BASEL III PILLAR 3
PUBLIC DISCLOSURES
AT 31 DECEMBER 2021

BANCO DI DESIO E DELLA BRIANZA S.p.A.
Head office Via Rovagnati 1 – 20832 Desio (MB)
Tax code 01181770155
Registered with the Metropolitan Chamber of Commerce
of Milan, Monza and Brianza and Lodi
Share capital Euro 70,692,590.28 fully paid
Member of the Interbank Deposit Protection
and the National Guarantee Fund
Bank Register at ABI Code no. 3440/5
Parent Company of the Banco di Desio e della Brianza Banking Group
Register of Banking Groups no. 3440/5

CONTENT

Introduction

On 1 January 2014, the harmonised rules for banks and investment firms became effective, as contained in Regulation (EU) 575/2013 (Capital Requirements Regulation, hereinafter "CRR" or the "Regulation") and in Directive 2014/36/EU (Capital Requirements Directive, hereinafter "CRD IV" or the "Directive") of 26 June 2014 that transpose into the European Union's regulatory framework the measures adopted by the Basel Committee for Banking Supervision (Basel 3 framework).

In this regard, the Third Pillar legislation includes an obligation to publish information concerning capital adequacy, exposure to risks and the general characteristics of the systems designed for the identification, measurement and management of such risks. In particular, Public Disclosures are regulated by Regulation EU 575/2013 (CRR), Part Eight and Part Ten, Title I, Chapter 3 and by the regulatory technical or implementing standards issued by the European Commission.

EU regulation no. 876/2019 ("CRR II"), in force since 28 June 2021, amended EU Regulation 575/2013, updating the contents of the public disclosures (articles 431 et seq.). EU Regulation 2021/637 which establishes technical implementation standards with regard to the publication by entities of the information required by the "CRR", on the other hand, organically regulated the table contents and the qualitative information required to comply with each article of the "CRR" (replacing and integrating various guidelines previously published on individual topics).

With its communication of 1 July 2020, the Bank of Italy also implemented the Guidelines of the European Banking Authority (EBA) on reporting and public disclosure requirements for exposures subject to measures applied in light of the Covid-19 crisis (EBA/GL/2020/07). The Guidelines require that information be provided every six months on:

- loans subject to "moratoriums" which fall within the scope of the EBA's Guidelines on legislative and non-legislative moratoriums on loan payments applied in light of the Covid-19 crisis (EBA/GL/2020/02);
- loans subject to forbearance measures applied for the Covid-19 crisis;
- new loans guaranteed by the Government or other public entities.

As a result of regulatory changes, the Bank is required to:

- prepare the annual disclosure (as of 31 December of each year) taking into account the changes to the CRR and the information standards introduced by Regulation 2021/637;
- provide simplified disclosure as of 30 June of each year (the "key metrics" required by art. 447), given that it does not qualify either as a large institution nor as a small, non-complex institution under art. 433;
- for a time horizon of 18 months starting from the first report made (30 June 2020), provide information on exposures subject to measures applied in light of the Covid-19 crisis in both the annual and half-yearly situation (EBA/GL/2020/07).

With specific reference to the innovations introduced by "CRR II", in addition to changing the frequency and integrating the quantitative information to be prepared for the annual disclosure, the main points of interest are as follows:

- art. 431 envisages, as in the past, that a formal policy must be adopted to comply with the requirements, but with three clarifications:
  a) the Board of Directors, which is already responsible for supervising the Bank's public disclosures and communications, also has to prepare and maintain processes, systems

and internal controls aimed at verifying that the Bank's disclosure is adequate and compliant with the requirements laid down in the CRR;

b) the information to be published is subject to the same level of internal verification applicable to the report on operations included in the Bank's financial report;

c) a member of the board or of senior management has to attest in writing that the Bank has made the required disclosure in accordance with the formal policy and with its processes, systems and internal controls.

- art. 434 requires banks to publish all of the information requested in a single document or location.

Public disclosures are prepared with the collaboration of various bodies and functions involved in the governance and execution of processes, in accordance with the duties laid down in the Group's internal regulations. The Banco Desio Group had already drawn up a formal policy to comply with the disclosure requirements, aimed at formalising the processes used for the preparation and publication of public disclosures.

In order to comply with the changes that have been introduced, on 22 March 2022 the Board of Directors approved a revision of the internal regulatory framework to replace the previous one. The new one consists of:

- a Policy that establishes guidelines for those involved in preparing the public disclosure document, laying down the main roles and responsibilities of everyone involved in the process;
- a Regulation to guide the corporate functions involved in the process of governance and preparation of the public disclosure document and to define in greater detail the roles, responsibilities and activities needed for the design, preparation and approval of the document;
- an Operating Manual to accompany the Regulation, which describes in greater detail the various stages of the process and the various control points.

In line with existing policy, the Pillar III Public Disclosure Policy confirms that it is to be published as a separate document at the same time as the financial report, but every six months instead of annually as currently envisaged; there is also provision for an attestation by the CEO that "processes, systems and internal controls have been adopted for preparing the document as defined in the formal policy established by the Bank".

Again with a view to guaranteeing a structured and effective disclosure preparation process, starting from the situation at 31 December 2021, the Bank adopted the IT module made available by an external supplier, integrated with the platforms already used for the financial statements, supervisory reports and non-financial statement, from which quantitative information is drawn.

For the sake of completeness, note that the information being published relates to the prudential scope of consolidation, i.e. the companies that are consolidated for supervisory purposes. Any mismatches with respect to other sources (such as the consolidated financial statements prepared at the same reporting date) are therefore attributable to differences in scope.

Unless otherwise indicated, the amounts in the tables and the figures presented in this document are expressed in thousands of Euro. The tables or parts of them not present in this document are not applicable to this information.

Banco Desio Group has published these Public Disclosures on its website (www.bancodesio.it).

1. Disclosure on key metrics and the overall picture of risk-weighted exposures (art. 1 reg. 2021/637)

Under the provisions of articles 11, paragraphs 2 and 3 and 13, paragraph 2 of the CRR, banks controlled by a "financial holding company" have to comply with the requirements established by the aforementioned regulation on the basis of the consolidated situation of the financial holding company. This means having to calculate capital ratios at the level of Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A., the parent company of Banco di Desio e della Brianza S.p.A. with 50.08%.

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.S. and the financial holding company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. of its decision regarding capital, ordering that, from the next report on own funds, 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% as a result of the SREP), while the remainder is 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.

The 2.5% capital conservation buffer, in addition to the minimum requirements, is designed to provide banks with high quality capital resources to be used in times of market tension to prevent failures of the banking system and avoid interruptions in the process of credit disbursement.

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%).

On 25 January 2018, the Bank's Board of Directors 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, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time application of the standard and to the increase in expected losses on performing loans compared with the date of first-time application of the standard.

The transitional provisions for sterilisation of the impacts of IFRS 9 were subsequently extended by EU Regulation 873/2020, which allowed banks to sterilise in a decreasing manner the impacts on capital associated with the increase in impairment losses on loans recognised in the period 2020 - 2024 compared with 1 January 2020 for stage 1 and 2 portfolios.

At the board meeting on 30 July 2020, the Board of Directors 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).

EU KM1 model

		a	b	c	d	e
		31/12/2021	30/09/2021	30/06/2021	31/03/2021	31/12/2020
	Own funds available (amounts)					
1	Common Equity Tier 1 (CET1) capital	840,462	832,585	825,101	811,829	787,417
2	Tier 1 capital	898,097	888,926	881,836	868,473	844,089
3	Total capital	972,982	963,061	959,460	948,855	927,097
	Risk-weighted exposures					
4	Total amount of risk exposure	7,215,518	7,020,423	7,062,071	7,040,274	7,020,179
	Capital ratios (as % of the risk-weighted exposure)					
5	Common Equity Tier 1 ratio (%)	11.6480%	11.8590%	11.6836%	11.5312%	11.2165%
6	Tier 1 capital ratio (%)	12.4467%	12.6620%	12.4869%	12.3358%	12.0238%
7	Total capital ratio (%)	13.4846%	13.7180%	13.5861%	13.4775%	13.2062%
	Additional own funds requirements to address risks other than that of excessive leverage (as % of risk-weighted exposure)					
EU 7a	Additional own funds requirements to address risks other than that of excessiv e lev erage (%)	0.6000%	0.6000%	0.6000%	0.6000%	0.6000%
EU 7b	*Of which consisting of CET1 capital (percentage points)*	0.3500%	0.3500%	0.3500%	0.3500%	0.3500%
EU 7c	*Of which consisting of Tier 1 capital (percentage points)*	0.4500%	0.4500%	0.4500%	0.4500%	0.4500%
EU 7d	Total SREP own funds requirements (%)	8.6000%	8.6000%	8.6000%	8.6000%	8.6000%
	Combined reserve requirement and total capital requirement (as % of the risk-weighted exposure)					
8	Capital conserv ation reserv e (%)	2.5000%	2.5000%	2.5000%	2.5000%	2.5000%
EU 8a	Retention buffer due to macroprudential or systemic risk identified at Member State lev el (%)	-	-	-	-	-
9	Institution-specific countercyclical capital buffer (%)	-	-	-	-	-
EU 9a	Capital buffer for systemic risk (%)	-	-	-	-	-
10	Reserv e of systemically important institutions globally (%)	-	-	-	-	-
EU 10a	Reserv e of other systemically important institutions (%)	-	-	-	-	-
11	Combined buffer requirement (%)	2.5000%	2.5000%	2.5000%	2.5000%	2.5000%
EU 11a	Total capital requirements (%)	11.1000%	11.1000%	11.1000%	11.1000%	11.1000%
12	CET1 av ailable after meeting total SREP own funds requirements (%)	3.048%	3.259%	3.084%	2.931%	2.616%
	Leverage ratio					
13	Measurement of ov erall exposure	18,376,789	18,360,954	17,847,708	16,564,255	15,470,072
14	Lev erage ratio (%)	4.8871%	4.8414%	4.9409%	5.2431%	5.4563%
	Additional own funds requirements to address the risk of excessive leverage (as % of the overall exposure)					
EU 14a	Additional own funds requirements to address the risk of excessiv e lev erage (%)	-	-	-	-	-
EU 14b	*of which consisting of CET1 capital (percentage points)*	-	-	-	-	-
EU 14c	Total SREP Lev erage Ratio Requirements (%)	3.0000%	3.0000%	3.0000%	3.0000%	3.0000%
	Leverage ratio buffer and overall leverage ratio requirement (as % of the overall exposure)					
EU 14d	Lev erage Ratio Reserv e Requirement (%)	3.0000%	3.0000%	3.0000%	3.0000%	3.0000%
EU 14e	Ov erall lev erage ratio requirement (%)	3.0000%	3.0000%	3.0000%	3.0000%	3.0000%
	Liquidity coverage ratio					
15	Total high quality liquid assets (HQLA) (weighted v alue - av erage)	3,097,842	3,407,847	3,564,265	3,634,981	3,325,118
EU 16a	Cash outflows - Total weighted v alue	2,064,235	2,080,560	2,146,940	2,214,342	2,101,464
EU 16b	Cash inflows - Total weighted v alue	514,348	525,650	513,884	483,717	493,083
16	Total net cash outflows (adjusted v alue)	1,549,887	1,554,910	1,633,056	1,730,625	1,608,381
17	Liquidity cov erage ratio (%)	199.8753%	219.1669%	218.2573%	210.0386%	206.7369%
	Stable net funding ratio					
18	Total stable funding av ailable	14,845,920	14,395,976	14,130,765	n.a.	n.a.
19	Total stable funding required	11,225,054	10,734,745	10,521,619	n.a.	n.a.
20	NSFR (%)	132.2570%	134.1064%	134.3022%	n.a.	n.a.

At 31 December 2021 the consolidated ratios calculated for the financial holding company are above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority

through the SREP procedure referred to previously. There is a continuous and progressive strengthening of capital due to the derisking carried out on the loan book and the regulatory interventions implemented by the European Union.

The Group complies with the liquidity coverage ratio (LCR) requirement, placing itself well above the minimum level envisaged by the regulations; high quality liquid and available assets consist entirely of the most liquid type (Level 1) of assets eligible for the numerator of the LCR.

The Net Stable Funding Ratio (NSFR), reported for the first time as of 30 June 2021, is a liquidity indicator that measures the availability of stable funding; in fact, banks are required to maintain a certain amount of funding that is either stable or expiring beyond 12 months, which allows them to finance their activities in the long term.

Gruppo Banco Desio

The capital ratios without applying the transitional provisions, as reported in the following table, also confirm the Group's capital solidity.

Statement of comparison of Own Funds and Capital Adequacy Ratios calculated with application of Regulation 2017/2395 (application of transitional arrangements) and with full application of the impacts relating to IFRS 9 (without application of the transitional arrangements).

	31.12.2021		30.09.2021		30.06.2021		31.03.2021		31.12.2020	
	Application of the transitional arrangements	Without application of IFRS 9 transitional arrangements	Application of the transitional arrangements	Without application of IFRS 9 transitional arrangements	Application of the transitional arrangements	Without application of IFRS 9 transitional arrangements	Application of the transitional arrangements	Without application of IFRS 9 transitional arrangements	Application of the transitional arrangements	Without application of IFRS 9 transitional arrangements
OWN FUNDS										
Common Equity Tier 1 (CET 1) capital	840,462	798,859	832,585	799,407	825,101	791,740	811,829	783,270	787,417	750,839
Tier 1 capital	898,097	855,675	888,926	855,112	881,836	847,836	868,473	839,344	844,089	806,759
Total Own Funds	972,982	929,543	963,061	928,514	959,460	924,872	948,855	919,086	927,097	889,301
RISK ASSETS										
Risk-weighted assets	7,215,518	7,112,902	7,020,423	6,940,906	7,062,071	6,982,213	7,040,274	6,969,254	7,020,179	6,926,402
SUPERVISORY RATIOS										
Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio)	11.648%	11.231%	11.859%	11.517%	11.684%	11.339%	11.531%	11.239%	11.216%	10.840%
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	12.447%	12.030%	12.662%	12.320%	12.487%	12.143%	12.336%	12.044%	12.024%	11.648%
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.485%	13.068%	13.718%	13.377%	13.586%	13.246%	13.478%	13.188%	13.206%	12.839%
LEVERAGE RATIO										
Measurement of total leverage ratio exposure	18,376,789	18,376,789	18,360,954	18,360,954	17,847,708	17,847,708	16,564,255	16,564,255	15,470,072	15,470,072
Leverage ratio	4.9%	4.7%	4.8%	4.7%	4.9%	4.8%	5.2%	5.1%	5.5%	5.2%

The composition of the RWAs as at 31 December 2021 is shown below, together with the related requirements in terms of own funds.

EU OV1 Model: synoptic table of the total amounts exposed to risk

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		31/12/2021	30/06/2021	31/12/2021
1	**Credit risk (excluding CCR)**	**6,384,569**	**6,289,769**	**510,766**
2	*Of which standardised approach*	*6,384,569*	*6,289,769*	*510,766*
3	*Of which basic IRB method (F-IRB)*	-	-	-
4	*Of which method of allocation*	-	-	-
EU 4a	*Of which equity instruments subject to the simple weighting method*	-	-	-
5	*Of which advanced IRB approach (A-IRB)*	-	-	-
6	**Counterparty credit risk (CCR)**	**6,393**	**7,411**	**511**
7	*Of which standardised approach*	-	-	-
8	*Of which Internal Models Method (IMM)*	-	-	-
EU 8a	*Of which exposures to a central counterparty (CCP)*	*534*	*77*	*43*
EU 8b	*Of which credit rating adjustment (CRA)*	*522*	*613*	*42*
9	*Of which other CCRs*	*5,337*	*6,722*	*427*
10	*Not applicable*			
11	*Not applicable*			
12	*Not applicable*			
13	*Not applicable*			
14	*Not applicable*			
15	**Settlement risk**	-	-	-
16	**Exposures to securitisations outside the trading book (taking the cap into account)**	**50,795**	**18,891**	**4,064**
17	*Of which SEC-IRBA method*	-	-	-
18	*Of which SEC-ERBA method (including IAA)*	-	-	-
19	*Of which SEC-SA method*	*73,311*	*20,516*	*5,865*
EU 19a	*Of which 1250%/ deduction*	-	-	-
20	**Position, exchange and commodity position risks (market risk)**	**11,337**	**12,309**	**907**
21	*Of which standardised approach*	*11,337*	*12,309*	*907*
22	*Of which IMA*	-	-	-
EU 22a	**Large exposures**	-	-	-
23	**Operational risk**	**762,424**	**733,691**	**60,994**
EU 23a	*Of which basic approach*	*762,424*	*733,691*	*60,994*
EU 23b	*Of which standardised approach*	-	-	-
EU 23c	*Of which advanced method of measurement*	-	-	-
24	**Amount below the thresholds for deduction (subject to a risk weighting of 250%)**	-	-	-
25	*Not applicable*			
26	*Not applicable*			
27	*Not applicable*			
28	*Not applicable*			
29	**Total**	**7,215,518**	**7,062,071**	**577,241**

EU OVC table: ICAAP information

Capital adequacy represents the extent to which a bank is able to cover, in current and prospective terms, unexpected losses inherent to the performance of activities, assuming that the expected losses - especially with reference to credit risk - are covered by net impairment adjustments (specific and portfolio) equating to amounts already recognised in the income statement.

In addition to complying with regulatory capital requirements (for credit, counterparty, market and operational risk), due to the fact that Own Funds represent the first line of protection against the risks involved in the banking business and the key criterion used by the Supervisory Authority to judge capital adequacy, the bank has introduced strategies and processes to measure and retain over time total capital deemed adequate (in terms of amount and composition) to cover all the risks that it is or might be exposed to (internal capital or risk capital).

By means of the internal capital adequacy assessment process (ICAAP), the Group conducts an autonomous assessment of the adequacy of its current and prospective capital in relation to the risks assumed and its corporate strategies. This process is documented, known and shared by the corporate functions.

The ICAAP is applied to the Banking Group on a consolidated basis, as indicated by supervisory regulations. Accordingly, the ICAAP is performed by the relevant functions of the Parent Company.

The internal capital adequacy assessment process is performed with a view to both regulatory (in accordance with the timing and manner laid down by the Bank of Italy Circular no 285/2013, Part I, Title III, Chapter 1), and operational requirements (in accordance with the timing established internally and in a manner that may differ from regulatory requirements).

The internal capital adequacy assessment process consists of the following main phases:

- identification of the risks to be submitted for assessment, with reference to regulatory or first pillar risks, as well as second pillar risks (single-name and sectoral/geographic concentration risk, interest rate risk arising from non-trading book activities, liquidity risk, residual risk, risks arising from securitisations, strategic risk, reputational risk and any other types of risk associated with the Group's specific operations);
- measurement/assessment of each risk and related internal capital. Internal capital is calculated for regulatory risks and for quantifiable second pillar risks, but solely for those for which the Bank of Italy has indicated simplified methodologies for the determination of internal capital. For other types of risks, which are difficult to quantify, qualitative assessments are made and adequate control and mitigation systems are adopted;
- assessment of total internal capital. The Group determines total internal capital by using a simplified building block approach, which consists of adding to regulatory requirements for first pillar risks (or to internal capital relating to these risks calculated based on internal methodologies, where present) any internal capital relating to other significant risks. As required by supervisory regulations, the measurement of total internal capital is conducted based on normal business conditions and based on stressed conditions.

2. Information on risk management objectives and policies (art. 2 reg. 2021/637)

EU OVA Table: the institution's risk management method

Publication of a short risk statement approved by the management body

In compliance with the Supervisory Authority's instructions, the Board of Directors defines the Risk Appetite Framework (RAF), based on the Bank's business model, taking into account its operational and strategic objectives, management structure, risk capacity, process for determination of capital adequacy and internal control system. The RAF helps to achieve the principle of sound and prudent management and improves the Bank's ability to manage risk with respect to its objectives and Risk Tolerance.

The regulations for the prudential supervision of banks set out the following concepts that are relevant to the RAF:

- ✓ risk capacity: this constitutes the highest level of risk technically acceptable by a bank without violating regulatory requirements or other constraints imposed by the shareholders or by the supervisory authority;
- ✓ risk appetite: this is the level of risk (overall and by type) that the bank is willing to expose itself to in the pursuit of its strategic objectives;
- ✓ risk tolerance: this indicates the maximum permitted deviation from risk appetite. The tolerance threshold is set in a manner that ensures that the bank will have sufficient margins to operate, even under conditions of stress, within the maximum acceptable risk;
- ✓ risk profile: this is the actual risk assumed, measured at a given point in time;
- ✓ risk limits: these involve breaking down risk objectives into defined operational limits, in accordance with the principle of proportionality, by type of risk, business unit and/or line, product line and type of customer.

The methodology adopted by the Group provides for quantitative assessment based on three different types of indicators (indicators of first level risk, indicators of second level risk and key-risk indicators) and a qualitative assessment concerning organisational controls.
Additionally, specific policies are in place for various types of risk that provide the criteria for the operational management thereof from a group and individual perspective. Set out below is a description of the three types of indicators used and of the qualitative assessment of organisational controls for the purpose of the measurement, monitoring and management of various types of risk. The values of the thresholds are described in specific documents approved by the corporate bodies according to their level of authority.

Indicators of first level risk (RAF): these relate to specific macro-areas concerning the Group's risk exposure consisting of capital adequacy, financial structure, liquidity, earnings and business. Each indicator is calibrated to take account of the concepts of risk appetite, risk tolerance and risk capacity, as well as risk limits (warning thresholds) which, if exceeded, would activate specific corporate escalation processes.
Top level indicators are not calibrated for the individual legal entities making up the Group.

Indicators of second level risk: these relate to individual types of risk and deemed to be particularly significant for banking operations. Each indicator is calibrated to take account of risk limits structured in accordance with two different types of threshold, which, if exceeded, and depending on how serious it is (respectively warning thresholds and tolerance thresholds), would activate specific corporate escalation processes. The above thresholds are designed to promptly report any indicators of second level risk that are close to triggering a situation deemed to be particularly critical.

Key-risk indicators: these relate to individual types of risk deemed to be particularly significant with reference to the operational and managerial aspects. Accordingly, they provide further information, from a different perspective, on changes to the Group's risk exposures. There are no alert or warning thresholds linked to these indicators, although they are monitored periodically in order to identify any abnormal data or potentially unusual trends and, accordingly, to determine any corrective actions needed.

Qualitative assessment of organisational controls: an assessment of a qualitative nature of organisational controls currently in place to monitor corporate risks. The objective of this activity is to analyse the adequacy of the current organisational structure in place to comply with the risk appetite profile laid down by the RAF, by reviewing the evidence originating from second and third level control functions. The evidence obtained makes it possible, firstly, to formulate an overall opinion of adequacy on the state of the art of the organisational controls and, subsequently, to identify specific improvement measures to be activated in the next 12 months. Lastly, an assessment is made of the expected adequacy profile of the organisational controls, following the implementation of the above interventions, by agreeing them with the structures concerned. Subsequently, the identified interventions are approved with definition of the related timing and responsibility for implementation and coordination. The activities identified are carried out as part of the ICAAP self-assessment process.

In this context, there is also the self-assessment activity carried out, on an annual basis, by the Anti-Money Laundering Office on the subject of money laundering and terrorist financing risks. The methods for analysing these risks are carried out in line with the provisions of the Bank of Italy[1] and implemented in the Anti-Money Laundering Policy.

The implementation of the RAF requires an effective monitoring and reporting process capable of analysing and assessing the bank's risk profile. Exceeding the indicators of alert/warning threshold activates specific escalation processes aimed at assessing, above all, the reasons for the breach of the limits and, subsequently, at determining the corrective actions needed to bring the operating indicator back to levels consistent with the normal course of business. The escalation processes differ depending on whether first level or second level risk indicator thresholds have been exceeded.

Information on the risk governance structure for each type of risk

Generally, risk, in economic-financial terms, may be defined as the possibility that the result of any transaction carried out by an economic entity may differ from what was expected *ex-ante*. It is thus implicit that risk is an integral part of the performance of banking activities and that the medium/long-term stability of the Credit Institution and of its competitiveness depend on risk/return decisions concerning transactions carried out. In order to cover the risks to which it is exposed, the bank has appropriate corporate governance arrangements and adequate management and control mechanisms in place. The controls cover all types of corporate risk assumed consistent with the characteristics, the size and the complexity of the activities carried out by the intermediary. In

[1] See communication 1115097/15 of 21/10/2015

compliance with Bank of Italy Circular no 285/2013, the Banking Group has designed a Risk Appetite Framework (RAF), which is updated annually, in line with the evolution of the bank's risk objectives and strategies.

Strategic decisions at Group level concerning risk management are taken by the corporate bodies of the Parent Company and these decisions take account of the specific operations and of the related risk profiles of each of the Group companies. As far as the other Group companies are concerned, the corporate bodies are aware of the risk profile and of the risk management policies established by the Parent Company and are responsible for the implementation of these policies in a manner appropriate to their businesses. With a view to an effective and efficient risk management and control system, the Group assigns specific responsibilities in this area to its organisational structure. With this in mind, the Group applies the principle of separation of functions involved in the risk control process in accordance with regulations for the prudential supervision of banks.

