-728
	Non-recurring profit (loss) before tax	0	0	0	0	0	0	360	-1,088	0	0	-728
	Income taxes from non-recurring items										235	235
	Non-recurring profit (loss) after tax	0	0	0	0	0	0	360	-1,088	0	235	-493
330	Net profit (loss) for the period	9,598	0	0	0	0	0	0	0	0	0	9,598
340	Net profit (loss) pertaining to minority interests	0										0
350	Parent Company net profit (loss)	9,598	0	0	0	0	0	0	0	0	0	9,598

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

Operating income

Core revenue increased by about Euro 31.3 million with respect to the comparative period (+16.3%), amounting to Euro 223.5 million. The trend is attributable to the growth in *net interest income* of 16.4 million (+15.6%), *net commission income* of Euro 15.3 million (+19.2%) and the *net result of financial assets and liabilities* of Euro 0.3 million (+5.6%), partially offset by the decrease in *other operating income/expense* of Euro 0.7 million (-43.4%).

Lastly, *dividends* come in at Euro 0.5 million in line with the comparative period.

Operating costs

Operating costs, which include *payroll costs*, *other administrative costs* and *net adjustments to property, plant and equipment and intangible assets* amounted to around Euro 132.3 million and have increased by Euro 1.8 million (+1.4%) with respect to the comparative period.

Other administrative costs decreased by Euro 2.1 million (-4.9%), whereas *payroll costs* increased by 3.9 million (+4.7%) versus the comparative period. The balance of *net adjustments to property, plant and equipment and intangible assets* (+0.4%) is in line with the comparative period.

Result of operations

Therefore the *result of operations* at 30 June 2021 amounted to 91.1 million euro, with an increase on the comparative period (+47.8%).

Net profit (loss) from operations after tax

The result of operations of Euro 91.1 million leads to a *net profit (loss) from operations after tax* of Euro 29.3 million, 190.0% up on the Euro 10.1 million in the comparative period, mainly because of:

- the *cost of credit (net impairment adjustments to financial assets measured at amortised cost plus gains (losses) on disposal or repurchase of loans)* amounted to Euro 38.7 million (vs Euro 40.0 million in the previous period);
- *net adjustments to proprietary securities* of Euro 0.1 million (Euro 1.3 million in the comparative period);
- *negative net provisions for risks and charges*, Euro 1.8 million (vs Euro 3.3 million negative in the comparative period);
- *charges relating to banking system* for ordinary contributions of Euro 6.8 million (vs Euro 3.4 million in the comparative period);
- *income taxes on continuing operations* of Euro 14.4 million (vs Euro 3.8 million).



Result of non-recurring items after tax

At 30 June 2021 there was a *non-recurring profit after tax* of Euro 7.6 million (vs a loss of Euro 0.5 million). This caption essentially consists of

- the cost component of Euro 1 million related to the expenses for the disposal of the investment in Cedacri S.p.A.,
- the Euro 2.2 million charge for the extraordinary contribution to the SRM, "Single Resolution Mechanism", requested by the national resolution authority in June 2021,
- the revenue of approximately Euro 0.9 million recognised to adjust the liability recorded in 2020 for access to the "Income support solidarity fund" following the negotiations with all the previously identified resources,

net of the related positive tax effect of Euro 0.5 million. *Income taxes from non-recurring items* also include the positive economic effect of Euro 9.4 million deriving from the realignment of goodwill and all property (so-called "step-up"), carried out pursuant to art. 110, para. 8 and para. 8-bis, of Legislative Decree 104/2020 (the "August Decree"), which provided for the possibility of realigning tax values to the higher statutory carrying amounts of business assets by subjecting the difference to a substitute tax of 3%.

In the comparison period, this item included:

- the revenue component of Euro 0.4 million relating to the substantial change in a financial instrument subscribed by the bank as part of the interventions made to support the banking system,
- the Euro 1.1 million charge for the extraordinary contribution to the SRM requested by the national resolution authority in June 2020,

net of the related tax effects of Euro 0.2 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 30 June 2021 of Euro 36.8 million.

Performance of consolidated companies

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

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

Balance sheet

Amounts in thousands of Euro	30.06.2021	31.12.2020	Change	
			amount	%
Total assets	17,240,939	15,638,800	1,602,139	10.2%
Financial assets	3,645,613	3,543,684	101,929	2.9%
Due from banks ⁽¹⁾	2,095,424	1,034,585	1,060,839	102.5%
Loans to customers ⁽¹⁾	10,823,736	10,419,441	404,295	3.9%
Property, plant and equipment ⁽²⁾	219,080	221,535	-2,455	-1.1%
Intangible assets	12,189	11,772	417	3.5%
Non-current assets and disposal groups held for sale	2,440		2,440	
Due to banks	3,383,733	2,412,244	971,489	40.3%
Due to customers ⁽³⁾	10,505,117	10,205,567	299,550	2.9%
Debt securities in issue	1,596,923	1,608,927	-12,004	-0.7%
Shareholders' equity (including Net profit/loss for the period)	1,065,764	987,046	78,718	8.0%
Own Funds	1,108,634	1,055,325	53,309	5.1%
Total indirect deposits	17,437,262	16,520,360	916,902	5.6%
of which: Indirect deposits from ordinary customers	10,857,552	10,160,527	697,025	6.9%
of which: Indirect deposits from institutional customers	6,579,710	6,359,833	219,877	3.5%

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

⁽²⁾ the balance of this item at 30 June 2021 includes the right of use ("RoU Assets") equal to Euro 50.3 million for operating lease contracts falling within the scope of application of IFRS 16 Leases, which came into effect on 1 January 2019

⁽³⁾ the balance of this item does not include the liability recognised in Due to customers for operating lease contracts falling within the scope of application of IFRS 16, which came into effect on 1 January 2019

Income statement ⁽⁴⁾

Amounts in thousands of Euro	30.06.2021	30.06.2020	Change	
			amount	%
Operating income	216,354	186,529	29,825	16.0%
of which: Net interest income	111,944	97,982	13,962	14.2%
Operating costs	128,695	126,802	1,893	1.5%
Result of operations	87,659	59,727	27,932	46.8%
Charges relating to the banking system	6,795	3,443	3,352	97.4%
Profit (loss) from continuing operations after tax	29,657	10,864	18,793	173.0%
Non-recurring profit (loss) after tax	7,575	-493	8,068	-1636.5%
Net profit (loss) for the period	37,232	10,371	26,861	259.0%

⁽⁴⁾ from the reclassified income statement



Key figures and ratios

	30.06.2021	31.12.2020	Change amount
Capital/Total assets	6.2%	6.3%	-0.1%
Capital/Loans to customers	9.8%	9.5%	0.3%
Capital/Due to customers	10.1%	9.7%	0.4%
Capital/Debt securities in issue	66.7%	61.3%	5.4%
Common Equity Tier 1 (CET 1)/Risk-weighted assets (Common Equity Tier 1 ratio) ⁽⁵⁾	16.6%	15.7%	0.9%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) ⁽⁵⁾	16.6%	15.7%	0.9%
Total Own Funds/Risk-weighted assets (Total capital ratio) ⁽⁵⁾	16.8%	16.1%	0.7%
Financial assets/Total assets	21.1%	22.7%	-1.6%
Due from banks/Total assets	12.2%	6.6%	5.6%
Loans to customers/Total assets	62.8%	66.6%	-3.8%
Loans to customers/Direct customer deposits	89.4%	88.2%	1.2%
Due to banks/Total assets	19.6%	15.4%	4.2%
Due to customers/Total assets	60.9%	65.3%	-4.4%
Debt securities in issue / Total assets	9.3%	10.3%	-1.0%
Direct customer deposits/Total assets	70.2%	75.5%	-5.3%

	30.06.2021	30.06.2020	Change amount
Cost/Income ratio	59.5%	68.0%	-8.5%
(Operating costs + Charges relating to the banking system)/Operating income (Cost/Income ratio)	62.6%	69.8%	-7.2%
Net interest income/Operating income	51.7%	52.5%	-0.8%
Result of operations/Operating income	40.5%	32.0%	8.5%
Profit (loss) from continuing operations after tax/Capital ^{(6) (7)}	5.4%	3.6%	1.8%
Profit (loss) from operations after tax/Capital ^{(6) (R.O.E.)^{(7) (8)}}	6.2%	2.5%	3.7%
Profit (loss) from continuing operations before tax/Total assets (ROA) ⁽⁷⁾	0.5%	0.3%	0.2%

	30.06.2021	31.12.2020	Change amount
Net doubtful loans/Loans to customers	1.1%	1.1%	-0.1%
Net non-performing loans/Loans to customers	2.6%	2.9%	-0.3%
% Coverage of doubtful loans	63.2%	61.0%	2.3%
% Coverage of doubtful loans, gross of cancellations	64.3%	62.2%	2.0%
% Total coverage of non-performing loans	51.0%	47.6%	3.4%
% Coverage of non-performing loans, gross of cancellations	51.8%	48.5%	3.3%
% Coverage of performing loans	0.77%	0.72%	0.04%

Structure and productivity ratios

	30.06.2021	31.12.2020	Change amount	Change %
Number of employees	2,130	2,129	1	0.0%
Number of branches	239	249	-10	-4.0%
<i>Amounts in thousands of Euro</i>				
Loans and advances to customers per employee	5,083	4,872	211	4.3%
Direct deposits from customers per employee	5,683	5,525	158	2.9%

	30.06.2021	30.06.2020	Change amount	Change %
Operating income per employee ⁽⁹⁾ - annualised ⁽⁷⁾	203	183	20	10.9%
Result of operations per employee ⁽⁹⁾ - annualised ⁽⁷⁾	82	58	24	41.4%

⁽⁵⁾ capital ratios at 30.06.2021 are calculated in application of the transitional arrangements introduced by EU Regulation 2017/2395; the ratios calculated without application of these arrangements are the following: Common Equity Tier 1 15.9%; Tier 1 15.9%; Total capital ratio 16.1%;

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

⁽⁷⁾ the amount reported at 30.06.2020 is the final figure at the end of 2020;

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

The profit for the period is up by around 26.9 million (+259.0%), having benefited from the positive trend in operations (+46.8%) and from a non-recurring profit of Euro 7.6 million (loss of Euro 0.5 million in the comparative period).

The total amount of *loans to customers* at 30 June 2021 reached 10.8 billion euro, up on 10.4 billion euro at the end of 2020.

Shareholders' equity at 30 June 2021, including the profit for the period, amounts to Euro 1,065.8 million, compared with Euro 987.0 million at the end of 2020. The positive change of Euro 78.7 million is attributable to the result for the period and the effect on reserves of the sale of the investment in Cedacri S.p.A., partially offset by the decrease due to the decision to distribute the 2020 dividend.

Shareholders' equity calculated in accordance with the new regulatory provisions defined as *Own Funds*, after the pay-out of 40%, amounts to Euro 1,108.6 million (CET1 + ATI of Euro 1,095.0 million + T2 of Euro 13.6 million), compared with Euro 1,055.3 million at the end of the previous year.

The Total Capital Ratio, consisting of total *Own Funds* as a ratio of risk-weighted assets, comes to 16.8%.

Fides S.p.A.

Balance sheet

Amounts in thousands of Euro	30.06.2021	31.12.2020	Change	
			amount	%
Total assets	905,352	878,254	27,098	3.1%
Financial assets	0	15	-15	-100.0%
Due from banks	2,736	5,298	-2,562	-48.4%
Loans to customers	895,825	865,398	30,427	3.5%
Property, plant and equipment	855	948	-93	-9.8%
Intangible assets	1,151	1,215	-64	-5.3%
Due to banks	837,129	811,720	25,409	3.1%
of which: Due to Group Banks	837,129	811,720	25,409	3.1%
Due to customers	4,518	3,931	587	14.9%
Shareholders' equity (including Net profit/loss for the period)	49,408	48,937	471	1.0%
Own Funds	46,379	45,977	402	0.9%

Income statement ⁽¹⁾

Amounts in thousands of Euro	30.06.2021	30.06.2020	Change	
			amount	%
Operating income	8,004	6,225	1,779	28.6%
of which: Net interest income	10,979	8,136	2,843	34.9%
Operating costs	-3,672	-3,771	99	-2.6%
Result of operations	4,332	2,454	1,878	76.5%
Profit (loss) from continuing operations after tax	2,674	1,363	1,311	96.2%
Non-recurring profit (loss) after tax	0	0	0	n.s.
Net profit for the year	2,674	1,363	1,311	96.2%

⁽¹⁾ from the reclassified income statement



Key figures and ratios

	30.06.2021	31.12.2020	Change amount
Capital/Total assets	5.5%	5.6%	-0.1%
Capital/Loans to customers	5.5%	5.7%	-0.2%
Capital/Due to Banks	5.9%	6.0%	-0.1%
Total Own Funds/Risk-weighted assets (Total capital ratio)	10.4%	10.9%	-0.6%
Loans to customers/Total assets	98.9%	98.5%	0.4%
Due to banks/Total assets	92.5%	92.4%	0.1%
	30.06.2021	30.06.2020	Change amount
Cost/Income ratio	45.9%	60.6%	-14.7%
Net interest income/Operating income	137.2%	130.7%	6.5%
Result of operations/Operating income	54.1%	39.4%	14.7%
Profit (loss) from operations after tax/Capital ⁽²⁾ - annualised ⁽³⁾	11.4%	6.0%	5.4%
ROE ⁽²⁾ - annualised ⁽³⁾	11.4%	6.0%	5.4%
Profit (loss) from operations before tax/Total assets (ROA) - annualised ⁽³⁾	0.9%	0.2%	0.7%
	30.06.2021	31.12.2020	Change amount
Net doubtful loans/Loans to customers	0.1%	0.1%	0.0%
Net non-performing loans/Loans to customers	0.8%	0.4%	0.4%
% Coverage of doubtful loans	61.5%	59.4%	2.0%
% Total coverage of non-performing loans	20.2%	38.5%	-18.3%
% Coverage of performing loans	0.07%	0.08%	0.00%

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

Structure and productivity ratios

	30.06.2021	31.12.2020	Change amount	Change %
Number of employees	50	50	0	0.0%
<i>Amounts in thousands of Euro</i>				
	30.06.2021	31.12.2020	Change amount	Change %
Loans and advances to customers per employee ⁽⁴⁾	17,917	17,308	609	3.5%
<i>Amounts in thousands of Euro</i>				
	30.06.2021	30.06.2020	Change amount	Change %
Operating income per employee ⁽⁴⁾ - annualised ⁽³⁾	320	245	75	30.6%
Result of operations per employee ⁽⁴⁾ - annualised ⁽³⁾	173	95	78	82.1%

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

⁽³⁾ the amount reported at 30.06.2020 is the final figure at the end of 2020;

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

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

The profit (loss) from operations after tax at 30 June 2021 comes to Euro 2.7 million, an improvement compared with the prior period of Euro 1.4 million; operating income amounted to 8.0 million euro, up by 1.8 million euro compared with the period to 30 June 2020, operating costs totalled 3.7 million euro (comparative 3.8 million euro), and the results of operations amounted to 4.3 million euro (comparative 2.5 million euro). The *Cost of credit* of 0.2 million euro, net of provisions for risks and charges for 0.2 million euro and *taxes* for 1.3 million euro (formerly 0.6 million euro) lead to the result for the period.

Loans to customers increased from Euro 865.4 million at the end of 2020 to Euro 895.8 million at the reporting date, an increase of Euro 30.4 million (+3.5%).

Book *shareholders' equity* at 30 June 2021, including net profit for the period, amounts to Euro 49.4 million, compared with Euro 48.9 million at the end of 2020 (due to the result for the period partly offset by the distribution of dividends). *Own Funds* for supervisory purposes have risen from 46.0 million euro at the end of 2020 to 46.4 million euro.



Other information

Ratings

On 30 April 2021 Fitch Ratings announced that it had left all of the Bank's ratings unchanged following the annual rating review, also confirming the Outlook as Stable. The rating reflects the Bank's adequate liquidity and capitalisation, able to withstand pressures, even significant ones, in terms of asset quality in the current pandemic context with its many uncertainties regarding the economic and social repercussions of the Covid-19 health emergency.

The Bank shows a constant attention to improving its capital ratios, thanks to continuous derisking and the resilience of the model adopted by virtue of its consolidated relationship with key customers.

The updated ratings are the following:

- Long term IDR: confirmed at "BB+" Stable Outlook
- Viability rating: confirmed at "bb+"
- Short term IDR: confirmed at "B"
- Support Rating: confirmed at "5"
- Support Rating Floor: confirmed at "No Floor"
- *Sustainability rating*

On 14 April 2021, Standard Ethics, a rating agency, updated Banco Desio's corporate sustainability rating, recognising an increase of one notch from the previous "E+" to the current "EE-" which is investment grade. The long-term vision is positive (for the related press release, see the web page: <https://standardethics.eu/media-en/press-releases/standard-ethics-upgrades-rating-to-banco-desio-brianza/viewdocument/527>).

Existence of the conditions of arts 15 and 16 of the Consob's Market Regulations

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

Transactions with related parties

For a more detailed description of the procedures that govern transactions with related parties (pursuant to art. 2391-bis of the Italian Civil Code) and with associated persons (pursuant to art. 53 of the CFA), reference should be made to paragraph 5 of the Annual Report on Corporate Governance, which is available on the Parent Company's website pursuant to art. 123-bis of the CFA, at www.bancodesio.it, in the Corporate Governance section. For further information, please refer to the specific section of the Condensed interim financial statements.

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

Based on the figures in the reference period, it is reasonable to assume that the result for the current year will be positive, substantially in line with that of the previous year, providing the macro economic scenario and/or the Group reference markets do not suffer relevant critical circumstances.

The current economic crisis scenario caused by the Covid-19 pandemic still represents a variable that may affect the estimates expected for the coming years, which generally depend on multiple factors that go beyond management's control.

For the specific information dedicated to the description of the health emergency context in which this Report was prepared, as well as the uncertainties and significant risks related to it, please refer to the section below called "Basis of preparation" in the "Explanatory notes" (or the information contained in the Consolidated Financial Statements at 31 December 2020).

In consideration of the Bank's capital solidity and careful derisking approach, the low NPL ratio and the overall initiatives adopted to minimise the effects of the pandemic (which were taken into account in the definition of the 2021-2023 Business Plan approved in December 2020), the consolidated half-yearly financial report at 30 June 2021 has been prepared on a going-concern basis.