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 contained in specific function regulations and internal procedures. The bodies and functions involved in the Internal Control System are as follows:

- ✓ the Board of Directors approves and assesses the adequacy of the corporate, organisational, administrative and accounting structure of the Bank and the Group, with particular reference to the internal control and risk management system, ensuring a clear division of duties between functions, as well as the prevention of conflicts of interest;
- ✓ the Board of Statutory Auditors, or the body with control functions which is responsible for supervising compliance with the laws, regulations and statutory provisions, the correct implementation and adequacy of the control functions (Supervisory Body pursuant to Legislative Decree no. 231/2001);
- ✓ the Executive Committee to which ordinary management duties are assigned;
- ✓ the Control, Risk and Sustainability Committee, with advisory and investigative functions for the Board of Directors, with particular reference to the assessments relating to the internal control and risk management system as well as, for the aspects connected to them, those relating to strategic plans and budgets and periodic financial reports;
- ✓ the Risk Management Committee in its specific deliberative and final purposes in the area of risk management and coordination of the control system;
- ✓ the Chief Executive Officer, as part of the "internal control system and risk management" is responsible for monitoring and coordinating the system of internal control and risk management, with the assistance of the internal control functions, in order to ensure its effectiveness, without interfering with the powers of the Board of Directors, the Control and Risk Committee and the Board of Statutory Auditors;
- ✓ the General Manager (role covered by the same person as the Chief Executive Officer, as mentioned previously), who is responsible for implementing the resolutions of the Board of Directors and Executive Committee;
- ✓ the Financial Reporting Manager, who is responsible for designing and maintaining an organisational and control model for the Group's financial reporting process, aimed at ensuring the reliability and integrity of accounting and management information;

- ✓ the Compliance Office, which has been assigned responsibility at Group level for the management and oversight of regulatory non-compliance risk;
- ✓ the Anti-Money Laundering Office, whose duties are to implement procedures and controls aimed at preventing money laundering and terrorist financing activities, carried out through Group channels;
- ✓ the Risk Management Department, which has the task of supporting the governance of corporate and Group risks in line with the defined strategies, plans and risk policies and in compliance with primary, secondary and corporate regulations. It is responsible for measuring and monitoring the Group's exposure to various types of risk, including credit risk and concentration risk, for coordinating project activities for the determination and implementation of models, methodologies and assessment and measurement tools and for developing an integrated reporting system to monitor risks;
- ✓ the Internal Audit Department, which is responsible for carrying out test checks to ensure that the Internal Control System of the Bank and the Group as a whole is efficient and effective.

These functions also cover the subsidiaries, as envisaged by the specific function regulations, as well as – for those cases where the Parent Company outsources the internal control function for certain subsidiaries – in accordance with the provisions of the relevant framework agreements.

Information on the scope and nature of the reporting and/or risk measurement systems: main characteristics of the reporting and risk measurement systems

The Risk Management Process represents a reference model in organisational and process development and in the systematic execution of all operational and business activities that involve the ongoing assumption and management of risks. It also acts as an obligatory point of reference in the setting and execution of all activities of an unsystematic or contingent nature.

Generally speaking, the Group implements its business model through an organisational model that ensures the coordinated use of human resources, technologies and methodologies on the basis of internal regulations that define the structures of management controls, internal regulations (rules, powers and limits) and the processes by which the activity is carried on, including control activities.

The Group's organisational structure provides for monitoring and management of credit risk, in a logic of separation between business and control functions. The Board of Directors approves the strategic direction and policies for risk management. The Board verifies that, at corporate and Group level, the CEO promotes and guarantees, within the scope of his work, clear and widespread knowledge of the risk management policies approved by the Board of Directors and determines the structure of the internal control system in line with the risk appetite laid down in the RAF and that the control functions have autonomy within the structure and are equipped with adequate resources for the conduct of their duties. The Parent Company's Risk Management Department guarantees an integrated risk management process, by checking and monitoring risks, by systematically identifying and analysing their sources, by coordinating project activities for the determination and implementation of models, methodologies and assessment and measurement tools and by developing an integrated reporting system to monitor them.

The preparation of information flows between corporate functions/bodies favours the exchange of complete, timely and accurate information. In particular, it allows for the rapid and timely activation of escalation mechanisms towards the competent corporate bodies, with particular reference to serious situations that require prompt intervention by virtue of their particular nature.

According to the subjects involved in the preparation and reception of the information flow, two different implementation methods have been established:

- ✓ Vertical flows (from control functions to corporate bodies);
- ✓ Horizontal flows (between control functions).

In line with the regulatory provisions contained in Circular 285/2013, an integrated risk management process has been implemented at Group level by the Corporate Functions/Bodies in order to:

- favour their understanding and an in-depth and more effective assessment;
- plan future control activities based on the results of the assessments;
- adopt mitigation measures in the event of risks being identified that have not yet been monitored or where the controls have turned out to be ineffective;
- to identify any gaps in the control system and remedy them immediately.

Sharing information is achieved through:

- an exchange of information flows;
- taking part in the Risk Management Committee, as part of the periodic meetings to coordinate the Group's corporate control functions and discuss progress on the interventions to mitigate or resolve the risks that have been identified and to discuss regulatory changes relevant to the Group.

The Group carries out stress tests to make a better assessment of the risk exposure, of the related mitigation and control systems and of the adequacy of capital and liquidity.
Stress tests are a fundamental tool that allows us to adopt a forward-looking perspective in risk management, strategic planning and capital planning, forming an integral part of the ICAAP/ILAAP.

The stress tests carried out by the Group are divided into:

- ❖ regulatory, i.e. they are required by the regulator/supervisor, carried out at least once a year and, in any case, at the time the ICAAP/ILAAP Report and the Recovery Plan are prepared;
- ❖ managerial, i.e. when the scenarios, rules and conventions are defined internally by the Bank as part of the process of deciding corporate strategy.

The two main risk categories involved in the simulations are:

- ❖ capital risks, when the incidence of individual risk factors on capital is assessed;
- ❖ liquidity risk, i.e. specific tests to measure the liquidity buffer under stressed conditions.

The categories of analysis implemented by the Group when carrying out stress tests are:

- ❖ sensitivity analysis;
- ❖ scenario analysis;
- ❖ reverse stress testing.

The Group has structured its stress testing analyses by considering two different application and methodological approaches which are designed to obtain, on the one hand, a view for each risk and, on the other, an overview of the impacts on capital and liquidity. The framework envisages sensitivity analyses for each relevant and measurable risk and adverse scenario analyses with underlying assumptions based on the main macroeconomic variables.

In particular, the following tests are envisaged:

- ❖ an integrated stress test between the business plan model and the risk models ("multi-risk") which, starting from the business plan model, makes it possible to simultaneously stress elements of the balance sheet and multi-period income statement beginning from the changes in the main macroeconomic quantities of reference (e.g. GDP, inflation, rate curves, unemployment), and to incorporate within risk-weighted assets and own funds the negative impacts caused by a deterioration of all risk exposures, also using specific modelling;

- a stress test system developed for individual risks ("single risk"), that evaluates the effects of specific events on the individual risk factors of the Bank ("sensitivity analysis") or of joint movements of a set of economic and financial variables in the event of adverse scenarios ("scenario analysis"), having an impact on a specific risk (e.g. credit, market or liquidity risk).

Risk management strategies and processes for each risk category

Credit risk

Credit risk is the risk that an unexpected change in the creditworthiness of a counterparty with which there is an exposure might generate a corresponding change in the market value of the credit position.

Credit risk management strategies and processes

The Group's credit policies are primarily aimed at supporting local economies, households, entrepreneurs, professionals and small-medium enterprises. The particular attention paid to maintaining relationships with customers and their evolution is one of the Bank's strong points, as it allows continuity of the relationship and support for customers in a long-term perspective.

The following general principles to be observed in the disbursement of loans are expressly referred to in the Credit Policy: a) risk diversification among various businesses operating in a variety of industries and market sectors; b) the appropriateness of the credit facility granted to each borrower based on their independent creditworthiness, as well as the technical form of the facility and the collateral that can be offered.

Accordingly, the granting of a credit facility and its subsequent maintenance by the Group are, as a general rule, based on a combination of various factors, such as: a) trustworthiness, which depends on personal factors such as the honesty, technical capabilities, etc., of those who lead the business; b) stability of the leadership team, which ensures unity and continuity of management direction; c) sufficiency of collateral, meaning that the business and/or personal assets of owners acting as guarantors must be adequate to permit the requested facility to be granted; d) a balanced capital and financial structure, taking account of the resources that the business has at its disposal and the needs that will arise as a consequence of planned commitments; e) a positive liquidity position; f) adequacy of the account holder's income; g) a convincing reason for the intended use of the facility; h) prospective earnings capacity and the ability to continue as a going concern. In the case of consumer households, account is taken of the following aspects: a) adequacy of earning capacity in relation to commitments assumed and to be assumed; b) loan applicants' assets; c) positive development of existing relationships.

Structure and organisation of pertinent credit risk management function

The Board of Directors approves and assesses the adequacy of the corporate, organisational, administrative and accounting structure of the Bank and the Group, with particular reference to the internal control and risk management system, ensuring a clear division of duties between functions, as well as the prevention of conflicts of interest.

The Chief Executive Officer, as part of the "internal control system and risk management" is responsible for monitoring and coordinating the system of internal control and risk management, with the assistance of the internal control functions, in order to ensure its effectiveness, without interfering with the powers of the Board of Directors, the Control and Risk Committee and the Board of Statutory Auditors.

Accordingly, as far as general risk management is concerned, particular importance is assumed by the system for delegated powers for the granting of credit; this is based on the corporate bodies and functions/roles, from the Executive Committee to middle managers. The various functions are thus assigned responsibilities for the assessment and assumption of risks, within the limits set for credit autonomy and with the commercial network's organisational structure.

In this context, the Credit Department supports General Management by monitoring the granting and management of retail loans and assisting General Management in ensuring careful and informed assumption of risks in line with the corporate policy on credit quality, by supervising the overall coordination of banking activities and by ensuring that all transactions, including those in the Special Credit segment, are monitored (although Group companies are still autonomous in granting credit to their customers). Specifically, it a) ensures the uniformity of the credit granting methodologies and processes; b) ensures the implementation of the Group Credit Policy based on the assumption that the first essential element for a correct assessment of credit risk is the overall credit exposure to the Banking Group of each counterparty and of any group it is a member of; c) supervises activities carried out regarding Subsidiaries' structures by providing guidance and necessary assistance.

Within the Credit Department, the Credit Office performs the following tasks: a) it monitors the granting and management of retail loans and assists General Management in ensuring careful and informed assumption of risks in line with the corporate policy on credit quality; b) it monitors internal controls designed to ensure the legal certainty of collateral; c) it contributes, together with the Resources Department, to the development of knowledge and technical-specialist skills of internal resources and of the distribution network; d) it collaborates with the development of organisational projects, by providing a necessary contribution and by ensuring there is a link between the project management centre and the Department/Office; e) it assists with training, with respect to relevant specialist aspects, via the identification of training needs and contributes to the planning, realisation and update of training modules as well as teaching activities. In particular, this manages performing/past due positions identified by the tools in use, for which the conditions do not yet exist for the initiation of out-of-court recovery proceedings or legal action. The main activities carried out, via the Monitoring Office, are as described below: a) it monitors the performance of individual risk positions identified by periodic, accurate testing, in accordance with predefined criteria, or flagged by other organisational units (Credit Department, Chief Risk Officer, Chief Audit Officer, etc.); b) it contacts the distribution network to highlight signs of anomalies in order to request the normalisation of the risk position and, if the outcome is negative, it draws up a classification of the various categories of anomalous risk and determines expected losses; c) it manages, in collaboration with the distribution network, risks positions classified as "past due" and "under control", by monitoring changes in individual positions and by coordinating the risk management activities of the entire distribution network; d) it provides support to the branches for the review of critical issues and problems related to risk management; e) it approves positions "under control" and past due, within the limits of the powers granted and expresses opinions on approvals beyond its powers; f) it estimates expected losses related to mortgage positions to be classified as "unlikely to pay" and commissions "drive-by" appraisals; g) it manages forborne performing positions; h) it assesses and analyses performing and past due positions together with extended non-performing loans; i) it arranges for reminder letters to be sent and, in the event of urgent notification of default, the termination of contracts and the enforcement of pledges; l) it conducts checks of the network to ensure the correct management of the phenomenon and of collateral.

The Special Credit Office, which reports directly to the Credit Department, performs the following tasks: a) it assists the Credit Department Management in ensuring careful and informed assumption of risks in line with the corporate policy on credit quality; b) it ensures the monitoring and realisation of medium to long term credit products, subsidised credit and factoring, by acting as an interlocutor with medium to long-term lending Institutions, guarantee consortiums, trade associations (Assilea/Assifact/Assofin) and data banks; c) supports the distribution network with the preparation and formalisation of loan agreements by verifying compliance of the proposed terms to specific legislation and by approving the facilities in accordance with the delegated powers; d) it provides support to the Organisational Processes Department, with respect to relevant specialist aspects, for the preparation and constant update of internal regulations; it also collaborates with this Department for the development and implementation of relevant IT applications; e) it collaborates with the development of organisational projects, by providing a necessary contribution and by ensuring there is a link between the project management centre and the Office.

The NPL Department handles the recovery of positions classified as non-performing or unlikely to pay, both directly and via specialised external companies: UTP Office, Litigation Office and Outsourced Recovery Office and Special Projects, which also manages the post-sale phase of the sales and acts as an interface for the Chief Risk Officer. The NPL Department manages credit recovery both in and out of court, it manages restructured loans and relevant exposures, it addresses positions classified as unlikely to pay and it handles the management of non-performing positions by taking all necessary steps for the recovery thereof. The NPL Department submits for assessment by parties interested in the purchase of NPLs, both individual positions and unsecured and mortgage portfolios and handles information gathering for the potential purchaser.

The Chief of Risk Management, who reports directly to the Board of Directors, assists with risk management at corporate and Group level in accordance with the risk strategies, plans and policies in place and in compliance with primary and secondary legislation and corporate regulations. Accordingly, this function is responsible for the measurement and monitoring of the Group's exposure to various types of risk, including credit risk and concentration risk, for coordinating project activities for the determination and implementation of models, methodologies and assessment and measurement tools and for developing an integrated reporting system to monitor risks and related total internal capital. The Risk Management Department, through the Credit Risk & Rating Desk, is also in charge of the following controls: a) the proper undertaking of performance monitoring of credit exposures (performing and, in particular non-performing); b) the consistency of classifications; c) the adequacy of provisions; d) the effectiveness of the recovery process. As part of this process, the Rating Desk unit was set up, with override, resolution and control functions for the ratings attributed to the individual counterparties.
Finally, the Internal Audit Department assesses the functionality and reliability of the entire internal control system and carries out, among other things, checks on the operational regularity of the credit and loans activity.

Scope of application and nature of the credit risk measurement and reporting systems

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 fact-finding and periodic review to final withdrawal and recovery. During the fact-finding stages of the lending process, the Group performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer's financial standing from what is known of the customer and of the customer's economic environment. The determination of a counterparty's credit standing is based on the following: a) an analysis of qualitative and quantitative information obtained from different sources (financial statements, central credit register, databases, etc.); b) a subjective assessment by the decision-making body based on knowledge of the counterparty or the reputation of management. In the case of corporate groups, both the qualitative and quantitative information on the individual members of the group and separate and consolidated financial statements are evaluated. The key aspects of this assessment process consist of the following: a) knowledge of the borrower in terms of activities carried out and financial information relating thereto, as well as the financial statements and reputation of the customer and its management, if a corporate client; b) determination of the intended use of the credit requested; c) identification of the sources of repayment and hedging of the credit risk assumed d) collateral provided to mitigate the credit risk.

Knowledge of the borrower, if corporate, is gained, above all, by checking the competitive positioning in the market in which it operates, based on the products/services offered, the geographical area covered by the sales/distribution network and the target customer segment. In addition to the financial statements, the analysis also extends to the business plan, the financial repercussions thereof and the consequent ability to repay/cover the commitments assumed. For both corporate clients and private individuals, particular attention is paid to the analysis of the intended use of the funds requested. For both private individuals and corporate clients, a proper understanding of the intended use and of the business plan, allow the decision-making body, upon approval of the transaction, to assume the credit risk in a conscientious manner, having adequately taken account of the financial sustainability of the project to be financed, its impact on operations and the total current and prospective earnings that will enable repayment of the debt.

Solely for managerial purposes, the Group uses an internal rating system - developed at consortium level and adapted to the Group's portfolio - that classifies each counterparty in risk classes that reflect their homogeneous and increasing probability of default. The Logit statistical model provides for the determination of PD (probability of default) by means of a combined analysis and assessment of trends and fundamental factors. Application of this model makes it possible to assign a rating based on the sources of information used and the segment to which the borrower belongs. In particular, the criteria for the segmentation of counterparties are chosen taking into account the counterparty's sector of economic activity (SEA) and size (revenue or total assets). There are ten rating classes for performing counterparties (on a scale from 1 to 10 based on the assigned probability of default). Finance-sector companies, institutions and associations (residual portfolio components of the consortium banks) continue to be analysed according to the criteria used for a previous rating model based on 8 performing rating classes from AAA to CC. The changes that have recently affected the rating system have expanded the information set, also by providing a further contribution of qualitative assessments in determining the rating classes). The rating assigned to each counterparty is the result of a formalized attribution process (so-called rating attribution).

The Group also uses the LGD (Loss Given Default) and EAD (Exposure At Default) parameters in the credit risk management processes (i.e. risk reporting, decision-making autonomy).

Credit risk hedging policies and mitigation and strategies and processes for continuous monitoring of their effectiveness

As part of the process leading up to the provision of credit, whenever possible, the Group obtains collateral in order to mitigate risk, even if the requirements appear to be satisfied. The collateral obtained for credit risk mitigation is subject to careful periodic monitoring to verify the maintenance of its initially determined value or the financial viability of the guarantor. On the occurrence of events that adversely affect the collateral, it must be promptly reinstated and/or the previously agreed line of credit should be reduced. The main type of collateral obtained for loans is a mortgage, primarily related to the technical form of mortgage loans (particularly on residential properties). To a lesser extent, but for significant amounts, there are also pledges on securities and/or cash.

A prudent spread is applied to the collateral based on the variability over time of the market value thereof; the collateral is subjected to constant monitoring in order to verify its actual value compared to its initial value and to permit measures to be taken in the event of a fall in value. On the acquisition of mortgage collateral a spread is applied as envisaged by internal regulations. Unsecured guarantees mainly consist of guarantees provided by individuals and companies. Their evaluation is based on an assessment of the guarantor's estate during the fact-finding process or for the renewal of credit.

As a result of the public interventions to support the economy during the Covid-19 emergency, the guarantees issued by public bodies such as MCC and Sace took on particular importance.

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

Market risk

Market risk derives from the effect that changes in market variables (interest rates, securities prices, exchange rates, commodity prices, etc.) can generate on the economic value of the Group's portfolio, which includes both assets held for trading and those recorded in the banking book, or the operations connected with the characteristic management of the commercial bank and strategic investment decisions. From the point of view of regulatory supervision, market risk arises from all positions included in the trading book, as well as from risk positions on commodities and exchange rates anywhere in the financial statements.

Market risk management strategies and processes

The Group has a very limited exposure to market risk pertaining to the “regulatory trading book”. For management purposes, the logic behind the definition, measurement, management and control of risk also applies to portfolios of financial instruments other than loans classified in the banking book.

Management of the trading portfolio mainly consists of the implementation of financial investment policies based on strategic policies established by the Board of Directors and of the operational management of trading portfolios and of short-term liquidity, in euro and foreign currencies, with the aim of optimising of the risk/return ratio. Under these circumstances, the Group implements its investment policy in a manner consistent with its capital objectives and with the desired risk profile in order to ensure efficient, prudent management of liquidity with respect to the current situation and to the strategic forecasts made.

Structure and organisation of pertinent market risk management function

The Group's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Board of Directors approves the strategic direction and policies for risk management. The Chief Executive Officer defines the structure of the internal control and risk system in line with the predefined risk appetite laid down in the RAF and ensures that the control functions have autonomy within the structure and are provided with adequate resources to carry out their duties. In this context:

- the Risk Management Department supports General Management in handling risk and ensures an integrated risk management process, systematically identifying and analysing the sources of risk in line with the Group's strategies, plans and risk policies and in compliance with the regulations;
- the Financial Risk Office, a specific organisational unit included in the Risk Management Department, concentrates on activities relating to market risk: identification of the purposes of the models for measuring, defining, developing and monitoring the adequacy of the models' performance over time. In terms of monitoring, it is responsible for measuring, controlling and reporting on market risk;
- the Finance Department conducts its activities for monitoring and managing market risk in compliance with the limits and powers assigned to it.

Scope of application and nature of the market risk measurement and reporting systems

Ordinary monitoring activities are carried out with the aid of specific IT procedures that incorporate quantitative evaluation models and through the processing of data from other front-office applications. Given that risk-taking is the responsibility of the Finance Department, monitoring the indicators is carried out, as a first-level control, continuously by the Department itself, while the Risk Management Department carries out second-level monitoring, activating any escalation procedures in the event of overruns in accordance with the RAF Policy.

For regulatory supervisory purposes, the market risk measurement activity is applied to the perimeter of the trading book using standardised calculation methods, in accordance with the provisions of Circular no. 285/2013, which make it possible to calculate the overall capital requirement on the basis of the so-called "building block" approach, according to which the overall requirement is obtained as the sum of the capital requirements for individual risks. In the use of this approach, the Group complies with the applicable regulations (Circ. no. 285/13 Part Two – Chapter 9, Section I).

The trading activity of the Finance Department is subject to operating limits as set out in the specific risk management policy. For management purposes, the following are used to measure market risks: internal models based on the concept of Value at Risk (VaR); specific consistency indicators that take into consideration particular areas of operations of the proprietary securities portfolio; sensitivity indicators (such as duration); profitability indicators (stop loss). For some of the indicators monitored, the Group has set limit values, divided into warning and tolerance threshold values in order to detect any anomalous data. The results of the monitoring are provided to the Finance Department and Risk Management Committee on a daily basis for the operating units and monthly for the Committee. These thresholds are defined by the Risk Management Committee on the proposal of the Risk Management Department and approved by the Board of Directors for the elements included in the Group's Risk Appetite.

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. This last type includes losses deriving from fraud, human error, systems interruption, contractual non-performance and natural catastrophes. Operational risk includes legal risk, but not strategic or reputation risks.

Operational risk management strategies and processes

The Group has implemented a specific procedure for the structured gathering of information pertinent to adverse events that may give rise to operational losses. This is intended to meet internal operational requirements concerning the "activation" of a process aimed at providing senior management with evidence of operating risks within the Group.

The operational risk management (ORM) model governs the roles and responsibilities involved in risk management. It also declines specific limits for monitoring the overall losses recorded at the level of each individual Group entity (divided into "loss from new events" and "loss and economic effect loss"). The concept of "Relevant Event" was also defined in order to focus monitoring and compliance with the limits on so-called ordinary events.

The Group uses the above definition of operational risk within the operational risk management model that has been approved and embodied in corporate policy. In this regard, a specific operational risk management macro-process (ORM framework) has been designed that consists of the following phases:

I. Identification: recognition, collection and classification of information relating to operational risks;
II. Measurement: economic measurement of operational risks linked to the Bank's operations;
III. Monitoring and reporting: collection and structured organisation of the results in order to monitor the evolution of operational risk exposure;
IV. Mitigation and control: transfer of risk and improvement of business processes.

To support the operational risk management model, the following processes have been formalised:

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

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

Structure and organisation of pertinent operational risk management function

The following have been introduced into the operational risk management model:

- ORM Manager: coincides with the Head of Department, Area, Office or Service (if they do not report directly to Management – except for General Management). They are responsible for implementing the ORM guidelines and for mitigation actions within the structure in question, for validating and certifying the Risk Self Assessment questionnaires, for governing the loss data collection process within the structure in question and for communicating, by means of an alert system, significant events concerning operational risk even when they do not give rise to an operational loss.
- Risk Collector: coincides with the Head of Area or Office (if they report directly to Management). They are responsible for identifying adverse events that form part of the loss

data collection process; by means of an alert system, they identify and promptly communicate to Risk Management significant events concerning operational risk even if they do not give rise to an operational loss; by means of the Risk Self Assessment process, they assess potential risks identified within the structure in question and identifies and proposes mitigation strategies to Risk Management.

As regards the management of risks impacting the Group's business continuity, the Business Continuity plan was updated 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), 2 new branches have identify as Business Continuity site as an alternative for personnel who cannot operate remotely and for those processes that 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.

Scope of application and nature of the operational risk measurement and reporting systems

With respect to operational risk, the following periodic monitoring activities, which fall within the scope of reports submitted to Parent Company's Risk Management Committee, are performed:
With regard to "ordinary" events:

- monitoring the overall limit of the Gross Operating Losses reported (taking into account new events and the change in the value of losses relating to events already recorded) and the overall limit of new events
- analysis of gross and net losses by event;
- analysis of the number of occurrences by event;
- analysis of changes in total losses and events recorded/counted;
- analysis of the trend of losses per month (Parent Company) per quarter (Parent Company and Fides);
- analysis of Risk Self Assessment findings.

As regards the relevant events, an analysis is carried out on the events recorded since the beginning of the year in terms of Gross Loss, number of events and average loss.

Operational risk hedging policies and mitigation and strategies and processes for continuous monitoring of their effectiveness

As a further form of mitigation, the Group has arranged suitable insurance cover aimed at covering certain significant operating risks in addition to taking appropriate corrective actions if from the analyses carried out arises the need to intervene.

ICT risk

ICT risk is the risk of incurring economic, reputation and market share losses in relation to the use of IT technologies (Information and Communication Technology). In the integrated representation of corporate risks for prudential purposes (ICAAP), this type of risk is considered under operational, reputational and strategic risks, according to the specific aspects.

ICT risk management strategies and processes

The Group has implemented a specific operating procedure consisting of a macro-work process and control activities put in place for the identification, evaluation, monitoring, reporting, mitigation and control of IT risk. This activity has an additional objective to meet internal operational requirements concerning the "activation" of a process aimed at providing senior management with evidence of operating risks within the Group.

The Group uses the above definition of ICT risk within the ICT risk management model that has been approved and embodied within corporate policy. In this context, a specific risk management process has been defined which consists of the following phases:

I. Identification of ICT risk: continuous detection of ICT threats to which the Group is exposed, tracing of threats to existing risk scenarios or to be defined as such, determination of the Asset Catalogue used by the Group.
II. Assessment of ICT risk: IT risk assessment, monitoring of the residual IT risk and preparation of reports (i.e. summary report of IT risk).
III. Monitoring and reporting: analysis and control of the results highlighted by the IT risk management system in order to continuously monitor the information deriving from the IT risk assessment and from the monitoring of specific KRI defined in this area (subject to monthly reporting as part of the Risk Limit Monitoring).
IV. Mitigation and control: adoption of appropriate treatment strategies (e.g. mitigation, insurance transfer) defined on the basis of whatever emerged during identification, evaluation and monitoring.

As part of the corporate policy, the Risk Management function applied company regulations to structure an adequate monitoring and reporting system for operational risk by integrating it with the dictates of the supervisory regulations about the provisions regarding coordination between control functions. With regard to events liable to generate a significant increase in the Group's IT risk detected as part of the periodic assessment activities and by the on-going monitoring of a system of IT risk indicators, appropriate reporting methods have been identified and formalised as part of the Tableau de Bord of the Risk Management Function and in the summary document for the evaluation of IT risk, drawn up on an annual basis.

In compliance with the specific requirements of the external regulations, on an annual basis, the Risk Management Function carries out a specific analysis of operational and security risks in the payment systems area. This analysis is formalised in a specific report which is sent to the Bank of Italy.

With reference to the principal organisational and operational controls currently in place to ensure data security and protection, in addition to the specific ICT Risk Assessment, the Group applies:

- 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;
- threat alert systems, partly by specialist recourse to Security Operation Centres. In addition, a service has been acquired recently that includes an advanced IT application complete with intrusion detection system, as well as a component that uses machine learning techniques to group network devices into similar clusters, in terms of the behaviour, in order to help identify anomalies and generate alerts;
- daily monitoring of the performance of ICT security that uses a rating system (external assessment by a specialist operator with a global footprint).

Structure and organisation of pertinent IT risk management function

The following have been introduced into the Organisational model of the IT risk management :

- Responsible User: Company role, identified in the managers of the company structure (Management/ Area/Office), who for each system or application formally assumes responsibility, representing the users and in relations with the departments responsible for development and technical management, validating and formally accepting the residual risk that emerged from the analysis.
- End user: User delegated by the Responsible User to complete the Resource Criticality Questionnaires.

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

- Security Policy;
- Internal regulations in the field of incident management, asset catalogue management, change and IT risk management
- Methodology of IT Risk Assessment and of payment security risk.
- Performance monitoring methodology and IT risk reporting (KRI IT risk)

Scope of application and nature of the IT risk measurement and reporting systems

With respect to IT risk, the following periodic monitoring activities, which fall within the scope of reports submitted to Parent Company senior management, are performed:

- monitoring of the RAF ICT Risk indicator, both on an annual basis (i.e. outcome of the summary IT risk report) and on the occasion of changes in the level of risk following specific assessments on one or more ICT resources;
- monitoring of the summary IT risk indicator deriving from the analysis and aggregation of the individual IT risk indicators (KRI).

IT risk hedging policies and mitigation and strategies and processes for continuous monitoring of their effectiveness

As a further form of mitigation, the Group has arranged suitable insurance cover aimed at covering certain significant cyber risks.

Other risks

Concentration risk

Concentration risk is the risk arising from exposures to counterparties, groups of connected counterparties and counterparties that belong to the same economic sector that are engaged in the same activity, or that belong to the same geographical area.

As far as management policies and processes are concerned, the Group's lending activities operate under a loan portfolio diversification policy. Such diversification is assured by business development, in line with guidelines set out in the strategic plan and addressed to local economies mainly in retail, small business and SME markets and, to a lesser extent, to the corporate market. These guidelines have been formalised within the Credit Policy, which indicates risk diversification among various businesses operating in different industries and market sectors to be one of the basic principles to guarantee correct management of the loan portfolio. As part of the monitoring activities carried out by the Risk Management Department and the Credit Department, concentration risk is subject to verification for groups of related customers, for the individual exposures and for the sectors of business activity. Upon the issue of new products/services, the product approval process envisages an intervention by various corporate functions, to the extent of their powers, in order to perform a general analysis of the concentration risk that the Group would be exposed to in carrying out its commercial activities.

Interest rate risk in the banking book

Interest rate risk arising from non-trading activities is the current or future risk deriving from adverse movements in interest rates affecting interest rate sensitive instruments.

Changes in interest rates affect:

- earnings as they modify the net interest income expected over a given time horizon;
- on the economic value following the change in the present value of the future cash flows of assets, liabilities and off-balance sheet items.

The strategies and processes for managing the interest rate risk of the banking book

Within the Group, Asset & Liability Management (ALM) processes are applied in order to identify and measure the impacts ("sensitivity") deriving from changes in the structure of interest rates on the expected financial margin and on the economic value of assets in the banking book. With regard to the economic value of assets (so-called “EV sensitivity”), the hypothesis of a change in the interest rate curve is applied, with an instant shock, measuring the difference found in the present value and comparing these changes with the economic value of the assets. With regard to the expected financial margin (so-called “NII sensitivity”), the variation over a time horizon of twelve months is estimated in the hypothesis of a deterministic shock of the interest rate curves. The estimates are made with a view to static analysis, i.e. assuming the invariance of the capital structure in terms of the set of assets and liabilities and related financial characteristics (rates, spread, duration).

For the purposes of regulatory supervision, the Group uses the calculation methods provided for by the relevant legislation, Circular no. 285 of 2013 (Part One, Title III, Chapter 1, Annex C and C-bis) and respecting the criteria defined by the EBA guidelines (ABE/GL/2018/02).

The structure and organization of the interest rate risk management function of the banking book

The Group's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Board of Directors approves the strategic direction and policies for risk management. The Chief Executive Officer defines the structure of the internal control and risk system in line with the predefined risk appetite laid down in the RAF and ensures that the control functions have autonomy within the structure and are provided with adequate resources to carry out their duties. In this context:

- the Risk Management Department supports the General Management in managing risk, ensures the integrated risk management process, systematically identifying and analysing the sources of risk in line with the Group's strategies, plans and risk policies and in compliance with the regulations;
- the Financial Risk Office, a specific organisational unit included in the Risk Management Department, concentrates on activities relating to interest rate risk in the banking book : identification of the purposes of the models for measuring, defining, developing and monitoring the adequacy of the performance of the models over time. In terms of monitoring, it is responsible for measuring, controlling and reporting the interest rate risk of the banking book.

Scope of application and nature of the systems for measuring and reporting interest rate risk in the banking book

To determine the banking book's exposure to interest rate risk, the Group measures the potential impacts on the economic value and on the net interest income, considering different scenarios of variance in the level and shape of the yield curve, as envisaged by supervisory regulations and respecting the criteria defined by the EBA guidelines with the application of the minimum floor at the post shock rate.

Exposure to economic value

In line with its belonging to regulatory class 2, the Group adopts an approach that incorporates some changes with respect to the application of the simplified approach proposed by Circular no. 285.
The main modelling assumptions refer to the use of management data, performed on the basis of the results of the internal repricing gap model and on the application of a statistical-behavioural model for items with no contractual expiry date.
The behavioural estimation model is applied to the items on demand (assets and liabilities) of ordinary customers with the aim of quantifying the degree of reactivity of the rates on demand items with respect to market rates and to recognise the persistence over time of the volumes on demand, representing them as a source of medium/long-term funding, estimating a stable portion (core) and the related amortisation profile, represented in financial terms as equivalent to two portfolios of maturity deposits, one at a fixed rate, the other at a floating rate. The forfeiture/reimbursement profile described by the volume model is integrated with a repricing profile deriving from the rate analysis model: by relating the rates of items on demand to market rates, it is possible to identify to what extent changes in the market rate explain the changes in the rate of demand items and the methods and times for adjusting the rates of demand items to the market ("stickiness").
The average maturity of the demand deposits modelled is well below 5 years, while the maximum maturity is prudently set at 15 years in line with the profile of MLT commercial assets. For active demand deposits, the maximum maturity is very short and the average duration is well below 5 years.
The exposures resulting from the repricing gap model, for each time band, are multiplied by the weighting factors in accordance with the provisions of Circular 285. The sum of the net exposure of all the bands after application of the hypothesised rate shock represents the change in economic value.

Exposure to changes in net interest income

Also in this area, the Group adopts an evolutionary approach with respect to the application of the simplified approach proposed by Circular no. 285, in line with what has been developed for the determination of internal capital.
The Group has adopted an internal ALM model that makes it possible to measure the impacts produced by changes in the structure of interest rates on net interest income. Therefore, for each relationship sensitive to repricing over the time horizon under analysis, the change in net interest income resulting from the rate shocks is calculated starting from the effective repricing date and in the hypothesis of constant volumes until the end of the period of simulation.

The interest rate risk is mainly managed through a natural hedge strategy; however, the Group carries out cash flow hedging activities, using hedge accounting, with the aim of stabilising the cash flows of the hedged instruments thanks to the flows of the hedging instrument.
For hedging, we use derivatives represented by interest rate swaps, but only to hedge interest rate risk.

<u>Liquidity risk</u>
Liquidity risk is related to the incapacity to meet one's payment commitments due to an inability to source funds on the market ("funding liquidity risk") or to sell assets ("market liquidity risk").
The liquidity risk of the Group can be generated by endogenous factors, i.e. factors that originate from specific negative events of the Bank and that entail a loss of confidence in the Bank on the part of the market and external factors, or caused by market shocks not directly controllable by the Bank. Liquidity risk is understood as a difficulty (or impossibility) in sourcing funds to meet one's payment commitments: risk implicit in the structure of the Bank's assets and liabilities due to the transformation of maturities, such that the profile of outgoing cash flows is not perfectly offset by the profile of incoming cash flows; risk that future events may require a significantly higher amount of liquidity than previously planned by the Bank.

Liquidity risk management strategies and processes
The internal liquidity risk control and management system is developed within the Group's Risk Appetite Framework and in compliance with the approved maximum liquidity risk tolerance thresholds, which establish that the Group must maintain an adequate liquidity position so that it can face periods of tension, also through the establishment of adequate liquidity reserves represented by securities that can be sold and/or refinanced with the ECB. Specific risk policies include a description of the risk management process, which consists of a set of rules, procedures and organisational structures designed to permit the identification, measurement, management and monitoring of liquidity risk originating from both market factors and internal Group factors.

Structure and organisation of liquidity risk management function
The Group's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Board of Directors approves the strategic direction and policies for risk management. The Chief Executive Officer defines the structure of the internal control and risk system in line with the predefined risk appetite laid down in the RAF and ensures that the control functions have autonomy within the structure and are provided with adequate resources to carry out their duties. In this context:

- the Risk Management Department supports the General Management in managing risk and ensures the integrated risk management process, systematically identifying and analysing the sources of risk in line with the Group's strategies, plans and risk policies and in compliance with the regulations;

- the Financial Risk Office, a specific organisational unit included in the Risk Management Department, concentrates on activities relating to liquidity risk: identification of the purposes of the models for measuring, defining, developing and monitoring the adequacy of the models' performance over time. In terms of monitoring, it is responsible for measuring, controlling and reporting liquidity risk;
- The Finance Department conducts the activities within its competence and within the limits and the powers assigned thereto for the management of daily liquidity, the liquidity reserve and the counterbalancing capacity.

Scope of application and nature of the liquidity risk measurement and reporting systems

The overall model for the management and monitoring of liquidity risk is divided into distinct areas, which vary based on the scope of reference, the time-scale and the frequency of analysis.

With reference to short-term liquidity, measures are adopted that make it possible to estimate liquidity needs over a time horizon of 3 months.

For the purposes of the supervisory regulations, the Group uses the calculation methods and frequencies provided for by the regulations (Circular No. 285) for the calculation of short-term liquidity indicators (LCR - Liquidity Coverage Ratio), structural liquidity (NSFR - Net Stable Funding Ratio) and other monitoring metrics - ALMM (Additional Liquidity Monitoring Metrics).

For management purposes, the following are used to measure liquidity risks: an internal short-term liquidity imbalance model (operational liquidity) which provides for the allocation of financial flows on a time scale divided into residual maturity bands from 1 day to 3 months; a "counterbalancing capacity" model that allows for the integration of operational liquidity with all those assets that can readily be used as they are eligible for refinancing at the ECB, as well as being usable in repo operations on the interbank market; consistency indicators that take into consideration types of assets that can be readily liquidated or used as financial collateral; specific intra-day liquidity indicators.

For some of these indicators, the Group has set upper limits, consisting of alert and warning thresholds, while, for others, it periodically monitors their levels in order to identify any abnormal data. The Group has designed a framework for the management of limit overruns that proposes a series of actions and involves the corporate bodies responsible for risk management and control.

The first line of defence against liquidity risk, to allow the Group to prepare itself for liquidity stress situations over a time horizon of 1 month, is the maintenance of an adequate liquidity reserve, consisting of financial assets that can be easily and promptly converted to cash or offered as collateral for refinancing with the European Central Bank. With this in mind, and for the purpose of strengthening its short term liquidity risk profile, the Group holds a reserve consisting solely of high quality liquid asset (HQLA). As regards longer-term requirements, the Funding Plan is the tool through which objectives and activities are defined that are consistent with the short-term (12 months - budget) or medium-term (3 years - Business Plan) requirements and with the maintenance of structural equilibrium. The Funding Plan is prepared annually as part of the overall budgeting process.

The timely analysis of any variances between actual and forecast figures attributable to the state of the markets and/or customer behaviour makes it possible to promptly determine the potential corrective actions to be taken. The Group tends to be less exposed to funding related liquidity risk, given that it does not systematically resort to more unstable funding sources, but it develops a strategy focused on maintaining retail deposits, which have been characterised over time by their stability, as well as on the growth of deposits via internal routes and through traditional channels. The use and development of forms of financing oriented towards secured markets (e.g. covered bonds, TLTROs) allow for greater diversification and stability.

Residual risk

Residual risk is the risk that recognised credit risk mitigation techniques used by the bank may prove less effective than expected.

The purpose of collateral is to strengthen the principle of patrimonial responsibility of the principal debtor given that it aims to provide greater certainty of fulfilment, or greater effectiveness of enforcement actions in the event of breach. It constitutes, from an economic point of view, a subsidiary element of secured credit and, as such, it should be taken account of when assessing the person to whom a credit facility has to be granted; so it is essential to bear in mind that the principal debtor is the primary source of repayment of the credit granted. To be useful for the recovery of the credit, collateral must meet the requirements of legal impeccability and adequate economic substance; to this end, the collateral deeds must strictly comply with specific relevant regulations, while, as far as the economic substance of the collateral is concerned, the adequacy thereof should be verified during the entire term of the relationship. As part of the credit granting process to customers, the proposing bodies submit the collateral requested from the borrower to the decision-makers. the decision-makers perform an overall assessment of the position and evaluate whether the collateral is marketable and not difficult to enforce.

From an operational point of view, in the event of the assumption of unsecured guarantees, real and financial collateral and insurance guarantees, the Credit Department confirms the validity of the collateral subsequent to a formal check thereof.

As far as mortgage collateral is concerned, a process is in place for the confirmation thereof by the Special Credit Office via an IT procedure. The Group, through the Credit Department and the Credit and Reporting Processes Performance Monitoring Office, monitors the maintenance of collateral cover for the credit granted via granting/renewal processes and performance monitoring/control. This supervision is attributable to the typical tasks of monitoring, while the NPL Area has responsibility for the management of non-performing positions. The latter performs monthly analysis of data related to recoveries of non-performing loans (including the effect of mitigation of underlying collateral). The criteria for the recognition of expected losses on non-performing loans require doubtful loans to be broken down based on the type of underlying collateral: mortgage, financial or unsecured. Loans secured by a mortgage charge are broken down based on the updated value of the collateral and on the loan-to-value (LTV).

In order to ensure compliance with the eligibility requirements provided for by the regulations, the Group banks use the Collateral procedure for the management of information relating to exposures secured by residential and non-residential property. As regards real/financial collateral, as previously indicated, a management process is used with particular reference to controls to ensure eligibility. The latter are assured by an IT procedure managed by the Credit Department, which monitors compliance with the specific requirements (correlation, fair value and separation) by means of a detailed set of specific controls.

The eligibility control procedure (mortgage collateral or otherwise) highlights any collateral that does not comply with the parameters listed above. This, however, does not impact the validity of the collateral, which, in fact, may be duly constituted from a legal point of view and, thus, be deemed entirely valid in the event of its enforcement. The aim of the procedure is the verification of eligibility and, thus, an assessment of whether the collateral qualifies for recognition for the purpose of mitigation of the capital requirements.

As part of the prospective analysis of credit risk, Risk Management performs a "what-if analysis" that takes account of the effectiveness of the mortgage collateral or real/financial collateral. In particular, Risk Management communicates to the Corporate functions involved in the collateral management process the results of its analysis regarding the impact on regulatory capital of the eligibility of the collateral. The reports address: a) the capital absorption that would be triggered by the absence of eligibility; b) the amount of exposures and capital absorption of components classified as not eligible with details of the reasons; c) the capital absorption that would be triggered by the complete eligibility of the collateral. With a view to improved monitoring of mortgage collateral relating to positions classified as unlikely to pay and bad, Risk Management periodically verifies the correct application of the coverage policy for non-performing loans, which requires specific application criteria for exposures secured by property based on loan-to-value.

Strategic risk

Strategic risk is the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment or from adverse business decisions, improper implementation of decisions or a lack of responsiveness to changes in the competitive environment. As far as management policies and processes are concerned, the boards of directors of the Parent Company and its subsidiaries, as established by relevant regulations and by their articles of association, set guidelines that have an impact on the running of the affairs of the Group and the individual companies as well as their respective strategic policies. Multi-year strategic plans and annual budgets are prepared; these documents are periodically analysed by senior management. In order to ensure careful monitoring and control of this type of risk, the Group has established a process that combines business management needs with those pertinent to prudent, conscientious risk management. In order to monitor the medium / long-term economic sustainability of the Business, specific indicators have been identified and monitored as part of the RAF, covering the following topics: Derisking and Profitability of lending, Recovery of operational and service model efficiency and HR sustainability.

Reputational risk and non-compliance risk

Reputational risk is the current or prospective risk of a decline in earnings or capital arising from a negative perception of the bank's image on the part of customers, counterparties, shareholders, investors or supervisory authorities. Non-compliance risk is defined as the risk of incurring legal or administrative sanctions, financial losses or reputational damage as a result of violations of obligatory rules (laws or regulations) or of self-regulation (for example, articles of association, codes of conduct, codes of ethics). In order to monitor the evolution of reputational risk that, by its nature, is an unmeasurable risk, the Group has identified some indicators that enable the evolution of this risk to be monitored over time. These indicators are monitored quarterly for all Group entities. The Group also has organisational controls in place to cover the risks in question. The organisational controls adopted by the Group to cover reputational risk constitute specific provisions contained in various organisational and regulatory documents that are approved by the board of directors and consist of the Code of Ethics, the RAF, the Anti-money laundering policy and the compliance risk management policy.

Conduct risk

Conduct Risk is a sub-category of Operational Risk and is more specifically defined as "the current and future risk of losses resulting from cases of inappropriate offer of financial services, including cases of inadequate conduct (wilful misconduct/negligence) on the part of the Bank".

The governance of Conduct Risk forms part of the more generic process of operational risk management. In particular, it should be noted that the operational losses and the risk assessment scenarios relating to Conduct Risk are associated with Event Type 1 - Internal Fraud and Event Type 4 - Customers, Products and Business Practices.

In order to contain and mitigate Conduct Risk, the Group has defined specific policies relating to the scope of Mifid financial services offered to customers relating to budget issues, in compliance with the provisions of external regulations; financial disclosures; incentive policies; pricing of financial instruments; order execution; record keeping and classification of the degree of risk, holding period, liquidity and complexity of the products. The operational processes relating to product approval issues were regulated and standardised; placement of banking, insurance and financial products; securities custody and administration; securities trading; GPM/GPF management and conflicts of interest.

Country risk and transfer risk

Circular 285 of 17 December 2013 defines country risk as the risk of losses caused by events occurring in a country other than Italy. The concept of country risk is broader than that of sovereign risk as it refers to all exposures regardless of the nature of the counterparties, be they individuals, companies, banks or public administrations.

Circular 285 of 17 December 2013 defines transfer risk as the risk that a bank exposed to a party that finances itself in a currency other than that in which it receives its main sources of income may make losses due to the debtor's difficulty in converting its currency into the one in which the exposure is denominated.

The Group's business with exposure to country and/or transfer risk is considered limited and mainly attributable to operations in support of companies involved in international trade and interbank relationships with foreign credit institutions. In both these cases, internal assessment procedures are envisaged for the foreign banking counterparties with which the transactions are carried out; specifically, a system of counterparty evaluation and reliability limits is used.

From a country risk perspective, in relation to commercial operations with ordinary customers, the prevailing situation is linked to "advance on contract/invoices/export letters of credit". In this case, the risk can be identified in the failure to collect the advance credit due to a block on currency transfers by the State in which the commercial counterparty (foreign importer) of the Bank's customer operates; this risk is monitored by the International Department.

As regards transfer risk, the risk identified on commercial operations essentially relates to import financing transactions. In this case, the loan granted in a currency other than the euro presents the risk deriving from the inability of the customer/importer to raise funds in the same currency to repay the loan contracted with the bank. Assessment of the risk in question is left to the proponents and the decision-makers responsible for granting the specific credit line, as part of the broader assessment of creditworthiness.

Basis risk

Circular 285 of 17 December 2013 defines this situation in the context of market risk as the risk of losses caused by misaligned changes in the values of debit and credit positions that are similar but not identical.

As part of market risk on the Fair Value Through Profit or Loss (FVTPL) portfolio, following the creation of a specific trading desk for the Parent Company's proprietary securities portfolio, there are positions in derivatives, mainly futures/options on equity indices and/or on debt securities, also of the opposite sign compared with the positions taken on the underlyings. However, given the Group's management and strategic approach mainly aimed at positions in debt securities (the contribution of equity securities and/or derivatives is completely marginal), such transactions are carried out for specific trading purposes. and are not configured as transactions that offset opposite-sign positions such as to generate basis risk.

Sustainability risk management

The Group is also aware of the importance of identifying, assessing, preventing and reducing potential risks, including those of a non-financial nature, or the socio-environmental risks generated and suffered, which are attributable to the following sizes:

- Environmental risk and risk linked to climate change: connected to direct impacts such as the use of energy resources (renewable and non-renewable sources), greenhouse gas emissions, the production of waste and its disposal, the consumption of raw materials instrumental to one's own activity (paper and toner) and the violation of environmental and sector legislation.
  At European level, the action plan to finance sustainable growth places particular emphasis on the systemic importance of the banking/financial sector in enabling the transition to a low carbon system and a climate resilient economy. The banking sector is in fact involved in potential indirect climate-related risks to the extent that the loans granted and the investments made are aimed at economic activities that contribute to climate change (for example in terms of greenhouse gas emissions).
  The banking sector itself can however play a proactive role in promoting the transition to a low carbon and climate resilient economy by raising awareness of its role in the transition by integrating an assessment of the potential impact on climate change related to the credit and investment policies implemented.