Desio, 3 August 2021

The Board of Directors



**Condensed consolidated interim financial
statements at 30 June 2021**

FINANCIAL STATEMENTS



CONSOLIDATED BALANCE SHEET

Assets	30.06.2021	31.12.2020	Change	
			Amount	%
10. Cash and cash equivalents	48,663	56,525	(7,862)	-13.9%
20. Financial assets at fair value through profit or loss	71,640	56,702	14,938	26.3%
a) Financial assets held for trading	9,804	6,239	3,565	57.1%
c) Other financial assets mandatorily at fair value	61,836	50,463	11,373	22.5%
30. Financial assets at fair value through other comprehensive income	608,284	662,646	(54,362)	-8.2%
40. Financial assets at amortised cost	15,943,892	14,332,345	1,611,547	11.2%
a) Due from banks	2,438,972	1,365,759	1,073,213	78.6%
b) Loans to customers	13,504,920	12,966,586	538,334	4.2%
60. Adjustment to financial assets with generic hedge (+/-)	533	563	(30)	-5.3%
90. Property, plant and equipment	219,935	222,483	(2,548)	-1.1%
100. Intangible assets	18,866	18,513	353	1.9%
of which:				
- goodwill	15,322	15,322		
110. Tax assets	188,028	205,131	(17,103)	-8.3%
a) current	12,095	18,306	(6,211)	-33.9%
b) deferred	175,933	186,825	(10,892)	-5.8%
120. Non-current assets and disposal groups held for sale	2,440	-	2,440	
130. Other assets	167,204	108,614	58,590	53.9%
Total assets	17,269,485	15,663,522	1,605,963	10.3%

Liabilities and shareholders' equity	30.06.2021	31.12.2020	Change	
			Amount	%
10. Financial liabilities at amortised cost	15,538,782	14,276,954	1,261,828	8.8%
a) Due to banks	3,383,733	2,412,244	971,489	40.3%
b) Due to customers	10,558,126	10,255,783	302,343	2.9%
c) Debt securities in issue	1,596,923	1,608,927	(12,004)	-0.7%
20. Financial liabilities held for trading	7,358	7,527	(169)	-2.2%
40. Hedging derivatives	943	1,540	(597)	-38.8%
60. Tax liabilities	3,084	13,491	(10,407)	-77.1%
a) current	1,064		1,064	0.0%
b) deferred	2,020	13,491	(11,471)	-85.0%
80. Other liabilities	574,583	297,233	277,350	93.3%
90. Provision for termination indemnities	23,985	24,740	(755)	-3.1%
100. Provisions for risks and charges	47,344	46,962	382	0.8%
a) commitments and guarantees given	4,235	4,947	(712)	-14.4%
c) other provisions for risks and charges	43,109	42,015	1,094	2.6%
120. Valuation reserves	18,442	66,096	(47,654)	-72.1%
150. Reserves	931,279	818,447	112,832	13.8%
160. Share premium reserve	16,145	16,145		
170. Share capital	70,693	70,693		
190. Minority interests (+/-)	4	4		
200. Net profit (loss) for the period (+/-)	36,843	23,690	13,153	55.5%
Total liabilities and shareholders' equity	17,269,485	15,663,522	1,605,963	10.3%

CONSOLIDATED INCOME STATEMENT

Captions	30.06.2021	30.06.2020	Change	
			Amount	%
10. Interest and similar income	145,306	127,994	17,312	13.5%
20. Interest and similar expense	(20,123)	(19,533)	(590)	3.0%
30. Net interest income	125,183	108,461	16,722	15.4%
40. Commission income	102,514	86,553	15,961	18.4%
50. Commission expense	(9,113)	(8,042)	(1,071)	13.3%
60. Net commission income	93,401	78,511	14,890	19.0%
70. Dividends and similar income	514	586	(72)	-12.3%
80. Net trading income	2,901	850	2,051	241.3%
90. Net hedging gains (losses)	-	-	-	n.s.
100. Gains (losses) on disposal or repurchase of:	3,373	1,660	1,713	103.2%
a) financial assets measured at amortised cost	1,092	(667)	1,759	n.s.
b) financial assets designated at fair value through other comprehensive income	2,368	2,332	36	1.5%
c) financial liabilities	(87)	(5)	(82)	n.s.
110. Net result of other financial assets and liabilities designated at fair value through profit or loss	1,406	(480)	1,886	n.s.
b) other financial assets that have to be measured at fair value	1,406	(480)	1,886	n.s.
120. Net interest and other banking income	226,778	189,588	37,190	19.6%
130. Net value adjustments/write-backs for credit risk relating to:	(43,304)	(40,373)	(2,931)	7.3%
a) financial assets measured at amortised cost	(43,314)	(40,257)	(3,057)	7.6%
b) financial assets designated at fair value through other comprehensive income	10	(116)	126	n.s.
140. Profit/losses from contractual changes without write-offs	(24)	225	(249)	n.s.
150. Net profit from financial activities	183,450	149,440	34,010	22.8%
180. Net profit from financial and insurance activities	183,450	149,440	34,010	22.8%
190. Administrative costs:	(147,189)	(141,425)	(5,764)	4.1%
a) payroll costs	(85,963)	(83,013)	(2,950)	3.6%
b) other administrative costs	(61,226)	(58,412)	(2,814)	4.8%
200. Net provisions for risks and charges	(1,873)	(3,307)	1,434	-43.4%
a) commitments for guarantees given	712	(1,878)	2,590	n.s.
b) other net provisions	(2,585)	(1,429)	(1,156)	80.9%
210. Net adjustments to property, plant and equipment	(8,075)	(8,716)	641	-7.4%
220. Net adjustments to intangible assets	(895)	(611)	(284)	46.5%
230. Other operating charges/income	16,014	17,769	(1,755)	-9.9%
240. Operating costs	(142,018)	(136,290)	(5,728)	4.2%
290. Profit (loss) from current operations before tax	41,432	13,150	28,282	215.1%
300. Income taxes on current operations	(4,589)	(3,552)	(1,037)	29.2%
310. Profit (loss) from current operations after tax	36,843	9,598	27,245	283.9%
330. Net profit (loss) for the period	36,843	9,598	27,245	283.9%
350. Parent Company net profit (loss)	36,843	9,598	27,245	283.9%

	30.06.2021	30.06.2020
Basic earnings per share (Euro)	0.27	0.07
Diluted earnings per share (Euro)	0.27	0.07



STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Captions	30.06.2021	30.06.2020
10. Net profit (loss) for the period	36,843	9,598
Other elements of income, net of income taxes without reversal to income statement		
20. Equity instruments designated at fair value through other comprehensive income	(46,979)	-
70. Defined-benefit pension plans	(44)	20
Other elements of income, net of income taxes with reversal to income statement		
120. Cash-flow hedges	405	145
140. Financial assets (other than equities) designated at fair value through other comprehensive income	(1,036)	(1,522)
170. Total other elements of income (net of income taxes)	(47,654)	(1,357)
180. Total comprehensive income (Captions 10+170)	(10,811)	8,241
190. Total comprehensive income pertaining to minority interests	-	-
200. Total consolidated comprehensive income pertaining to Parent Company	(10,811)	8,241

Note. The negative change in item 20 "Equity instruments designated at fair value through other comprehensive income" is due to the sale of the investment in Cedacri S.p.A. completed on 3 June for Euro 114.7 million; in accounting terms it was recognised because the realisation event took place. i) the reversal of the valuation reserve existing at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result achieved compared with the initial recognition value, of Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve of retained earnings.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 30.06.2021

	Balance at 31.12.2020	Changes in opening balances	Balance at 01.01.2021	Allocation of prior year results		Changes during the year								Group shareholders' equity at 30.06.2021	Minority interests at 30.06.2021
				Reserves	Dividends and other allocations	Changes in reserves	Transactions on shareholders' equity						Comprehensive income at 30.06.2021		
							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	63,828		63,828											63,828	
b) other shares	6,865		6,865											6,865	
Share premium reserve	16,145		16,145											16,145	
Reserves:															
a) from profits	798,517		798,517	23,895		89,142								911,554	
b) other	19,934		19,934	(205)										19,725	
Valuation reserves:	66,096		66,096									(47,654)		18,442	
Equity instruments															
Treasury shares															
Net profit (loss) for the period	23,690		23,690	(23,690)								36,843		36,843	
Group shareholders' equity	995,071		995,071			89,142						(10,811)		1,073,402	
Minority interests	4		4											4	

Note 1. The changes in the "Valuation reserves" and the "Retained earnings reserve" are influenced by the sale of the investment in Cedacri S.p.A. completed on 3 June for Euro 114.7 million; in accounting terms it was recognised because the realisation event took place. i) the reversal of the valuation reserve existing at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result achieved compared with the initial recognition value, of Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve of retained earnings.

Note 2. The amount of the "Change in reserves" related to Reserve of retained earnings, refers for 8,357 thousand euro to the dividends declared on the basis of Banco Desio's results for the year ended 31 December 2020, which will be distributed to the shareholders when the suspension imposed by banking sector regulations is lifted.



STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 30.06.2020

	Balance at 31.12.2019	Changes in opening balances	Balance at 01.01.2020	Allocation of prior year results		Changes during the year							Group shareholders' equity at 30.06.2020	Minority interests at 30.06.2020	
				Reserves	Dividends and other allocations	Changes in reserves	Transactions on shareholders' equity								Comprehensive income at 30.06.2020
							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	63,828		63,828										63,828		
b) other shares	6,865		6,865										6,865		
Share premium reserve	16,145		16,145										16,145		
Reserves:															
a) from profits	768,080		768,080	44,887	(14,457)								798,510		
b) other	24,665		24,665	(4,731)									19,930	4	
Valuation reserves:	45,373		45,373									(1,357)	44,016		
Equity instruments															
Treasury shares															
Net profit (loss) for the period	40,156		40,156	(40,156)								9,598	9,598		
Group shareholders' equity	965,108		965,108		(14,457)							8,241	958,892		
Minority interests	4		4											4	

Note. The amount of the "Change in reserves" related to Reserve of retained earnings, refers for 14,359 thousand euro to the dividends declared on the basis of Banco Desio's results for the year ended 31 December 2019, which will be distributed to the shareholders when the suspension imposed by banking sector regulations is lifted.

CONSOLIDATED CASH FLOW STATEMENT

	30.06.2021	30.06.2020
A. OPERATING ACTIVITIES		
1. Cash generated from operations	87,219	67,310
- interest received (+)	142,767	124,942
- interest paid (-)	(19,905)	(19,057)
- dividends and similar income (+)	514	586
- net commission income (+/-)	91,257	77,370
- payroll costs (-)	(81,890)	(77,892)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(52,282)	(54,250)
- other revenues (+)	20,713	19,163
- taxation (-)	(13,955)	(3,552)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	(1,653,645)	(726,095)
- financial assets held for trading	(2,357)	370
- financial assets designated at fair value through profit and loss		
- other financial assets that are necessarily measured at fair value	(9,636)	(809)
- financial assets at fair value through other comprehensive income	53,889	37,206
- financial assets at amortised cost	(1,661,549)	(777,449)
- other assets	(33,992)	14,587
3. Cash generated (absorbed) by financial liabilities	1,568,824	648,358
- financial liabilities at amortised cost	1,262,347	531,694
- financial liabilities held for trading	(169)	(409)
- financial liabilities designated at fair value through profit and loss		
- other liabilities	306,646	117,073
Net cash generated/absorbed by operating activities (A)	2,398	(10,427)
B. INVESTING ACTIVITIES		
1. Cash generated by	18	
- sale of equity investments		
- dividends collected on equity investments		
- sale of property, plant and equipment	18	
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	(2,407)	(1,412)
- purchase of equity investments		
- purchase of property, plant and equipment	(1,159)	(910)
- purchase of intangible assets	(1,248)	(502)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	(2,389)	(1,412)
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(9,410)	
- sale/purchase of third party control		
Net cash generated/absorbed by financing activities (C)	(9,410)	
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	(9,401)	(11,839)

RECONCILIATION

	30.06.2021	30.06.2020
Cash and cash equivalents at beginning of period	56,525	60,816
Net increase (decrease) in cash and cash equivalents	(9,401)	(11,839)
Cash and cash equivalents: effect of changes in exchange rates	1,539	1,778
Cash and cash equivalents at end of period	48,663	50,755



EXPLANATORY NOTES

BASIS OF PREPARATION AND ACCOUNTING POLICIES



GENERAL INFORMATION

Declaration of compliance with International Financial Reporting Standards

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

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

Basis of preparation

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

For the preparation of the financial statements and the contents of the explanatory notes, reference was made to the provisions contained in Circular 262 "*Bank financial statements: schedules and rules for preparation*" of 22 December 2005, and subsequent amendments. Reference was also made, as applicable, to interpretations and documents supporting the application of accounting standards issued by the supervisory and regulatory bodies and the standard setters.

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

The accounting standards applied in preparing this document, for the classification, recognition, measurement and derecognition of financial assets and liabilities, as well as the methods for recognising revenues and costs, have not changed from those applied in preparing the financial statements at 31 December 2020.

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

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

Scope of consolidation and methodology

Investments in subsidiaries

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

Key

Type of relationship:

1 = majority of votes at the ordinary shareholders' meeting

There have been no changes in the scope of consolidation with respect to the situation at 31 December 2020.

Significant assessments and assumptions in determining the scope of consolidation

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

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

Investments in subsidiaries with significant minority interests

Minority interests, voting rights of third parties and dividends paid

Name	Minority interests %	Dividends paid to third parties
Desio OBG S.r.l.	40.00	-



Investments with significant minority interests: accounting information

Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Net interest and other banking income	Operating costs	Profit (loss) from current operations before tax	Profit (loss) from current operations after tax	Profit (loss) after tax on non-current assets held for sale	Net profit (loss) for the period (1)	Other elements of income, net of income taxes (2)	Comprehensive income (3) = (1) + (2)
Desio OBG S.r.l.	66	-	53	-	-	10	-	42	(42)	-	-	-	-	-	-

Significant restrictions

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

Other information

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

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

Other aspects

Implications of the Covid-19 epidemic on the interim financial report at 30 June 2021

The principal uncertainties affecting the future scenarios within which the Group will have to operate are undoubtedly conditioned by the adverse effects on the Italian and global economies deriving, directly or indirectly, from the spread of the Covid-19 pandemic.

The section entitled "Risks, uncertainties and impacts of the Covid-19 epidemic" in the notes to the consolidated financial statements at 31 December 2020, to which reference should be made, gave a detailed explanation of the estimation processes that require the use of significant elements of judgement in the selection of underlying hypotheses and assumptions, particularly conditioned by the negative effects of the pandemic. Then there is an explanation of the practical solutions adopted by the Group, well aware of its role in providing the necessary support to its stakeholders, both individuals and companies, characterised in the current context by significant levels of uncertainty and volatility.

The exceptional characteristics of the current crisis from which economic and financial consequences on people and businesses may derive, depending on the duration of the health and social emergency, as well as the measures already defined and being defined by the Italian government, EU authorities and ECB which, for their amount and characteristics, are likely to mitigate the effects of the crisis, but which have not yet been fully defined, make the application of accounting standards based on current market values and forward-looking valuations.

Classification and measurement of loans according to IFRS 9 in light of the provisions issued by the various supervisory authorities following the Covid-19 epidemic

The concessions or suspensions carried out for legislative "Covid-19" purposes, requested by customers before 30 September 2020, have not been classified as forborne (according to the indications provided by the supervisory authorities). Legislative suspensions received after that date were analytically assessed in order to identify the elements of forbearance. Commencing from the last quarter of last year, a series of detailed checks were carried out on counterparties with the largest exposures to look for evidence that they should be classified as forborne or, in the case of significant anomalies, as UTP. These checks, which led to modest changes to non-performing loans in percentage terms on the sample subject to verification, were completed in the first quarter of 2021. The analytical verification will also be carried out in the second



half of the year on a sample of counterparties which have requested and benefited from the extension of the measures granted by art. 56 of the Liquidity Decree.

Starting from the second quarter of 2020, the change in the general and sector macroeconomic framework required banks to update their credit risk assessment, which was very significantly affected by the uncertainties linked to the evolution of the pandemic and related containment measures, as well as the extent and temporal extension of public support measures. The emergency therefore imposed on the Group the governance of the impacts on credit risk and on the financial statements assessments connected to it. In this regard, the Parent Company conducted analyses to identify the best way to intervene on the credit risk measurement and forecasting systems, aligning them with the current scenario and avoiding excessive pro-cyclicality in defining collective provisions, as indicated, among other things, by various Supervisory Authorities (including, in particular, ESMA and the ECB). The Group has implemented the various provisions issued by the Italian government (including the suspension of loan repayments, so-called "Covid-19 moratoriums"), affirming its commitment to providing support to corporate and private customers and identifying, at the same time, the best ways of representing these measures in the financial statements, in application of its accounting policies and the indications of the Supervisory Authorities.

The so-called "overlay approach" was applied in relation to the measurement criteria for performing loans adopted for the preparation of the interim financial report, which is consistent with what was done from last year. Specifically, first of all, the Bank maintained the "expert" classification in Stage 2 of counterparties operating in the economic sectors most impacted by the crisis or loans with moratoriums, also having an intrinsic riskiness as shown by the medium-high internal ratings. Considering the lack of an adequate probation period to monitor the regularity of the loans granted, for the moratoria that ended in the first quarter of 2021, the same post-model adjustment logic that was adopted at the end of 2020 has been maintained. Consideration was also given to further measures that could be used to better represent the overall portfolio risk in a macroeconomic, legislative and regulatory context which is still to be reckoned to be extraordinary. Consequently, it was identified as the most risky cluster together with the set of moratoriums (art. 56) on loans for which in 2021 the customers requested an extension of the moratorium period for repayment of the principal with respect to the deadline originally scheduled. For this cluster of exposures, the average coverage rate of loans in stage 2 with corporate counterparties resulting from the model was applied as a minimum level of coverage on the individual relationships.

These interventions integrated the automatism already envisaged by the Significant Increase in Credit Risk (SICR) model and the ordinary rules for determining the expected loss.

As regards calculation of the expected loss, the improved macroeconomic projections published in June 2021 by the ECB and the Bank of Italy have not been incorporated and the assumptions made in terms of methodology for measuring expected losses have not changed (PD estimate, LGD estimate and the inclusion of forward-looking factors) compared with 31 December 2020, taking into account that the final figures for 2020 (featuring, as is known, a marked contraction in Italian GDP of -8.9%) have not yet fully incorporated the negative effects, neither on the classifications as default, nor on the deterioration of the performing portfolio.

This approach ensured the maintenance of a reasonable degree of prudence with respect to the updating of the Expected Credit Loss (ECL), in accordance with the indications of the Supervisory Authorities, in a macroeconomic scenario still considerably marked by uncertainty. Furthermore, again from a prudential point of view, any subsequent improvements in the rating class have been "sterilised" within the scope of the Covid-19 moratoriums in place at 31 December 2021. These interventions, both as post-model management overlay motivated by Covid-19, and as other updates of risk parameters, resulted in additional net adjustments to the performing loan portfolio (Stage 1 and 2) of Euro 8.0 million in the first half of 2021.

The determination of expected losses on non-performing loans (stage 3) also implies significant elements of assessment, with particular reference to estimating the flows deemed recoverable and the related timing of recovery. During the period, the monitoring activities already adopted at 31 December 2020 have been maintained, so the appropriate interventions were promptly activated in order to manage the contingency of the Covid-19 epidemic and, in any case, to ensure the correct classification and assessment of recoverability of exposures classified as NPL with consequent impact on the cost of non-performing credit for the period and on the increase in the levels of coverage of NPLs compared with 31 December 2020.

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

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

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

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

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

With particular regard to the quantification of losses due to impairment of loans and financial assets, the determination of the fair value of financial instruments, the impairment test of goodwill, considerations on the recoverability of deferred tax assets, estimates and assumptions relating to them and used for the purposes of preparing the interim financial report, could be subject to changes as a result of new information gradually becoming available about the impacts deriving from the spread of Covid-19 and the related degree of reliability.

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

TLTRO III Transactions – “Targeted Longer Term Refinancing Operations”

At 30 June 2021, ECB funding transactions comprise solely TLTRO III loans totalling 3.4 billion euro, which were obtained by Banco Desio at the quarterly auctions held in June 2020, 1.2 billion euro, in December 2020 and 1.0 billion euro in March 2021. Each operation has a duration of three years.



In view of the Covid-19 emergency, the Executive Board of the ECB met on 12 March and 30 April 2020 to improve the parameters for the above loans, with particular reference to the maximum available amount and the interest rate. Following these changes, the interest rate is fixed at the average for the principal Eurosystem refinancing operations (MRO), currently 0%, except for the period from 24 June 2020 to 23 June 2021 ("special interest-rate period"), during which the rate will be 50 basis points lower.

An incentive mechanism is also envisaged, that grants access to more favourable rates on the achievement of specified benchmarks. In particular, for counterparties whose net eligible lending between 1 March 2020 and 31 March 2021 ("special reference period") totals at least the respective benchmark net lending, the rate applied will be the average rate on the deposit facility, currently -0.5%, for the entire duration of the operation, with a further reduction of 50 basis points during the special interest-rate period.

For counterparties whose net eligible loans recorded an increase in the twelve months prior to 31 March 2019, the "net lending benchmark" is set at zero; otherwise, that benchmark is set at the reduction in net eligible loans in the twelve months prior to 31 March 2019. For counterparties that do not reach the target net eligible lending indicated in the previous point, the original remuneration criteria will apply, namely: base rate equal to the average for the principal Eurosystem refinancing operations for the duration of the operation, with the opportunity to benefit from a reduction on achievement of a specified benchmark in the period from 1 April 2019 to 31 March 2021 ("second reference period"), with a minimum equal to the average of the deposit rates. In particular, in order to benefit from the maximum reduction in interest, net eligible loans during the second reference period must exceed the benchmark net lending (defined in the previous point) by at least 1.15%. During the special interest-rate period, it will be possible to benefit from a reduction that depends on the benchmark thresholds reached and on the level of the MRO and Deposit Facility rates.

The financial liability falls within the scope of application of IFRS 9 and is recognised at amortised cost, with the economic effect calculated using variable rates in accordance with para. B.5.4.5 of IFRS 9, under which the redetermination of future interest payments usually has no significant effect on the carrying amount of the asset or liability. The variable rate for the liability is a rate that varies in each of the three years of the operation, resulting in recognition of the interest specific to each year, considering that any accrued interest would be settled in the event of early repayment.

In determining the variable rate to be applied to the recognition of interest in the "special interest period", by virtue of the observed overrun of the net lending benchmark at 31 March 2021, the variable interest at the minimum rate of deposits was taken into account, currently equal to -0.5%, and a further reduction of 50 bps.

Accordingly, the interest accrued but not yet paid, recognised in income statement caption "10. Interest and similar income", amounts to 17.9 million euro.

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

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

- Directive 2014/59/EU (the so-called "Bank Recovery and Resolution Directive" or BRRD) adopted by the national law with Legislative Decree 180 of 16 November 2015, defines the resolution rules and includes the activation of resolution mechanisms through the establishment of funds financed by ex ante contributions; the target level of these funds, which is to be achieved by 31 December 2024, is 1% of the total amount of protected deposits of the banking system;
- Directive 2014/49/EU (the so-called "Deposit Guarantee Schemes Directive" or DGSD) adopted by the

national law with Legislative Decree 30 of 15 February 2016, provides that national deposit protection funds (in Italy, the Interbank Deposit Protection Fund or FITD) should raise funds as a proportion of the guaranteed deposits, to be established by a system of ex-ante- funding to reach the target level of 0.8% of guaranteed deposits by 2024.