- Social risk: linked to the relationship aspects with customers and more generally with the community, with particular regard to the economic and social development of local communities, towards which the Group wants to be a reliable and authoritative interlocutor through an integral and rigorous conduct, attentive to the needs of its stakeholders, aimed at maintaining a profitability-solidity inspired by sustainability issues and therefore lasting over time, to create shared value with which to contribute to the well-being and progress of the community. Risk also linked to the granting of loans, investments and supply with counterparties characterised by non-resilient economic models with social vulnerability profiles, the possibility of offering inadequate financial products or services according to the evolution of the socio-economic or regulatory context, etc. Risk linked to the processing of customers' personal data;

- Risk related to personnel: related to the management of collaborators and assimilated subjects, including actions taken to protect health and safety in the workplace, ensuring gender equality, implementing specific talent attraction programmes, limiting situations of inadequate professional profiles, preventing loss of key figures, as well as measures aimed at implementing the conventions of international and supranational organisations on the matter, and the ways in which dialogue with the social partners is carried out, also related to the granting of loans, investments and supply with counterparties characterised by non-resilient economic models with vulnerability profiles in personnel management;

- Risk of non-respect of human rights: related precisely to the failure to respect human rights, including workers' rights, and/or related to attitudes and actions that are in any case discriminatory, also due to the granting of loans, investments and supply with counterparties characterized by non-economic models resilient with vulnerability profiles related to respect for human rights. In this context, the risk of violation of personal data is also considered, for which illegal use of the data provided by the various categories of subjects must be prevented by adopting suitable technical and organisational solutions for their protection;

- Risk in the fight against bribery and corruption: i.e. relating to the possible occurrence of events and/or circumstances of active and passive corruption, fraud, money laundering or terrorist financing (e.g. for updates to new legislation or for inadequate staff training) also in relation to the granting of loans, investments and supply relationships with counterparties characterised by non-resilient economic models with vulnerability profiles in the fight against bribery and corruption.

As part of a process of continuous improvement in the effective and evolutionary management of the stimuli deriving from the increasingly intense regulatory evolution of the sector, in 2018 the Banco Desio Group, together with some of the main Italian banking groups, launched a project called "Non-financial statement and risk management related to sustainability issues". This was a structured analysis of the approach adopted for the management of disclosure requirements relating to ESG risks, which involved consulting a panel made up of the main parties involved, i.e. the CSR and Risk Manager functions of the banks taking part in the project, as well as other important Italian banking groups and opinion leaders, taking current best practices into account.

Internal planning, also launched in 2018, is closely linked to these project initiatives, which led the Banco Desio Group to develop an initial organic mapping of the risks envisaged by Legislative Decree 254/2016 within the corporate risk management policies in accordance with the provisions of the prudential supervisory regulations, taking into account the specific sustainability policies adopted in the meantime by the Parent Company.

With respect to a preliminary identification of the Environmental Social and Governance (ESG) risks, related to the business risks defined in the Group's internal policies, as a result of a specific project carried out in 2021, the Banco Desio Group established an action plan, called "Masterplan E(SG)", which among the areas chosen for intervention also includes the development of the specific theme of governance and management of environmental climate risk. The transformation plan is described in chapter 4. "Sustainability for the Banco Desio Group" of the non-financial statement at 31 December 2021.

Table EU OVB: disclosure on governance systems

The **Board of Directors** of Banco Desio in office, currently made up of 11 directors, was appointed by the Shareholders' Meeting of 23 April 2020 (with the exception of a director, appointed by the Shareholders' Meeting of 4 October 2021 to replace a deceased director) and will expire with the Shareholders' Meeting for the approval of the financial statements as of 31 December 2022. An Independent Director was elected from a list presented by a minority shareholder. Based on the special legislation for banks with listed shares, the directors must satisfy specific requirements under pain of forfeiture of office.

a) Number of directorships assigned to members of the administrative body

The Board of Directors of Banco Desio has established certain general criteria relating to multiple directorships as part of its Internal Regulations.

Without prejudice to specific relevant regulations (with particular reference to legal requirements concerning the "ban on interlocking directorates" among competing banking, financial and insurance groups), these general criteria are not mandatory and any non-compliance does not in itself trigger forfeiture of office; in addition to performing a specific assessment, at least once a year, of this "ban on interlocking directorates" in accordance with the application criteria issued by the Supervisory Authority, the Board of Directors reserves the right to evaluate on a case by case basis any non-compliant situations in the field of multiple directorships, without prejudice to the principle, sanctioned by the Code, whereby the assessment of the appropriateness of accepting office, also on board committees, is at the discretion of the persons concerned, and should only be accepted "when they believe that they can devote sufficient time to diligent performance of their duties".

All this, without prejudice to the more stringent regulations introduced by the MEF Decree for the Officers appointed after its entry into force (in the case of Banco Desio, this regulation currently applies to the Director Gerolamo Gavazzi and will extend to all Officers on renewal of their offices).

Details of the number of directorships assigned to the members of the administrative body are provided below, as well as their effective skills, knowledge and experience:

Stefano LADO

Director since 1993

Chairman of the Board of Directors since 2017

Executive: no, **Independent:** no.

Age

61

Education

Degree in Law with specialisation in commercial banking.

Recent offices/activities

Chairman since 2017 and member of the Appointment Committee at Banco di Desio e della Brianza since 2020.

Director and member of the ABI Executive Committee since 2017.

Member of the ABI Small Banks Select Committee since 2020.

Managing Partner of Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.a. since 1991 (Chairman from 2014 to 2017).

Director at Cedacri (2010-2021).

Director and member of the Interbank Deposit Protection Fund Management Committee since 2010.
Director at the Festival dei Due Mondi Onlus Foundation since 2018.

Other professional experience

Since 1988, he has held numerous administrative and chairmanship positions in various companies of the Banco Desio Group and in various companies, including:

- Chairman of the Board of Directors of Banca Popolare di Spoleto S.p.A. (absorbed by the Parent Company Banco di Desio e della Brianza) (2014-2017);
- Chairman at Anima SGR S.p.A. (1999-2008);
- Chairman of Leonardo SGR S.p.A. (2001-2006);
- Chairman of the National Health Service's "Salute Chiara" Supplementary Health Fund (2010-2014);
- Director of C-Card S.p.A. (2012-2014).
- Chairman of C-Global (2015-2020).

Alessandro DECIO

Chief Executive Officer and General Manager since 2020
Executive: yes, **Independent:** no.

Age

56

Education

Degree in Political Economy (Monetary Theory).
Insead - MBA Programme.

Recent offices/activities

Chief Executive Officer, General Manager and member of the Executive Committee of Banco di Desio e della Brianza since 2020.
Director and Chairman of the Human Resources and Remuneration Committee, member of the CCRS of Telepass S.p.A. (Atlantia Group), an unlisted company controlled by Atlantia S.p.A. (listed).

Other professional experience

He has held numerous positions, including:

- Chief Executive Officer and General Manager of SACE (2016-2019);
- Director of Mediobanca, Borsa Italiana, Fineco;
- Chief Executive Officer of ING Italia (2016);
- Group Chief Risk Officer of the Unicredit Group (2012-2016);
- Numerous positions in foreign banks belonging to the Unicredit Group (2000-2016),
- Various positions at EBRD London and IMI International London/New York (1990-2000).

Graziella BOLOGNA

Director since 2014
Executive: yes, **Independent:** no.

Age

67

Education
Degree in Business Economics.

Recent offices/activities
Director and member of Executive Committee of Banco di Desio e della Brianza from 2014.

Other professional experience
She began her career in the financial sector at the San Paolo Institute in Turin in 1978 and subsequently held various roles in various securities firms.

Main offices held:
- Chief Executive Officer Gemofin S.p.A. (1984-1986);
- Chief Executive Officer at Ecogest S.p.A. (1986-1990);
- Manager/Head of the Finance Department at the Central Institute of Banks and Bankers (1990-1999);
- Head of the Finance Department at the Banco Desio Group (1999-2014);
- Director and Secretary General of Assiom (2000-2009);
- Director AcomeA SGR S.p.A. (2012- 2014);
- Director and member of the Executive Committee Banca Popolare di Spoleto S.p.A. (absorbed by the Parent Company Banco di Desio e della Brianza) (2014-2019).

Valentina CASELLA
Director since 2019
Executive: no, **Independent:** yes.

Age
42

Education
Degree in Law, University of Milan
Master of Laws (LL.M.), Columbia Law School
M.B.A., INSEAD

Recent offices/activities
Independent director and member of the Committee for Transactions with Related Parties and Associated Persons since 2019, Chairman of the Remuneration Committee at Banco di Desio e della Brianza since 2020.
Director Italmobiliare S.p.A. (since 2021).
Director Arnoldo Mondadori Editore S.p.A. (since 2021).
Lawyer (civil and corporate law)
Corporate consultancy, corporate governance, extraordinary transactions, litigation/arbitration.

Other professional experience
Corporate associate at Simpson Thatcher & Bartlett LLP law firm - New York (2007-2012).

Ulrico DRAGONI

Director since 2020
Executive: no, **Independent:** yes.

Age
74

Education
Degree in Business Economics
Diploma in Optics.

Recent offices / activities
Independent director, member of the Remuneration Committee and of the Committee for Transactions with Related Parties and Associated Persons at Banco di Desio e della Brianza since 2020.
Founding Member (2003) and Deputy Chairman (since 2013) of the Fondazione Cassa di Risparmio Terni e Narni.
Director of an optical company and Coordinator of the commercial structure in Umbria and Romagna.

Other professional experience
He has participated in support initiatives for the conservation of the local artistic heritage (Umbria) for the Fondazione Sight First (since 1989).
He was awarded the honours of Commendatore della Repubblica (2011) and Cavaliere Emerito (2007).

Cristina FINOCCHI MAHNE
Director since 2012
Executive: no, **Independent:** yes.

Age
56

Education
Degree in Economics - MBA

Recent offices/activities
Independent director, Chairman of the Risk Control and Sustainability Committee since 2020, previously a member of the Appointments Committee since 2017 (Chairman up to 30.01.2022), of Banco Desio.
Director and Chairman/Member of board committees of other listed companies (Elica, Trevi Finanziaria Industriale S.p.A.); Chairman/Member of Advisory Committees (Urbe Retail Fund-Generali Real Estate sgr), of Scientific Committees (Centesimus Annus Foundation and Kindacom), and of Global Committees (Global Visionary Awards Selection Committee - WCD Foundation), Director of supervised companies (Do Value S.p.A.), Adjunct Professor at the Faculty of Economics (Università Cattolica del Sacro Cuore of Milan, previously the University of Rome La Sapienza).

Other professional experience
She has been Director/Chairman of board committees at other listed companies (including INWIT, Italiaonline, GHC, BF Holding, Natuzzi).
She has been dealing with ESG Sustainability issues since 1999.
She is Co-Founder of the Italian chapter of WCD Foundation of which she was Co-Chairman (2012-2020)
She was a member of the Management Committee of the Fondazione Marisa Bellisario in Lombardy (2009-2014).
She was a member of the Commission appointed by the government at the Prime Minister's Office (2012-2013).
Since 1999 she has been a speaker at national and international conferences on economic-financial and corporate governance issues.

Agostino GAVAZZI
Director since 1983
Executive: yes, **Independent:** no.

Age
76

Education
Degree in Engineering.

Recent offices/activities
Director of Banco di Desio e della Brianza since 1983, Chairman of the Executive Committee since 2017.
Managing Partner of Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A. since 1988 and Chairman since 2017.

Other professional experience
He has held the following positions, among others:
- Chairman Banco di Desio e della Brianza (2002-2017).
- Chairman/Director of various Associations/Foundations.

Tito GAVAZZI
Director since 2014
Executive: no, **Independent:** no.

Age
45

Education
Three-year diploma in Marketing and Business Communication.

Recent offices/activities
Director of Banco di Desio e della Brianza since 2014 and member of the Risk Control and Sustainability Committee since 2021.

Director of Fides since 2011.
Managing Partner of Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A. since 2015.

Other professional experience
He has held the following positions:
- Member of the Executive Committee of Banco di Desio e della Brianza (from 2014 to 2021).
- Director of Banco Desio Lazio (2011-2014).
- Director of Banco Desio Veneto (2007-2011).
- Director of Gedy S.p.A. (2007-2014).
- Sole director in various other companies.

Gerolamo GAVAZZI
Director since 2021
Executive: yes, **Independent:** no.

Age
78

Education
Degree in Business Economics.

Recent offices/activities
Director of Banco di Desio e della Brianza and member of the Executive Committee since 2021.
Chartered Accountant since 1971.
Acting Statutory Auditor at Fluiten Italia S.p.A. since 1998, Chairman of the Board of Statutory Auditors at IMO S.p.A. since 1997.
Director of Nuovi Orizzonti Srl since 1988.

Other professional experience
He has held the following positions:
- Director and Chairman of the Executive Committee at Banca Popolare di Spoleto (from 2017 to 2019).
- Director/Chairman of the Board of Statutory Auditors/Acting Statutory Auditor in various other companies, including Milano Assicurazioni S.p.A. (Director from 1997 to 2002) and Salvatore Ferragamo S.p.A. (from 2011 to 2017).

Giulia PUSTERLA
Director since 2020. Acting Statutory Auditor from 2014 to 2017, Chairman of the Board of Statutory Auditors from 2017 to 2020.

Executive: no, **Independent:** yes.

Age
62

Education
Degree in Business Economics.

Recent offices/activities
Independent Director, Chairman of the Committee for Transactions with Related Parties and Associated Persons, member of the Risk Control and Sustainability Committee at Banco di Desio e della Brianza since 2020.
Chartered Accountant since 1985, specialising in corporate crises and restructuring and corporate and tax consultancy.
Statutory Auditor since 1995.
Member of the Boards of Directors and Boards of Statutory Auditors of various companies (including listed companies) among which:

- Chairman of the Board of Statutory Auditors of Tod's S.p.A. (since 2013).
- Director, Chairman of the Control and Risk Committee, member of the Remuneration Committee and of the Committee for Transactions with Related Parties and Associated Persons of Risanamento S.p.A. (since 2015);
- Councillor of the Province of Como (since 2014);
- Chairman of the Board of Statutory Auditors of Gepafin S.p.A. (since 2020);
- Acting Statutory Auditor of Palladio Holding S.p.A. (since 2017);
- Acting Statutory Auditor of MTS S.p.A. (since 2020).
- Acting Statutory Auditor of Geasar S.p.A. (since 2021);
- Chairman of the Board of Statutory Auditors of Be Cause Sicaf S.p.A. (since 2021).

Judicial Commissioner and Liquidator, Bankruptcy Trustee, Delegate for Executions for the Court of Como and Judge's Technical Consultant (Expert Witness).
She is often a speaker at conferences and study seminars, especially on the law governing business crises.

Other professional experience
She was Chairman of the Board of Statutory Auditors of Banco di Desio e della Brianza from 2017 to 2020 (Statutory Auditor since 2014).
She was a member of the Board of Statutory Auditors of Banca Popolare di Spoleto (absorbed by the Parent Company Banco di Desio e della Brianza in 2019) from 2014 to 2019.
She was a member of the National Council of Chartered Accountants and Accounting Experts (2008-2012) and Chairman of the Order of Chartered Accountants of Como (2003-2007).
She was a member of the OIV Management Board.
She was a member of the Council of "Insol Europe", a European association for the study of problems connected with corporate crises and recovery.

Laura TULLI
Director since 2020
Executive: no, **Independent:** yes.

Age
41

Education
Degree in Law.
Qualified to practice forensic law.

Recent offices/activities

Independent Director of Banco di Desio e della Brianza, Chairman of the Appointments Committee since 31.01.2022 (member up to 30.01.2022), member of the Remuneration Committee since 2020.
Partner/Chairman/Director of the family business in Umbria (industrial sector).
Director of the Spoleto Valnerina territorial section of Confindustria Umbria since 2009 (Chairman 2013-2018).

Other professional experience

She has held the following positions:

- Independent Director at Banca Popolare di Spoleto, absorbed by the Parent Company Banco di Desio e della Brianza (2017-2019).
- Member of the Advisory Board of the Umbria territory for the Banco di Desio e della Brianza (2019-2020).
- Executive Member of Confindustria Umbria from 2013 to 2018 (Council Member with powers for the 2016 Earthquake Emergency).

Emiliano BARCAROLI

Chairman of the Board of Statutory Auditors since 2020

Age

49

Education

Degree in Business Economics.

Recent offices/activities

Chairman of the Board of Statutory Auditors of Banco di Desio e della Brianza since 2020.
Chartered Accountant, Auditor/Statutory Auditor, Statutory Auditor, Director, Liquidator at various companies.
Speaker in API training courses (Associazione Piccola Industria of Terni).
Since 2010 he has been a member of the Fondazione Cassa di Risparmio di Terni and Narni .

Other professional experience

He has handled numerous extraordinary transactions (mergers, demergers, leveraged buy-outs, contributions, advisors in the presentation of arrangements with creditors).
From 2010 to 2014 he was Chairman of the Board of Directors of the Direttivo Unione Giovani Commercialisti of Terni.
From 2009 to 2012 he was a member of the Board of Directors of the Sindacato Commercialisti in Umbria.

Rodolfo ANGHILERI

Acting Statutory Auditor since 2002

Age

74

Education
Degree in Business Economics.

Current positions/activities
Chartered Accountant in Milan and Auditor.
Acting Statutory Auditor di Banco di Desio e della Brianza since 2002.
Acting Statutory Auditor of Fides since 2007.
Chairman of the Board of Statutory Auditors of Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.a. since 2004.

Other professional experience
Statutory Auditor, Chairman of the Board of Statutory Auditors, Statutory Auditor, Auditor, member of the Management Committee and treasurer of various companies and associations.

Stefania CHIARUTTINI
Acting Statutory Auditor since 2020

Age
59

Education
Degree in Business Economics.

Recent offices/activities
Chartered Accountant in Milan.
Acting Statutory Auditor of Banco of Desio e della Brianza since 2020.
Bankruptcy Trustee, Judicial Commissioner, Liquidator, Judicial Administrator - Appointments by various Courts.
Chairman of the Board of Statutory Auditors: United Ventures SGR, United Ventures One S.p.A., Sicaf Euveca.
Independent Director: Fiera Milano S.p.A..
Director of Illimity SGR.
Chairman of the Supervisory Body: Fondazione Accademia d'Arti e Mestieri dello Spettacolo - Teatro Alla Scala, F2I SGR, RGI, KOS, ATM, AM InvestCo Italy, Arcelor Mittal Italia.

Other professional experience
She has held the following positions:

- Statutory Auditor, Director (including extraordinary) and Liquidator of various industrial and financial companies (some listed on the Milan Stock Exchange).
- Positions relating to crisis management of banks and SIMs on appointment by the Treasury Ministry.
- Assignments and consultancy in the civil, criminal, accounting, corporate crisis management fields.
- Member of the "Commission to elaborate proposals for reform, recognition and reorganisation of the discipline of insolvency procedures" (Ministerial Decree 28.01.2015) Pres. Rordorf - Ministry of Justice.

b) Information regarding the engagement policy for the selection of members of the management body and their effective knowledge, skills and experience

On 15 December 2020, Decree no. 169 of 23 November 2020 containing the Implementing Regulation of art. 26 of the Consolidated Law on Banking issued by the MEF which was called upon to identify the following in accordance with CRD4, after consulting the Bank of Italy:[2] a) the same integrity requirements for all officer bearers; b) the requirements of professionalism and independence, graduated according to the principles of proportionality; c) the criteria of competence, consistent with the office to be filled and with the characteristics of the bank, and the adequate composition of the body; d) the criteria of fairness, with regard, inter alia, to the officer bearer's business relations, their conduct with the supervisory authorities and reaction to sanctions or corrective measures imposed by them, to restrictive measures inherent to their professional activities, as well as any other element likely to affect the correctness of the officer bearer; e) limits on the accumulation of offices for bank officer bearers, graduated according to the principles of proportionality and taking into account the size of the intermediary; f) the causes that may lead to a temporary suspension from office and its duration. The related provisions apply to appointments subsequent to the date of its entry into force, i.e. 30 December 2020.

Following the introduction by Ministerial Decree no. 169/2020 of the so-called "Fit & Proper Assessment", Banco Desio has taken steps to adopt, with the board resolution of 3 August 2021, the "Fit & Proper" Policy, which defines the substantive and procedural obligations regarding the suitability of the overall Administrative Body (Board of Directors) and Supervisory Body (Board of Statutory Auditors), and of the individual Officers, the commitment in terms of sufficient time for the position filled, the principles of honesty, integrity and independence of judgement, as well as the requirements of knowledge, skills and experience. The Policy also concerns the Managers of the main corporate functions as far as it is applicable to them[3]. The Policy was implemented by the subsidiary Fides as part of the management and coordination activity, which adopted a similar document to the extent that the Policy was applicable to it.

Verification of the requirements for holding office pursuant to the MEF Decree is up to the Board of Directors, within 30 days of appointment, with the procedure established by the Bank of Italy's Supervisory Provisions; in summary, meeting the requirements is checked in a specific way and approved by the Board of Directors, for each individual member, with the abstention of the person concerned, on the basis of suitable documentation produced by the Officers themselves (e.g. certificates, attestations, curricula vitae, declarations in lieu of a formal deed or certification, statements by companies/institutions of origin, etc.) and a special questionnaire (so-called "tool") made available by the Bank of Italy and usable on a voluntary basis[4].

Information about Directors' personal and professional characteristics, as well as information about compliance with the requirements set out in this paragraph, is published at the time of submission of the lists for the reappointment of directors and officers, in compliance with Consob regulations.

[2] The Supervisory Provisions on the subject were issued by the Bank of Italy with a provision dated 4 May 2021.

[3] The Managers of the main corporate functions of the Bank are identified, pursuant to the MEF Decree, in the following persons:
- Head of the anti-money laundering function (Anti-Money Laundering Office),
- Head of the regulatory compliance function (Compliance Office),
- Head of the risk control function (Risk Management Department),
- Head of the internal audit function (Internal Audit Department),

and the Financial Reporting Manager according to art. 154-bis of the TUF.

[4] Banco Desio used this “tool” to check the requirements of the Executive Director Gerolamo Gavazzi, appointed by the Shareholders' Meeting of 4 October 2021 to replace the deceased Director Egidio Gavazzi. For further information on this replacement, see the following paragraphs.

Of the 11 Directors of Banco Desio currently in office, 5 qualify as independent according to the specific provisions of arts. 147-ter and 148 of the TUF, as well as the criteria of the Corporate Governance Code[5]. The independence assessment is the subject of a resolution by the Board of Directors which involves specifically examining the individual positions of the directors on the basis of suitable documentation available to the company or information provided by the person concerned, who abstains from voting; in any case, substance is to be preferred over form. The assessments are expected after their appointment, as well as in relation to the establishment of committees where a certain number of Independent Directors is required, on the occasion of the approval of the Self-Assessment Report of the Board of Directors and of this Report (as well as each time the Board deems it appropriate in the event of situations that could change the status of one or more Directors from independent to not independent).

At the time the Fit & Proper Policy was adopted, steps were also taken to define ex ante the quantitative and/or qualitative criteria to be used to assess the significance of the relationships under review for the purpose of verifying independence. It should be noted that a director is not considered independent:

i) if, directly or indirectly (for example through subsidiaries if they are an executive director, or a partner of a professional firm or consulting firm), they have, or have had in the last three years, a significant commercial, financial or professional relationship:

- with the bank or its subsidiaries, or with the related executive directors or top management;
- with a person who, individually or together with others through a shareholders' agreement, controls the company; or, if the parent is a company or institution, with the related executive directors or top management;

ii) if they receive, or have received in the previous three years, from the bank, one of its subsidiaries or the parent company, significant additional remuneration with respect to the fixed remuneration for the office and that provided for participation in the Committees recommended by the Code or required by current legislation.

In the case of a Director who is also a partner of a professional firm or consulting firm, the Administrative Body evaluates the significance of the professional relationships that may have an effect on their position and role within the firm or consultancy company or which in any case pertain to important transactions of the company and of the group to which it belongs, regardless of the quantitative parameters.

These criteria extend to the Control Body to the extent applicable to it pursuant to the TUF and the MEF Decree.

The Independent Directors participate in the work of the Board as well as in the activities of the advisory/proposing Committees to which they belong (i.e. the Control, Risk and Sustainability Committee and the Remuneration Committee, of which they represent a majority, as well as the Appointments Committee and the Committee for Transactions with Related Parties and Connected Persons, which are made up entirely of three Independent Directors)[6].

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[5] In compliance with Circular no. 285, the Articles of Association provide that at least 1/4 of the members of the Board of Directors must satisfy the independence requirements laid down by regulatory and/or supervisory provisions, currently in force and applicable at the time, as well as those adopted by the company in compliance with the recommendations of the Code of Corporate Governance. The current number is 5, so higher than the minimum of 3. Any independent director who, after their appointment, no longer satisfies the independence requirements, must immediately notify the Board of Directors. Failure to comply with the requirements entails forfeiture of the office of independent director. If, following forfeiture, the residual number of independent directors in the body is sufficient to ensure compliance with the minimum number of independent directors, the director in default of the requirements retains the office of non-independent director.

[6] In compliance with the Supervisory Provisions, the Independent Directors supervise management of the company with autonomy of judgement, helping to ensure that it is carried out in the interests of the company and its shareholders and in a manner consistent with the objectives of sound and prudent management, acting as a counterbalance to the executive members and management of the bank and favouring internal dialogue within the body to which they belong. The following is an excerpt of a comment contained in the previous Code of Conduct: "The non-executive directors enrich the board discussion with skills formed outside the company, of a general

The Board of Directors has approved an Internal Regulation for Self-Assessment of Corporate Bodies to govern the related process in compliance with Circular no. 285 that set out, in particular, the methodologies to be used (primarily based on the compilation of a questionnaire by each Director, as well as the conduct of an interview to supplement the compilation of the questionnaire) and the profiles subject to analysis - at aggregate level - regarding the composition (professionalism, independence, etc.) and functioning (operating practices, information flows, etc.) of the Board and of its Committees. This Regulation was revised on 8 February 2018 and most recently on 3 August 2021, providing, among other things, for prior involvement of the Appointments Committee in the selection of the consultancy responsible for supporting the self-assessment process.

As regards the initiatives designed to update knowledge of the sector in which Banco Desio operates, of business dynamics and their evolution, of principles of proper risk management and the relevant regulatory and self-regulatory framework, effective 2012, a series of training sessions and of outreach meetings has been held, appropriately diversified by topic and speakers (including particularly qualified managers, advisors, legal experts, economists and journalists).

From time to time it was decided to focus these sessions:
- on issues relating to the concrete application to the banking reality of Legislative Decree 231/2001 on the administrative liability of companies and institutions, also with reference, most recently, to tax crimes included in the perimeter of the said Legislative Decree and crimes related to subsidised loans under the provisions issued in 2020 and 2021 in the context of the "Covid-19" emergency, also from the point of view of the effects in the anti-money laundering area, an area that was the subject of a dedicated session;
- on the structure and functioning of the system of corporate governance of banks, also with reference to the Code of Conduct;
- on the rules regarding related parties and associated persons, on the rules concerning market abuse and on the antitrust legislation;
- on aspects relating to the process of promulgating EU legislation of particular interest to the banking sector;
- on the salient aspects of the Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP"), the Supervisory Review and Evaluation Process ("SREP") and the Advanced Internal Rating-Based (AIRB) approach to credit risk. in 2019 and 2020 this last topic was the subject of more specific investigations in relation to the use by Banco Desio of the new AIRB risk parameters in the granting, renewal and monitoring of credit and in the management reporting processes applied to Corporate customers, as well as the development of projects as a whole; to this end, in 2020 a session was also held on the subject of ICAAP/ILAAP dedicated to the Board of Statutory Auditors of Banco Desio;
- on the analysis of IT risk and cyber risk and the measurement of reputational risk; in 2019 these analyses were enriched with a focus on the role of the Board of Directors and on Banco Desio's use of a new IT risk assessment methodology; in 2020 an in-depth meeting was also held on remote access to information systems; the training session held in November 2021 also focused on business continuity and disaster recovery;

strategic nature or of a particular technical nature. These skills make it possible to analyse the various topics under discussion from different perspectives, helping to fuel the debate which is a distinctive prerequisite of a collegial, thoughtful and conscious decision. The contribution made by non-executive directors is particularly useful on issues in which the interests of the executive directors and those of the shareholders may not coincide, such as the remuneration of the executive directors and the internal control and risk management system".

- on the new legislation on anti-money laundering in relation to the supervisory and criminal aspects, as well as on the GDPR;
- on various macroeconomic and regulatory issues, including international ones, impacting the banking system and financial markets (e.g. "Basel 3"); in 2019 the matter was subject to a transversal update on the main dossiers opened at the European Institutions and on the activity carried out there by the Italian Banking Association, as well as on the potential strategic, managerial and operational impacts for Banco Desio; in 2021 an update meeting was held, again on the European dossiers;
- on IFRS 9 and its related impacts, in particular on internal credit management models; to this end, a session dedicated to Banco Desio's Board of Statutory Auditors was also held in 2020;
- on the Recovery Plan and the Resolution Plan, including the minimum requirement for own funds and eligible liabilities ("MREL"), introduced by the prudential supervisory regulations, as well as on its application to Banco Desio;
- on sustainability issues also in relation to the rules on non-financial reporting, most recently addressed at the training session in November 2021;
- on Product Governance in investment services; in 2019 the matter was extended with a focus on banking services following the entry into force of Product Oversight Governance ("POG");
- on Non-Performing Exposures ("NPE");
- on Agricultural Credit;
- on the General Data Protection Regulation ("GDPR").
- on the implications of digital innovation on the banking system with particular reference to business credit;
- on the development of financial innovation ("fintech", "blockchain", etc.) and governance innovation with particular attention to risks and controls; to this end, a session dedicated to the Boards of Statutory Auditors of the Banco Desio Group was also held in 2019;
- on the disintermediation of payment services through digital payments (e.g. mobile payment services, P2P payments, etc.);
- on data transformation in the financial sector;
- on the evolution of banking communication (styles, channels, etc.);
- on Governance Outsourcing and Third Parties as regards application of the new EBA Guidelines on the subject;
- on the new Crisis and Insolvency Code with an overview and a focus on the protection of bank credit;
- on the use of data analytics in banks to better manage customers and on the Bank's IT archives in support of the business model (meeting held in June 2021);
- on the evolutionary issues of HR management (motivation, training, attraction, retention, etc. - meeting held in July 2021).

In 2021, training sessions were held for all Group officers. These sessions were attended by all managers and key employees, ending in a lively debate and supported by detailed material that is still available to participants in a special electronic library.

In this context, starting from 2014, specific sessions were also attended at the offices of ABI and at SDA Bocconi for newly appointed officers on governance and business issues. The Directors and Statutory Auditors appointed in 2020 benefited from some dedicated sessions of an introductory nature, given by various company functions (in particular, the Administration and General Affairs Department and the Risk Management Department).

In 2020, a dedicated in-depth meeting was also held, with the participation of the members of the Bodies of the various Group companies and some corporate functions, in a strategic planning and business model logic as to the positioning of the Group in the market in light of the macroeconomic and regulatory scenarios. This meeting was led by an external expert in banking and by an external expert in macroeconomics applied to the banking sector. The initiative, which followed those held in the last five years, forms part of the "good practice" that the members of the bodies meet once or twice a year outside of board meetings to look into and discuss issues of a strategic nature as required by Circular no. 285 and, in this case, also in the detailed process that led to the approval of the Group's 2021-2023 Business Plan.

c) Information on the diversity policy regarding members of the management body

Without prejudice to the provisions of the CFA that require a member of the Board of Directors and the Chairman of the Board of Statutory Auditors to be elected from a "minority list", regulations concerning so-called "gender quotas" (Law 120/2011[7] and Law 160/2019) also have to be taken into account. These rules provided that the "gender quotas" were at least 1/5 for the first mandate (2014-2016) and at least 1/3 for the subsequent two mandates. The Extraordinary Shareholders' Meeting of 23 April 2020 approved the amendment to the Articles of Association following the entry into force (1 January 2020) of Law no. 160 of 27 December 2019 (Budget Law 2020) which extended the period of application by six mandates and raised the gender quotas relating to the Board of Directors and the Board of Statutory Auditors to at least 2/5 (however, this quota was maintained at a minimum of 1/3 in the case of bodies composed of 3 members as in the case of the Board of Statutory Auditors) starting from the renewal of the offices that took place with the aforementioned Shareholders' Meeting.[8]
The practices adopted by the Banco Desio Group are consistent with the said provisions of law on gender quotas, with the Supervisory Provisions on the composition of the Corporate Bodies, which provide for "an adequate degree of diversification in terms, among other things, of skills, experience, age, gender and international projection". This aspect, relating specifically to the areas of competence of the Appointments Committee, is, among other things, the subject of analysis within the self-assessment process referred to in paragraph 3.6 above, taking into account the operational and dimensional complexity of the company. The practices were formalized in a specific policy which, also in line with the indications of the Italian Committee for Corporate Governance, was adopted with a board resolution of 28 February 2019, taking into account the EBA/ESMA Guidelines in force since 30 June 2018, and updated in 2021[9]. The matter is dealt with in connection with the broader project activities launched in the "Corporate Social Responsibility" ("CSR") area in relation to the above NFS. In this context, a "People, Diversity and Inclusion" Policy was also adopted on 16

[7] The "Golfo-Mosca" law on gender quotas
[8] It should be noted that the gender quota regime adopted by Banco Desio as a listed company incorporates that introduced for all banks by the 35th update of Circular no. 285.
[9] The Policy, which was last updated and approved by the Board on 3 August 2021, defines the situation in which the characteristics of candidates for the Administrative Body and the Control Body, such as age, gender, geographical origin, training and experience differ in such a way as to allow a variety of views within the Board of Directors and the Board of Statutory Auditors.
The Policy applies to all corporate bodies of the Banco Desio Group (Board of Directors and Board of Statutory Auditors) according to the principle of proportionality indicated by the EBA Guidelines on the matter. Application by the Group's financial intermediaries registered in accordance with art. 106 of the Consolidated Law on Banking is voluntary.
For unlisted companies belonging to the Group (excluding vehicle companies and product companies as defined by the Supervisory Provisions), i.e. currently Fides, it has now been established that at least one member of the Board of Directors has to belong to the less represented gender. Likewise, it is established that at least one effective member of the Board of Statutory Auditors belongs to the less represented gender. In the event of termination of an acting member of this gender and in the absence of an alternate member of the same gender who can take over, the presence of the less represented gender has to be restored at the first Shareholders' Meeting pursuant to the law.

January 2020, which applies to all the companies of the Banco Desio Group and is addressed to all its employees with the aim of:

- create a work environment free from any form of discrimination, whether direct or indirect, associative or individual, as well as any form of violence or harassment;
- guarantee and promote an inclusive culture, based on mutual respect that allows the opportunity to develop the talent of each individual, allowing the expression of everyone's potential, free from stereotypes and prejudices, to fully appreciate the diversity and uniqueness of each person;
- pursue a personnel selection policy aimed at recognizing merits, in compliance with equal opportunities;
- ensure access to a professional and career development path based on respect for equal opportunities and non-discrimination;
- ensure that all employees adopt conduct that reflects inclusion and upholds the Group's values.

During 2019 Banco Desio adhered to the ABI Charter on equal opportunities called "Women in the Bank".

d) Indicate whether or not the institution has established a separate risk committee and the frequency of its meetings

The Board of Directors has set up a **Control, Risk and Sustainability Committee** which is currently composed of 3 non-executive directors, 2 of whom are independent, including the Chairman of the Committee. Those who take part in Committee meetings are the Chairman of the Board of Statutory Auditors or an Acting Statutory Auditor designated by the Chairman and the other Acting Statutory Auditors may also participate (as is usual); the Chief Executive Officer and General Manager[10] also liaises between the Board of Directors and the other members of the internal control and risk management system[11] and any Deputy General Manager, the persons in charge of the Internal Audit, Risk Management, Compliance and Anti-Money Laundering functions, as well as other employees/collaborators/consultants may be invited to participate, depending on the specific matters to be discussed. The Control, Risk and Sustainability Committee, which takes the form of a board sub-committee, has a consultative/propositive role and provides support to the Board of Directors regarding supervision of the proper functioning of the internal control and risk management system, as well as the assessment of the correct use of accounting standards. The Committee reports every six months to the Board of Directors on the activities carried out and on the adequacy of the internal control and risk management system.

The Committee is also tasked, at Group level, with the supervision of sustainability issues as part of its advisory-propositional role for the purpose of approval by the Board of Directors of related strategies and policies.

10 See Note 3.
11 As part of the review of the Management Committees, one that was established was the Risk Management Committee, which analyses, expresses opinions, validates and/or approves all the documentation on the subject of risks produced by the organisational structure according to the specific Regulations approved by Board of Directors on 29 October 2020 subject to the favourable opinion of the Control, Risk and Sustainability Committee. The new Committee absorbs the Risk Meeting of the internal control functions.

In assisting the Board of Directors, the Committee also supports the assessments and decisions of the Board relating to the management of risks deriving from prejudicial facts of which the Board is aware, with an adequate preliminary activity.[12]

The decisions made in relation to matters falling within the competence of the Board of Directors are communicated, verbally or in writing, at the next meeting, by the Chairman of the Committee, who usually provides a summary of the Committee's assessments based on what is illustrated by the persons in charge of the aforementioned functions (however, they are invited to attend the discussion of the respective topics at meetings of the Board of Directors to illustrate their reports and provide any details).

Also in relation to the introduction of the Non-Financial Statement, the Control, Risk and Sustainability Committee has been assigned a supervisory role for the issues falling within the planning framework of the so-called "Sustainability Report", as part of its advisory-propositional role for the approval by the Board of Directors of the strategies and policies in question, as well as the examination of the related reporting.

During 2021, the Committee, in its capacity as an advisory/propositional body for issues relating to the internal control and risk management system, as well as a body with supervisory duties on sustainability issues, met on 15 occasions, at which in addition to its members, the Chairman of the Board of Statutory Auditors and the Head of the Internal Audit Department were usually present, as were those in charge of the risk management, compliance and anti-money laundering functions; according to the topics discussed, the other Statutory Auditors, the Chief Executive Officer and General Manager, the Financial Reporting Officer, as well as other Officers and/or employees and external consultants also took part in individual meetings.

In addition to the usual topics, such as the evaluation of the periodic reports produced by the control functions, the examination of the draft financial statements and the interim financial reports/disclosures, the examination of the reports on complaints and appeals to the Financial Banking Arbitrator and on lawsuits against the Bank, as well as the adjustments made to the Process Policies/Regulations relevant for the purposes of the internal control and risk management system - the main issues addressed by the Committee concerned, among other things:

- Risk mitigation actions on the loan portfolio
- Collective coverage of risks on performing loans
- NPL Operational Plan
- Assignment proposal of non-performing loans
- Recovery plan
- AIRB project
- Business Continuity
- IT risks
- Data treatment (“data breach”)
- DPO report
- FGIP report
- Pillar III Disclosure
- Information on the interim Non-Financial Statement (NFS)

12 According to a principle still deemed valid, the Corporate Governance Code also specifies that "a particularly important role within the internal control and risk management system is normally covered by the legal and compliance functions, with particular reference to the supervision of legal and non-compliance risk, including the risk of the commission of criminal offences to the detriment or in the interest of the company". With regard to legal risk, this role is played by the Legal Affairs Area.

- Sustainability issues

As part of its consultative and propositional role on sustainability issues, the Committee has, among other things, critically analysed the updates of the "materiality matrix" for the 2021 Non-Financial Statement (NFS), with the related impacts on corporate strategies in various sectors, as well as on corporate policies and regulations.

The Committee has discussed the periodic SAL on the subject of "Corporate Social Responsibility" on a quarterly basis as required by the specific information flow.

The considerations, assessments and opinions of the Committee on the issues dealt with (which show an overall positive opinion on the internal control and risk management system, although obviously subject to improvement) were brought to the attention of the Board of Directors on a timely basis. This was supported by a specific summary prepared by the Chairman of the Committee, at the time the disclosures were examined or when the resolutions on each of the above topics were passed.

The Committee also linked its activities to those of the Statutory Auditors - in accordance with the Regulation for the Coordination of Controls and Information Flows of the Group - also by virtue of the constant and active participation at meetings of the Board of Statutory Auditors. They were also linked to those of the Independent Auditors thanks to the Committee's participation in joint meetings between the Board of Statutory Auditors and the Independent Auditors at Group level, which are also for the purpose of assessing correct use of the accounting standards and of the criteria applicable to the sustainability report.

e) Description of the flow of risk information addressed to the management body

Please refer to the contents of the EU OVA table: the institution's risk management method.

3. Information on the scope of application (art. 3 of Reg. 2021/637)

The information provided in this Public Disclosure document relates to the Banco Desio Banking Group. The Parent Company, Banco di Desio e della Brianza S.p.A., is the entity to which these public disclosure requirements apply.

The table below lists the companies in the Group and their treatment for the purposes of the consolidated financial statements and consolidated supervision.

EU LI3 model: description of the differences between the scopes of consolidation (company by company)

Name	Head office	Type of relationship	% held at 31.12.2019	% held at 31.12.2018	Treatment for accounting purposes	Treatment for regulatory purposes	Description of the entity
Companies fully consolidated							
Banco di Desio e della Brianza S.p.A.	Desio				Full consolidatio	Full consolidatio	Bank
Fides S.p.A.	Rome	1	100.0000	100.000	Full consolidatio	Full consolidatio	Financial
Desio OBG S.r.l. (**)	Conegliano	1	60.000	60.000	Full consolidatio	Full consolidatio	SPV

Key:
Type of relationship:
1 = majority of votes at the ordinary shareholders' meeting

Note (**) - Covered bond transaction

For the purpose of determining the scope of consolidation, account has been taken of the requirements for effective control under IFRS 10.

For the calculation of consolidated own funds, reference has been made to figures relating to banking and financial companies that form part of the banking group. These figures also include balances (on- and off-balance sheet) due from and to other companies included in the scope of consolidation, as well as transactions with them, all of which have been eliminated on consolidation. There are no substantial or legal impediments to the prompt transfer of capital resources or funds within the Group.

Based on what is represented in "Table EU LI3 description of the differences between the scopes of consolidation (company by company)", the information required by EU Regulation 2021/637 "Table EU LIA: description of the differences between the amounts of the exposures in the financial statements and those of exposures determined for regulatory purposes" and "Table EU LIB: other qualitative information on the scope of application" are not considered applicable.

Under the prudential provisions of articles 11, paragraphs 2 and 3 and 13, paragraph 2 of the CRR, banks controlled by a "financial holding company" have to comply with the requirements established by this regulation on the basis of the consolidated situation of the financial holding company. This means having to calculate capital ratios at the level of Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A., the parent company of Banco di Desio e della Brianza S.p.A. with 50.08%.

EU LI1 model: differences between the scope of accounting consolidation and that of prudential consolidation and association of the categories of financial statements with regulatory risk categories

		a	b	c	d	e	f	g
		Carrying values reported in the published financial statements	Carrying values in the context of prudential consolidation	Carrying values of the elements				
				subject to the credit risk framework	subject to the framework relating to CCR	subject to the securitisation framework	subject to the market risk framework	not subject to own funds requirements or subject to deduction from own funds
	Breakdown by asset class based on the balance sheet in the published financial statements							
01	10. Cash and cash equivalents	84,412	84,412	84,412	-	-	-	-
02	20. Financial assets measured at fair value through profit and los	85,544	85,544	63,587	10,040	883	11,034	-
06	30. Financial assets measured at fair value through other compre	593,360	593,360	593,360	-	-	-	-
07	40. Financial assets measured at amortised cost	16,325,179	16,325,179	16,018,551	-	306,628	-	-
13	50. Hedging derivatives	-	-	-	-	-	-	-
14	60. Adjustment to financial assets with generic hedge (+/-)	502	502	502	-	-	-	-
15	70. Equity investments	-	-	-	-	-	-	-
16	80. Technical reserves carried by reinsurers	-	-	-	-	-	-	-
17	90. Tangible assets	218,420	218,420	218,420	-	-	-	-
18	100. Intangible assets	19,119	19,119	2,518	-	-	-	16,601
19	- Goodwill	15,322	15,322	11	-	-	-	15,311
20	- Other intangible assets	3,797	3,797	-	-	-	-	1,290
21	110. Tax assets	170,081	170,081	170,081	-	-	-	-
24	120. Non-current assets and disposal groups held for sale	13,080	13,080	13,080	-	-	-	-
25	130. Other assets	290,084	290,084	290,084	-	-	-	-
26	**Total assets**	**17,799,781**	**17,799,781**	**17,454,595**	**10,040**	**307,511**	**11,034**	**16,601**

	Breakdown by class of liabilities based on the balance sheet in the published financial statements							
01	10. Financial liabilities measured at amortised cost	16,309,936	16,309,936	-	207,546	-	-	-
05	20. Financial liabilities held for trading	5,901	5,901	-	5,676	-	-	-
07	40. Hedging derivatives	365	365	-	233	-	-	-
09	60. Tax liabilities	4,117	4,117	-	-	-	-	-
13	80. Other liabilities	321,045	321,045	-	-	-	-	-
14	90. Termination indemnities	21,960	21,960	-	-	-	-	-
15	100. Provisions for risks and charges	46,776	46,776	-	-	-	-	-
20	120. Valuation reserves	7,893	7,893	-	-	-	-	-
22	130. Redeemable shares	-	-	-	-	-	-	-
23	140. Equity instruments	-	-	-	-	-	-	-
24	145. Interim dividends	-	-	-	-	-	-	-
25	150. Reserves	446,513	446,513	-	-	-	-	-
28	160. Share premium reserve	10,809	10,809	-	-	-	-	-
29	170. Share capital	54,026	54,026	-	-	-	-	-
30	180. Treasury shares (-)	-	-	-	-	-	-	-
31	190. Minority interests (+/-)	543,518	543,518	-	-	-	-	-
33	200. Net profit (loss) for the period	26,922	26,922	-	-	-	-	-
34	**Total liabilities**	**17,799,781**	**17,799,781**	**-**	**213,455**	**-**	**-**	**-**

Banco Desio

EU LI2 model: main sources of differences between the amounts of exposures determined for regulatory purposes and the carrying values in the financial statements

		a	b	c	d	e
		Total	Exposures subject to			
			credit risk framework	securitisation framework	CCR framework	market risk framework
1	**Carrying value of assets in the context of prudential consolidation (as in the LI1 model)**	**17,783,180**	**17,454,595**	**307,511**	**10,040**	**11,034**
2	**Carrying value of liabilities in the context of prudential consolidation (as in the LI1 model)**	**213,455**			**213,455**	
3	**Total net amount in the context of prudential consolidation**	**17,996,635**	**17,454,595**	**307,511**	**223,495**	**11,034**
4	**Off-balance sheet amounts**	**3,393,493**	**3,393,493**			
5	*Valuation differences*	102,615	102,615			
6	*Differences due to netting rules other than those already included in row 2*					
7	*Differences due to the treatment of adjustments*					
8	*Differences due to the use of credit risk mitigation (CRM) techniques*	-	177,543	(177,543)		
9	*Differences due to credit conversion factors*	(3,140,519)	(3,140,519)			
10	*Differences due to securitisation with risk transfer*					
11	*Other differences*	(19,222)	(19,222)			
12	**Exposure amounts considered for regulatory purposes**	**18,333,002**	**17,968,505**	**129,968**	**223,495**	**11,034**

4. Disclosure on Own Funds (art. 4 of Reg. 2021/637)

Based on current legislation, the components of Own Funds are described below:

1. Common Equity Tier 1 (CET 1) capital

The components of Common Equity Tier 1 are the following: a) equity instruments, as long as they comply with the conditions set out in art. 28 or, where applicable, in article 29 of EU Regulation no. 575/2013 (see the paragraph called "Introduction"); b) share premium reserves relating to the instruments indicated in the foregoing point; c) profit not distributed; d) accumulated other comprehensive income; e) other reserves; f) provisions for general banking risks. Components c) to f) are only recognised as CET 1 capital if they can be used without restriction and without delay by an institution to cover risks or losses as and when the risks or losses arise.

2. Additional Tier 1 - AT1

The components of Additional Tier 1 are the following: a) equity instruments, where they comply with the conditions set out in art. 52, paragraph 1 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point. The instruments included under a) do not qualify as components of common equity tier 1 or tier 2.

3. Tier 2 - T2 capital

The components of Tier 2 are the following: a) equity instruments and subordinated debt, where they comply with the conditions set out in article 63 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point; c) for institutions that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 2 of EU Regulation no. 575/2013, general loan provisions, gross of the related tax effect, up to 1.25% of the risk-weighted exposure amounts computed in compliance with part three, title II, chapter 2 of the Regulation; d) for institutions that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of EU Regulation no. 575/2013, the positive amounts, gross of the related tax effect, resulting from the computation in accordance with articles 158 and 159 up to 0.6 % of the risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of the Regulation.

On 23 January and 25 January 2018, the Boards of Directors of the former mergee Banca Popolare di Spoleto and of Banco di Desio e della Brianza, taking account of a best estimate of the higher adjustments for expected losses on performing and non-performing loans on first-time adoption of IFRS 9, resolved to join the transitional regime introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of the new standard on own funds and capital ratios, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time adoption of the standard and to the increase in expected losses on performing loans compared with the date of first-time adoption of the standard.

The calculation of capital ratios at the reporting date also benefited from the measures to ease the capital requirements introduced by EU Regulation 873/2020, in particular:

- an amendment to the transitional provisions of IFRS 9, which allows banks to sterilise in a declining manner the capital impacts associated with the increase in loan loss adjustments recorded in the period 2020-2024 of stage 1 and 2 portfolios compared with 1 January 2020,

- bringing forward the date of application of a) SMEs Supporting Factor, b) a more correct calibration of salary/pension-backed loans, with a weighting of 35%,
- replacement of the previous prudential regime of total advance deduction of investments in software, in favour of a simple approach based on prudent amortisation of software over a maximum of three years.

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).

Group's Own Funds, computed in accordance with the foregoing regulatory requirements, include Common Equity Tier 1 capital that accounts for 86.38% of the Group's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 5.92% and 7.70%, respectively, of Own Funds.

The Board of Directors of the Parent Company periodically reviews and approves the aggregates that make up Own Funds in order to check their consistency with the risk profile and their adequacy for the Bank's development plans.

EU CCA model: main characteristics of instruments of regulatory own funds and instruments and eligible liabilities

Set out below are the features of additional tier 1 instruments and tier 2 instruments included in the Banking Group's own funds and that have been recalculated for the holding company, Brianza Unione, based on the risks attributable to individual subsidiaries (for the purpose of additional tier 1 and tier 2 capital).