Following notification of the contributions by the competent authorities (Bank of Italy as the resolution authority and FITD as the deposit protection authority), the standard and special contributions paid by Group banks have been charged to income statement caption "180 b) Other administrative costs", as indicated in the Bank of Italy communications dated 19 January 2016.

Disposals related to the "Held to collect" business model

Certain performing loans classified in the "Financial assets at amortised cost" portfolio of the Parent Company were sold during the half year.

In particular, the Bank completed only 1 security sale during the period with a total nominal value of Euro 10 million. This sale resulted in a net gain of Euro 1.0 million which was recognised in caption "100. Profit (losses) from sales or repurchases of: a) financial assets at amortised cost".

Since these exposures were classified among the "Financial assets at amortised cost", being the portfolio held in order to collection contractual cash flows ("Hold to Collect" business model), IFRS 9 requires their disposal to comply with certain materiality or frequency thresholds, close to their maturity dates, at a time of increased credit risk or exceptional circumstances.

In this regard, the disposals made by the Group during the half year complied with the materiality and frequency thresholds documented in the Group's accounting policies. During the period and up to the date of preparing this report, no changes were made to the criteria allowing the sale of financial assets managed using the HTC business model.

Lastly, it is confirmed that the debt securities classified in the HTC and HTCS portfolios continue to be managed in accordance with the choices applied previously; so there were no changes in business model during the year that resulted in portfolio reclassifications.

Realignment ("step-up") of differences between the tax values of assets and their higher carrying amounts (Legislative Decree 14 August 2020)

Art. 110 of Legislative Decree no. 104/2020 (the so-called "August" Decree) reintroduced the possibility for companies that prepare their financial statements according to IAS/IFRS to realign the differences between the tax and accounting values of tangible assets (excluding goods) and intangible assets (excluding goodwill) and long-term investments.

Paragraph 83 of art. 1 of Law no. 178/2020 (Budget Law 2021) added, after paragraph 8 of article 110 of the August Decree, paragraph 8-bis which extends the possibility of realignment also to goodwill and other intangible assets resulting from the financial statements of the year in progress at 31 December 2019.

In light of the above, on 24 June 2021 the Board of Directors of Banco Desio resolved to make use of the right to realign the tax value of intangible assets represented by intangibles (goodwill), recognised in the separate financial statements, with the higher carrying amount recorded in the financial statements at 31 December 2020 for a total of Euro 4.1 million. This consists of the goodwill recognised in 1999 following the purchase of branches from Banco Ambrosiano Veneto for Euro 1.7 million and the goodwill recognised in 2019 following the merger by absorption of the former subsidiary Banca Popolare di Spoleto for Euro 2.4 million (the latter was already subject to a previous step-up pursuant to art. 15, paragraph 10 of art. 15, para. 10 of Legislative Decree no. 185/2008).

At the same meeting, the Board of Directors also resolved to make use of the right to realign the tax value



of the tangible assets represented by buildings, recognised in the separate financial statements, to the higher carrying amount recorded in the financial statements at 31 December 2020 for a total of Euro 28.5 million.

Against this decision to realign, Banco Desio took a commitment to pay a substitute tax of approximately Euro 1.0 million, corresponding to 3% of the realigned value (Euro 32.6 million), to be paid in a maximum of three annual instalments by the deadline for final payment of income taxes. The step-up option was therefore exercised and the first instalment of the substitute tax was paid by 30 June 2021.

At 31 December 2020 the deferred tax liabilities on the misalignment of the assets in question amounted to Euro 9.6 million and are fully recognised in the income statement. With reference to the goodwill recognised as a result of the absorption of the former subsidiary Banca Popolare di Spoleto, following the previous step-up, partially cancelled deferred tax assets were recognised for Euro 0.8 million in relation to the tax amortisation already deducted.

In accordance with paragraph 47 of IAS 12, deferred tax liabilities have to be calculated at the tax rates that are expected to be applied in the year when the liability will be extinguished, on the basis of the tax rates and tax legislation in force or substantially in force at the balance sheet date.

In view of the resolution thus adopted, taking into account the accounting legislation explained above, for the purposes of preparing the condensed interim financial statements at 30 June 2021 it was necessary to reverse the deferred tax liabilities and reconstitute the cancelled deferred tax assets on the tax misalignment on the goodwill referring to Banca Popolare di Spoleto, recognising the cost of the substitute tax to be paid as a tax payable. The related economic effect, recognised under item 300 "Income taxes for the year of current operations", was positive for Euro 9.4 million, i.e. the net positive effect resulting from the reversal of existing deferred tax liabilities (Euro 9.6 million), reconstitution of the deferred tax assets (Euro 0.8 million) and the amount of the substitute tax to be paid (Euro 1.0 million).

As a result of this realignment, it is also necessary to record a tax restriction in the event of distribution (so-called reserve in suspension of tax for tax purposes) for an amount equal to Euro 31.6 million, corresponding to the higher values realigned, net of the substitute tax to be paid.

New definition of default applicable for the Banco Desio Group starting from 1 January 2021

In the identification of non-performing loans, the new European supervisory rules on the classification of "debtors in default" have been applied since 1 January 2021. They introduced more stringent criteria and methods than those previously adopted by Italian banking intermediaries and financial institutions in the disbursement of loans, assessment of credit and classification as default, with a view to containing and improving credit quality and overall supervision of banking operations. The changes introduced are summarised below.

New calculation of past due

- Lowering the threshold of "relative" materiality from 5% to 1%
- The calculation of this threshold is represented by the ratio between the amount in arrears and the customer's overall exposure, both calculated at Group level without offsetting any margins available on other lines of credit.
- Introduction of an "absolute" materiality threshold differentiated by type of exposure, i.e. Euro 100 for retail exposures and Euro 500 for non-retail exposures.
- Classification of a debtor in default when both materiality thresholds are exceeded at the same time for more than 90 consecutive days
- Calculation of past due and thresholds exceeded at Group level

Observation period of 3 months (known as the "cure period")

- Introduction of an observation period of at least 3 months in preparation for the reclassification to performing loans for debtors previously classified as default (past due, UTPs and bad loans) who then regularise their position.

Reduced financial obligation

- Introduction of the calculation of "Reduced Financial Obligation", the new UTP trigger for each concession measure made to a customer in financial difficulty. The calculation of the reduced financial obligation is carried out in a situation of forbearance.

Propagation rules

- Introduction of new rules for the propagation of the state of default of a performing position on the basis of an existing link with other positions classified as being in default.

Uniformity of classification:

Same classification of a debtor in default at Banking Group level.

Application of the new definition of default resulted in a limited transition from performing loans (stage 1 and stage 2) to non-performing overdue loans, in particular for the subsidiary Fides due to the more restrictive thresholds in the calculation of past due and the propagation effect from the Parent Company (calculation of exceeding the thresholds at Group level). At 30 June 2020, exposures classified as non-performing overdue amounted to a total of Euro 6.3 million gross.

Domestic tax group election

The Italian companies of the Banco Desio Group (except for Desio OBG S.r.l., given its status as an SPV) have chosen to be a "domestic tax group" for the years 2021-2023, 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.

Comparability of financial statements

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

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

Independent audit

These interim financial statements have been subjected to a limited audit by KPMG S.p.A. in execution of the resolution of the Shareholders' Meeting of 23 April 2021, which appointed this company for the years 2021 to 2029.



MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

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

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

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

Classification

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

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

In particular, the following are recognised in this item:

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

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

According to the general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equities for which no reclassification is allowed), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from

the category measured at fair value through profit or loss to one of the other two categories envisaged by IFRS 9 (*Financial assets measured at amortised cost* or *Financial assets measured at fair value through other comprehensive income*). The transfer value is represented by the fair value at the time of the reclassification and its effects apply prospectively starting from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is recalculated based on its fair value at the reclassification date and this date is considered the initial recognition date for allocation to the various stages of credit risk (stage assignment) for impairment purposes.

Recognition

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

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

Measurement

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

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

Derecognition

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

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

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

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

Classification

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

- the financial asset is held according to a business model the objective of which is achieved by collecting the cash flows provided for by contract and by selling it (HTCS) and



- the contractual terms of the financial asset provide, at certain dates, for financial flows represented solely by payments of capital and interest on the amount of the principal to be repaid (i.e. passing the SPPI test).

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

In particular, the following are recognised in this item:

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

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

Recognition

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

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

Measurement

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

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

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

Financial assets valued at fair value through other comprehensive income are subject to verification to see if there has been a significant increase in credit risk (i.e. impairment) as required by IFRS 9, in the same

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

Derecognition

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

Financial assets at amortised cost

Classification

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

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

In particular, the following are recognised in this item:

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

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

Recognition

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

In particular, as far as loans are concerned, the disbursement date normally coincides with the date of



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

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

Measurement

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

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

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

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

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

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

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

If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the

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

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

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

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

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

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

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

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

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

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

- the purposes for which the changes were made: for example, renegotiations for commercial reasons and concessions for the financial difficulties of the counterparty:
 - the former, aimed at holding on to the customer, involves a debtor who is not in a situation of financial difficulty. Cases include all renegotiations that aim to bring the cost of the debt into line with market conditions. Such transactions involve a change in the original conditions of the contract, usually on the debtor's request, to do with the cost of the loan, leading to an economic benefit for the debtor. Generally speaking, it is thought that whenever the bank renegotiates



loan to avoid losing a customer, the renegotiation has to be considered substantial, because if it was not carried out, the customer could find alternative funding through another intermediary and the bank would suffer a decrease in its expected future revenues;

- the latter, which are carried out for "reasons of credit risk" (i.e. forbearance measures), are due to the bank's attempt to maximise recovery of the original loan's cash flows. As a rule, after the changes, the underlying risks and benefits are not substantially transferred, so the accounting treatment is performed through "modification accounting" - which involves immediate recognition in the income statement caption 140. "Profit/losses from contractual changes without write-offs" of the difference between the carrying amount of the loan and the present value of the new cash flows discounted at the original interest rate - and not through derecognition;
- the presence of specific objective elements (known as "triggers") that affect the characteristics and/or contractual flows of the financial instrument (such as a change in currency or a change in the type of risk to which it is exposed, where it is correlated to parameters of equity and commodity), which are considered to involve derecognition because of their impact (expected to be significant) on the original contractual flows.

Derecognition

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

Recognition of items affecting the income statement

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

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

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

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

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

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

Hedging transactions

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

Classification

Hedging transactions are intended to offset certain risks of potential loss on financial assets or liabilities

through specific financial instruments, the use of which is intended to cushion the effects on the income statement of the securities being hedged.

The type of hedge used may be:

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

Recognition

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

The recognition of hedging transactions assumes:

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

Measurement

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

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

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

Recognition of items affecting the income statement – Fair value hedges

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

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



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

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

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

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

Derecognition

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

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

Property, plant and equipment

Classification

Property, plant and equipment include land, buildings, artistic assets, equipment, furniture and fittings and other office equipment. These consist of tangible fixed assets held for use in the provision of services (used for business purposes) and for rental to third parties (investment property) and for which it is deemed that they will be used for more than one financial year. This also includes the rights to use acquired through leasing and relating to the use of a tangible asset (for lessee companies), the assets granted under operating leases (for lessor companies).

Recognition

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

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

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

In application of IFRS 16, leases are accounted for on the basis of the right of use model, so that, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for his right to use the underlying asset during the period of the lease.

When the asset is made available to the lessee for its use (initial date), the lessee recognizes both the liability and the asset consisting of the right of use.

Measurement

Property, plant and equipment are shown at purchase cost, including ancillary expenses, less

accumulated depreciation and any impairment losses, with the exception of assets used in business and valuable works of art, which are measured according to the value re-determination method.

For property, plant and equipment measured according to the value re-determination method:

- if the carrying amount of an asset is increased following re-determination of the value, the increase must be recognized in other components in the statement of comprehensive income and booked to equity in the revaluation reserve; on the other hand, if a decline in the value of an asset, previously recognized in the income statement, is recovered, the write-back has to be recognized as income;
- if the carrying amount of an asset is reduced following re-determination of its value, the decrease must be recognized in other components in the statement of comprehensive income as a revaluation excess, assuming that there is already a positive valuation reserve for this asset; otherwise, this decrease must be recorded in the income statement.

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

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

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

With reference to the right of use, accounted for on the basis of IFRS 16, it is measured using the cost model in accordance with IAS 16 - Property, plant and equipment; in this case, the asset is subsequently depreciated and subjected to impairment testing if any indications of impairment arise.

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

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

Intangible assets

Classification

Intangible assets include goodwill, compensation for abandonment of leasehold premises and software purchase costs. The rights to use acquired under the lease and relating to the use of an intangible asset (for the lessees) are also included, as are the assets granted under operating leasing (for the lessors). Restructuring costs of properties not owned (i.e. "leasehold improvements") are recorded under Other assets.

Recognition

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



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

Measurement

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

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

Current and deferred taxation

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

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

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

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

recoverable is shown under *Current Tax Assets*.

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

Provision for termination indemnities

Measurement

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

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

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

Recognition of items affecting the income statement

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

Provisions for risks and charges

Provisions for risks and charges for commitments and guarantees given

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

Other provisions for risks and charges

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

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

The evaluation of long-service bonuses to employees is made by independent external actuaries and



follows the same logic as described above for calculating the provision for termination indemnities. Actuarial gains and losses are recognised immediately in the income statement.

Recognition of items affecting the income statement

Provisions are charged to the income statement.

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

Financial liabilities at amortised cost

Classification

Due to banks, *Due to customers* and *Debt securities in issue* include the various forms of interbank and customer funding, repurchase agreements with the obligation to repurchase in the future and deposits made through certificates of deposit, bonds and other instruments collection fund, net of any repurchased amounts. The payables recorded by the company as a lessee in the context of leasing transactions are also included.

Recognition

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

Measurement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Exceptions to this are short-term liabilities, for which the time factor is negligible, which remain recorded for the amount collected. Lease payables are revalued when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate contract.

Derecognition

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

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

Financial liabilities held for trading

Recognition and classification

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

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

Measurement and recognition of items affecting the income statement

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

Derecognition

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

Currency transactions

Recognition

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

Measurement

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

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

Recognition of items affecting the income statement

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

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

Other information

Valuation reserves

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

Recognition of costs and revenues

Revenues are recognised:

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



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

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

Note that interest income (or interest expense) in the financial statements also includes amortisation for the year of the fair value differences measured with reference to business combinations, due to the greater or lesser profitability accorded to assets classified as receivables and liabilities classified as payables and debt securities in issue. However, in the event of termination of these loans (acquired as the result of a business combination), any higher book value recorded in the financial statements on initial recognition gets fully released through profit and loss in the year that the loan is repaid (as *Net adjustments for credit risk relating to financial assets measured at amortised cost*);

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

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

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

Finance leases

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

Securitisations

Exposures to the securitisation (in the form of junior securities or deferred purchase price) are allocated to Financial assets measured at fair value through profit or loss. However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control³ introduced by IFRS 10, it is included in the Banco Desio Group's scope of consolidation.

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

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

Tax credits linked to the "Cura Italia" and "Relaunch" Decrees acquired following disposal by the direct beneficiaries or previous purchasers (e.g. Ecobonus)

Law Decrees 18/2020 ("Cura Italia") and 34/2020 ("Relaunch") have introduced into Italian law tax incentives based on investment costs (e.g. Ecobonus and Sismabonus) and on current costs (e.g. rent of premises for non-residential use). These tax incentives are applied to households or businesses, are commensurate with a percentage of the expenditure incurred (which in some cases even reaches 110%) and are disbursed in the form of tax credits or tax deductions (with an option to convert them into tax credits). The main features of these tax credits are (i) the possibility to use them for offsetting; (ii) transferability to third-party purchasers and (iii) the fact that they are non-refundable by the tax authorities.

The accounting of tax credits acquired by a third party (transferee of the tax credit) is not covered by a specific international accounting standard. IAS 8 provides that, in the event where there is a case not explicitly dealt with by an IAS/IFRS, management has to define an accounting policy that guarantees relevant and reliable disclosure of such transactions.

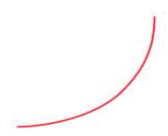
To this end and taking into consideration the indications expressed by the Supervisory Authorities, the Banco Desio Group has adopted an accounting policy that refers to the accounting discipline envisaged by IFRS 9, applying by analogy the provisions compatible with the characteristics of the transaction and

³ Under this definition, an investor controls an entity subject to investment when the investor has power over its key assets, is exposed to variable returns resulting from the relationship with the entity and has the ability to affect those returns by exercising power over it.



considering that the tax credits in question are substantially similar to a financial asset. The Group purchases the receivables according to its tax capacity, with the aim of holding them and using them for future compensation. These receivables are therefore attributable to a Hold to Collect business model and recognised at amortised cost, showing the remuneration in net interest income during the recovery period. These receivables have to be measured considering how they will be used through estimated future compensations. However, the accounting framework envisaged by IFRS 9 for the calculation of expected losses is not applicable in this specific case, i.e. ECL is not calculated on these tax credits, as there is no counterparty credit risk, taking into account that realisation of the credit takes place by offsetting them against tax payables and not by collecting them. Taking into account that the tax credits purchased do not represent tax assets, government grants, intangible assets or financial assets, in accordance with international accounting standards, the most appropriate classification is the residual one, "Other Assets".

INFORMATION ON FAIR VALUE





Qualitative information

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

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

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

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

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

Fair value measurement with use of Level 1 inputs

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

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

The fundamental elements are the following:

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

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

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

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

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

- prices quoted for similar assets or liabilities in active markets;
- prices quoted for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability, for example:
 - o interest rates and yield curves observable at commonly quoted intervals;
 - o implied volatilities;
 - o credit spreads;
- market-corroborated inputs.

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

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

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

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

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

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

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

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



internal management and so-called "disposal scenarios", may not represent the potential exit price because of a certain margin of uncertainty, which is in any case inherent in the various components making up the price considered by a potential third-party purchaser;

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

Process and sensitivity of valuations

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

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

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

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

Fair value hierarchy

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

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

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

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

Other information

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

Quantitative information

Fair value hierarchy

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

Financial assets/liabilities designated at fair value	30.06.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	21,925	3,793	45,922	18,657	3,790	34,255
a) Financial assets held for trading	5,512	2,915	1,377	2,662	2,930	647
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	16,413	878	44,545	15,995	860	33,608
2. Financial assets at fair value through other comprehensive income	583,665	20,791	3,828	574,458	23,893	64,295
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	605,590	24,584	49,750	593,115	27,683	98,550
1. Financial liabilities held for trading	-	6,040	1,318	-	6,935	592
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	943	-	-	1,540	-
Total	-	6,983	1,318	-	8,475	592

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 (7.3% at 30 June 2021 compared with 13.7% in the previous year). These investments consist of Euro 3.8 million of minor equity investments booked under "Financial assets at fair value through other comprehensive income".

At 30 June 2021, 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 at fair value through profit or loss								
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily at fair value	Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	34,255	647	-	33,608	64,295	-	-	-
2. Increases	12,978	1,377	-	11,601	54,227	-	-	-
2.1. Purchases	9,622	-	-	9,622	-	-	-	-
2.2. Profits posted to:	3,356	1,377	-	1,979	54,227	-	-	-
2.2.1. Income statement	3,356	1,377	-	1,979	-	-	-	-
- of which: capital gains	3,350	1,377	-	1,973	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	-	54,227	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	1,311	647	-	664	114,694	-	-	-
3.1. Sales	-	-	-	-	114,694	-	-	-
3.2. Redemptions	31	-	-	31	-	-	-	-
3.3. Losses posted to:	1,186	647	-	539	-	-	-	-
3.3.1. Income statement	1,186	647	-	539	-	-	-	-
- of which: capital losses	1,185	647	-	538	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	-	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	94	-	-	94	-	-	-	-
4. Closing balance	45,922	1,377	-	44,545	3,828	-	-	-

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

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or	Hedging derivatives
1. Opening balance	592	-	-
2. Increases	1,318	-	-
2.1 Issues	-	-	-
2.2. Losses posted to:	1,318	-	-
2.2.1. Income statement	1,318	-	-
- of which: capital losses	1,318	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	592	-	-
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits posted to:	592	-	-
3.3.1. Income statement	592	-	-
- of which: capital gains	592	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	1,318	-	-



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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2021				31.12.2020			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	15,943,892	2,194,919	8,250,737	5,962,369	14,332,345	2,099,602	7,970,888	4,780,775
2. Investment property	1,744			1,920	1,758			1,920
3. Non-current assets and disposal groups held for sale	2,440			2,440				
Total	15,948,076	2,194,919	8,250,737	5,966,729	14,334,103	2,099,602	7,970,888	4,782,695
1. Financial liabilities at amortised cost	15,538,782		1,619,920	13,950,107	14,276,954		1,601,142	12,676,375
2. Liabilities associated with assets held for sale								
Total	15,538,782		- 1,619,920	13,950,107	14,276,954	-	1,601,142	12,676,375

Key

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

INFORMATION ON "DAY ONE PROFIT/LOSS"

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

In relation to the Group's operations and on the basis of the internal valuation methodologies currently in use, no such differences have been recognised, since the *fair value* of financial instruments upon initial recognition coincides with the transaction price. However, if a difference arises between the transaction price and the amount determined using valuation techniques, this difference is immediately recognised to the income statement.