	Capital instruments main features template	1
1	Issuer	Banco di Desio e della Brianza
2	Unique identifier (1)	IT0005107880
3	Governing law(s) of instrument	Italian
	Regulatory treatment	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo and consolidated
7	Instrument type (2)	Bond Loan - art. 62 CRR
8	Amount recognised in regulatory capital (in thousands of euro) (3)	4,130
9	Nominal amount of instrument (in thousands of euro)	80,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liabilities at fair value
11	Original date of issuance	28:05:2015
12	Perpetual or dated	DATED
13	Original maturity date	28:05:2022
14	Early redemption at discretion of issuer subject to prior approval by Supervisory Authority	NO
15	Optional early redemption date, early redemption date and redemption amount	N/A
16	Subsequent early redemption dates, when relevant	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	FLOATING
18	Coupon rate and any related index	IND. EURIBOR 3M 200 bp
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	N/A
20b	Fully discretionary, partially discretionary or mandatory - in terms of amount	N/A
21	Existence of step up or other incentive to redeem	NO
22	Non-cumulative or cumulative	NON-CUMULATIVE
23	Convertible or non-convertible	NON-CONVERTIBLE
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-downs	N/A
31	In the event of a write-down, the event(s) that bring(s) it about	N/A
32	In the event of a write-down, total or partial write-down	N/A
33	In the event of a write-down, permanent or temporary write-down	N/A
34	In the event of a temporary write-down, explanation of the write-back mechanism	N/A
35	Position in the subordination hierarchy in the event of liquidation (4)	SENIOR
36	Non-compliant characteristics of the instruments benefiting from the transitional arrangements	
37	If so, please specify the non-compliant characteristics	
Enter "N/A" if the information does not apply		

(1) E.g. CUSIP, ISIN or Bloomberg identifier for private placements
(2) Types to be specified by each jurisdiction
(3) As of most recent reporting date
(4) Specify instrument type immediately senior to instrument

Gruppo Banco Desio

EU CC1 model: composition of regulatory own funds

		a) Amounts 31/12/2021	a) Amounts 31/12/2020	b) Source based on balance sheet reference numbers/letters in the context of prudential consolidation
	Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Equity instruments and related share premium reserv es	64,835	64,835	160 Liabilities and 170 Liabilities
	Of which type of instrument Ordinary Shares	*54,026*	*54,026*	*170 Liabilities*
	Of which instrument type 2	-	-	-
	Of which instrument type 3	-	-	-
2	Retained earnings	24,674	24,972	150 Liabilities
3	Other accumulated comprehensiv e income (and other reserv es)	430,641	392,881	150 Liabilities
EU-3a	Prov isions for general banking risks	-	-	-
4	Amount of eligible items referred to in art. 484 (3) of the CRR and related share premium reserv es subject to phasing out from CET1	-	-	-
5	Minority interests (amount allowed in consolidated CET1)	278,750	272,501	190 Liabilities
EU-5a	Profits for the period v erified by independent persons net of all foreseeable charges or div idends	16,740	11,545	200 Liabilities
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**815,640**	**766,734**	**-**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional adjustments (amount negativ e)	-	-	-
8	Intangible assets (net of related tax liabilities) (amount negativ e)	(16,601)	(15,895)	100 Assets
27a	Other regulatory adjustments	41,423	36,578	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1) capital**	**24,822**	**20,683**	**-**
29	**Common Equity Tier 1 (CET1) capital**	**840,462**	**787,417**	**-**

Gruppo Banco Desio

		a)	a)	b)
		Amounts	Amounts	Source based on balance sheet reference numbers/letters in the context of prudential consolidation
		31/12/2021	31/12/2020	
	Additional Tier 1 (AT1) capital: instruments			
34	Qualifying Tier 1 capital included in AT1 consolidated capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	56,815	55,920	190 Liabilities
36	**Additional Common Equity Tier 1 (AT1) capital: before regulatory adjustments**	**56,815**	**55,920**	**-**
	Additional Tier 1 (AT1) capital: regulatory adjustments			
42a	Other regulatory AT1 capital adjustments	820	752	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**820**	**752**	**-**
44	**Additional Tier 1 (AT1) capital)**	**57,635**	**56,672**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**898,097**	**844,089**	**-**
	Tier 2 (T2) capital instruments			
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in row 5 or row 34) issued by subsidiaries and held by third parties	73,868	82,542	190 Liabilities
49	*of which instruments issued by subsidiaries subject to phasing out*	-	-	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**73,868**	**82,542**	**-**
	Tier 2 (T2) capital: regulatory adjustments			
EU-56a	Deductions of eligible liabilities that exceed the elements of the institution's eligible liabilities (amount negativ e)	-	-	-
EU-56b	Other regulatory T2 capital adjustments	1,017	466	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**1,017**	**466**	**-**
58	**Tier 2 (T2) capital**	**74,885**	**83,008**	**-**
59	**Total capital (TC = T1 + T2)**	**972,982**	**927,097**	**-**
60	**Total amount of risk exposure**	**7,215,518**	**7,020,179**	**-**
	Capital ratios and requirements, including capital buffers			

		a)	a)	b)
		Amounts	Amounts	Source based on balance sheet reference numbers/letters in the context of prudential consolidation
		31/12/2021	31/12/2020	
	Capital ratios and requirements, including capital buffers			
61	Common Equity Tier 1 (CET1) capital	11.6480%	11.2165%	-
62	Tier 1 capital	12.4467%	12.0238%	-
63	Total capital	13.4846%	13.2062%	-
64	Overall CET1 capital requirements of the institution	7.3500%	7.3500%	-
65	*Of which capital conservation reserve requirement*	*2.5000%*	*2.5000%*	-
66	*Of which countercyclical capital buffer requirement*	-	-	-
67	*Of which reserve requirement for systemic risk*	-	-	-
	Of which capital buffer requirement of global systemically important institutions (G-SII) or other systemically important institutions (O-SII) - Max Numerator for row 67-A	-	-	
EU-67a	*Of which capital buffer requirement of global systemically important institutions (G-SII) or other systemically important institutions (O-SII)*	-	-	-
EU-67b	*Of which additional own funds requirements to address risks other than the risk of excessive leverage*	*0.3500%*	*0.3500%*	-
68	**Common Equity Tier 1 (as a percentage of the risk exposure amount) available after meeting the minimum capital requirements**	**6.7980%**	**6.3665%**	**-**
	Amounts below the deduction thresholds (before risk weighting)			
72	Own funds and eligible liabilities of financial sector entities held directly or indirectly, when the institution does not have a significant investment in these entities (amount below the 10% threshold and net of eligible short positions)	30,331	26,249	-
73	CET1 instruments of financial sector entities held by the institution directly or indirectly, when the institution has a significant investment in those entities (amount below the threshold of 17.65% and net of eligible short positions)	798	798	-
74	Not applicable	-	-	-
75	Deferred tax assets arising from temporary differences (amount below the 17.65% threshold, net of the related tax liabilities where the conditions in art. 38 of the CRR are met)	29,828	16,847	-

EU CC2 model: reconciliation of regulatory own funds with the balance sheet in the audited financial statements

	a	b				c
	Balance sheet included in the published	In the context of the prudential consolidation	Amounts recognised as own funds			Reference
			Common Equity Tier 1 (CET1) capital	Additional Tier 1 (AT1) capital	Tier 2 (T2) capital	
	At the end of the period	At the end of the period				
Assets						
10. Cash and cash equiv alents	84,412	84,412	-	-	-	-
20. Financial assets at fair v alue through profit and loss	85,544	85,544	-	-	-	-
30. Financial assets at fair v alue through other comprehensiv e i	593,360	593,360	-	-	-	-
40. Financial assets at amortised cost	16,325,179	16,325,179	-	-	-	-
50. Hedging deriv ativ es	-	-	-	-	-	-
60. Adjustment to financial assets with generic hedge (+/-)	502	502	-	-	-	-
70. Equity inv estments	-	-	-	-	-	-
80. Technical reserv es carried by reinsurers	-	-	-	-	-	-
90. Tangible assets	218,420	218,420	-	-	-	-
100. Intangible assets	19,119	19,119	-	-	-	-
- Goodwill	15,322	15,322	(15,311)	-	-	-
110. Tax assets	170,081	170,081	-	-	-	-
120. Non-current assets and disposal groups held for sale	13,080	13,080	-	-	-	-
130. Other assets	290,084	290,084	-	-	-	-
Total assets	**17,799,781**	**17,799,781**				

	a	b				c
	Balance sheet included in the published	In the context of the prudential consolidation	Amounts recognised as own funds			Reference
	At the end of the period	At the end of the period	Common Equity Tier 1 (CET1) capital	Additional Tier 1 (AT1) capital	Tier 2 (T2) capital	
Liabilities and Shareholders' Equity						
10. Financial liabilities measured at amortised cost	16,309,936	16,309,936	-	-	-	-
20. Financial liabilities held for trading	5,901	5,901	-	-	-	-
40. Hedging deriv ativ es	365	365	-	-	-	-
60. Tax liabilities	4,117	4,117	-	-	-	-
80. Other liabilities	321,045	321,045	-	-	-	-
90. Termination indemnities	21,960	21,960	-	-	-	-
100. Prov isions for risks and charges	46,776	46,776	-	-	-	-
120. Valuation reserv es	7,893	7,893	8,868	-	-	-
130. Azioni rimborsabili	-	-	-	-	-	-
140. Strumenti di capitale	-	-	-	-	-	-
145. Acconti su div idendi	-	-	-	-	-	-
150. Reserv es	446,513	446,513	483,848	-	-	-
160. Share premium reserv e	10,809	10,809	10,809	-	-	-
170. Share capital	54,026	54,026	54,026	-	-	-
180. Azioni proprie (-)	-	-	-	-	-	-
190. Minority interests (+/-)	543,518	543,518	282,772	57,635	74,885	-
200. Net profit (loss) for the period	26,922	26,922	16,740	-	-	-
Total Liabilities and Shareholders' Equity	**17,799,781**	**17,799,781**				

5. Financial leverage (art. 6 reg. 2021/637)

Qualitative information

The risk of excessive leverage is understood as being the risk that a particularly high level of borrowing compared with the bank's own funds makes it vulnerable, requiring corrective measures in its business plan, including the sale of assets at a loss, which could lead to writedowns of other assets. The leverage ratio measures the degree of coverage of Tier 1 capital with respect to the total exposure of the Group, calculated considering off-balance sheet assets and exposures. The objective of the indicator is to contain the degree of indebtedness by inserting a minimum level of coverage of risk assets with own funds. Starting from June 2021, the ratio is subject to a minimum limit of 3% and has become a requirement of Pillar 1 according to the provisions of art. 92, paragraph 1, letter d) of Regulation (EU) 2019/876 (CRR II).

EU LRA table: disclosure of qualitative information on the leverage ratio

For the purposes of supervisory regulations, the Group uses the calculation methodology and frequency according to the rules provided for under current legislation (Regulation 575/2013) as part of the activities of prudential supervisory reporting. The leverage indicator is selected as a monitoring metric within the Risk Appetite Framework for monitoring the capital adequacy of the Group. In addition to the minimum regulatory limit (3%), further thresholds are established in terms of early warning and tolerance in line with the dimensional levels of risk and capitalisation implicit in the figures, which are also reflected in the Business Plan.

The leverage ratio without application of the transitional regime in IFRS 9 "Financial instruments" at the reference date is equal to 4.9%, as shown in greater detail as quantitative information in the following tables. It is well above the regulatory minimum and falling with respect to the previous surveys because of the increase in overall exposure, mainly due to participation in the TLTRO3 refinancing operations.

Quantitative information

EU LR1 - LRSum Model: summary of the reconciliation between book assets and exposures of the leverage ratio

		a
		Applicable amount
		31/12/2021
1	Total assets as per published financial statements	17,799,781
7	Adjustment for eligible centralised treasury transactions	(238)
8	Adjustment for deriv ativ e financial instruments	13,618
9	Adjustment for securities financing transactions (SFTs)	41,515
10	Adjustment for off-balance sheet items (conv ersion of off-balance sheet exposures into equiv alent amounts of credit)	542,730
12	Other adjustments	(3,836)
13	**Measurement of overall exposure**	**18,393,570**

EU LR2 - LRCom Model: Harmonised disclosure on the leverage ratio

		Leverage ratio exposures (CRR)	
		31.12.2021	30.06.2021
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	17,795,099	17,258,889
6	(Amounts of assets deducted in determining Tier 1 capital)	(16,781)	(16,288)
7	**On-balance sheet exposures (excluding derivatives and SFTs)**	**17,778,318**	**17,242,601**
	Derivative exposures		
EU-8a	Derogation for derivatives: contribution to replacement costs under the simplified standardised approach	863	1,973
EU-9a	Derogation for derivatives: contribution to potential future exposure under the simplified standardised approach	13,363	16,326
13	**Total exposures in derivatives**	**14,226**	**18,299**
	SFT exposures		
17	Exposures on transactions carried out as an agent	-	-
EU-17a	(Exempted CCP component of client-cleared SFT exposures)	-	-
18	**Total SFT exposures**	**41,515**	**-**
	Other off-balance sheet exposures		
20	(Adjustments for conversion into equivalent amounts of credit)	542,730	586,809
22	**Off-balance sheet exposures**	**542,730**	**586,809**
	Excluded exposures		
EU-22k	**(Total excluded exposures)**	**-**	**-**
	Capital and total exposures		
23	**Tier 1 capital**	**898,097**	**881,836**
24	**Measurement of overall exposure**	**18,376,789**	**17,847,708**
	Leverage ratio		
25	Leverage ratio (%)	4.8871%	4.9409%
EU-25	Leverage ratio (excluding the impact of exempting public sector investments and subsidised loans) (%)	4.8871%	4.9409%
25a	Leverage ratio (excluding the impact of any applicable interim relief of central bank reserves) (%)	4.8871%	4.9409%
26	Regulatory requirement of the minimum leverage ratio (%)	3.0000%	3.0000%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-
EU-26b	Of which consisting of CET1 capital	-	-
27	Leverage Ratio Reserve Requirement (%)	-	-
EU-27a	Overall leverage ratio requirement (%)	3.0000%	3.0000%
	Choice of transitional arrangements and large exposures		
EU-27b	Choice of transitional arrangements to define how capital is to be measured	-	-
	Information on average values		
30	Measurement of overall exposure (including the impact of any applicable interim relief of central bank reserves) including the average values of row 28 of gross SFT assets (after making accounting adjustments)	18,376,789	17,847,708
30a	Measurement of overall exposure (excluding the impact of any applicable interim relief of central bank reserves) including the average values of row 28 of gross SFT assets (after making accounting adjustments for sales and net of associated cash payables and receivables)	18,376,789	17,847,708
31	Leverage ratio (including the impact of any applicable interim relief of central bank reserves) comprising the average values of row 28 of SFT's gross assets (after making accounting adjustments for sales and net of associated cash payables and receivables)	4.8871%	4.9409%
31a	Leverage ratio (excluding the impact of any applicable interim relief of central bank reserves) comprising the average values of row 28 of SFT gross assets (after making accounting adjustments for sales and net of associated cash payables and receivables)	4.8871%	4.9409%

EU LR3 - LRSpl Model: breakdown of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		a	a
		Leverage ratio exposures (CRR)	Leverage ratio exposures (CRR)
		31/12/2021	30/06/2021
EU - 1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempt exposures), of which**	**17,795,099**	**17,258,804**
EU - 2	Trading book exposures	12,734	11,050
EU - 3	Banking book exposures, of which	17,782,365	17,247,754
EU - 4	Cov ered bonds	-	-
EU - 5	Exposures treated as sov ereign issuers	5,166,320	4,874,283
EU - 6	Exposures to regional gov ernments, multilateral dev elopment banks, international organisations and public sector entities not treated as sov ereign issuers	2,285	2,520
EU - 7	Exposures to institutions	598,111	608,825
EU - 8	Exposures secured by mortgages on immov able properties	3,622,676	3,480,509
EU - 9	Retail exposures	3,710,125	3,452,204
EU - 10	Exposures to companies	3,481,627	3,639,219
EU - 11	Exposures in default	245,751	284,785
EU - 12	Other exposures (e.g. equities, securitisations and other non-credit obligation assets)	955,470	905,409

6. Liquidity Risk Disclosure (art. 7 reg. 2021/637)

Qualitative information

For the purposes of the supervisory regulations, the Group uses the calculation methods and frequencies provided for by the regulations (Circular No. 285) for the calculation of short-term liquidity indicators (LCR - Liquidity Coverage Ratio), structural liquidity (NSFR - Net Stable Funding Ratio) and other monitoring metrics - ALMM (Additional Liquidity Monitoring Metrics).

Quantitative information

The Group's liquidity position, supported by adequate high quality liquid assets (HQLA) and by the significant contribution of stable deposits from customers, was maintained in the during 2021 within the limits set by the Risk Appetite Framework.
Both LCR and NSFR regulatory indicators are well above the minimum requirements.

Regulation (EU) 2019/876 introduced a minimum level (100%) for the NSFR, guaranteeing that a bank has sufficient stable funding to meet its financing needs over a time horizon of one year, starting from the 30 June 2021 report. The policy applied by the Group is aimed at promoting greater recourse to stable deposits in order to avoid medium/long term assets generating imbalances to be funded with short term liabilities, by establishing an adequate minimum amount of stable funding.

Gruppo Banco Desio

EU LIQ1 Model : LCR quantitative information

Scope of consolidation: (separate/consolidated)		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending	31.12.2021	09.30.2021	30.06.2021	31.03.2021	31.12.2021	30.09.2021	30.06.2021	31.03.2021
EU 1b	Number of data points used for averaging	12	12	12	12	12	12	12	12
HIGH QUALITY LIQUID ASSETS									
1	**Total high quality liquid assets (HQLA)**					**3,469,122**	**3,366,447**	**3,305,092**	**3,227,521**
CASH OUTFLOWS		CASH OUTFLOWS							
2	Retail deposits and small business deposits, of which	7,255,968	7,120,756	6,971,220	6,809,535	566,332	553,690	539,572	523,491
3	*Stable deposits*	*3,873,681*	*3,773,472*	*3,683,477*	*3,593,948*	*193,684*	*188,674*	*184,174*	*179,697*
4	*Less stable deposits*	*3,128,278*	*3,067,693*	*2,989,840*	*2,892,343*	*372,648*	*365,017*	*355,398*	*343,793*
5	Unsecured wholesale funding	3,041,792	3,085,712	3,086,556	3,044,911	1,488,914	1,508,732	1,497,696	1,487,286
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*12,345*	*12,417*	*11,522*	*10,157*	*3,086*	*3,104*	*2,881*	*2,539*
7	*Non-operational deposits (all counterparties)*	*3,020,530*	*3,057,283*	*3,071,433*	*3,030,189*	*1,476,912*	*1,489,615*	*1,491,214*	*1,480,181*
8	*Unsecured debt*	*8,916*	*16,012*	*3,601*	*4,566*	*8,916*	*16,012*	*3,601*	*4,566*
9	Guaranteed wholesale financing					-	-	-	-
10	Additional obligations	96,904	95,257	97,911	102,878	7,655	7,136	7,631	8,430
11	*Outflows related to derivative exposures and other collateral obligations*	*149*	*123*	*119*	*108*	*149*	*123*	*119*	*108*
12	*Outflows related to the loss of financing on debt products*	-	-	-	-	-	-	-	-
13	*Lines of credit and liquidity*	*96,755*	*95,134*	*97,792*	*102,770*	*7,506*	*7,013*	*7,512*	*8,322*
14	Other contractual financing obligations	58,100	66,268	65,628	65,380	58,100	66,268	65,628	65,380
15	Other potential funding obligations	-	-	-	-	-	-	-	-
16	**TOTAL CASH OUTFLOWS**					**2,121,001**	**2,135,826**	**2,110,528**	**2,084,588**
CASH INFLOWS		CASH INFLOWS							
18	*Inflows from fully performing exposures*	*299,431*	*332,747*	*314,978*	*299,807*	*241,252*	*270,176*	*261,541*	*252,991*
19	Other cash inflows	1,147,251	1,155,939	1,158,935	1,208,511	253,118	237,575	237,996	247,277
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries with transfer restrictions or denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**TOTAL CASH INFLOWS**	**1,446,683**	**1,488,686**	**1,473,913**	**1,508,319**	**494,370**	**507,750**	**499,537**	**500,268**
EU-20c	***Inflows subject to the 75% ceiling***	***1,446,683***	***1,488,686***	***1,473,913***	***1,508,319***	***494,370***	***507,750***	***499,537***	***500,268***
TOTAL CORRECT VALUE		TOTAL CORRECT VALUE							
EU-21	**LIQUIDITY RESERVE**					**3,469,122**	**3,366,447**	**3,305,092**	**3,227,521**
22	**TOTAL NET CASH OUTFLOWS**					**1,626,631**	**1,610,951**	**1,590,198**	**1,584,320**
23	**LIQUIDITY COVERAGE RATIO**					**213.2704%**	**208.9727%**	**207.8415%**	**203.7165%**

EU LIQB model: qualitative information on the LCR, supplementing the EU LIQ1 table

The LCR is the indicator aimed at promoting the short-term resilience of the bank's liquidity risk profile by ensuring that it has sufficient high-quality liquid reserves to cover cash outflows for a period of one month in the event of a severe stress scenario.
The indicator is monitored internally on a daily basis and is subject to monthly reporting to the Supervisory Authorities by means of supervisory reports.
From the evidence provided, it can be seen that the average level of the liquidity coverage ratio is still permanently higher than the minimum requirement. The LCR trend has been rising throughout the observation period; the trend in the LCR indicator reflects the positive evolution of the Group's liquidity position, which incorporates the increase in commercial deposits and the benefits of ECB funding through TLTRO. The LCR indicator shows no currency mismatches as there are no relevant currencies other than the euro.
The average level over the last 12 months stood at 213.27% with high quality available assets (HQLA) equal to € 3.469 billion made up entirely of the most liquid type of assets eligible for the numerator of the LCR (Level 1). At the end of December 2021, the value of the HQLA liquidity reserve consisted around 60% of cash, following greater temporary investments of excess liquidity in the form of free deposits in the Central Bank, an increase compared with the end of 2020 (approximately 23%); the remainder is mainly made up of Level 1 Italian government bonds. In addition to these available liquid assets (HQLA), the Group has other negotiable assets to which specific haircuts are applied to take into account liquidity. The main component of outflows of liquidity relates to retail and wholesale deposits, while that of inflows focuses on assets deriving from instalment, commercial and non-maturing assets.
With the scope of preventing any weaknesses in the Group, the concentration of sources of funding and liquidity is managed and controlled mainly by monitoring both management and regulatory metrics, such as the concentration of loans by product and counterparty.

EU LIQ2 Model: stable net funding ratio

		a	b	c	d	e
		Unweighted value for residual maturity				Weighted value
		Without maturity	< 6 months	6 months to <1 year	≥ 1 year	
	Available stable financing items (ASF)					
1	Equity items and instruments	898,097	-	-	74,885	972,982
2	*Own funds*	*898,097*	*-*	*-*	*-*	*972,982*
3	*Other equity instruments*		*-*	*-*	*-*	*-*
4	Retail deposits		7,705,437	63,000	100,544	7,301,500
5	*Stable deposits*		*4,170,943*	*16,320*	*10,816*	*3,988,716*
6	*Less stable deposits*		*3,534,493*	*46,681*	*89,728*	*3,312,785*
7	Wholesale financing:		3,197,908	15,202	5,110,834	6,283,265
8	*Operational deposits*		*11,019*	*-*	*-*	*5,509*
9	*Other wholesale financing*		*3,186,889*	*15,202*	*5,110,834*	*6,277,756*
10	Related liabilities		-	-	-	-
11	Other liabilities:	-	63,310	4,446	285,981	288,172
12	*NSFR derivatives payable*	-				
13	*All other liabilities and other equity instruments not included in the above categories*		*63,310*	*4,446*	*285,981*	*288,172*
14	**Total available stable financing (ASF)**					**14,845,920**
	Required stable funding (RSF)					
15	Total high quality liquid assets (HQLA)					1,383,384
EU-15a	Assets encumbered for a residual maturity equal to or greater than one year in a hedging pool		23,563	23,763	1,248,664	1,101,591
16	Deposits held with other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		2,379,285	490,190	7,781,384	10,054,546
18	*Performing securities financing transactions with financial clients backed by level 1 HQLAs subject to a 0% haircut*		-	-	-	-
19	*Financing transactions through performing securities with financial customers guaranteed by other assets and loans and advances to financial institutions*		*251,613*	*3,370*	*72,199*	*99,047*
20	*Performing loans to clients consisting of non-financial companies, retail customers and small businesses and loans to sovereign issuers and public sector entities, of which*		*1,510,609*	*362,668*	*5,569,273*	*6,914,301*
21	*With a risk weight of 35% or less under the Basel II standardised approach for credit risk*		*159,780*	*152,901*	*2,965,220*	*3,613,987*
22	*Mortgage loans on performing residential properties, of which*		*22,286*	*23,853*	*1,330,887*	*-*
23	*With a risk weight of 35% or less under the Basel II standardised approach for credit risk*		*22,286*	*23,853*	*1,314,785*	*-*
24	*Other loans and securities that are not in default and that are ineligible as HQLAs, including exchange traded equity instruments and balance sheet products related to trade finance*		*594,778*	*52,773*	*809,025*	*838,015*
25	Related assets		-	-	-	-
26	Other assets:	-	434,279	26,930	616,122	854,372
27	*Physically traded goods*				*-*	*-*
28	*Assets provided as an initial margin for derivative contracts and as a contribution to the guarantee funds of CCPs*		*26,692*	*-*	*317*	*22,958*
29	*NSFR derivatives receivable*		*6,269*			*6,269*
30	*NSFR derivatives payable before deduction of the variation margin provided*		*622*			*31*
31	*All other assets not included in the above categories*		*400,695*	*26,930*	*615,805*	*825,113*
32	Off-balance sheet items		187,695	18,662	154,809	34,344
33	**Total RSF**					**11,225,054**
34	**Stable net funding ratio (%)**					**132.2570%**

7. Disclosure on credit risk and dilution risk and credit quality exposures (art. 8 reg. 2021/637)

EU CRA table: general qualitative information on credit risk

For a more accurate analysis of the credit risk management strategies and processes, the structure and organisation of the risk management function and the relationships between the credit risk management, risk control and compliance control and internal audit, please refer to what has already been explained in paragraph 2.Information on risk management objectives and policies (art. 2 reg. 2021/637) - EU OVA table: the institution's risk management method.

The management of Banco Desio's asset quality, both from a static and a dynamic perspective, extends to the composition and the quality of loans and the main implications in terms of results and capital adequacy.

Loans are subject to constant monitoring to identify any deterioration in creditworthiness over time in order to highlight any potential impairment. The methodology takes account of the specific solvency situation of each debtor and the existence of any collateral or unsecured guarantees, as well as the local or national economic conditions relating to the debtor's business sector.

EU CRB Table: additional information on the credit quality of assets

IFRS 9 "Financial instruments" provides for an impairment model that requires an estimate of credit losses on the basis of an expected losses model using supportable information, available without unreasonable costs or effort, that includes historical, current and forward-looking data. The standard requires, in particular, financial instruments to be classified in three categories with an increasing degree of risk (known as "stages" or "buckets"), each of which has specific procedures for defining and measuring write-downs.

In particular, the standard provides for the classification of performing financial assets in two different risk categories (the less risky stage 1 and the riskier stage 2) based on whether or not there has been a significant increase in risk associated with an exposure since its initial recognition; if there is objective evidence of impairment, the financial instruments should be classified in stage 3. Accordingly, the Group has established parameters for determining a significant increase of credit risk for the purpose of correctly allocating performing exposures to stage 1 or stage 2. As regards impaired exposures, the alignment of the definitions of accounting and regulatory default has made it possible to consider the existing approach for the classification of exposures as impaired to be identical to the approach for the classification of exposures in stage 3.

Performing Exposures

The quality of the performing exposures portfolio is measured via the calculation of expected credit loss as part of the impairment process, that is, measurement of the loss that is statistically expected to arise from credit granted over a certain time horizon.

For the purpose of calculating impairment, the loan portfolio is segmented into three stages with an increasing level of credit risk (due to changes over time):

stage 1 for exposures performing in line with expectations;

a) 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);
b) stage 3 for non-performing exposures (see following paragraph).

The calculation of impairment is based on expected losses, determined on the basis of past events, current and reasonable conditions and "supportable" future forecasts; the calculation horizon of the expected loss equates to one year (stage 1) or lifetime (stages 2 and 3). The impairment calculation model includes forward-looking components, such as expected changes in the macroeconomic scenario. Stages 1 and 2 overlap in the definition of performing loans, to which a collective writedown is currently made, based on the concept of losses incurred but not recorded.

The expected loss mainly depends on parameters reported below:

- Probability of default (PD), being the probability of default by the counterparty over a time horizon of one year;
- Loss given default (LGD), being the percentage of a loan that is expected to be lost, or not recovered, as the result of a default event;
- Exposure at default (EAD), being the total credit exposure at the time of default.

For performing exposures, a record is kept of positions under control, being those positions for which there is a precautionary observation period that may last between 6 and 12 months, during which monitoring is performed of one or more anomalies attributable to internal and external risk triggers. The classification proposal can also be formulated by the competent central and/or territorial functions by communicating to the branch the fact that there has been a change in the customer's personal status.

Non-Performing Exposures

The categories of non-performing exposures (stage 3) apply to on-balance sheet (loans and debt securities) and off-balance sheet items (guarantees given, irrevocable and revocable commitments to grant loans), other than financial instruments classified as "Financial assets held for trading and from derivative contracts". The decision to classify financial assets as non-performing is made regardless of any secured or unsecured guarantees backing them.

The classification introduced by the Bank of Italy and applied by Banco Desio Group identifies three classes of non-performing exposures based on the severity of the counterparty's state of default:

1. Past due or overdrawn exposures: in compliance with the new definition of default applicable from 1 January 2021, this group includes all exposures to debtors (other than those reported as bad or unlikely to pay loans), which at the date of the report include receivables that are overdue or overdrawn for more than 90 days, with an absolute materiality threshold of 100 euro for retail exposures and 500 euro for non-retail exposures and a related significance threshold of 1%. The individual past due and/or overdrawn exposures must be at Group level.
2. Unlikely to pay loans: exposures for which the debtor is assessed as unlikely to pay its credit obligations in full without enforcement of collateral. This categorisation applies regardless of the existence of any amounts (or instalments) past due and unpaid. Accordingly, it is not necessary to wait for explicit signs of an anomaly, such as failure to repay, if there are elements that imply a situation of risk of default on the part of the debtor.

3. Bad loans: this category includes all exposures to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations. Loans are classified as doubtful when, in the light of objective evidence collected by the NPL Department, the customer proves unable to meet its commitments.
   Bad loans are loans for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted using the effective interest rate. This valuation, based on internal policy, is analytical, and takes account of the estimated likelihood of recovery, the expected timing of collection and any guarantees that are in place. Receivables for interest on arrears accrued on impaired assets are only recorded in the financial statements once it has been collected.

The analysis of impaired assets is reflected by the amount of impairment recognised for the deterioration in credit quality in question, defined as the expected credit loss (ECL).
For accounting purposes, the impairment loss is recognised as an increase to loan provisions and the corresponding cost is recognised in the income statement. The ratio of the provision associated with each balance sheet asset to the nominal value of the asset is known as the coverage ratio.
More analytically, the provision associated with each asset is determined as the difference between the nominal value of the asset and the present value of the estimated future cash flows arising from the recovery thereof. In the event that, with the passage of time, the prospective recovery is revised upwards, or the recovery occurs early, the associated provision is recognised in the income statement as income under the form of a write-back.

The quality of an asset and its evolution over time influence the costs relating to the loan in terms of capital absorption (risk-weighted assets - RWA) and in income statement terms (expected credit losses - ECLs).
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. The Group's Credit Policy provides specific rules for the determination of coverage on non-performing loans which take into account the evidence deriving from internal risk parameters (LGD and Danger Rate), from the valuation of the value of guarantees (financial real estate and/or mortgages), from presence of objective elements deriving from the recovery procedures.

Forborne exposures

The forborne category applies to all existing risk classes and may include both performing and non-performing exposures.
Credit exposures that qualify as forborne exposures are those for which a modification of the terms and conditions of the contract or its refinancing have been granted to a counterparty in financial difficulties that could have led to a loss for the lender.
There is a rebuttable presumption that forbearance has taken place when the positions are past due by more than a month at least once during the three months prior to the contractual modification, thus lowering the past-due threshold with respect to the 90 days stated in the definition of default.
The time required to exit forborne performing status is a period of at least two years. The conditions for discontinuance of the forbearance classification are verified when a minimum 2 year probation period has passed from the date the forborne exposure was considered as performing. If the

conditions are not met, the conditions shall be assessed on at least a quarterly basis or when the forborne exposure is newly considered to be performing. As regards exit from forborne non-performing status, art. 157 of the EBA ITS applies and, accordingly, if one year has passed since the renegotiation, payments have been regular and there is an absence of concerns about the debtor's solvency, an exposure may once again be classified as performing even though it remains classified as forborne for a two year probation period.

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.

EU CQ3 model: credit quality of performing and non-performing exposures broken down by days past due

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying value/Nominal amount											
		Performing exposures			Non-performing exposures								
			Not yet due or past due by ≤ 30 days	Past due by > 30 days and ≤ 90 days		Unlikely to pay exposures not yet due or past due by ≤ 90 days	Past due by > 90 days and ≤ 180 days	Past due > 180 days and ≤ 1 year	Past due by > 1 year and ≤ 2 years	Past due by > 2 years and ≤ 5 years	Past due by > 5 years and ≤ 7 years	Past due by > 7 years	Of which in default
005	Liquid funds with central banks and other sight deposits	1,953,093	1,953,093	-	-	-	-	-	-	-	-	-	-
010	**Loans and advances**	**11,154,159**	**11,076,409**	**77,750**	**475,083**	**146,711**	**25,799**	**18,929**	**25,740**	**129,036**	**52,798**	**76,071**	**475,083**
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030	Public administrations	115,034	115,034	0	211	211	-	-	-	-	-	-	211
040	Banks	162,199	162,199	-	1	1	-	-	-	-	-	-	1
050	Other financial companies	202,982	202,981	1	12,998	749	-	25	4	11,595	249	376	12,998
060	Non-financial companies	6,072,665	6,071,034	1,631	302,506	81,221	16,314	10,622	13,734	83,547	37,883	59,184	302,506
070	of which SMEs	4,770,696	4,769,174	1,522	182,409	66,163	15,382	7,389	11,383	46,695	17,848	17,549	182,409
080	Households	4,601,278	4,525,161	76,117	159,367	64,528	9,484	8,282	12,002	33,894	14,666	16,511	159,367
090	**Debt securities**	**3,702,248**	**3,702,248**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	Public administrations	2,811,797	2,811,797	-	-	-	-	-	-	-	-	-	-
120	Banks	380,889	380,889	-	-	-	-	-	-	-	-	-	-
130	Other financial companies	455,763	455,763	-	-	-	-	-	-	-	-	-	-
140	Non-financial companies	53,799	53,799	-	-	-	-	-	-	-	-	-	-
150	**Off-balance sheet exposures**	**3,380,143**			**11,956**								**11,956**
160	Central banks	-			-								-
170	Public administrations	50,028			-								-
180	Credit institutions	13,639			-								-
190	Other financial companies	110,539			-								-
200	Non-financial companies	2,951,537			11,340								11,340
210	Households	254,400			616								616
220	**Total**	**20,189,644**	**16,731,751**	**77,750**	**487,039**	**146,711**	**25,799**	**18,929**	**25,740**	**129,036**	**52,798**	**76,071**	**487,039**

EU CR1-A Model: exposure duration

		a	b	c	d	e	f
		Net value of the exposure					
		On request	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No duration indicated	Total
1	Loans and advances	1,160,718	2,660,772	4,723,909	3,181,499	1,921,766	13,648,664
2	Debt securities	3,545	506,300	1,714,106	1,480,937	-	3,704,888
3	**Total**	**1,164,263**	**3,167,072**	**6,438,015**	**4,662,436**	**1,921,766**	**17,353,552**

EU CR2 model: changes in the stock of non-performing loans and advances

		a
		GROSS CARRYING VALUE
010	**Opening stock of non-performing loans and advances**	**580,723**
020	**Inflows to non-performing portfolios**	**123,775**
030	**Outflows from non-performing portfolios**	**229,415**
040	Outflow due to cancellations	10,867
050	Outflow due to other situations	218,548
060	**Closing stock of non-performing loans and advances**	**475,083**

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EU CR1 model: performing and non-performing exposures and related provisions

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying value/Nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial cancellations	Collateral and financial guarantees received	
		Performing			Non-performing exposures			Performing exposures - Accumulated impairment and provisions			Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	sight deposits	1,953,093	1,953,093	-	-	-	-	28	28	-	-	-	-	-	-	-
010	**Loans and advances**	**11,154,159**	**9,321,697**	**1,828,688**	**475,083**	**-**	**465,450**	**103,072**	**18,478**	**84,472**	**241,354**	**-**	**237,668**	**6,371**	**7,711,581**	**205,427**
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	Public administrations	115,034	115,016	3	211	-	211	0	0	0	27	-	27	-	1,500	-
040	Credit institutions	162,199	162,199	-	1	-	1	146	146	-	0	-	0	-	-	-
050	Other financial companies	202,982	163,767	39,215	12,998	-	12,998	1,364	547	817	10,931	-	10,931	-	63,517	706
060	Non-financial companies	6,072,665	4,709,176	1,362,034	302,506	-	297,388	76,110	9,220	66,815	168,271	-	166,285	6,330	4,186,180	120,102
070	*of which SMEs*	4,770,696	3,498,276	1,271,015	182,409	-	178,549	71,549	7,404	64,074	91,051	-	89,629	1,936	3,715,308	83,797
080	Households	4,601,278	4,171,539	427,435	159,367	-	154,852	25,452	8,564	16,840	62,125	-	60,425	41	3,460,384	84,618
090	**Debt securities**	**3,702,248**	**3,701,365**	**-**	**-**	**-**	**-**	**2,699**	**2,699**	**-**	**-**	**-**	**-**	**-**	**177,543**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	Public administrations	2,811,797	2,811,797	-	-	-	-	586	586	-	-	-	-	-	-	-
120	Credit institutions	380,889	380,889	-	-	-	-	448	448	-	-	-	-	-	-	-
130	Other financial companies	455,763	454,880	-	-	-	-	1,603	1,603	-	-	-	-	-	177,543	-
140	Non-financial companies	53,799	53,799	-	-	-	-	62	62	-	-	-	-		-	-
150	**Off-balance sheet exposures**	**3,380,143**	**3,277,126**	**103,017**	**11,956**	**-**	**11,956**	**1,995**	**1,420**	**574**	**2,063**	**-**	**2,063**		**786,209**	**3,956**
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170	Public administrations	50,028	50,028	-	-	-	-	0	0	-	-	-	-		150	-
180	Credit institutions	13,639	13,639	-	-	-	-	1	1	-	-	-	-		-	-
190	Other financial companies	110,539	108,313	2,226	-	-	-	118	109	9	-	-	-		9,231	-
200	Non-financial companies	2,951,537	2,859,022	92,515	11,340	-	11,340	1,726	1,206	520	1,999	-	1,999		702,020	3,717
210	Households	254,400	246,124	8,276	616	-	616	149	104	45	64	-	64	-	74,808	239
220	**Total**	**20,189,644**	**18,253,281**	**1,931,705**	**487,039**	**-**	**477,406**	**107,794**	**22,626**	**85,047**	**243,417**	**-**	**239,731**	**6,371**	**8,675,333**	**209,383**

EU CQ1 model: credit quality of exposures subject to forbearance measures

		a	b	c	d	e	f	g	h
		Gross carrying value/Nominal amount of exposures subject to forbearance				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral and financial guarantees received on exposures subject to forbearance	
		Performing subject to forbearance	Non-performing subject to forbearance			On performing exposures subject to forbearance	On non-performing exposures subject to forbearance		Of which collateral and financial guarantees received on impaired exposures subject to
				of which in default	of which with impairment				
005	Liquid funds with central banks and other sight deposits	-	-	-	-	-	-	-	-
010	**Loans and advances**	**203,726**	**137,022**	**137,022**	**137,022**	**16,802**	**55,203**	**258,469**	**77,893**
020	Central banks	-	-	-	-	-	-	-	-
030	Public administrations	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-
050	Other financial companies	1,381	22	22	22	85	11	1,306	11
060	Non-financial companies	132,661	75,312	75,312	75,312	12,294	34,257	154,030	38,271
070	Households	69,684	61,688	61,688	61,688	4,424	20,935	103,132	39,612
080	Debt securities	-	-	-	-	-	-	-	-
090	Commitments giv en to disburse loans	1,459	384	384	384	37	-	841	127
100	**Total**	**205,185**	**137,406**	**137,406**	**137,406**	**16,838**	**55,203**	**259,310**	**78,020**

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EU CQ5 model: credit quality of loans and advances to non-financial companies by economic sector

		a	b	c	d	e	f
		Gross carrying value				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which in default			
010	Agriculture, forestry and fishing	209,822	3,237	3,237	209,822	6,365	-
020	Mining	7,580	598	598	7,580	440	-
030	Manufacturing	2,134,362	63,559	63,559	2,134,362	44,388	-
040	Supply of electricity, gas, steam and air conditioning	33,508	3,189	3,189	33,508	1,595	-
050	Water supply	64,521	2,753	2,753	64,521	1,628	-
060	Construction	517,060	61,478	61,478	517,060	41,982	-
070	Wholesale and retail trade	1,579,586	62,472	62,472	1,579,586	47,574	-
080	Transport and storage	171,618	5,942	5,942	171,618	4,715	-
090	Accommodation and restaurant services	295,506	16,729	16,729	295,506	18,832	-
100	Information and communication services	101,024	7,087	7,087	101,024	3,426	-
110	Financial and insurance activities	6,224	1,176	1,176	6,224	350	-
120	Real estate	822,470	56,400	56,400	822,470	56,269	-
130	Professional, scientific and technical activities	152,617	6,300	6,300	152,617	7,161	-
140	Administrative and support services	136,552	6,847	6,847	136,552	5,437	-
150	Public administration and defence, compulsory	5,470	-	-	5,470	28	-
160	Education	10,169	235	235	10,169	313	-
170	Healthcare and social services	61,590	857	857	61,590	805	-
180	Arts and entertainment	27,848	2,139	2,139	27,848	1,752	-
190	Other services	37,644	1,510	1,510	37,644	1,322	-
200	**Total**	**6,375,171**	**302,506**	**302,506**	**6,375,171**	**244,381**	**-**

EU CQ4 model: quality of non-performing exposures by geographical area

		a	b	c	d	e	f	g
		Gross carrying value/Nominal amount					off-balance sheet commitments and financial	negative changes in fair value due to credit risk on non-performing
			Of which non-performing					
				Of which in default	Of which subject to impairment	Accumulated impairment		
010	**On-balance sheet exposures**	15,331,490	475,083	475,083	15,330,606	354,002		-
020	Italy	15,066,005	474,466	474,466	15,065,121	353,599		-
030	Spain	110,143	104	104	110,143	82		-
040	France	49,945	-	-	49,945	25		-
050	Netherlands	34,039	-	-	34,039	14		-
060	United Kingdom	33,070	49	49	33,070	40		-
070	Other countries	38,289	465	465	38,289	243		-
080	**Off-balance sheet exposures**	3,392,099	11,956	11,956			4,058	
090	Italy	3,385,050	11,956	11,956			4,058	
100	Switzerland	2,513	-	-			0	
110	United Kingdom	1,543	-	-			0	
120	India	1,500	-	-			-	
130	Spain	557	-	-			0	
140	Other countries	937	-	-			-	
150	**TOTAL**	**18,723,589**	**487,039**	**487,039**	**15,330,606**	**354,002**	**4,058**	**-**

8. Information on the use of credit risk mitigation techniques (art. 9 reg. 2021/637)

EU CRC table: qualitative disclosure obligations on CRM 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 the purposes of eligibility for prudential supervision, the Group makes use of mortgage-type, secured and unsecured guarantees issued by central administrations or multilateral development banks. The process for the verification of the eligibility of mortgage collateral is based on a decentralised internal model; this envisages that, during census activities for collateral processing, the gathering and storage of the information needed to verify that eligibility requirements have been met (except for the analysis of the general requirements that is performed by the competent central functions) should be performed by the branch network. In order to adequately monitor the census activities, the Credit Department and the Organisational Processes Department periodically informs the network about anomalies identified by systems diagnostics during the census activities and urges the prompt removal thereof. As regards real/financial collateral, the Group has designed a structured process for the collection and management thereof with a particular focus on eligibility aspects (general and specific requirements) and has issued specific management/operational instructions on the matter. Eligibility is thus granted to financial collateral that exceeds the control points provided for by the regulations and implemented in the Group's information systems.

Unsecured guarantees mainly consist of guarantees provided by individuals and companies. Their evaluation is based on an assessment of the guarantor's estate during the fact-finding process or for the renewal of credit. As a result of the public interventions to support the economy during the Covid-19 emergency, over the last year the guarantees issued by public bodies such as MCC and Sace took on particular importance. Guarantees received by the Group are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions.

EU CR3 Model - CRM Techniques - Overview: disclosure on the use of credit risk mitigation techniques

		Unsecured carrying value	Secured carrying value	of which secured by collateral	of which secured by financial guarantees	of which secured by credit
		a	b	c	d	e
1	Loans and adv ances	5,665,328	7,917,008	4,835,542	3,081,466	-
2	Debt securities	3,524,706	177,543	-	177,543	
3	**Total at 31.12.21**	**9,190,034**	**8,094,550**	**4,835,542**	**3,259,009**	**-**
4	*of which non-performing*	*269,656*	*205,427*	*158,178*	*47,249*	-
EU-5	of which in default	*269,656*	*205,427*			
	Total at 30.06.21	**9,076,042**	**7,831,726**	**4,757,063**	**3,074,662**	**-**

9. Information on the use of the standardised approach (art.10 reg. 2021/637)

EU CRD table: qualitative disclosure obligations on the standardised approach

For the determination of capital requirement for credit risk, the Group uses the standardised approach required for the determination of regulatory requirements for this risk (Circ. no. 285/13 Part Two – Chapter 3, Section I). Accordingly, the Group uses - where present - credit standing assessments issued by Moody's, the specialised rating agency, for the determination of the weighting factors for the exposures associated with the following portfolios:

- "Central governments and central banks" and, indirectly, "Supervised intermediaries", "Public sector entities" and "Territorial entities";
- "Businesses and other entities".

As part of its capital management and internal controls strengthening initiatives to support the credit risk monitoring and control processes, in 2021 the Group has made use of external credit assessment ECAI ratings issued by ModeFinance authorised by ESMA, to obtain benefits of an internal nature (external ratings for Banco Desio Group's main business counterparts) and of a capital requirement nature (calculation of the capital requirement for credit risk). The issued rating is mapped on a scale of 21 classes identified by an alphanumeric code and ranging from A1 (highest creditworthiness) to C3 (lowest creditworthiness).

For all the other exposures not included in the above regulatory classes, reference is made to various weighting factors required by relevant regulations for the standardised approach.

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EU CR4 Model - Standardised approach: credit risk exposure and CRM effects

	Exposure classes	Pre-CCF and pre-CRM		Post-CCF and post-CRM		RWAs and density of RWAs	
		On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWA	Density of RWAs (%)
		a	b	c	d	e	f
1	Central governments or central banks	5,163,241	33,978	7,668,227	1,719	220,613	2.8763%
2	Regional administrations or local authorities	2,278	15,521	5,756	3	1,152	20.0000%
3	Public sector bodies	8	379	23	7	18	59.4512%
4	Multilateral development banks	1,118	-	28,239	77	705	2.4903%
5	International organisations	-	-	3,615	46	-	-
6	Institutions	571,418	18,114	580,320	1,337	265,802	45.6975%
7	Corporate	3,481,871	1,503,493	2,424,880	136,964	2,308,599	90.1147%
8	Retail	3,710,127	1,785,008	2,413,295	70,852	1,323,115	53.2623%
9	Secured by mortgages on immovable prop	3,622,676	-	3,573,568	-	1,292,978	36.1817%
10	Exposures in default	245,571	9,979	226,275	1,855	244,096	106.9988%
11	Exposures associated with particularly high r	89,558	4,702	87,773	2,351	135,186	150.0000%
12	Covered bonds	-	-	-	-	-	-
13	Institutions and companies with assessment of short-term creditworthiness	-	-	-	-	-	-
14	Undertakings for collective investment in transferable securities (UCITS)	73,627	-	73,627	-	87,669	119.0715%
15	Equity instruments	59,714	-	62,138	-	61,564	99.0759%
16	Other positions	516,782	22,319	567,794	37,764	443,072	73.1676%
17	**TOTAL 31/12/2021**	**17,537,988**	**3,393,493**	**17,715,531**	**252,974**	**6,384,569**	**35.5320%**
	TOTAL 30/06/2021	**17,041,616**	**3,523,730**	**17,232,000**	**287,904**	**6,289,769**	**35.9007%**

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EU CR5 model: standardised approach

	Exposure classes	Risk weighting factors															Total
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
1	Central gov ernments or central banks	7,515,233	-	-	-	529	-	48	-	-	109,899	-	44,238	-	-	-	7,669,946
2	Regional administrations or local authorities	-	-	-	-	5,759	-	-	-	-	-	-	-	-	-	-	5,759
3	Public sector bodies	-	-	-	-	15	-	-	-	-	15	-	-	-	-	-	30
4	Multilateral dev elopment banks	24,512	-	-	-	3,803	-	-	-	-	-	-	-	-	-	-	28,315
5	International organisations	3,661	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,661
6	Institutions	-	-	-	-	222,538	-	281,159	-	-	71,932	6,028	-	-	-	-	581,657
7	Corporate	-	-	-	-	37,590	-	177,206	11,458	-	2,041,108	294,483	-	-	-	-	2,561,845
8	Retail exposures	-	-	-	-	-	782,856	-	-	1,701,291	-	-	-	-	-	-	2,484,147
9	Exposures secured by mortgages on immov able properties	-	-	-	-	-	2,830,054	743,514	-	-	-	-	-	-	-	-	3,573,568
10	Exposures in default	-	-	-	-	-	-	-	-	-	196,197	31,933	-	-	-	-	228,129
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	90,124	-	-	-	-	90,124
12	Cov ered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Exposures to institutions and companies with assessment of short-term creditworthiness	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Units or shares in UCITS	1,393	-	-	-	-	-	-	-	-	-	-	-	-	10	72,224	73,627
15	Exposures in equity instruments	-	-	-	-	-	-	-	-	-	62,138	-	-	-	-	-	62,138
16	Other positions	118,726	-	-	-	38,065	19,254	-	-	3,065	426,448	-	-	-	-	-	605,558
17	**TOTAL 31/12/2021**	**7,663,525**	**-**	**-**	**-**	**308,298**	**3,632,164**	**1,201,927**	**11,458**	**1,704,356**	**2,907,736**	**422,567**	**44,238**	**-**	**10**	**72,224**	**17,968,504**
	TOTAL 30/06/2021	**7,275,813**	**-**	**-**	**-**	**356,028**	**3,431,407**	**1,428,544**	**11,151**	**1,618,497**	**3,044,416**	**265,013**	**42,488**	**-**	**1,421**	**45,127**	**17,519,904**

10. Information on counterparty risk exposures (art. 13 2021/673)

EU CCRA table: qualitative information on counterparty risk

The CRRII, which came into force on 28 June 2021, provided for the complete replacement of the standardised approach and the market value method with a new standard method for calculating the value of the EAD in derivative instruments ("SA-CCR").
The new standard approach aims to lead to own funds requirements that better reflect the risks associated with derivative transactions (more risk-sensitive method), while recognising the advantages of netting. The new regulatory framework provides for the possibility of determining the capital requirement relating to the Counterparty Risk with simplified methodologies depending on the size of the institution's derivative business (original exposure method by size of derivative business not exceeding 5% of total assets and 100 €/mn and simplified method for the size of the derivative transactions not exceeding 10% of total assets and 300 €/mn). A new method of calculating exposures to central counterparties and qualified central counterparties was also introduced.
At the reference date, Banco Desio uses the simplified standardised approach to calculate counterparty risk.
In using this approach, for the calculation of the amount of the exposure, the Group has adopted the current value method as required by the relevant regulations (Circ. no. 285/13 Part Two – Chapter 7, Section I).