MAIN BALANCE SHEET AND INCOME STATEMENT CAPTIONS

ASSETS

Cash and cash equivalents – caption 10

1.1 Cash and cash equivalents: breakdown

	30.06.2021	31.12.2020
a) Cash	48,663	56,525
b) Demand deposits with central banks	-	-
Total	48,663	56,525

Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	30.06.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	2,915	-	-	2,930	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	2,915	-	-	2,930	-
2 Equity instruments	3,519	-	-	2,553	-	-
3. Mutual funds	1,961	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	5,480	2,915	-	2,553	2,930	-
B. Derivatives						
1. Financial derivatives	32	-	1,377	109	-	647
1.1 for trading	32	-	1,377	109	-	647
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)	32	-	1,377	109	-	647
Total (A+B)	5,512	2,915	1,377	2,662	2,930	647

Key

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

Caption "Financial assets held for trading" comprises:

- a) Cash assets held for trading;



b) Positive value of derivatives held for trading.

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

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

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

Captions/Amounts	30.06.2021	31.12.2020
A. Cash assets		
1. Debt securities	2,915	2,930
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	2,915	2,930
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2 Equity instruments	3,519	2,553
a) Banks	-	302
b) Other financial companies	796	266
of which: insurance companies	-	-
c) Non-financial companies	2,723	1,985
d) Other issuers	-	-
3. Mutual funds	1,961	-
4. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	8,395	5,483
B. Derivatives		
a) Central counterparties	-	-
b) Other	1,409	756
Total (B)	1,409	756
Total (A+B)	9,804	6,239

2.5 Other financial assets mandatorily at fair value: breakdown

Captions/Amounts	30.06.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	878	-	-	860	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	878	-	-	860	-
2 Equity instruments	-	-	-	-	-	-
3. Mutual funds	16,413	-	44,545	15,995	-	33,608
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	16,413	878	44,545	15,995	860	33,608

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

The item "Financial assets mandatorily at fair value" includes the mutual fund units that are not held for trading purposes; these instruments by their very nature do not pass the SPPI test ("Solely Payments of Principal and Interest") foreseen in IFRS 9 "Financial Instruments". This caption includes quotas of closed-end funds subscribed following completion of a sale of non-performing loans to the fund; This caption includes quotas of closed-end funds subscribed following completion of a sale of non-performing loans to the fund;

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

	30.06.2021	31.12.2020
1. Equity instruments	-	-
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	878	860
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	878	860
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Mutual funds	60,958	49,603
4. Loans	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	61,836	50,463

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



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

Captions/Amounts	30.06.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	583,497	10,791	-	574,272	13,893	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	583,497	10,791	-	574,272	13,893	-
2. Equity instruments	168	10,000	3,828	186	10,000	64,295
3. Loans	-	-	-	-	-	-
Total	583,665	20,791	3,828	574,458	23,893	64,295

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

Caption "30. Financial assets at fair value through other comprehensive income" comprises:

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

At the end of the comparative period, caption "2. Equity securities" included, in particular, the investment in Cedacri S.p.A., the sale of which took place on 3 June 2021 for an amount of Euro 114.7 million; in accounting terms it was recognised because the realisation event took place. i) the reversal of the valuation reserve existing at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result achieved compared with the initial recognition value, of Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve of retained earnings.

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

Captions/Amounts	30.06.2021	31.12.2020
1. Debt securities	594,288	588,165
a) Central banks	-	-
b) Public administrations	582,541	574,272
c) Banks	11,747	13,893
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	13,996	74,481
a) Banks	10,000	10,000
b) Other issuers:	3,996	64,481
- other financial companies	2,503	2,503
of which: insurance companies	-	-
- non-financial companies	1,493	61,978
- other	-	-
3. Loans	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	608,284	662,646

3.3 Financial assets designated at fair value through other comprehensive income: gross value and total write-downs

	Gross value				Total write-downs			Total partial write-offs
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	594,288	594,288	-	-	163	-	-	-
Loans	-	-	-	-	-	-	-	-
Total	30.06.2021	594,288	594,288	-	-	163	-	-
Total	31.12.2020	588,165	588,165	-	-	172	-	-
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-



Financial assets measured at amortised cost - caption 40

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

Type of transaction/Amounts	30.06.2021						31.12.2020					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. Due from central banks	1,848,849	-	-	-	-	1,848,849	836,893	-	-	-	-	836,893
1. Time deposits	-	-	-	-	-	-	-	-	-	-	-	-
2. Reserve requirement	1,848,849	-	-	-	-	-	836,893	-	-	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
B. Due from banks	590,123	-	-	-	350,375	248,429	528,866	-	-	-	337,229	199,675
1. Loans	246,812	-	-	-	-	246,629	197,875	-	-	-	-	197,875
1.1. Current accounts and demand deposits	57,157	-	-	-	-	-	63,817	-	-	-	-	-
1.2. Time deposits	26,319	-	-	-	-	-	43,172	-	-	-	-	-
1.3. Other loans:	163,336	-	-	-	-	-	90,886	-	-	-	-	-
- Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
- Loans for leases	-	-	-	-	-	-	-	-	-	-	-	-
- Other	163,336	-	-	-	-	-	90,886	-	-	-	-	-
2. Debt securities	343,311	-	-	-	350,375	1,800	330,991	-	-	-	337,229	1,800
2.1 Structured securities	3,958	-	-	-	4,002	-	3,945	-	-	-	3,988	-
2.2 Other debt securities	339,353	-	-	-	346,373	1,800	327,046	-	-	-	333,241	1,800
Total	2,438,972	-	-	-	350,375	2,097,278	1,365,759	-	-	-	337,229	1,036,568

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

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

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

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

The Bank's commitment to maintain the reserve requirement amounts to Euro 104.4 million at 30 June (Euro 101.3 million in December 2020).

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

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows.

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

Type of transaction/Amounts	30.06.2021						31.12.2020					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
1. Loans	10,598,821	283,722	10,347	-	7,458,072	3,814,504	10,168,208	305,020	10,702	-	7,196,337	3,739,218
1.1. Current accounts	920,484	59,413	181				875,940	72,888	311			
1.2. Repurchase agreements	-	-	-				-	-	-			
1.3. Mortgage loans	7,882,063	203,293	9,991				7,501,000	211,712	10,235			
1.4. Credit cards, personal loans and assignments of one-fifth of salary	894,459	7,731	31				869,098	3,666	35			
1.5 Loans for leases	156,383	8,922	-				154,268	12,057	-			
1.6. Factoring	54,838	299	-				43,027	296	-			
1.7. Other loans	690,594	4,064	144				724,875	4,401	121			
2. Debt securities	2,622,377	-	-	2,194,919	442,290	50,587	2,493,358	-	-	2,099,602	437,322	4,989
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	2,622,377	-	-	2,194,919	442,290	50,587	2,493,358	-	-	2,099,602	437,322	4,989
Total	13,221,198	283,722	10,347	2,194,919	7,900,362	3,865,091	12,661,566	305,020	10,702	2,099,602	7,633,659	3,744,207

Key

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

Gross loans total Euro 11,254,626 thousand (Euro 10,823,025 thousand at the end of last year), of which Euro 10,680,859 relate to performing loans (formerly Euro 10,242,303 thousand) and Euro 573,767 thousand to non-performing loans (formerly Euro 580,722 thousand).

Total write-downs on the same loans amount to Euro 372,083 thousand (Euro 349,797 thousand last year), of which Euro 290,045 thousand relate to non-performing loans (Euro 275,702 thousand last year) and Euro 82,038 thousand to performing loans (Euro 74,095 thousand last year).

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



The breakdown of loans to customers by type at 30 June 2021 (compared with 31 December 2020) shows further growth in medium/long-term mortgages and loans due to the disbursements made to companies backed by guarantees from Medio Credito Centrale and SACE.

The table also includes the amounts of receivables sold which have not been derecognised, constituting eligible assets for the Covered Bond programme; at 30 June 2021 these loans amount to 1,589,570 thousand euro (formerly 1,473,441 thousand euro).

Sub-caption "Mortgage loans" also includes collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 3,102,377 thousand (Euro 2,889,722 thousand at the end of last year).

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

This caption includes the interest accrued at 30 June 2021 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 343/2016, which implements art. 120, para. 2, of the Consolidated Banking Law (T.U.B.).

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

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.

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows. The value of debt securities is shown net of adjustments deriving from the application of the new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments". This portfolio includes Euro 190,385 thousand of senior notes issued by the "2Worlds S.r.l." SPV following the sale of doubtful loans through use of the "GACS" scheme in 2018.

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

Type of transaction/Amounts	30.06.2021			31.12.2020		
	First and second stage	Third stage	of which: impaired assets acquired or originated	First and second stage	Third stage	of which: impaired assets acquired or originated
1. Debt securities	2,622,377	-	-	2,493,358	-	-
a) Public administrations	2,151,193	-	-	2,048,094	-	-
b) Other financial companies	419,625	-	-	417,290	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	51,559	-	-	27,974	-	-
2. Loans to:	10,598,821	283,722	10,347	10,168,208	305,020	10,702
a) Public administrations	86,985	306	16	67,062	319	-
b) Other financial companies	172,452	5,114	-	134,043	5,208	-
of which: insurance companies	4,990	-	-	5,076	-	-
c) Non-financial companies	6,015,647	168,044	4,515	5,790,542	192,279	4,511
d) Households	4,323,737	110,258	5,816	4,176,561	107,214	6,191
Total	13,221,198	283,722	10,347	12,661,566	305,020	10,702

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

	Gross value				Total write-downs			Total partial write-offs	
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage		
Debt securities	2,967,154	2,967,153	-	-	1,466	-	-	-	
Loans	10,212,331	38,794	2,564,379	573,767	17,132	65,096	290,045	8,282	
Total	30.06.2021	13,179,485	3,005,947	2,564,379	573,767	18,598	65,096	290,045	8,282
Total	31.12.2020	11,740,685	2,856,917	2,362,235	580,722	18,811	56,784	275,702	9,039
of which: impaired financial assets acquired or originated	X	X	4,087	9,888	X	95	3,533	-	

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

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



The breakdown into stages is relevant for the application of the model for the calculation of impairment based on expected losses, determined on the basis of past events, current and reasonable conditions and "supportable" future forecasts. In particular, the model for the calculation of the expected loss has the following characteristics:

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

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

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

6.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets / Components of the Group	30.06.2021	31.12.2020
1. Positive adjustments	533	563
1.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets designated at fair value through other comprehensive income	-	-
1.2 total	533	563
2. Negative adjustments	-	-
2.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets designated at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	533	563

The adjustment to financial assets with generic hedges ("macro-hedging") refers to the delta between fair value and amortised cost of mortgage portfolios (previously identified as a hedged item) outstanding on the date of termination of the "macro-hedging" relationships and released over the useful life of the portfolios.

At 30 June, the balance solely comprises unamortised positive differentials on portfolios that were discontinued in prior years.



Property, plant and equipment - caption 90

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

Assets/Amounts	30.06.2021	31.12.2020
1. Own assets	167,187	169,207
a) land	52,778	52,778
b) property	97,693	99,107
c) furniture	4,066	4,230
d) electronic systems	3,296	3,285
e) other	9,354	9,807
2. Rights of use acquired under lease	51,004	51,518
a) land	-	-
b) property	50,205	50,621
c) furniture	-	-
d) electronic systems	-	-
e) other	799	897
Total	218,191	220,725
of which: obtained through enforcement of the guarantees received	-	-

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, the policy method is cost; this criterion is also adopted for all other tangible fixed assets.

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.

Item 1.e) "Own assets - other" mainly includes miscellaneous plant and equipment (e.g. signs, safes, lamps, armoured counters etc).

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

9.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	30.06.2021				31.12.2020			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	1,744	-	-	1,920	1,758	-	-	1,920
a) land	827	-	-	846	828	-	-	846
b) property	917	-	-	1,074	930	-	-	1,074
2. Rights of use acquired under lease	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) property	-	-	-	-	-	-	-	-
Total	1,744	-	-	1,920	1,758	-	-	1,920
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3



Intangible assets - caption 100

10.1 Intangible assets: breakdown by type

Assets/Amounts	30.06.2021		31.12.2020	
	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	3,544	-	3,191	-
A.2.1 Carried at cost	3,544	-	3,191	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	3,544	-	3,191	-
A.2.2 Carried at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	3,544	15,322	3,191	15,322

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

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

Analysis of trigger events for impairment testing of goodwill

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

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

The impairment test carried out at 30 June 2021 on the CGUs underlying consolidated goodwill did not reveal any signs of losses.

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

The analysis of *trigger* events was carried out for the main assumptions considered in the context of the *impairment test carried out for financial statement purposes at 31 December 2020*. These were identified

with particular reference to the net result for the period in relation to the forecasts, the development of loans in terms of risk -weighted assets (RWA), capital ratios (with particular reference to capital absorption) and the cost of equity (Ke).

As a result of this analysis, no trigger events were identified such as to require a repeat of the impairment test, nor any write-downs in the interim consolidated financial report at 30 June 2021.



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

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

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

Deferred tax assets are recognised when their recovery is probable.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	30.06.2021	31.12.2020
A) With contra-entry to the income statement:				
Tax losses	11,630		11,630	12,144
Tax deductible goodwill	3,808	771	4,579	4,082
Write-down of loans to customers deductible on a straight-line basis	123,414	17,225	140,639	152,407
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994				
Provision for implicit risks on loans				
Write-downs of shares classified under securities FVPL				
Statutory depreciation of buildings				
Statutory depreciation of property, plant and equipment	283		283	283
Provision for guarantees and commitments and country risk	1,165		1,165	1,360
Provisions for personnel costs	4,851	781	5,632	5,569
Provision for lawsuits	2,782		2,782	2,725
Provision for claw-backs	202	41	243	236
Provision for sundry charges	2,754	467	3,221	3,400
Tax provision for termination indemnities	7		7	7
Entertainment expenses, one third of which is deductible over four subsequent years				
Other general expenses deductible in the following year				
Other	2,162	547	2,709	1,737
Total A	153,363	19,832	173,195	184,255
B) With contra-entry to shareholders' equity:				
Cash-flow hedges	1,082	219	1,301	1,301
Tax provision for termination indemnities	1,135		1,135	1,119
Write-down of securities classified as FVOCI	156	37	193	51
Other	93	16	109	99
Total B	2,466	272	2,738	2,570
Total (A+B)	155,829	20,104	175,933	186,825

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	30.06.2021	31.12.2020
A) With contra-entry to the income statement:				
Gains on disposal of property, plant and equipment				
Tax depreciation of buildings				7,555
Tax depreciation of property, plant and equipment		16	16	16
Tax amortisation of goodwill	13	3	16	571
Tax amortisation of deferred charges (software)				
Tax provision as per art. 106, paragraph 3				
PPA of depreciation and amortisation				1,011
Tax provision for termination indemnities				
Other	587	21	608	569
Total A	600	40	640	9,722
B) With contra-entry to shareholders' equity				
Cash-flow hedges	866	175	1,041	841
Revaluation of securities valued at FVOCI	216	44	260	630
Revaluation of equity investments				2,219
Revaluation of artworks	66	13	79	79
Total B	1,148	232	1,380	3,769
Total (A+B)	1,748	272	2,020	13,491

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

Assets held for sale - caption 120

The item includes net non-performing loans for Euro 2,440 thousand, the sale of which was completed in July.



Other assets - caption 130

13.1 Other assets: breakdown

	30.06.2021	31.12.2020
Tax credits		
- capital	18,337	2,948
- interest		
Amounts recoverable from the tax authorities for advances paid	27,173	30,016
Withholding tax credits		
Cheques negotiated to be cleared	19,959	15,808
Guarantee deposits		
Invoices issued to be collected	395	304
Debtors for securities and coupons to be collected by third parties		
Printer consumables and stationery		
Items being processed and in transit with branches	56,234	19,409
Currency spreads on portfolio transactions	27	141
Investments of the supplementary fund for termination indemnities	25	31
Leasehold improvement expenditure	7,569	8,202
Accrued income and prepaid expenses	8,136	3,290
Other items	29,349	28,465
Total	167,204	108,614

The "Tax credits - capital" caption mainly relates to:

- for Euro 15,338 thousand, to the Ecobonus and Sismabonus tax credits (pursuant to Law 77/2000 which converted Legislative Decree 34/2020 into law) recorded by the Bank following customers' transfers of the credits corresponding to their tax deductions;
- for Euro 1,127 thousand, to the credit linked to management of the reconstruction loans disbursed after the 2009 earthquake in Abruzzo;
- for Euro 1,577 thousand, to the credit linked to management of the reconstruction loans disbursed after the 2016 earthquake in Central Italy.

"Amounts recoverable from the tax authorities for advances paid" relate to obligatory payments of tax advances that exceeded the tax liability that emerged from the tax return; in detail, they refer to:

- a receivable for virtual stamp duty of Euro 21,696 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 3,867 thousand, as per art. 2, para. 5, of Decree Law no. 133 of 30 November 2013;
- a receivable for withholding tax on the interest earned by deposits and current accounts of Euro 922 thousand.

The "Items being processed and in transit with branches" principally include security transactions, Euro 12,653 thousand settled at the beginning of the next month, the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 21,153 thousand, cheques being processed for Euro 1,557 thousand and the recovery of commissions on lines of credit made available to customers, Euro 7,045 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the next half year.

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

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

"Accrued income and prepaid expenses" include amounts that are not attributable to specific asset captions.

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

- receivables awaiting collection for Euro 16,634 thousand and receivables relating to invoices to be issued for Euro 1,282 thousand, both relating mainly to commission;
- receivables for 4,091 thousand euro from financial consultants for the amount awarded by way of entry bonus and not yet vested;
- sundry debtors for currency trading transactions for Euro 1,135 thousand.



LIABILITIES

Financial liabilities measured at amortised cost - caption 10

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

Type of transaction/Amounts	30.06.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	3,378,708	X	X	X	2,396,583	X	X	X
2 Due to banks	5,025	X	X	X	15,661	X	X	X
2.1 Current accounts and demand deposits	5,025	X	X	X	1,376	X	X	X
2.2 Time deposits	-	X	X	X	14,285	X	X	X
2.3 Loans	-	X	X	X	-	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Finance lease payables	-	X	X	X	-	X	X	X
2.6 Other payables	-	X	X	X	-	X	X	X
Total	3,383,733	-	-	3,383,733	2,412,244	-	-	2,412,244

Key

BV= Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The "Due to central banks" caption reflects the funding facility assigned to the Bank by the ECB as part of TLTRO operations. To assist this loan, the Parent Bank has lodged collateralised mortgage loans with the ECB (via the A.Ba.Co. procedure).

In March 2021, the Bank participated in the TLTRO III auction for an amount of Euro 1.0 billion, bringing the total of TLTRO III loans in place to Euro 3.4 billion.

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

Type of transaction/Amounts	30.06.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	9,915,371	X	X	X	9,555,338	X	X	X
2. Time deposits	438,693	X	X	X	515,159	X	X	X
3. Loans	89,015	X	X	X	69,505	X	X	X
3.1 Repurchase agreements	-	X	X	X	-	X	X	X
3.2 Other	89,015	X	X	X	69,505	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Finance lease payables	51,810	X	X	X	52,293	X	X	X
6. Other payables	63,237	X	X	X	63,488	X	X	X
30/06/2021	10,558,126	-	-	10,558,126	10,255,783	-	-	10,255,783

Key

BV= Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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.

In application of IFRS 16, caption 5. "Finance lease payables" shows the lease liability, consisting of the current value of the payments which still have to be paid to the lessor at the valuation date.

The main components of caption 6. "Other payables" relate to: cashier's cheques for Euro 58,406 thousand and cheques for Euro 543 thousand (cashier's cheques for Euro 59,837 thousand and cheques for Euro 543 thousand respectively at the end of the previous year).



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

Type of security/Amounts	30.06.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	1,588,675	-	1,619,920	-	1,600,580	-	1,601,142	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,588,675	-	1,619,920	-	1,600,580	-	1,601,142	-
2. other securities	8,248	-	-	8,248	8,347	-	-	8,347
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	8,248	-	-	8,248	8,347	-	-	8,347
Total	1,596,923	-	1,619,920	8,248	1,608,927	-	1,601,142	8,347

Key

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

The caption A.1.2 "Bonds: other" includes the Guaranteed Bank Bonds (GGB) issued for Euro 1,076 million.

Sub-caption A.2.2 "Other securities: other" consist of certificates of deposit and related accrued interest, with a short term maturity.

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

Bonds	Issue date	Maturity date	Currency	Interest rate	30.06.2021	31.12.2020
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	80,049	80,006
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	50,138	50,081
Total					130,187	130,087

No subordinated bond was issued by Banco Desio during the period.

Financial liabilities held for trading - caption 20**2.1 Financial liabilities held for trading: breakdown**

Type of transaction/Amounts	30.06.2021					31.12.2020				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	X	-	6,040	1,318	X	X	-	6,935	592	X
1.1 for trading	X	-	6,040	1,318	X	X	-	6,935	592	X
1.2 connected with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 for trading	X	-	-	-	X	X	-	-	-	X
2.2 connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	-	6,040	1,318	X	X	-	6,935	592	X
Total (A+B)	X	-	6,040	1,318	X	X	-	6,935	592	X

Key

NV = Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

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



Hedging derivatives - caption 40

4.1 Hedging derivatives: breakdown by type and level

	Fair value 30.06.2021			NV	Fair value 31.12.2020			NV
	L1	L2	L3	30.06.2021	L1	L2	L3	31.12.2020
A. Financial derivatives	-	943	-	130,000	-	1,540	-	130,000
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	943	-	130,000	-	1,540	-	130,000
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	943	-	130,000	-	1,540	-	130,000

Key

NV = Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

This caption reports the fair value of the financial derivatives arranged to hedge bonds issued by the Bank (cash flow hedges).

Other liabilities - caption 80**8.1 Other liabilities: breakdown**

	30.06.2021	31.12.2020
Due to tax authorities	1,029	2,788
Amounts payable to tax authorities on behalf of third parties	79,053	27,218
Social security contributions to be paid	3,602	6,529
Dividends due to shareholders	10	12
Suppliers	15,714	20,984
Amounts available to customers	13,264	11,543
Interest and dues to be credited		
Payments against bill instructions	98	304
Early payments on loans not yet due	118	64
Items being processed and in transit with branches	21,049	14,402
Currency differences on portfolio transactions	262,765	104,184
Due to personnel	10,179	12,231
Sundry creditors	155,774	90,023
Provisions for guarantees given and commitments		
Accrued expenses and deferred income	11,928	6,951
Total	574,583	297,233

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 Bank for payment to the tax authorities.

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

- bank transfers being processed for a total of Euro 1,436 thousand (Euro 4,024 thousand at the end of last year),
- collections via MAV, RAV and payment advices for Euro 1,554 thousand (Euro 2,146 thousand),
- to items relating to securities transactions subsequently settled for Euro 1,585 thousand (Euro 4,326 thousand),
- items in transit for the settlement of customers' purchase orders for asset management products (funds and bancassurance) for Euro 6,944 thousand (Euro 62 thousand),
- collections relating to factoring transactions from customers for Euro 6,346 thousand (Euro 1,017 thousand).

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 correspondent banks.

"Due to personnel" includes the payable relating to early retirement incentives of Euro 7,809 thousand (Euro 9,877 thousand at the end of the previous year) and the year end balance of the amount due for holiday pay of Euro 1,737 thousand (Euro 1,791 thousand at the prior year end).



The main items included in caption "Sundry creditors" refer to: bank transfers in progress for a total of Euro 121,112 thousand (Euro 57,759 thousand), sundry creditors for currency transactions for Euro 2,807 thousand (Euro 2,198 thousand), creditors for notes paid for Euro 1,271 thousand (Euro 824 thousand), the sums collected for disputes pending to be attributed for Euro 5,261 thousand (Euro 5,837 thousand) and the amount of dividends on Banco Desio's result at 31 December 2020 for Euro 8,357 thousand together with the residual dividends on Banco Desio's result at 31 December 2019, equal to Euro 4,951 thousand, waiting to be distributed to shareholders as they are subject to a suspensive condition according to the specific regulatory framework.

Fondi per rischi ed oneri - voce 100**10.1 Provisions for risks and charges: breakdown**

Items/Components	30.06.2021	31.12.2020
1. Credit risk provisions relating to commitments and financial guarantees given	4,235	4,947
2. Provisions for other commitments and other guarantees given	-	-
3. Pensions and similar commitments	-	-
4. Other provisions for risks and charges	43,109	42,015
4.1 Legal and tax disputes	10,849	10,620
4.2 Personnel expenses	17,624	17,450
4.3 Other	14,636	13,945
Total	47,344	46,962

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

The sub-caption "Legal disputes" includes provisions made for losses expected to arise from disputes, of which Euro 10,115 thousand relates to legal disputes (Euro 9,908 thousand at the end of last year) and Euro 734 thousand relates to bankruptcy clawback actions (Euro 712 thousand).

The caption "personnel expenses" mainly includes the estimated liabilities for redundancy payments of Euro 6,675 thousand (Euro 7,852 thousand last year), for the bonus system of Euro 7,152 thousand (Euro 5,661 thousand), seniority bonuses and additional holidays for Euro 3,772 thousand (Euro 3,906 thousand).

The caption "Other" includes provisions for charges pertaining to other operating risks, including provisions for contractual indemnities due to financial advisors on the occurrence of certain conditions. The caption also includes the provision for contingent operating risks that emerged in relation to the situation of particular legal uncertainty regarding transactions with customers in the consumer credit sector.



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

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

	30.06.2021	31.12.2020
A. Share capital	70,693	70,693
A.1 Ordinary shares	63,828	63,828
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	70,693	70,693

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

- 122,745,289 ordinary shares with nominal value of Euro 0.52 each,
- 13,202,000 savings shares with nominal value of Euro 0.52 each.

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

Minority interests - caption 190

14.1 Details of caption 210 "Minority interests"

Name	30.06.2021	31.12.2020
Equity investments in consolidated companies with significant minority interests	4	4
Desio OBG S.r.l.	4	4
Other equity investments	-	-
Total	4	4

INCOME STATEMENT**Interest - captions 10 and 20**

Captions/Technical forms	Debt securities	Loans	Other transactions	30.06.2021	30.06.2020
1. Financial assets at fair value through profit or loss:	191	-	-	191	69
1.1 Financial assets held for trading	134	-	-	134	10
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	57	-	-	57	59
2. Financial assets at fair value through other comprehensive income	391	-	X	391	489
3. Financial assets at amortised cost:	10,727	116,063	X	126,790	123,949
3.1 Due from banks	2,243	33	X	2,276	1,965
3.2 Loans to customers	8,484	116,030	X	124,514	121,984
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	59	59	1
6. Financial liabilities	X	X	X	17,875	3,486
Total	11,309	116,063	59	145,306	127,994

Interest on "Financial assets at amortised cost" is recognised net of default interest accrued and not collected in the reference period on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question accrued at the June-end amounts to Euro 765 thousand (Euro 1,078 thousand in June last year).

Conversely, the caption includes default interest referred to the previous years and collected during the year of Euro 236 thousand (Euro 148 thousand in June of last year).

It should be noted that the balance of caption 3.2 "Loans to customers" at 30 June 2021 includes the release of the "Time value of impaired financial assets" equal to Euro 3,772 thousand (Euro 4,152 thousand) and negative adjustments on interest relating to non-performing loans of Euro 1,160 thousand (Euro 1,293 thousand).

Caption 5. "Other assets" includes revenues of Euro 59 thousand relating to the Ecobonus and Sismabonus tax credits recognised by the Bank following the sale by customers, showing the remuneration in net interest income during the recovery period.

Caption 6. "Financial liabilities" includes the negative interest expense accrued on the TLTRO loans obtained from the Eurosystem, recognised using the effective interest rate on an amortised cost basis.



1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	30.06.2021	30.06.2020
1. Financial liabilities at amortised cost	(9,436)	(6,716)	X	(16,152)	(18,966)
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(368)	X	X	(368)	(709)
1.3 Due to customers	(9,068)	X	X	(9,068)	(10,610)
1.4 Debt securities in issue	X	(6,716)	X	(6,716)	(7,647)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	(840)	(840)	(94)
5. Hedging derivatives	X	X	(584)	(584)	(473)
6. Financial assets	X	X	X	(2,547)	-
Total	(9,436)	(6,716)	(1,424)	(20,123)	(19,533)

1.5 Differentials on hedging transactions

Captions	30.06.2021	30.06.2020
A. Positive differentials on hedging transactions:		
B. Negative differentials on hedging transactions:	(584)	(473)
C. Balance (A-B)	(584)	(473)

Commission - captions 40 and 50**2.1 Commission income: breakdown**

Type of service/Amounts	30.06.2021	30.06.2020
a) guarantees given	1,158	1,186
b) credit derivatives	-	-
c) management, brokerage and consulting services:	40,802	33,714
1. trading in financial instruments	-	-
2. trading in foreign exchange	501	469
3. portfolio management	4,571	3,911
3.1 individual	4,571	3,911
3.2. collective	-	-
4. custody and administration of securities	851	733
5. custodian bank	-	-
6. placement of securities	1,858	1,190
7. order taking	2,977	2,998
8. advisory services	-	-
8.1. regarding investments	-	-
8.2. regarding financial structuring	-	-
9. distribution of third-party services	30,044	24,413
9.1. asset management	16,709	13,067
9.1.1. individual	189	196
9.1.2. collective	16,520	12,871
9.2. insurance products	12,337	10,487
9.3. other products	998	859
d) collection and payment services	15,043	12,476
e) servicing related to securitisation	42	44
f) services for factoring transactions	699	371
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	37,112	31,848
j) other services	7,658	6,914
Total	102,514	86,553

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

Commissions for "other services" include commission income on salary-backed loans and loans with delegation of payment for Euro 2,955 thousand (Euro 2,589 thousand), recoveries of expenses on customer collections and payments for Euro 389 thousand (Euro 322 thousand), fees for the Internet banking service of Euro 975 thousand (Euro 1,155 thousand) and recoveries of expenses on the collection of loan instalments for Euro 683 thousand (Euro 697 thousand).



2.3 Commission expense: breakdown

Services/Amounts	30.06.2021	30.06.2020
a) guarantees received	(43)	(176)
b) credit derivatives	-	-
c) management and brokerage services:	(7,437)	(5,802)
1. trading in financial instruments	(59)	(64)
2. trading in foreign exchange	-	-
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	(695)	(650)
5. placement of financial instruments	-	-
6. offer of securities, financial products and services through financial promoters	(6,683)	(5,088)
d) collection and payment services	(1,056)	(1,617)
e) other services	(577)	(447)
Total	(9,113)	(8,042)

The commissions for "offer of securities, financial products and services through financial promoters" include fees relating to remuneration of the network of financial promoters and agents.

The commissions for "other services" mainly refer to commissions for payment services and e-money services provided by third parties of Euro 378 thousand and for credit operations on correspondence accounts in foreign currency of Euro 83 thousand.

Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	30.06.2021		30.06.2020	
	Dividends	Dividends	Dividends	Similar income
A. Financial assets held for trading	61	-	133	-
B. Other financial assets mandatorily at fair value	-	-	-	-
C. Financial assets valued at fair value through other comprehensive income	453	-	453	-
D. Equity investments	-	-	-	-
Total	514	-	586	-

In addition to the dividends received from subsidiaries, the table shows dividend income from non-controlling interests classified as "Financial assets designated at fair value through other comprehensive income" and dividends relating to equity instruments classified as "Financial assets held for trading".

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	273	715	(117)	(15)	856
1.1 Debt securities	18	43	(33)	(2)	26
1.2 Equity instruments	224	580	(50)	(6)	748
1.3 UCITS units	31	77	(34)	-	74
1.4 Loans	-	-	-	-	-
1.5 Other	-	15	-	(7)	8
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	1,556
4. Derivatives	1,383	1,975	-	(2,872)	489
4.1 Financial derivatives:	1,383	1,975	-	(2,872)	489
- On debt securities and interest rates	1,362	352	-	(578)	1,136
- On equities and equity indices	21	1,623	-	(2,294)	(650)
- On currency and gold	X	X	X	X	3
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	1,656	2,690	(117)	(2,887)	2,901

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

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



Gains (Losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	30.06.2021			30.06.2020		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	1,809	(717)	1,092	2,518	(3,185)	(667)
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	1,809	(717)	1,092	2,518	(3,185)	(667)
2. Financial assets at fair value through other comprehensive income	2,838	(470)	2,368	3,116	(784)	2,332
2.1 Debt securities	2,838	(470)	2,368	3,116	(784)	2,332
2.2 Loans	-	-	-	-	-	-
Total assets	4,647	(1,187)	3,460	5,634	(3,969)	1,665
Financial liabilities at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	8	(95)	(87)	34	(39)	(5)
Total liabilities	8	(95)	(87)	34	(39)	(5)

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

The caption "1.2. Loans to customers" also includes the net gain (loss) on disposal of non-performing loans.

The caption "2. Financial assets designated at fair value through other comprehensive income" includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect.

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

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

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	2,634	60	(897)	(391)	1,406
1.1 Debt securities	19	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 Mutual funds	2,615	60	(897)	(391)	1,406
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	X	X	X	X	-
Total	2,634	60	(897)	(391)	1,406

This item consists of the result of financial instruments which must be valued at fair value through profit or loss, even if they are not held for trading, as they fail to pass the SPPI (Solely Payments of Principal and Interest) test foreseen in the new standard. This item is made up mainly of mutual funds, which by their very nature do not have characteristics compatible with passing the test.



Net adjustments for credit risk - caption 130

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

Transactions/Income components	Write-downs (1)			Write-backs (2)		30.06.2021	30.06.2020
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Due from banks	(42)	-	-	23	-	(19)	(649)
- loans	(42)	-	-	1	-	(41)	(301)
- debt securities	-	-	-	22	-	22	(348)
of which: non-performing loans acquired or originated	-	-	-	-	-	-	-
B. Loans to customers	(8,639)	(841)	(41,178)	502	6,861	(43,295)	(39,608)
- loans	(8,502)	(841)	(41,178)	502	6,861	(43,158)	(38,747)
- debt securities	(137)	-	-	-	-	(137)	(861)
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
Total	(8,681)	(841)	(41,178)	525	6,861	(43,314)	(40,257)

This caption includes the adjustments and write-backs made against the credit risk of assets valued at amortised cost (loans to banks and customers, including debt securities).

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

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

- Doubtful loans of 13,089 thousand euro (13,800 thousand euro in June 2020);
- Unlikely to pay loans of 27,778 thousand euro (19,581 thousand euro in June 2020);
- Past due loans of 311 thousand euro (937 thousand euro in June 2020).

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

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

- doubtful loans amortised in previous years and with actual recoveries higher than expected for Euro 383 thousand (Euro 409 thousand in June 2020)
- collections of loans previously written down for 3,868 thousand euro (4,631 thousand euro in June 2020)
- recoveries from valuations for Euro 2,610 thousand (Euro 4,071 thousand in June 2020).

Adjustments to loans and debt securities result from the application of models for determining expected loan losses adopted by the Group in application of "IFRS9 Financial Instruments".

For further information on the expected losses recognised at 30 June 2021, please refer to the note entitled "Implication of the Covid-19 epidemic on the interim financial report at 30 June 2021" included in the section "Basis of preparation and accounting policies".

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

Transactions/Income components	Write-downs (1)			Write-backs (2)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage	30.06.2021	30.06.2020
		Write-off	Other				
A. Debt securities	(62)	-	-	72	-	10	(116)
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	-
Total	(62)	-	-	72	-	10	(116)

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

Section 9 - Profits/losses from contractual changes without cancellations - caption 140

9.1 Profits/losses from contractual changes: breakdown

This caption includes the adjustment made to the book values of loans to customers that undergo changes to the contractual cash flows without giving rise to accounting cancellations pursuant to para. 5.4.3 and Appendix A of IFRS 9.



Administrative expenses - caption 190

12.1 Payroll costs: breakdown

Type of expense/Amounts	30.06.2021	30.06.2020
1) Employees	(84,092)	(81,359)
a) wages and salaries	(57,816)	(56,796)
b) social security charges	(15,491)	(15,136)
c) termination indemnities	-	-
d) pension expenses	-	-
e) provision for termination indemnities	(8)	(65)
f) provision for post-retirement benefits and similar commitments:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(5,297)	(5,247)
- defined contribution	(5,297)	(5,247)
- defined benefit	-	-
h) Equity-based payments	-	-
i) other personnel benefits	(5,480)	(4,115)
2) Other active employees	(349)	(194)
3) Directors and auditors	(1,522)	(1,460)
4) Retired personnel	-	-
Total	(85,963)	(83,013)

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

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

12.4 Other personnel benefits

	30.06.2021	30.06.2020
Provision for sundry charges	(4,020)	(1,670)
Contributions to healthcare fund	(920)	(880)
Training and instruction costs	(127)	(155)
Rent expense of property used by employees	(50)	(68)
Cost for redundancy incentives	916	
Other	(1,279)	(1,342)
Total	(5,480)	(4,115)

"Provision for sundry charges" comprises the provision to the employees' bonus system.

"Costs for redundancy incentives" represent the revenue related to the adjustment of the liability booked in 2020 to access the "Income Support Solidarity Fund" after the outcome of negotiations with the resources previously identified.

The main components of the "Other" caption include company canteen costs (ticket restaurant) of Euro 1,168 thousand (Euro 919 thousand in June 2020) and costs relating to insurance premiums of Euro 156 thousand (Euro 160 thousand in June 2020).

12.5 Other administrative costs: breakdown

	30.06.2021	30.06.2020
Indirect taxes and duties:		
- Stamp duty	(13,132)	(13,458)
- Other	(3,033)	(2,778)
Other costs:		
- IT expenses	(10,211)	(10,682)
- Lease of property and other assets	(1,051)	(812)
- Maintenance of buildings, furniture and equipment	(4,398)	(3,827)
- Post office and telegraph	(782)	(636)
- Telephone and data transmission	(2,577)	(3,014)
- Electricity, heating, water	(1,789)	(1,615)
- Cleaning services	(1,628)	(1,372)
- Printed matter, stationery and consumables	(499)	(401)
- Transport costs	(532)	(515)
- Surveillance and security	(871)	(1,140)
- Advertising	(500)	(552)
- Information and surveys	(1,283)	(1,081)
- Insurance premiums	(566)	(519)
- Legal fees	(1,283)	(902)
- Professional consulting fees	(4,168)	(6,095)
- Various contributions and donations	(49)	(21)
- Sundry expenses	(12,874)	(8,992)
Total	(61,226)	(58,412)

The item includes the operating costs incurred to deal with the Covid-19 epidemiological situation for 1,453 thousand euro.

Sundry expenses include the ordinary and extraordinary contribution to the Single Resolution Mechanism (SRM) for Euro 9,008 thousand (Euro 4,531 thousand in June 2020), reimbursements to employees for travel expenses, mileage reimbursements for Euro 289 thousand (Euro 251 thousand in June 2020), expenses for registration of mortgage, injunctions and assignment of receivables for Euro 209 thousand (Euro 388 thousand in June 2020), membership fees for Euro 511 thousand (Euro 713 thousand in June 2020) and subscriptions to newspapers and magazines for Euro 138 thousand (Euro 150 thousand in June 2020).



Net provisions for risks and charges - caption 200

13.1 Other net provisions for risks and charges: breakdown

	Provision	Utilisations	30.06.2021	30.06.2020
Commitments for guarantees given	(151)	863	712	(1,878)
Charges for legal disputes	(2,733)	233	(2,500)	(1,264)
Other	(264)	179	(85)	(165)
Total	(3,148)	1,275	(1,873)	(3,307)

The item "Commitments for guarantees given" represents the net provision for risks determined by applying the models for calculating the expected loss in accordance with "IFRS 9 Financial Instruments".

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

Other provisions include provisions for other operating risks.

Net adjustments to property, plant and equipment - caption 210

14.1. Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation	Impairment adjustments	Write-backs	Net result
	(a)	(b)	(c)	(a + b - c)
A. Property, plant and equipment				
A.1 For business purposes	(8,061)	-	-	(8,061)
- Owned	(3,096)	-	-	(3,096)
- Rights of use acquired under lease	(4,965)	-	-	(4,965)
A.2 Held under finance leases	(14)	-	-	(14)
- Owned	(14)	-	-	(14)
- Rights of use acquired under lease	-	-	-	-
A.3 Other	X	-	-	-
Total	(8,075)	-	-	(8,075)

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

The item "Rights of use acquired under lease" includes the depreciation charged on RoU Assets recorded in application of IFRS16 "leases" and calculated as the sum of the lease payable, initial direct costs, payments made on or before the contract's starting date (net of any incentives received for leasing) and decommissioning and/or recovery costs.

Net adjustments to intangible assets - caption 220

15.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Depreciation	Impairment adjustments	Write-backs	Net result
	(a)	(b)	(c)	(a + b + c)
A. Intangible assets				
A.1 Owned	(895)	-	-	(895)
- Generated internally	-	-	-	-
- Other	(895)	-	-	(895)
A.2 Rights of use acquired under lease	-	-	-	-
Total	(895)	-	-	(895)

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



Other operating charges/income - caption 230

16.1 Other operating charges: breakdown

	30.06.2021	30.06.2020
Depreciation of leasehold improvements	(753)	(761)
Losses on disposal of property, plant and equipment	(42)	(18)
Charges on non-banking services	(315)	(209)
Total	(1,110)	(988)

16.2 Other operating income: breakdown

	30.06.2021	30.06.2020
Recovery of taxes from third parties	14,918	15,003
Recharge of costs of current accounts and deposits	1,120	1,691
Rental and leasing income	22	52
Other expense recoveries	893	1,869
Gains on disposal of property, plant and equipment	18	
Other	153	142
Total	17,124	18,757

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 404 thousand (Euro 868 thousand) and other recoveries for various communications to customers of Euro 601 thousand (Euro 750 thousand).

"Other expense recoveries" include, in particular, recovery of legal expenses linked to doubtful loan positions for Euro 461 thousand (Euro 403 thousand), recovery of legal expenses for, the recovery of costs of appraisals in connection with mortgage loans of Euro 36 thousand (same amount in June 2020), recovery of sundry expenses relating to lease applications of Euro 182 thousand (Euro 35 thousand).

Income taxes on current operations - caption 300

19.1 Income taxes on current operations

Income items/Amounts	30.06.2021	30.06.2020
1. Current taxes (-)	(2,505)	(2,035)
2. Change in prior period income taxes (+/-)	-	-
3. Reduction in current taxes (+)	-	-
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(11,167)	(3,964)
5. Change in deferred tax liabilities (+/-)	9,083	2,447
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	(4,589)	(3,552)

Caption "4. Change in deferred tax assets" mainly refers to the amount of deferred tax assets cancelled in the period; the balance of the comparative period was also influenced by the recognition of deferred tax assets on the tax loss.

More specifically, taxation for the period benefited from the step-up of the fiscal values to the higher statutory carrying amounts of buildings and goodwill by Banco Desio, pursuant to art. 110 of Legislative Decree 104/2020.

The positive effect on the result for the period was Euro 9,365 thousand, due to the difference between:

- the substitute tax due of 979 thousand euro (referred to in item 1);
- the reversal of deferred tax liabilities for Euro 9,544 thousand (referred to in item 5) and the reconstitution of deferred tax assets for Euro 800 thousand (referred to in item 4), for a total of Euro 10,344 thousand.



Earnings per share

	30.06.2021		30.06.2020	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Net profit of the Group attributable to the various classes of shares (thousands of euro)	32,631	4,212	8,501	1,097
Average number of shares outstanding	122,745,289	13,202,000	122,745,289	13,202,000
Average number of potentially dilutive shares	-	-	-	-
Average number of diluted shares	122,745,289	13,202,000	122,745,289	13,202,000
Earnings per share (Euro)	0.27	0.32	0.07	0.08
Diluted earnings per share (Euro)	0.27	0.32	0.07	0.08

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 Chief Executive Officer 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 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. Within the context of these documents, specific risk indicators with related attention thresholds are provided at the level of individual legal entity, identifying the competent functions for the specific control mechanisms and providing dedicated information flows. The internal control process over capital adequacy (ICAAP) also forms part of the risk management system and of the liquidity risk governance and management system (ILAAP).

SECTION 1 – RISKS OF THE ACCOUNTING CONSOLIDATION

Quantitative information

Credit quality

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

Portfolio/Quality	Doubtful loans	Unlikely to pay loans	Past due non-performing loans	Past due performing loans	Other performing exposures	Total
1. Financial assets at amortised cost	116,162	161,714	5,846	101,808	15,558,362	15,943,892
2. Financial assets at fair value through other comprehensive income	-	-	-	-	594,288	594,288
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	878	878
5. Financial assets being sold	1,024	1,416	-	-	-	2,440
Total 30.06.2021	117,186	163,130	5,846	101,808	16,153,528	16,541,498
Total 31.12.2020	117,442	186,010	1,568	100,641	14,515,709	14,921,370



A.1.2 Distribution of credit exposures by portfolio and quality of lending (gross and net values)

Portfolio/Quality	Non-performing				Performing			Total (Net exposure)
	Gross exposure	Total write-downs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs	Net exposure	
1. Financial assets at amortised cost	573,767	(290,045)	283,722	8,282	15,743,864	(83,694)	15,660,170	15,943,892
2. Financial assets at fair value through other comprehensive income	-	-	-	-	594,451	(163)	594,288	594,288
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	X	X	878	878
5. Financial assets being sold	9,494	(7,054)	2,440	-	-	-	-	2,440
Total 30.06.2021	583,261	(297,099)	286,162	8,282	16,338,315	(83,857)	16,255,336	16,541,498
Total 31.12.2020	580,722	(275,702)	305,020	9,039	14,691,257	(75,767)	14,616,350	14,921,370

Portfolio/Quality	Assets with an obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	4,325
2. Hedging derivatives	-	-	-
Total 30.06.2021	-	-	4,325
Total 31.12.2020	-	-	3,686

SECTION 2 – RISKS OF THE CONSOLIDATION FOR REGULATORY PURPOSES

1.1 CREDIT RISK

Qualitative information

1. *General aspects*

The Bank'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; lease; factoring; financial, insurance and asset management products; debit and credit cards.

Commercial policy is mainly pursued through the Bank'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 Bank has traditionally been present and in new markets with the aim of acquiring new market shares and facilitate growth in business volumes. The subsidiary Fides S.p.A, which makes to private customers in the form of salary/pension-backed loans, advances on termination pay and personal loans, also makes use of agents that are external to the Parent Company's sales network when placing its products. 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 Group's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Parent 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 line with the provisions of Bank of Italy circular 285/2013, the Parent Company has granted to the Risk Management Department the activities of verification and supervision of the monitoring and debt collection activities carried out by the competent company departments, providing for the right to intervene, where necessary, with regard to the classification of anomalous credit and provisional accruals and postings.



2.2 Systems for managing, measuring and monitoring credit risk

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

During the fact finding stages of the lending process, the 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 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. This review facilitates the identification of customers with anomalies in the conduct of their relationship as opposed to those with a regular trend.

All loan operations carried out by the Bank as a result of the health emergency have been appropriately coded so that we can govern and monitor the situation day-by-day.

The concessions or suspensions carried out for legislative "Covid-19" purposes, requested by customers before 30 September 2020, have not been classified as forborne (according to the indications provided by the supervisory authorities). Legislative suspensions received after that date were analytically assessed in order to identify the elements of forbearance. Commencing from the last quarter of 2020, a series of detailed checks were carried out on counterparties with the largest exposures to look for evidence that they should be classified as forborne or, in the case of significant anomalies, as UTP. These checks, which led to modest changes to non-performing loans in percentage terms on the sample subject to verification, were completed in the first quarter of 2021. An analytical verification will also be carried out in the second half of the 2021 on a sample of counterparties which have requested and benefited from the extension of the measures granted by art. 56 of the Liquidity Decree.

In the case of a moratorium decided by the Bank, specific assessments are carried out only for positions with companies that already had a higher level of risk before the outbreak of the pandemic, to verify whether or not to consider renegotiation as a forbearance measure, with a consequent transfer to stage 2.

To assess how the macroeconomic scenario is likely to evolve, estimates of impacts on the sector and the tools available to deal with the crisis and the new scenario that will emerge at the end of the emergency were examined in depth.

This activity involved clustering the portfolio on the basis of riskiness - by rating, sector, amount and considering the Covid-19 driven indicators provided by external info providers - in order to identify the strategies to be adopted in terms of support and the mitigation of risk.

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 Risk Management function activates internal procedures for an intervention in order to maintain a risk appetite level consistent with the guidelines laid down in the RAF and the risk management policies.

For risk management purposes, the Group uses an internal 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. Non-performing loans (past due and/or overdrawn exposures, unlikely-to-pay and doubtful loans) are excluded from the rating assignment.

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

2.3 Methods of measuring expected losses

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

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

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

As part of the ongoing monitoring of the application framework of IFRS 9, given the change in the macroeconomic context due to Covid-19, the Group has analysed the valuation aspects in line with the indications of the various regulators. In particular, given the operating environment conditioned by the pandemic emergency, the Group has prepared this financial report with reference to the instructions contained in documents published by the various international institutions (ESMA, EBA, BCE-SSM, IFRS Foundation), seeking to establish a balance between the need to avoid making excessively pro-cyclical assumptions in the models used to estimate the ECL during the healthcare emergency and the need to ensure that the risks to which the Group is (or will be) exposed are adequately reflected in the prudential and accounting measurements made.

Accordingly, consistent with the approach taken in the financial reporting at 31 December 2020 and in any case bearing in mind the expected default events still latent due to the systemic shock caused by Covid-19, the Group considered it appropriate to maintain the links between the macroeconomic forecasts referenced by the models used to estimate expected losses and the 2020-23 projections for Italy made by experts at the Bank of Italy in the context of the coordinated Eurosystem exercise published on 11 December 2020 and with the projections for Europe made by experts at the European Central Bank and published on 10 December 2020. These projections take into account the transmission of the effects of the pandemic to the economy through multiple channels, such as the drop in international trade and foreign demand, the reduction of international tourist flows, the effects of uncertainty and confidence on companies' propensity to invest, etc.



Estimate of Expected Credit Loss)– Stage 1 and Stage 2

The model for calculating Expected Credit Losses (ECL) used in testing performing instruments for impairment, differentiated according to the classification of the exposure in Stage 1 or Stage 2, is based on the following formula:

$$ECL = \sum_{t=1}^T PD_t \cdot EAD_t \cdot LGD_t \cdot (1+r)^{-t}$$

where:

PD _t	represents the probability of default on each cash flow date. This is the probability of moving from performing to non-performing over the one-year time horizon (1-year PD) or over the entire duration of the exposure (PD lifetime)
EAD _t	represents the counterparty exposure at each cash flow date
LGD _t	represents the loss associated to counterparty on each cash flow date. This is the percentage of loss in the event of default, based on the historical experience observed in a given observation period, as well as the prospective evolution over the entire lifetime of the exposure;
r	represents the discount rate
t	represents the cash flow number
T	represents the total number of cash flows, limited to the following 12 months for stage 1 relationships, whereas it refers to the entire residual life for those in stage 2

The models used to estimate these parameters derive from the corresponding parameters developed on the basis of the most recent regulatory guidelines, making specific adaptations to take into account the different requirements and purposes of the IFRS 9 impairment model compared with the regulatory one.

The definition of the above parameters therefore took into account the following objectives:

- removing the elements envisaged for regulatory purposes only, such as the downturn component considered in the regulatory LGD calculation to take into account the adverse economic cycle, the margin of conservatism envisaged for the PD, LGD and EAD and the add-on of indirect costs with the objective of avoiding a double-counting effect on the income statement;
- including the conditions of the current economic cycle (Point-in-Time risk measures) in place of a measurement of the parameters along the economic cycle (TTC - Through The Cycle) envisaged for regulatory purposes;
- introducing forward-looking information on the future dynamics of macroeconomic factors (forward-looking risk) deemed potentially able to influence the borrower's situation;
- extending the risk parameters to a long-term perspective, taking into account the lifetime of the credit exposure to be assessed).

More detailed information is provided below on how the Group has determined the aforementioned IFRS 9 compliant risk parameters, with particular reference to the way in which forward-looking factors have been included.

In this regard, it should be noted that the updating of the historical series of the parameters and consequently of their recalibration is carried out on an annual basis.

Estimate of the PD parameter

The PD parameters were suitably calibrated, using satellite models, to reflect the default rates based on current (PiT) and forward-looking conditions. These parameters must be estimated with reference not only to the twelve-month period after the reporting date, but also to future years so that lifetime provisions can be calculated.

For the Group, the lifetime PD curves were constructed by multiplying the 12-month rating migration matrices, divided by segments conditioned by prospective macroeconomic scenarios, with a Markovian

approach. The relevant lifetime PD curve is associated with each rating class assigned to counterparties using internal models. The main methodological steps used to estimate lifetime PD are listed below:

- construction of the historical Point in Time (PiT) migration matrices for each risk segment defined by the rating models and, on the basis of the average of these matrices, obtaining the 3-year migration matrices for each risk segment;
- determination of future PiT migration matrices for the first three years following the reporting date, obtained on the basis of PiT migration matrices conditioned on the basis of some selected macroeconomic scenarios, via satellite models (Merton method) capable of expressing the sensitivity of the PD measures with respect to changes in the main economic aggregates. These satellite models are differentiated by business and private segment and use specific variables for each segment;
- obtaining the cumulative PDs by rating class and scenario, through Markov chain techniques of the future PiT migration matrices for the first three years, as previously calculated, while from the fourth year onwards the 3-year average preconditioning matrix is used;
- generation of the cumulative lifetime PD curve as the average of the cumulated PD curves of each selected macroeconomic scenario weighted by the respective probabilities of occurrence.

Please refer to the following paragraph "Inclusion of forward-looking factors" for further details on how to construct the PD parameter.

Estimate of the LGD parameter

The LGD values are assumed equal to the regulatory recovery rates calculated over the economic cycle (TTC), suitably adapted in order to remove some elements of prudence represented by indirect costs and by the component linked to the adverse economic cycle (so-called "down turn" component, in addition to the previously mentioned "margin of conservatism).

EAD estimate

For on-balance sheet exposures, the EAD parameter is presented at each future payment date by the residual amount due, based on the amortisation schedule, as uplifted by any unpaid and/or past due instalments.

For off-balance sheet exposures, represented by guarantees and commitments to disburse irrevocable or revocable funds, the EAD is equal to the nominal value weighted by a specific credit conversion factor (CCF - Credit Conversion Factor), determined in accordance with internal models and using the standardised approach for the remaining exposures.

Inclusion of forward-looking factors

For the purpose of determining expected losses, the inclusion of forward-looking information is obtained by considering the effects on risk parameters, derived from different macroeconomic scenarios. In detail, the many possible alternative macroeconomic scenarios have been traced to a limited to three scenarios (positive, basic and negative) which constitute the input of the so-called "satellite models". Use of these latter models makes it possible to define, through statistical regression techniques, the relationship between a limited number of significant macroeconomic variables, taken as a point of reference, and the decay rates of the various segments. The result of these estimates is used to create stress factors, called "delta scores", distinguished by scenario and risk segments. These "delta scores" are applied using the Merton method to the average Point in Time (PiT) matrix by risk segment, represented by the most recent three-year internal data available on migration between ratings, so as to obtain three future stressed matrices based on macroeconomic forecasts. From the fourth year onwards, to calculate the PD curves, we chose to refer to the long-term matrix.



Subsequently, the construction of the PD curves for each of the 3 scenarios takes place by applying the Markov chain statistical procedure (product of the annual matrices described above). Lastly, the cumulative PiT and lifetime PD curves are generated as the average of the cumulated PD curves of each selected macroeconomic scenario, weighted by the respective probability of occurrence.

Taking into account that the final figures for 2020 (characterized, as is well known, by a marked contraction in the Italian GDP by -8.9%) have not yet fully transferred their effects either on the classifications to default or on the deterioration of the performing portfolio, the improved macroeconomic projections published in June 2021 by the ECB and the Bank of Italy compared with those already adopted for 31 December 2020 (which referred to the publication of the Bank of Italy of 11 December 2020 as part of the coordinated Eurosystem exercise and those published by the ECB on 10 December 2020) also maintained for the purposes of this interim financial report.

In consideration of the fact that the satellite models have been estimated on the historical series 2009-2018, which therefore includes only the tail-end of the financial crisis of 2008-2009, it is reasonable to assume that they are inevitably affected by a lower sensitivity to systemic shocks. Furthermore, exogenous factors have intervened (state/sector/firm specific interventions) that are generating a bias effect on the relationship between the default rates and the trends in macro-economic variables.

For this reason, we identified fine-tunings to be made to the standard conditioning logics and in continuity with what was applied when preparing the financial reports as at 31 December 2020, in order to adequately treat the specificities deriving from and/or connected to the COVID-31 pandemic. In particular, in the construction of the scenarios underlying the forward-looking conditioning, a four-quarter smoothing is applied in the application of the macroeconomic forecasts for the three years 2020, 2021 and 2022 published by the Bank of Italy and the ECB (except for the price of residential properties, which on standard conditions already shows a quarterly lag).

Additionally, the mix of probabilities of occurrence has been calibrated, accompanying the "base" scenario considered most likely (70% probability) with an alternative "negative" scenario (30% probability in the first year and 25% in the second and third) and a "positive" scenario (0% probability in the first year and 5% in the second and third).

Post model adjustments

The so-called "overlay approach" was applied in relation to the measurement criteria for performing loans adopted for the preparation of the interim financial report, which is consistent with what was done from last year. In particular, the Group has deemed it appropriate to adopt post model adjustments (management overlay) for the transition to stage 2 of the exposures starting from those in rating class 4 according to:

- the existence of moratoria on instalment loans granted to businesses and individuals by the Bank,
- Bank analyses of the attractiveness of sectors using the sector studies carried out by Prometeia,
- clusters suitable identified for monitoring purposes.

With regard to the sectors considered less attractive, the Ateco business codes used as drivers for the specific monitoring and risk containment actions adopted in the context of Covid-19 were taken into consideration, as discussed below.

ATECO (SECTOR CODE)	SECTOR	SECTOR ATTRACTIVITY
13	Textiles and clothing	LOW
14	Textiles and clothing	LOW
15	Textiles and clothing	LOW
19	Chemistry, Rubber and plastic products	LOW
20	Chemistry, Rubber and plastic products	LOW
22	Chemistry, Rubber and plastic products	LOW
24	Metallurgy	LOW
25	Metallurgy	LOW
29	Automotive	LOW
30	Automotive	LOW
36	Water Waste Treatment	LOW
37	Water Waste Treatment	LOW
38	Water Waste Treatment	LOW
39	Water Waste Treatment	LOW
45	Automotive	LOW
47	Retail	LOW
49	Transport And Warehousing	LOW
50	Transport And Warehousing	LOW
51	Transport And Warehousing	LOW
52	Transport And Warehousing	LOW
53	Transport And Warehousing	LOW
55	Accommodation And Catering	LOW
56	Accommodation And Catering	LOW
68	Real estate	LOW
70	Business Services	LOW
73	Business Services	LOW
77	Business Services	LOW
78	Business Services	LOW
79	Recreational, sports and travel agencies	LOW
80	Business Services	LOW
81	Business Services	LOW
82	Business Services	LOW
90	Recreational, sports and travel agencies	LOW
91	Recreational, sports and travel agencies	LOW
92	Recreational, sports and travel agencies	LOW
93	Recreational, sports and travel agencies	LOW

Considering the lack of an adequate probation period to monitor the regularity of the loans granted, for the moratoriums that ended in the first quarter of 2021, the same post-model adjustment logic that was adopted at the end of 2020 has been maintained.

Consideration was also given to further measures that could be used to better represent the overall portfolio risk in a macroeconomic, legislative and regulatory context which is still to be reckoned to be extraordinary. Consequently, it was identified as the most risky cluster together with the set of moratoriums (art. 56) on loans for which in 2021 the customers requested an extension of the moratorium period for repayment of the principal with respect to the deadline originally scheduled. For this cluster of exposures, the average coverage rate of loans in stage 2 with corporate counterparties resulting from the model was applied as a minimum level of coverage on the individual relationships.

Sensitivity analysis of expected losses

As shown in the paragraph "Use of estimates and assumptions in preparing the condensed interim financial statements" contained in the section "Basis of preparation and accounting policies", the determination of losses due to impairment of receivables implies significant elements of opinion, with particular reference to the model used to measure losses and related risk parameters, to the triggers deemed to express significant credit deterioration and to the selection of macroeconomic scenarios.



The inclusion of forward-looking factors is a particularly complex exercise, as it requires the formulation of macroeconomic forecasts, the selection of scenarios and their probability of occurrence, as well as the definition of a model capable of expressing the relationship between the aforementioned macroeconomic factors and the default rates of the exposures subject to assessment, as explained in the previous paragraph.

In order to assess how forward looking factors can influence expected losses, it is considered reasonable to carry out a sensitivity analysis in the context of different scenarios based on forecasts consistent with the evolution of the various macroeconomic factors. The innumerable interrelations between the individual macroeconomic factors are, in fact, such as to render a sensitivity analysis of the expected losses based on the single macroeconomic factor barely meaningful.

Continuing the approach used at the end of 2020, the Group deemed it reasonable for the sensitivity analysis to consider the probability of occurrence of the negative scenario to be 50%, while zeroing the probability of occurrence of the positive scenario, which would increase the adjustment made to the value of the portfolio of performing loans by about another Euro 2.5 million, gross.

2.4 Credit risk mitigation techniques

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

For all loans, the main type of real guarantee is the mortgage, primarily related to the technical form of mortgage loans (particularly on residential properties). Substantial loans are sometimes also assisted by public guarantees, such as the guarantees and counter-guarantees given by the Guarantee Fund for SMEs pursuant to Law 662/96, SACE or the European Investment Fund, as well as by the pledge of securities and/or cash.

Guarantees received 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.

The public guarantees, such as the guarantees and counter-guarantees given by the Guarantee Fund for SMEs pursuant to Law 662/96 and by SACE, are modelled in the ECL calculation; an expected loss is also calculated in relation to the guaranteed part of the exposure, in order to take account of public counterparty risk. A similar approach is adopted in relation to the financial guarantees that are eligible for prudential purposes.

3. Non-performing loans

3.1 Management strategies and policies

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

- Doubtful loans: exposure to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations, regardless of the loss forecasts made by the intermediary.
- Unlikely to pay: exposures for which the intermediary considers full compliance by the debtor unlikely without recourse to actions such as collection of guarantees, regardless of the presence of amounts due and/or overdrawn.

- 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.

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

The Group has a policy that lays down the criteria for making adjustments 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 Parent Company's management of non-performing exposures is delegated to a specific organisational unit, the NPL Department, responsible for identifying strategies for maximising recovery on individual positions and defining the adjustments to be applied to them. The only "non-performing past due/overdue" exposures subject to a collective write-down and with a high probability of reclassification between "performing" exposures are managed by the function delegated to credit performance monitoring, which eventually proceeds to classify among the "unlikely to pay" loans, transferring their management to the NPL Department.

During 2020, the adjustment policies of the Parent Company were changed with regard to the UTP (unlikely to pay) exposures, in order to align the expected losses with the amounts and drivers used to define the LGD parameter, thus increasing the related levels of coverage; the criteria used for doubtful loans were also refined further.

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

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

In line with the Bank's objectives for the reduction of the Bank's non-performing loans indicated in the business plan, as well as in the Plan for managing NPLs, and with a view to maximising recoveries, the competent corporate functions identify the best management strategy for non-performing exposures. Based on the subjective characteristics of the individual counterparty/ exposure and internal policies, this may involve a revision of the contractual terms (forbearance), assignment to an internal recovery unit or to a specialised third-party operator, sale to third parties in the credit sector (at single exposure level or within a set of positions with the same characteristics).

In execution of its capital management strategy, the Parent Company completed a programme of sales of NPLs, particularly significant in recent years, with reference to loans classified as "doubtful" and loans classified as "unlikely-to-pay" (UTP). The additional disposals carried out in the initial part of the year further reduced the NPL Ratio (gross non-performing loans/gross loans) to 5.1%, which is one of the lowest in the Italian banking system. In line with the NPL ratio containment policy, there are plans for initiatives that will allow further improvement in this indicator.



In particular, considering the limited volumes of past due/overdue positions, the bank's attention is concentrated above all on timely identification of positions classified as performing but with certain critical elements, in order to identify procedures to regularise the situation, where possible, also through appropriate measures of forbearance.

Two types of action are taken to limit the stock of "unlikely-to-pay" loans (UTPs):

1. prevention of inflows to UTP;
2. effective management of the impaired portfolio in order to maintain good levels of recovery and/or a return to performing status, together with a policy of targeted sales aimed at optimising its value.

As business counterparties represent a significant share, in terms of volume, the focus is more on reducing transfers to UTP for this type of loan.

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

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

3.2 Write-offs

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

As regards the indicators used to assess recovery expectations, the Group has adopted specific analytical assessment policies for non-performing loans which provide for specific percentages of adjustment, distinguishing the presence and type of underlying guarantees (secured or unsecured), the submission of customers to a specific procedure (agreed in advance, settlement liquidators, agreed upon in continuity, crisis due to over-indebtedness, as per art. 67 or art. 182 of the Bankruptcy Law).

3.3 Impaired financial assets acquired or originated

As indicated in "IFRS 9 – Financial Instruments", in some cases, a financial asset is considered non-performing at the time of initial recognition as the credit risk is very high and, in the case of purchase, is purchased at a significant discount (compared with the initial value). In the event that the financial assets in question, based on the application of classification drivers (i.e. SPPI test and business model), are classified among assets valued at amortised cost or at fair value through other comprehensive income, they qualify as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to a

specific treatment. Adjustments equal to the lifetime expected credit loss (ECL) are recorded against them, from the date of initial recognition and throughout their life. In light of the above, POCI financial assets are initially registered in stage 3, without prejudice to the possibility of being subsequently transferred to performing loans, in which case a lifetime ECL (stage 2) will continue to be recorded. A "POCI" therefore qualifies as such in the reporting processes and in the calculation of the expected loss.

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

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

To be more specific, with the help of suitable IT procedures, these functions monitor the effectiveness of the forbearance measures granted, detecting whether the customer's financial situation is subsequently getting better or worse. If at the end of the monitoring period the position complies with all the criteria required by regulations, it is no longer considered as a forborne loan; otherwise, it remains under forborne exposures.

If considered opportune, the branches have the right to review the conditions applied to customer exposures, even when there are no signs of financial difficulty, within the limits of their current decision-making autonomy.

In this case, the exposure does not fall into the category of forborne exposures.



Quantitative information

Credit quality

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

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write- offs*
	Non-performing	Performing			
A. Cash exposures					
a) Doubtful loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
c) Past due non-performing loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
d) Past due performing loans	X	-	-	-	-
- of which: exposures subject to forbearance	X	-	-	-	-
e) Other performing exposures	X	2,454,156	(522)	2,453,634	-
- of which: exposures subject to forbearance	X	-	-	-	-
Total (A)	-	2,454,156	(522)	2,453,634	-
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	13,890	(1)	13,889	-
Total (B)	-	13,890	(1)	13,889	-
Total (A+B)	-	2,468,046	(523)	2,467,523	-

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

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. Cash exposures					
f) Doubtful loans	318,409	X	(201,223)	117,186	8,282
- of which: exposures subject to forbearance	7,976	X	(5,142)	2,834	-
g) Unlikely to pay loans	258,649	X	(95,519)	163,130	-
- of which: exposures subject to forbearance	137,695	X	(44,796)	92,899	-
h) Past due non-performing loans	6,203	X	(357)	5,846	-
- of which: exposures subject to forbearance	332	X	(48)	284	-
i) Past due performing loans	X	103,301	(1,493)	101,808	-
- of which: exposures subject to forbearance	X	7,734	(503)	7,231	-
j) Other performing exposures	X	13,779,644	(81,830)	13,697,814	-
- of which: exposures subject to forbearance	X	198,444	(10,722)	187,722	-
Total (A)	583,261	13,882,945	(380,422)	14,085,784	8,282
B. Off-balance sheet exposures					
c) Non-performing	15,815	X	(1,904)	13,911	-
d) Performing	X	3,507,064	(2,330)	3,504,734	-
Total (B)	15,815	3,507,064	(4,234)	3,518,645	-
Total (A+B)	599,076	17,390,009	(384,656)	17,604,429	8,282



Classification of exposures on the basis of external and internal rating

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

Exposures	External rating class						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	33,862	441,782	3,016,706	690,135	72,158	126,333	11,931,648	16,312,624
- First stage	27,637	376,652	2,942,250	495,979	52,408	50,442	9,230,968	13,176,336
- Second stage	6,225	65,130	74,456	194,156	19,750	75,891	2,128,740	2,564,348
- Third stage	-	-	-	-	-	-	571,940	571,940
B. Financial assets designated at fair value through other comprehensive income	955	-	582,683	3,062	-	-	7,751	594,451
- First stage	955	-	582,683	3,062	-	-	7,751	594,451
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
C. Financial assets being sold	-	-	-	-	-	-	9,494	9,494
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	9,494	9,494
Total (A+B+C)	34,817	441,782	3,599,389	693,197	72,158	126,333	11,948,893	16,916,569
of which: impaired financial assets acquired or originated	-	-	16	-	-	-	13,959	13,975
D. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-	-	-
- First stage	5,230	214,200	258,055	204,806	14,359	19,587	2,667,550	3,383,787
- Second stage	-	5,220	8,360	5,865	1,140	968	108,270	129,823
- Third stage	-	-	-	-	-	-	15,815	15,815
Total (D)	5,230	219,420	266,415	210,671	15,499	20,555	2,791,635	3,529,425
Total (A+B+C+D)	40,047	661,202	3,865,804	903,868	87,657	146,888	14,740,528	20,445,994

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 Mode Finance, the agencies that the Group uses for external ratings.

Classes of credit quality	Moody's rating	Mode Finance
1	from Aaa to Aa3	from EA1 to EA2-
2	from A1 to A3	from EA3+ to EA3-
3	from Baa1 to Baa3	from EB1+ to EB1-
4	from Ba1 to Ba3	from EB2+ to EB2-
5	from B1 to B3	from EB3+ to EB3-
6	Caa1 or less	EC1+ or less

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

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

The Group uses a rating model to assess individual consumer customers and corporate customers (Retail, Corporate and Financial Businesses and Institutions)

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

Exposures	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
On-balance sheet exposures	65.33%	25.59%	6.78%	2.30%	100%
Off-balance sheet exposures	79.36%	14.68%	4.19%	1.77%	100%

Large exposures

With reference to current supervisory regulations, the situation at 30 June 2021 is as follows:

Description	Nominal amount	Weighted amount	Number of positions
Large exposures	7,577,108	446,259	7

The positions recorded are attributable to: tax assets of the bank and Italian government securities, participation in the capital of the Bank of Italy, subscription of junior and mezzanine securities and granting of loans to the vehicle company of the NPL securitisation with GACS, guarantees provided by the Guarantee Fund under Law 23.12.1996 no. 662, guarantees given by SACE, exposures with Crédit Agricole for cash deposited as part of the covered bond transaction and debt securities



included in the proprietary portfolio and exposures with Intesa San Paolo, essentially referring to debt securities, loans and current accounts.

1.2 MARKET RISK

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

Qualitative information

A. General aspects

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

The information in this section refers only to the Group, given the fact that Fides does not hold any assets.

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 Parent Company's Board of Directors issued specific rules on controls.

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

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

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

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

Quantitative information

Trading portfolio for supervisory purposes: internal models and other sensitivity analysis methodologies

The monitoring of the "trading portfolio reported for supervisory purposes" performed up to the third quarter shows a structure with limited market risk. The VaR estimated using Monte Carlo simulations at 30.06.2021 amounts to Euro 57.10 thousand, with a percentage of 1.70% 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 risk management function. This activity is carried out for the Parent Company's, which covers 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 ERMAS5.

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

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

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

Quantitative information

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

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

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date has, however, some peculiarities arising from the current market environment, which sees an increase in demand and short-term deposits; this has led to a physiological decrease in the average duration of liabilities, whereas assets have not undergone any substantial changes in terms of average duration.

The **exposure** to interest rate risk is determined with reference to the assets and liabilities included in the consolidated banking book of the companies included within the scope of the Banking Group.

The approach used is characterised by the breakdown of assets and liabilities for each time bucket; by the application of the non-negative interest rate constraint to shock scenarios; by the use of an internal behavioural estimation model for lifetime items in order to quantify the degree of reactivity of the rates on the items with respect to market rates and to recognise the persistence of volumes over time, representing



them as a source of medium/long-term funding, estimating a stable (core) portion and the related amortisation profile.

The following table shows the results of the impact on the interest margin, assuming a parallel shift in the yield curve and considering the time effect of repricing and a 1-year time horizon. Given the economic and financial situation, low interest rates and application of the restriction of non negative rates, specific behavioural assumptions have been used in absorbing the effect of the scenarios. In particular, for on-demand items versus customers the assumption is an absorption equal to half in the case of a positive scenario and zero in a negative one, pointing out in this latter case that a floor level of interest rates has been reached, without being able to lower it any more.

Risk ratios: parallel shifts in the yield curve at 30.06.2021

	+100 bps	-100 bps
<i>% of the expected margin</i>	4.87%	-8.43%
<i>% of net interest and other banking income</i>	2.72%	-4.72%
<i>% of shareholders' equity</i>	1.17%	-1.99%

In order to refine the analysis on interest rate risk, with a view to changing the economic value, the adoption of a behavioural estimation model of on-demand items was approved to replace the one provided for in Annex C of Circular 285. The model was validated by the Group's internal Validation function and used in the first application for the purposes of the ICAAP 2020 reporting.

The methodology used to determine the impacts from an economic value perspective is based on the integration of the results of the repricing model, in terms of repricing volumes and buckets, to which the coefficients envisaged by Circular 285 are applied as an approximation of the sensitivity.

The following table shows the changes in economic value with parallel shifts in the interest rate curve.

Risk ratios: parallel shifts in the yield curve at 30.06.2021.

	+100 bps	-100 bps
<i>% of the economic value</i>	-2.74%	1.71%

1.2.3. EXCHANGE RATE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

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

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

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

B. Hedging of exchange risk

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

Quantitative information

Internal models and other methodologies or the analysis of sensitivity

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

1.3 HEDGING POLICIES

Qualitative information

A. Fair value hedges

To date, the Group did not take out any fair value hedges.

B. Cash flow hedges

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

D. Hedging instruments

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

E. Hedged items

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

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

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



1.4. LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

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

The monitoring of and periodic reporting on liquidity risk is carried out by the Risk Management Office 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 and A.Ba.Co. loans, 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 ERMAS5 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 not core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) and "on demand" due to the increase in impaired loans;
- decrease in value of the owned securities portfolio (Held to collect and sell "HTCS" and Held to collect "HTC");
- repurchase of issued Bonds;
- use of available facilities for revocable lines of credit (call risk).

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

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

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

Given the current economic and financial situation, the funding policy adopted by the Group seeks to stabilise the short-term deposits from ordinary customers, giving preference to retail over wholesale customers, with increased recourse to TLTRO operations and structural medium/long-term funding via the issue of covered bonds.

The Group's liquidity at 30 June 2021 is well under control with a LCR indicator of 218.26%.



1.5. OPERATIONAL RISK

Qualitative information

A. General aspects, management and measurement of operational risk

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

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

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

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

To support the operational risk management model, the following processes have been formalised:

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

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

With regard to the management and monitoring of outsourcing risk, a specific method for assessing the risk associated with third parties was developed and implemented with respect to the broader process of operational risk assessment.

IT security and data protection are priorities for the Group, which attaches central importance to the various risk management strategies. The measures adopted comply consistently with the current regulations governing privacy and security, as well as with the principal sector standards, in order to ensure that the IT systems are protected from events that might have adverse impacts on the Group and the rights of data subjects.

The management, control and measurement of IT risks, including cyber risk, are integral parts of the broader system of internal control and risk management adopted by the Bank, as the parent of the Banco Desio Group.

With reference to the principal organisational and operational controls currently in place to ensure data security and protection, the Group applies:

- ✓ an ICT Risk Assessment process aimed at identifying and measuring exposure to IT risk. This process includes assessment of the risks deriving from the IT system provided to the Bank on a full outsourcing

basis by Cedacri S.p.A.; a system of key risk indicators that monitor constantly exposures to the principal data security threats, including: events deriving from the violation of business rules and practices in the area of information security (i.e. IT fraud, Internet attacks, malfunctions and service outages), attempted fraud via virtual banking channels and potential malware attached to e-mail or web interactions;

- ✓ a process for assessing third parties and the technological and organisational controls established by them to ensure *inter alia* IT security and operational continuity in the context of the services provided, both in the contracting phase and throughout the entire working relationship;
- ✓ a DPIA (Data Protection Impact Assessment) that considers the need for and proportionality of the processing of confidential data, considers and manages any risks for the rights and freedoms of the data subjects concerned, and identifies and implements mitigation measures for any weaknesses found in the existence and effectiveness of adequate physical, organisational and technological controls;
- ✓ internal training on the data protection regulations and on the methods for processing and protecting data;
- ✓ pro-active anti-fraud procedures that address the dynamic changes in the techniques employed in IT attacks;
- ✓ procedures for the management of security incidents;
- ✓ threat alert systems, partly by specialist recourse to Security Operation Centres. A service was also acquired recently that incorporates a new component capable of correlating the alerts deriving from the Fireeye Security systems, from sensors installed on workstations and managing through a single interface the tickets that analysts open for assessments of potential incidents or anomalies;
- ✓ daily monitoring of the performance of ICT security that uses a rating system (external assessment by a specialist operator with a global footprint).

With reference to the principal lines of development, the Parent Company is working to strengthen the first level controls over IT security, via the development of a system of KPIs capable of monitoring constantly the following areas: positioning of the Group with regard to cyber security, effectiveness of fraud detection systems, exposure to vulnerabilities and management of incidents.

As regards the management of risks impacting the Group's business continuity, a Business continuity plan has been revised and integrated during the year, with a view to process: 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), new branches have identify (to replace the Bologna branches) as Business Continuity site as an alternative for personnel who cannot operate remotely and for process which still need materiality.

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.

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, compound interest charges and early repayment.



Risk related to outstanding legal disputes

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

	Number	Claim	Provisions
Claw-back suits	17	€ 11.880 million	€ 0.733 million
Other lawsuits	842	€ 149.604 million	€ 9.215 million

The principal outstanding disputes, with claims in excess of Euro 1 million, are described below:

- Claim of Euro 42.0 million. The Bank's receivable, transferred to another company in December 2017, was admitted to the bankruptcy liabilities for a total of Euro 1,125,000 placed, as requested, in the class of privileged mortgage loans. On 28 May 2020, a letter of formal notice was received from the Receivership with which a request for compensation was formulated, quantifying the damage to the extent now claimed. An identical initiative was also taken with regard to the other banks involved. The communication argued that, even though the Bank was aware of the state of insolvency in which the company found itself, it continued the fiduciary relationship and approved the disbursement of a new line of credit (partly to repay previous loans in suspense). An external lawyer was immediately appointed to give the Receiver feedback with a prompt and firm denial of any claim. Following this notice from the Receivership, a formal summons was served on the Bank and the other credit institutions involved on 29 July 2021 to appear before the Court of Rome. The request for compensation and the sum involved are reconfirmed, as are the reasons underlying the judicial request. Banco Desio's expert witness carried out a preliminary investigation and prepared a report that excluded that the damage claimed by the plaintiff could be attributable to the Bank;
- Claim of Euro 40.0 million. Spoleto Credito e Servizi Soc. Coop. (SCS, former parent cooperative of Banca Popolare di Spoleto) as well as some shareholders of the same company notified the Bank and the members of the Board of Directors of the merged company in office in the period 2014-2016 a summons before the Court of Milan - Specialized Company Section - in order to ascertain: (i) the presumed responsibility of the defendants with regard to the transfer of no. 32 bank branches of Banco to the merged company (concluded in the first half of 2015) by virtue of the Investment Agreement concluded on 1 April 2014 between the Bank and the Extraordinary Commissioners of the merged company, on the assumption that incorrect criteria were used to estimate the value of the business unit and that there was a lack of control over the matter by the merged company's Board of Directors and the members of the Related Parties Committee; (ii) the Bank's responsibility for an alleged breach of the commitment assumed in the Framework Agreement to grant a loan of Euro 15.0 million to SCS. The Judge set the hearing for the admission of the investigative means on 8 June 2021. In addition to doubts about the legitimacy of the plaintiffs, the arguments are considered entirely instrumental and unfounded and, above all, the abnormal request for compensation is devoid of any probative support. The case is currently under investigation and the judge has reserved the right to admit the results of the enquiry to the hearing on 29 June 2021;
- Claim of Euro 12.6 million. Following the rejection of the Preventive Technical Assessment established in March 2018, the plaintiff initiated a judgement of merit at the Court of Monza (first hearing on 28

March 2019) to request the return of the amounts made available (transfers and requests for bank drafts), according to the plaintiff, based on false signatures and consequently stolen from his assets for the total of Euro 12.6. As things stand at present, the Bank's legal advisor thought that the risk of losing the case was remote, also considering the outcome of the Preventive Technical Assessment. The appraisal of the hand-writing required by the Judge, concluded that all of the signatures could be traced back to the plaintiff. The hearing for the examination of the expert witness's report was set for 12 February 2021. In the meantime, the counterparty died and the Judge declared the case suspended with effect from 3 June 2021;

- Claim of Euro 7.3 million. With a writ notified in 2013, the Receivership summoned Banca Popolare di Spoleto together with Banca delle Marche and Monte dei Paschi di Siena before the Court of Perugia to hear ascertained and declared invalid and/or ineffective and/or unenforceable as the receiver of the sale of the loan and, therefore, to hear them condemned, jointly and severally, to pay the sum. The application seems totally unfounded as confirmed by the counsel that we appointed to appear in court. On 2 December 2009 (about three years before the declaration of bankruptcy with judgement on 21 March 2013), the Bank, together with the two other banks, granted a line of credit to the bankrupt company, usable in the technical form of an advance on contracts to public entities and/or the public administration, for an amount of Euro 1 million for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. The Judge rejected all of the preliminary enquiries proposed by the Receivership and scheduled the hearing for 22 September 2021 for clarification of the conclusions without carrying out any investigation work;
- Claim of Euro 3.6 million. The receivership cited the merged Banca Popolare di Spoleto before the Court of Perugia - Section specialized in business matters (first hearing set for 4 November 2019) asking for verification of whether under art. 2377 of the Italian Civil Code the resolution of the shareholders' meeting of Banca Popolare di Spoleto S.p.A. of 7 May 2019 which approved the project for the merger of BPS with Banco di Desio e della Brianza S.p.A. can be cancelled for lack of information and incongruity on the determination of the exchange ratio between the shares of the two Banks; the Court condemned BPS to reimburse the Bankruptcy for the presumed damages that it caused as a consequence of the incongruity of the exchange ratio; damages quantified by the counterparty at Euro 3.6 or a higher or lower sum that may be decided by the Court. Without prejudice to the fact that, under art. 2504 quater of the Italian Civil Code, since the merger deed was registered, the validity of the merger deed could no longer be questioned, the case returned to Court, which reiterated the fairness of the exchange ratio established for the transaction. The Judge lifted the reserve and admitted the filing of documents to back the experts' assessments and scheduled the next hearing for 25 February 2021 to continue the case. The Judge ordered an accounting expert witness and set the start of the expert's work on 27 July 2021, postponing the case to 14 April 2022 to read the expert witness's report. Banco Desio has appointed its own expert witness;
- Claim of Euro 3.1 million. The plaintiff has summoned the Bank before the Court of Milan, alleging that it had managed the securities deposit under administration in a surreptitious way; this is said to have resulted in a loss of approximately Euro 3 million, also alleging that the account was managed in a way that was not consistent with the plaintiff's risk profile. In partial acceptance of the plaintiff's requests, while rejecting the allegation of surreptitious management, the Court of Milan sentenced the Bank to pay Euro 1,223,240.04, in addition to interest, litigation costs and the expert witness's fees. The Bank paid the amount due, a total of Euro 1,311,281. The hearing before the Court of Appeal is set for 18 May 2022, on which occasion the Bank will reiterate its defence arguments regarding the



existence of the telephone recordings filed in the court documents, as well as the concurrence of negligence on the part of the plaintiff;

- Claim of Euro 3.0 million. The Receivership summoned the (now merged) Banca Popolare di Spoleto to appear before the Court of Terni, alleging that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, given that by acting in this way it allowed the counterparty to remain on the market and delay the declaration of bankruptcy. The Court of Terni rejected the plaintiff's claim, which was challenged before the Court of Appeal of Perugia. The Court of Appeal upheld the first-instance decision. On 8 March 2018, notice was served of the appeal to the Supreme Court. The Bank is therefore waiting for the hearing to be scheduled;
- Claim of Euro 2.6 million. The counterparty has summoned the Bank to appear before the Court of Brescia to obtain repayment of the sum deriving from the loss suffered by investing in *Boost WTI Oil 3x Leverage ETP* and *Boost Natural Gas 3x Leverage ETP*. The plaintiff has been a customer of Banco Desio since 2011. He opened an administered deposit account in which he carried out various trades in financial instruments before concentrating most of his investments in the two financial instruments that are being contested. Among the various allegations regarding his profiling, the investment advice given by the Bank and the presumed surreptitious management by the Bank with regard to his investments, the plaintiff claims that the two financial instruments were recommended by the Bank and the product sheet did not contain any explanation that in the event of a certain percentage loss these financial instruments would have been withdrawn from the market and reimbursed at the lower value, which duly occurred on 8 March 2020, generating the loss suffered by the plaintiff. The contracts are correctly signed, assigning the customer a high-risk profile for which the investments made are appropriate and adequate;
- Claim of Euro 2.0 million. By writ of summons, the counterparty brought legal proceedings against the Bank to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered the Bank to return an amount that was lower than the claim. The counterparty lodged an appeal. The Bank paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree. The Supreme Court has not yet set the date for the hearing;
- Claim of Euro 1.9 million. The receivership summoned the merged Banca Popolare di Spoleto to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, so the Bank's operations allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank appeared in court to defend itself, arguing that the credit lines granted were very low (maximum Euro 60 thousand), so lacking any causal link for the allegation of abusive concession of credit. The investigation authorised by the Judge did not address conduct attributable to the Bank. With a judgement of 15 December 2017, the Court of Terni rejected the request filed against the defendant Banks, believing that the conduct of the credit institutions did not contribute

to the bad management of the administrator. On 16 January 2018, an appeal against this judgement was served at the request of the receivership. The suit has been decided;

- Claim of Euro 1.5 million. By writ notified in 2015, the counterparty summoned the Bank 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 objected to the merits of the request. Following an expert appraisal of the hand-writing, the Judge postponed the hearing on 17 March 2021 to read the report and if necessary clarify the conclusions, remitting the case for a decision;
- Claim of Euro 1.4 million. The counterparty is suing the Bank on the basis of an econometric appraisal prepared for the sole purpose of convincing the Court that non-contractual interest rates were applied, presumably illegitimately or in any case illegally and, allegedly, exceeding the threshold rate for the identification of usury. According to the counterparty, as a result of being reported as non-performing by the Bank, its access to credit from other banks and suppliers was progressively reduced. This economic-financial difficulty allegedly caused material losses, quantified in total by the counterparty as about 1.4 million euro, as well as alleged non-material losses of 85,000 euro for each in which its non-performing status was report, to be settled if appropriate on an equitable basis. The first hearing on 9 June 2021 took place with an extension of the terms. Once briefs have been filed, a new hearing will be set to admit the results of the enquiry;
- Claim of Euro 1.4 million. A Cooperative Company has sued the Bank before the Court of Spoleto asking to ascertain the nullity, cancellation, termination, pre-contractual and contractual liability, the abuse of a dominant position or at least of economic dependence exercised by Banca Popolare di Spoleto S.p.A., under a contract for the provision of investment services and a contract for the purchase of shares for a total of 36,000 shares issued by Spoleto Credito e Servizi Soc. Coop. (SCS, former parent of Banca Popolare di Spoleto) for a total of Euro 1.4 million. The shares (partially pledged) were allegedly purchased by the customer through the mediation of the merged Bank, but with a bank transfer in 2001 directly to SCS. The disputed transaction is very old and the protective measures seem to be prescribed, despite the fact that the operations were used for a loan and a guarantee held with our bank which were subsequently extinguished. During the first hearing on 10 February 2020, the Judge took time to consider the Bank's objection about incompetence;
- Claim of Euro 1.2 million. A company, as well as its guarantors, sued the Bank before the Court of Spoleto in order to hear, ascertain and declare in relation to mortgages the application of usurious interest, asking the Court for payment by the Bank of Euro 338 thousand for interest allegedly not due, in addition to Euro 169 thousand by way of damages for the company and Euro 730 thousand for each guarantor in compensation for damages for breach of the principles of fairness and good faith, pursuant to art. 1175 and 1375 of the Italian Civil Code. An expert appraisal was carried out, which confirmed the lawfulness of the relationships involved in the lawsuit. The first-level ruling was therefore favourable to the Bank, but the counterparties have appealed the decision. The first hearing was set for 11 March 2021 and the Court of Appeal still has to reach a decision;
- Claim of Euro 1.1 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by the Bank and leased to the counterparty plus amounts paid into a current account. The receiver contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court, which has not yet set a date for the hearing. The receivership has served notice of an injunction for a sum of Euro 1.2 million and the Bank has



opposed the injunction, mainly by reason of the legitimacy of the request, including the stance that an appeal had been made to the Supreme Court. The Judge competent to decide on the opposition to the injunction, however, pending the outcome of the Supreme Court's decision, has ordered the Bank to pay a sum of Euro 1.2 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 (Supreme Court) concerning the appeal lodged by the Bank against the Court of Appeal's decision. The Supreme Court has not yet set the date for the first hearing;

- Claim of Euro 1.0 million. In a preventive summons, the counterparty contends that the merged company Banca Popolare di Spoleto, by exploiting its bargaining power, refused to grant a mortgage loan requested by the company in 2011 of Euro 1 million for a building project in Frascati, demanding a different form of facility be taken out, namely, a mortgage current account, with an undertaking to convert the financing to a mortgage loan on completion of the project. According to the counterparty's defence, the failure to convert the facility to a mortgage loan, in breach of the alleged agreement, would have given rise to severe financial difficulties for the company. The case presented by the adversary, which is totally unfounded, appears to be somewhat pretentious. At the hearing of 14 April 2021, the Judge deferred the case for decision, assigning the parties a deadline of 18 June 2021 for filing their final statements and 9 July 2021 for filing the reply briefs.

* * *

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 in charge of special administration of the subsidiary Banca Popolare di Spoleto, at the end of their mandate, had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager. On 7 April 2016, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto resolved, among other things, confirmation of the action of responsibility already taken by the Extraordinary Commissioners and its extension against the former Statutory Auditors. It should be noted that this action contains a request for the defendants to be sentenced to pay damages of approximately Euro 30.0 million, broken down according to their respective responsibilities. The proceedings relating to admission of the evidence and the case brought against the former auditors have been combined. The Judge invited the parties to file a list of the documents that they asked to exhibit. The case is under investigation and has been postponed to 13 January 2022, also pending verification of a possible out-of-court settlement.

Quantitative information

The number of detrimental events recorded by the Group at 30 June 2021 comes to 1,205. 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	0.33%	0.51%	0.51%	0.00%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetrated by third parties	0.83%	4.95%	4.95%	0.00%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	0.33%	20.88%	20.88%	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)	57.43%	52.97%	52.97%	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	0.08%	0.10%	0.10%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.25%	0.45%	0.45%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	40.75%	20.15%	20.15%	0.00%
TOTAL Banco Desio e della Brianza Group	100.00%	100.00%	100.00%	n.a.

The gross operating loss comes to Euro 2,004 thousand, for which provisions were made during the period of Euro 1,448 thousand. During the reporting period, no recoveries were made on events recorded and accounted for, so the net loss is equal to the gross loss.



TRANSACTIONS WITH RELATED PARTIES

Information on the remuneration of directors and managers

For information on the remuneration paid to directors and key management personnel, please refer to the "Annual report on the remuneration policy and compensation paid" at 31 December 2020 prepared in accordance with art. 123-ter CFA, published on the website www.bancodesio.it in the section "Bank/Governance/Corporate documents" section.

Related party disclosures

The internal procedure ("Internal Regulation") 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 and the Ownership Structure of the Group at 31 December 2020. The same procedure is published in accordance with the Regulation mentioned on the 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 Regulation;
- b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Group;
- c) on any changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Group,

there were no transactions worthy of note during the period.

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

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

In this context, there are no transactions outstanding at 30 June 2021 that present particular risk profiles compared with those considered part of the normal course of banking business and related financial activity or that present profiles of atypical/unusual features worthy of note.

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

Parent Company

At the end of the first half of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A amounted to Euro 214.5 million, of which Euro 212.5 million relating to the securities portfolio.

It should be recalled that at the end of 2018, a five-year unsecured "bullet" loan was entered into with this Company for a total of 5 million to replace a similar credit line at another bank which was about to expire. This transaction falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers, carried out at market conditions (also on the list of conditions in



force for Related Parties according to the specific framework resolution) and included in ordinary credit and loans activity.

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

Transactions with Officers and parties related to them

As for the granting of credit lines approved in the first half of 2021 pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of the Group and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 32 positions existing at 30 June 2021 comes to Euro 13.9 million and the related utilisations amount in total to Euro 5.7 million.

As regards funding relationships held directly with Officers of the Bank, as well as with parties related to them, it should also be noted that the total balances at 30 June 2021 amounted to Euro 140.4 million in amounts due to customers (including approximately Euro 122.8 million in securities portfolios).

The above computation excludes transactions and balances with the parent company, as per the previous paragraph, and with subsidiaries.

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

	Balances at 30.06.2021 (in €/million)
<u>Lending transactions:</u>	
Amount granted-	13.9
Amount drawn down	5.7
<u>Funding transactions:</u>	
C/c and d/r amount (a)	17.6
Amount of securities portfolios (b)	122.8
Total (A+B)	140.4

In accordance with Consob Resolution no. 15519 of 27 July 2006, it should be noted that the overall incidence of the balances shown in the previous paragraphs, in terms of equity, financial and economic results, is more or less insignificant.

SEGMENT REPORTING



The Banco Desio Group operates by carrying on 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 includes Banco di Desio and Brianza S.p.A. and the vehicle company Desio OBG S.r.l.

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

The "consolidation adjustments" column includes the consolidation entries and the intercompany eliminations.

The total of the four columns described above is the amount reported in the consolidated interim report of the Banco Desio Group.

Income statement	Banking	Near-banking	Consolidation adjustments	Total 30.06.2021
Net profit from financial and insurance activities ⁽¹⁾	237,906	8,004	(3,139)	242,771
Fixed costs ⁽²⁾	(152,563)	(3,672)	76	(156,159)
Provisions and adjustments ⁽³⁾	(44,830)	(350)		(45,180)
Profit (loss) from equity investments carried at equity				-
Gains (losses) on disposal of investments				-
Profit (loss) from current operations before tax	40,513	3,982	(3,063)	41,432

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 30.06.2021
Financial assets	3,645,612			3,645,612
Due from banks ⁽⁴⁾	2,095,478	2,736	(2,553)	2,095,661
Loans to customers ⁽⁴⁾	10,823,735	895,825	(837,017)	10,882,543
Non-current assets and disposal groups held for sale	2,440			2,440
Due to banks	3,383,733	837,129	(837,129)	3,383,733
Due to customers	10,556,161	4,518	(2,553)	10,558,126
Debt securities in issue	1,596,923			1,596,923
Indirect deposits, under administration and management	17,437,262			17,437,262

Income statement	Banking	Near-banking	Consolidation adjustments	Total 30.06.2020
Net profit from financial and insurance activities ⁽¹⁾	203,571	6,225	(2,209)	207,587
Fixed costs ⁽²⁾	(147,053)	(3,772)	73	(150,752)
Provisions and adjustments ⁽³⁾	(43,222)	(463)		(43,685)
Profit (loss) from equity investments carried at equity	-	-		-
Gains (losses) on disposal of investments	-	-		-
Profit (loss) from current operations before tax	13,296	1,990	(2,136)	13,150

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 31.12.2020
Financial assets	3,543,682	15		3,543,697
Due from banks ⁽⁴⁾	1,034,623	5,299	(5,154)	1,034,768
Loans to customers ⁽⁴⁾	10,419,550	865,398	(811,720)	10,473,228
Due to banks	2,412,244	811,720	(811,720)	2,412,244
Due to customers	10,257,006	3,931	(5,154)	10,255,783
Debt securities in issue	1,608,927			1,608,927
Indirect deposits, under administration and management	16,520,360			16,520,360

⁽¹⁾ including other operating charges/income and profits/losses from contractual changes without cancellations

⁽²⁾ administrative costs, net adjustments to property, plant and equipment and intangible assets

⁽³⁾ net impairment adjustments to loans and financial assets, provisions for risks and charges, goodwill

⁽⁴⁾ net of held to collect (HTC) debt securities measured at amortised cost and reported under financial assets



**CERTIFICATION OF THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB
REGULATION**

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

1. The undersigned, Alessandro Maria Decio, Chief Executive Officer, 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 condensed consolidated interim financial statements with respect to the Company and their effective application during the first half of 2021.
2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the condensed consolidated interim financial statements at 30 June 2021 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the *Internal Control Integrated Framework* model, issued by the Committee of Sponsoring Organizations of the *Treadway Commission*, which acts as a reference framework that is generally accepted internationally.
3. We also certify that:
 - 3.1 the condensed consolidated interim financial statements:
 - a. have been prepared in accordance with the applicable IAS/IFRS recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002;
 - b. agree with the books of account and accounting records;
 - c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the consolidation.
 - 3.2 The interim report on operations includes a reliable analysis of significant events that took place during the first six months of the year and their impact on the condensed consolidated interim financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Desio, 3 August 2021

Chief Executive Officer
Alessandro Decio

Financial Reporting Manager
Mauro Walter Colombo



AUDITORS' REPORT



KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Report on review of condensed interim consolidated financial statements

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

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the Banco Desio Group, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and notes thereto, as at and for the six months ended 30 June 2021. The parent's directors of Banco Desio e della Brianza S.p.A. are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

Ancona Bari Bergamo
Bologna Bolzano Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescona Roma Torino Treviso
Trieste Varese Verona

Società per azioni
Capitale sociale
Euro 10.415.500,00 I.v.
Registro Imprese Milano Monza Brianza Lodi
e Codice Fiscale N. 0070600159
R.E.A. Milano N. 512867
Partita IVA 0070600159
VAT number IT0070600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA



Banco Desio Group
Report on review of condensed interim consolidated financial statements
30 June 2021

Conclusions

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the Banco Desio Group as at and for the six months ended 30 June 2021 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Other matters

The consolidated financial statements of the previous year and the condensed interim consolidated financial statements as at and for the six months ended 30 June 2020 have been respectively audited and reviewed by another auditor who expressed an unmodified opinion on the consolidated financial statements and an unmodified conclusion on the condensed interim consolidated financial statements on 10 March 2021 and on 3 August 2021, respectively.

Milan, 6 August 2021

KPMG S.p.A.

(Signed on the original)

Alessandro Nespoli
Director of Audit

**ATTACHMENT - CONSOLIDATED INCOME STATEMENT – QUARTER BY
QUARTER**



CONSOLIDATED INCOME STATEMENT – QUARTER BY QUARTER

Captions	2nd quarter 2021	1st quarter 2021	2nd quarter 2020	1st quarter 2020
10. Interest and similar income	71,241	74,065	63,917	64,077
20. Interest and similar expense	(10,400)	(9,723)	(9,226)	(10,307)
30. Net interest income	60,841	64,342	54,691	53,770
40. Commission income	54,859	47,655	41,500	45,053
50. Commission expense	(4,649)	(4,464)	(3,552)	(4,490)
60. Net commission income	50,210	43,191	37,948	40,563
70. Dividends and similar income	35	479	25	561
80. Net trading income	1,107	1,794	221	629
90. Net hedging gains (losses)	-	-	-	-
100. Gains (losses) on disposal or repurchase of:	479	2,894	(1,206)	2,866
a) financial assets measured at amortised cost	75	1,017	(1,532)	865
b) financial assets designated at fair value through other comprehensive income	426	1,942	319	2,013
c) financial liabilities	(22)	(65)	7	(12)
110. Net result of other financial assets and liabilities designated at fair value through profit or loss	2,899	(1,493)	1,000	(1,480)
b) other financial assets that have to be measured at fair value	2,899	(1,493)	1,000	(1,480)
120. Net interest and other banking income	115,571	111,207	92,679	96,909
130. Net value adjustments/write-backs for credit risk relating to:	(35,711)	(7,593)	(22,319)	(18,054)
a) financial assets measured at amortised cost	(35,667)	(7,647)	(22,178)	(18,079)
b) financial assets designated at fair value through other comprehensive income	(44)	54	(141)	25
140. Profit/losses from contractual changes without write-offs	(27)	3	351	(126)
150. Net profit from financial activities	79,833	103,617	70,711	78,729
180. Net profit from financial and insurance activities	79,833	103,617	70,711	78,729
190. Administrative costs:	(70,719)	(76,470)	(68,029)	(73,396)
a) payroll costs	(43,056)	(42,907)	(40,579)	(42,434)
b) other administrative costs	(27,663)	(33,563)	(27,450)	(30,962)
200. Net provisions for risks and charges	(1,740)	(133)	(2,027)	(1,280)
a) commitments for guarantees given	40	672	(1,823)	(55)
b) other net provisions	(1,780)	(805)	(204)	(1,225)
210. Net adjustments to property, plant and equipment	(4,012)	(4,063)	(4,333)	(4,383)
220. Net adjustments to intangible assets	(518)	(377)	(307)	(304)
230. Other operating charges/income	8,092	7,922	9,359	8,410
240. Operating costs	(68,897)	(73,121)	(65,337)	(70,953)
260. Net result of the measurement at fair value of property, plant and equipment and intangible assets	-	-	-	-
290. Profit (loss) from current operations before tax	10,936	30,496	5,374	7,776
300. Income taxes on current operations	5,893	(10,482)	(877)	(2,675)
310. Profit (loss) from current operations after tax	16,829	20,014	4,497	5,101
320. Net profit (loss) of discontinued operations, net of taxes	-	-	-	-
330. Net profit (loss) for the period	16,829	20,014	4,497	5,101
340. Net profit (loss) pertaining to minority interests	-	-	-	-
350. Parent Company net profit (loss)	16,829	20,014	4,497	5,101