For a more accurate analysis of the method used to assign the limits defined in terms of internal capital and credit relating to credit exposures to a counterparty and the risk management objectives and relevant policies relating to the CCR, please refer to what has already been explained in paragraph 2. Information on risk management objectives and policies (art. 2 reg. 2021/637) - EU OVA table: institution's risk management method.

EU CCR1 model: analysis of CCR exposure by method

		a	b	c	d	e	f	g	h
		Replacement cost (RC)	Potential future exposure (PFE)	Effective EPE	Alpha used for the calculation of the exposure value for regulatory purposes	Pre-CRM exposure value	Post-CRM exposure value	Exposure value	RWEA
EU-1	EU - Original exposure method (for derivatives)	-	-		1.4	-	-	-	-
EU-2	EU - Simplified SA-CCR (for derivatives)	616	9,545		1.4	15,950	15,950	15,950	5,329
1	SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
2	IMM (for derivatives and SFTs)			-	-	-	-	-	-
2a	*of which netting sets containing SFTs*			-		-	-	-	-
2b	*of which netting sets containing derivatives and long-term settlement transactions*			-		-	-	-	-
2c	*of which by sets of assets subject to a contractual netting agreement between different products*			-		-	-	-	-
3	Financial Collateral Simple Method (for SFTs)					-	-	-	-
4	Financial Collateral Comprehensive Method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	**Total 31/12/2021**					**15,950**	**15,950**	**15,950**	**5,329**
	Total 30/06/2021					**18,299**	**18,299**	**18,299**	**6,722**

EU CCR2 model: transactions subject to own funds requirements for CVA risk

		a	b
		Exposure value	RWEA
1	Total of transactions subject to the advanced approach	-	-
2	i) VaR component (including the 3× multiplier)		-
3	ii) VaR component under stressed conditions (including the 3× multiplier)		-
4	Transactions subject to the standardised approach	15,950	522
EU-	Transactions subject to the alternative approach (based on the original	-	-
5	**Total transactions subject to own funds requirements for CVA risk 31/12/2021**	**15,950**	**522**
	Total transactions subject to own funds requirements for CVA risk 30/06/2021	**18,299**	**613**

EU CCR3 Model - Standardised approach: exposures subject to CCR by regulatory exposure class and risk weight

	Exposure classes	Risk weighting factor											
		a	b	c	d	e	f	g	h	i	j	k	l
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other	Total exposure value
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
2	Regional administrations or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector bodies	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	13,668	299	-	-	55	-	-	14,023
7	Corporate	-	-	-	-	-	-	-	-	1,008	927	-	1,935
8	Retail exposures	-	-	-	-	-	-	-	-	-	-	-	-
9	Exposures to institutions and companies with assessment of short-term credi	-	-	-	-	-	-	-	-	-	-	-	-
10	Other positions	207,539	-	-	-	-	-	-	-	-	-	-	207,539
11	**Total exposure value 31/12/2021**	**207,539**	**-**	**-**	**-**	**13,668**	**299**	**-**	**-**	**1,063**	**927**	**-**	**223,496**
	Total exposure value 30/06/2021	**-**	**-**	**-**	**-**	**14,400**	**601**	**-**	**-**	**2,812**	**486**	**-**	**18,299**

EU CCR8 model: exposures to CCPs

		Exposure value	RWEA
		a	b
1	**Exposures to QCCP (total)**		**534**
2	Exposures for trading at QCCP (excluding the initial margin and contributions to the	-	-
3	*i) OTC derivatives*	-	-
4	*ii) exchange traded derivatives*	-	-
5	*iii) SFTs*	-	-
6	*products*	-	-
7	Separate initial margin	-	
8	Non-separate initial margin	-	-
9	Pre-financed contributions to the guarantee fund	-	534
10	Unfunded contributions to the guarantee fund	-	-
11	**Exposures to non-QCCP (total)**		**-**
12	Exposures for trading with non-QCCP (excluding initial margin and contributions to	-	-
13	*i) OTC derivatives*	-	-
14	*ii) exchange traded derivatives*	-	-
15	*iii) SFTs*	-	-
16	*products*	-	-
17	Separate initial margin	-	
18	Non-separate initial margin	-	-
19	Pre-financed contributions to the guarantee fund	-	-
20	Unfunded contributions to the guarantee fund	-	-

11. Exposure to positions involved in the securitisation (art. 449 CRR)

EU SECA table: qualitative disclosure obligations on securitisation exposures

Third party securitisations

During 2020, with a view to diversifying the securities portfolio and seeking attractive returns, the Bank invested 5 million euro in senior notes issued by Viveracqua, an SPV, maturing in 2034 and representing 6 bond issues by companies operating in the water sector.

Again with a view to diversifying its securities portfolio, in 2021 the following investments were made in senior tranches of third-party securitisations:

- Euro 30 million relating to a simple, transparent and standardised ("STS") senior issue of Kripton SPV with underlying loans to SMEs guaranteed by Medio Credito Centrale: at 31 December 2021, the transaction is still in the ramp-up phase and payments of around Euro 21.5 million have been made;
- Euro 15 million relating to a senior issue of the vehicle P2P Lendit with underlying consumer loans to individuals. At 31 December 2021, the transaction is still in the ramp-up phase and payments of around Euro 1.4 million have been made.

In 2020, the Bank subscribed Euro 50 million for an asset-backed security ("ABS") issued by Lumen SPV S.r.l. (special-purpose vehicle or "SPV"), representing medium/long-term loans granted by Credimi S.p.A. ("Originator") to SMEs and backed by guarantees from Medio Credito Centrale (MCC), as envisaged in Decree Law 23 dated 8 April 2020 (the "Liquidity" Decree).[13] In 2021, an additional issue by Lumen was subscribed, with underlying loans of the same type for an additional Euro 50 million.

The objectives of this initiative are to:

- obtain an expected return consistent with the risk profile of the operation with underlying loans that are guaranteed by Medio Credito Centrale;
- increase the number of customers with a target in line with the commercial and credit policies (geography, company size and expected loss of the portfolio);
- commence operations in fintech channels (co-branded portal) that provide clients with a fully on-line user experience that is simple and quick.

Own securitisations

In 2018, a securitisation was carried out that makes use of the Italian State guarantee on the senior securities issued following a securitisation of bad loans pursuant to Decree Law 18/2016 ("GACS") aimed at deconsolidating Banco Desio Group loans for a gross value of Euro 1.0 billion (the "Transaction").

The Transaction was structured in order to carry out the significant transfer of the credit risk associated with the securitised loans ("SRT") pursuant to art. 243 et seq. of Regulation (EU) no. 575/2013; the NPL portfolio sold on 12 June 2018 to "2Worlds s.r.l." (the special purpose vehicle or "SPV" set up specifically for this purpose) consists of mortgage or unsecured loan contracts granted by Banco di Desio e della Brianza and by Banca Popolare di Spoleto in favour of secured customers, i.e. with relationships guaranteed by mortgages, and unsecured customers, i.e. with relationships that do not have any collateral.

[13] These are so-called monotranche securities, conventionally presented among investments in securitisations for which information about the composition of the underlying portfolio is always available.

On 25 June 2018, the SPV issued the following types of asset-backed securities (ABS):

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

On 11 July 2018, the Banco Desio Group accepted the final binding agreement for the sale of 95% of the mezzanine and junior securities, which was finalised on 23 July 2018 by settling the transaction, which in turn permitted deconsolidation of the NPLs concerned.

On 3 October 2018, the Banco Desio Group received a formal communication that the Minister of Economy and Finance, with the provision of 5 September 2018, had granted the State guarantee on senior securities issued by the SPV with effect from the date of adoption of this provision, as the conditions laid down in Decree Law 18/2016 had already been fulfilled.

In December 2021, Banco Desio also participated in a multi-originator securitisation of bad loans with GACS government guarantee, carried out by the team of Cassa Centrale Banca (Buonconsiglio 4). In particular, on 15 December, the Bank finalised the non-revolving sale in the form of a securitisation, carried out pursuant to Law 130/1999 (the "Transaction") of a portfolio of NPLs with a gross book value (GBV) of Euro 22.9 million to the vehicle company "Buonconsiglio 4 S.r.l." ("SPV" or "Vehicle").

In order to fulfil the retention obligation referred to in: (i) art. 405, para. 1, of EU Regulation 575/2013 ("CRR"), (ii) art. 51, para. 1, of the Delegated Regulation (EU) 231/2013 ("AIMFD Regulation") and (iii) art. 254 of Delegated Regulation (EU) 35/2015 ("Solvency II Regulation"), the Group has decided to maintain a net economic interest of the nominal value of each Junior tranche (approximately 7%) and Mezzanine tranche (approximately 6%) transferred to third-party investors, in addition to maintaining 100% of the Senior tranche, pursuant to art. 405, para. 1(a) of the CRR. The sale price, equal to Euro 4.59 million (gross of collections of Euro 90 thousand relating to the period 1 August 2021 – 1 December 2021, as envisaged by the GACS Decree of 3 August 2016, art. 2, par., letter a), was recognised via BDB subscribing ABS securities ("Notes") issued by the SPV on 14 December 2021, in exchange for the NPLs acquired pro-rata from each selling bank. On 15 December 2021, Banco di Desio e della Brianza signed the final binding agreement for the sale by the originator bank of around 94% of the Mezzanine securities and 93% of the Junior securities formulated by a third-party institutional investor, for a pro-rata price of Euro 202,322, collecting the price on the date set out for settlement of the securities transactions, i.e. 17 December 2021. After the transaction was finalised in December, the application for a guarantee on the senior securities was sent to the Ministry of the Economy and Finance (MEF), which is still being processed. at the date of preparation of this document, the conditions have been met to recognise the significant risk transfer of the loans sold for prudential purposes.

Methods for calculating exposures

Banco Desio Group uses the standardised approach to calculate the capital requirement for amounts of exposures that have been securitised.

Accounting impact

The accounting policy adopted by Banco Desio Group for the treatment of and accounting for the securitisation of loans complies with IFRS 9 as regards the derecognition of financial assets and liabilities.
In the event of the substantial transfer to the transferee of all risks and benefits associated with the transferred assets, the standard requires the derecognition thereof and the recognition as a contra-entry of the consideration received as well as the recognition of any gain or loss arising from the disposal.
If the requirements of IFRS 9 have not been met, then the originator may not derecognise the assets, but should recognise, as a contra-entry to the consideration received, a liability for the amount due to the transferee without accounting for any gain or loss arising from the disposal. Furthermore, there should be no derecognition of assets if the originator transfers a part of its loans to an SPV in exchange for a subscription of securities (at least of a more junior class) issued by the latter and, thus, remains exposed to the risks and benefits associated with the transferred assets.
The securitisations completed by Banco Desio Group involving the sale of bad loans, following the sale of 95% of the junior and mezzanine notes, meet the derecognition requirements of IAS/IFRS and have therefore been accounted for in the manner described. As a contra-entry to the derecognition of the assets transferred, the bank has recognised the senior securities guaranteed by the government (measured at amortised cost) and 5% of the junior and mezzanine notes (mandatorily measured at fair value) and has accounted for the difference between the derecognised assets and the consideration received as a loss on disposal.

The exposure shown in the financial statements represents:

- the value of the senior securities at amortised cost and included in the held to collect portfolio (including upfront costs incurred and accrued interest accrued and net of the expected credit loss - ECL);
- the fair value of the mezzanine and junior notes held, recognised as financial assets mandatorily measured at fair value.

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EU SEC1 model: exposures to securitisation outside the trading book

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		The institution acts as transferor							The institution acts as sponsor				The institution acts as an investor			
		Traditional				Synthetic		Subtotal	Traditional		Synthetic	Subtotal	Traditional		Synthetic	Subtotal
		STS		Non-STS					STS	Non-STS			STS	Non-STS		
			of which SRT		of which SRT		of which SRT									
1	**Total exposures**	-	-	4,894	4,894	-	-	4,894	-	-	-	-	-	125,075	-	125,075
2	**Retail (total)**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Mortgage loans on residential	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Credit cards	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Other retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	**Wholesale (total)**	-	-	-	-	-	-	-	-	-	-	-	-	120,092	-	120,092
8	Loans to businesses	-	-	-	-	-	-	-	-	-	-	-	-	120,092	-	120,092
9	Mortgage loans on non-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
#	Leasing and Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
#	Other wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
#	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
#	**Total exposures at 31.12.2021**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

EU SEC3 Model - Exposures to securitisation outside the trading book and related regulatory capital requirements: the institution acts as seller or sponsor

		a	b	c	d	e	h	i	l	m	EU-p	EU-q
		Exposure values (by band of RW/deduction)					Exposure values (by regulatory approach)		RWEA (by regulatory approach)		Capital requirement after application of the ceiling	
		≤20% RW	FROM >20% TO 50% RW	FROM >50% TO 100% RW	FROM >100% TO <1250% RW	1250% RW/DEDUCTIONS	SEC-SA	1250% RW/DEDUCTIONS	SEC-SA	1250% RW/DEDUCTIONS	SEC-SA	1250% RW/DEDUCTIONS
1	**Total exposures**	**-**	**-**	**-**	**4,894**	**-**	**4,023**	**-**	**22,812**	**10,884**	**357**	**871**
2	**Traditional transactions**	**-**	**-**	**-**	**4,894**	**-**	**4,023**	**-**	**22,812**	**10,884**	**357**	**871**
3	Securitisations	-	-	-	4,894	-	4,023	-	22,812	10,884	357	871
4	Retail	-	-	-	4,894	-	4,023	-	22,812	10,884	357	871
5	*of which STS*	-	-	-	-	-	-	-	-	-	-	-
6	Wholesale	-	-	-	-	-	-	-	-	-	-	-
7	*of which STS*	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-
9	**Synthetic transactions**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
10	Securitisations	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-
14	**Total exposures at 31.12.2021**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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EU SEC4 Model - Exposures to securitisation outside the trading book and related regulatory capital requirements: the institution acts as investor

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	EU-p	EU-q
		Exposure values (by band of RW/deduction)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital requirement after application of the ceiling			
		≤20% RW	FROM >20% TO 50% RW	FROM >50% TO 100% RW	FROM >100% TO <1250% RW	1250% RW/DEDUCTIONS	SEC-IRBA	SEC-ERBA (INCLUDING IAA)	SEC-SA	1250% RW/DEDUCTIONS	SEC-IRBA	SEC-ERBA (INCLUDING IAA)	SEC-SA	1250% RW/DEDUCTIONS	SEC-IRBA	SEC-ERBA (INCLUDING IAA)	SEC-SA	1250% RW/DEDUCTIONS
1	**Total exposures**	**69,688**	**50,404**	**-**	**4,982**	**-**	**-**	**-**	**125,075**	**-**	**-**	**-**	**41,581**	**-**	**-**	**-**	**2,836**	**-**
2	**Traditional securitisation**	**69,688**	**50,404**	**-**	**4,982**	**-**	**-**	**-**	**125,075**	**-**	**-**	**-**	**41,581**	**-**	**-**	**-**	**2,836**	**-**
3	Securitisations	69,688	50,404	-	4,982	-	-	-	125,075	-	-	-	41,581	-	-	-	2,836	-
4	Retail underlying	-	-	-	4,982	-	-	-	4,982	-	-	-	9,862	-	-	-	399	-
5	*of which STS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Wholesale	69,688	50,404	-	-	-	-	-	120,092	-	-	-	31,719	-	-	-	2,437	-
7	*of which STS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	**Synthetic securitisation**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
10	Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	**Total exposures at 31.12.2021**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

EU SEC5 Model - Exposures securitised by the institution: defaulted exposures and specific credit risk adjustments

		a	b	c
		Exposures securitised by the institution - The institution acts as originator or sponsor		
		Total nominal amount outstanding		Total amount of specific credit risk adjustments made during the period
			of which exposures in default	
1	**Total exposures**	**182,437**	**-**	**39**
2	**Retail (total)**	**182,437**	**-**	**39**
3	Mortgage loans on residential properties	-	-	-
4	Credit cards	-	-	-
5	Other retail exposures	182,437	-	39
6	Re-securitisation	-	-	-
7	**Wholesale (total)**	**-**	**-**	**-**
8	Loans to businesses	-	-	-
9	Mortgage loans on non-residential properties	-	-	-
#	Leasing and Loans	-	-	-
#	Other wholesale	-	-	-
#	Re-securitisation	-	-	-
#	**Total 31/12/2021**	**-**	**-**	**-**

The exposures securitised by the institution refer to securities held as part of the sale of non-performing loans under the GACS scheme; outstanding exposures include Euro 172,542 thousand referring to senior exposures with a government guarantee, fully guaranteed and consequently not included in the previous tables.

12. Information on the use of the standardised approach for market risk (art. 15 reg. 2021/637)

EU MRA table: qualitative disclosure obligations on market risk

Capital requirements for market risk pertaining to the trading book are determined by using the standardised approach as required by supervisory regulations. This calculates the requirement based on a building-block approach, whereby the total requirement consists of the sum of the capital requirements for each individual risk. In the use of this approach, the Group complies with the applicable regulations (Circ. no. 285/13 Part Two – Chapter 9, Section I).

For a more accurate analysis of the strategies and processes for managing market risk, the structure and organisation of the risk management function and the relationships between the credit risk management, risk control and compliance control and internal audit, please refer to what has already been explained in paragraph 2. Information on risk management objectives and policies (art. 2 reg. 2021/637) - EU OVA table: institution's risk management method.

EU MR1 model: market risk based on the standardised approach

		a
		RWEA
	Outright products	
1	Interest rate risk (general and specific)	9,473
2	Equity risk (general and specific)	1,864
3	Currency risk	-
4	Commodities risk	-
	Options	
5	Simple approach	-
6	Delta plus approach	-
7	Scenario approach	-
8	Securitisation (specific risk)	-
9	**Total 31/12/2021**	**11,337**
	Total 30/06/2021	**12,309**

13. Operational risk (art. 446 CRR)

EU ORA table: qualitative information on operational risk

On account of the Group's organisational and operational characteristics as well as its size, it has been decided to apply the basic indicator approach (BIA) for the measurement of operational risk capital requirements. Based on this approach, the operational risk capital requirement is measured by applying the regulatory capital ratio of 15% to the average of the last three annual observations concerning an indicator of the volume of operations, determined in accordance with Art. 316 of Regulation (EU) 575/2013. This indicator is computed based on net interest and other banking income plus other operating income as adjusted for certain components (gains and losses realised on the sale of securities not included in the trading book, income from extraordinary or irregular items and insurance income).

For a more accurate analysis of operational risk management objectives and policies, please refer to what has already been explained in paragraph 2. Information on risk management objectives and policies (art. 2 reg. 2021/637) - EU OVA table: institution's risk management method.

EU OR1 Model: own funds requirements for operational risk and risk-weighted exposures

		a	b	c	d	e
		Relevant indicator			Own funds requirements	Amount of risk exposure
	Banking activities	Year-3	Year-2	Last year		
1	Banking activities subject to the basic indicator approach	409,809	376,662	433,407	60,994	762,424
2	Banking activities subject to the standardised approach (TSA)/alternative standardised approach (ASA)	-	-	-	-	-
3	Subject to the TSA	-	-	-		
4	Subject to the ASA	-	-	-		
5	Banking activities subject to advanced measurement	-	-	-	-	-

14. Information on the remuneration policy (art.17 reg.2021/637)

Qualitative information

EU REMA table: remuneration policy

a) Information relating to the bodies responsible for supervising remuneration.

BOARD OF DIRECTORS

Name and Surname	Role
Stefano Lado	Chairman
Tommaso Cartone	Deputy Chairman (resigned from 17.12.2021)
Alessandro Decio	Chief Executive Officer and General Manager
Graziella Bologna	Director
Valentina Casella	Director
Ulrico Dragoni	Director
Cristina Finocchi Mahne	Director
Agostino Gavazzi	Director
Tito Gavazzi	Director
Giulia Pusterla	Director
Laura Tulli	Director
Egidio Gavazzi (up to 19/6)	Director
Gerolamo Giuseppe Gavazzi (from 4/10)	Director

Remuneration Committee

Valentina Casella	Chairman of the Remuneration Committee
Laura Tulli	Member of the Remuneration Committee
Ulrico Dragoni	Member of the Remuneration Committee

Number of meetings in 2021: 9 (some in joint session with the Control, Risk and Sustainability Committee)

External consultants whose services were used, the body that appointed them and in which sector of the remuneration framework

The company Willis Towers Watson was appointed in 2021, on request of the CEO/GM, for assistance in defining the Report on the Remuneration Policy and Remuneration Paid.

Description of the scope of the Group's remuneration policy (e.g. by region, by business line), with an indication of the extent to which it is applicable to subsidiaries and branches located in third countries.

The remuneration policy is defined in two macro-types: one for key personnel and the other for other personnel. Among the potential beneficiaries, specific forecasts are distinguished with differentiated bonus targets based on the role of the persons involved (higher for those who form part of the "main lines of business")

Description of the personnel or categories whose professional activities have a material impact on the institution's risk profile.

The categories of personnel that have a significant impact on the risk profile of the company are those that are identified annually in accordance with the provisions in force, on the basis of qualitative and quantitative criteria, and correspond, in addition to the members of the Board of Directors, to the Chief Executive Officer/General Manager, to the Heads of the Central Departments, to the heads of the control functions and to those who hold roles falling within the qualitative and quantitative identification criteria of the PPR.

b) Information relating to the characteristics and structure of the remuneration system for key personnel.

Summary of the main characteristics and objectives of the remuneration policy and information on the decision-making process to define the remuneration policy and the role of the parties concerned

The 2021 remuneration policy provides that the remuneration systems adopted are in the interest of all stakeholders and in compliance with the indications of the Supervisory Body, aligned with the corporate strategy and objectives that are sustainable in the long term, connected with the company's results, appropriately corrected to take into account all types of risk, consistent with the levels of capital and liquidity needed to face the activities undertaken and, in any case, such as to avoid incentives that could lead to conflicts of interest and excessive risk taking.

At the same time, in consideration of the macroeconomic scenario and the recommendation by the Bank of Italy of a moderate, reasonable and proportionate approach in light of the current situation, an extremely prudent approach to the variable remuneration policy was confirmed for 2021 as well.

In consideration of the approval of the new Business Plan in December 2020, the Remuneration Policy for 2021 has defined the objectives of the incentive system in a way that is strictly integrated with the actions of the Plan in a medium-long term perspective, balancing economic-financial aspects and strategic actions consistent with the social responsibility that distinguishes the Group.

In summary, the main changes introduced in the 2021 Remuneration Report with respect to the remuneration policy approved by the shareholders in 2020 concern:

- Definition of an objectives sheet divided into an economic and financial macro area (value creation and risk management) and a macro area related to the activation of the strategic plan guidelines and specific initiatives.
- Formalisation of an approach to the definition of the overall "top-down" bonus pool strictly correlated to the level of RORAC with respect to the budget, as a further strengthening of the alignment between the overall system of variable remuneration and earnings that take into account the risks taken on, in addition to capital strength and liquidity.

- Progressive extension of the incentive system to the various area managers, in order to support the alignment between individual action and strategic objectives and strengthen the sense of teamwork in the achievement of corporate objectives.

- In line with the social responsibility that characterises the Group's long-term strategy, the ESG objectives pursued are made clear, with particular reference to environmental sustainability and inclusive management policies.

The policy, which was prepared with the contribution of the company functions concerned under the coordination of the Resources Department, was previously subjected to scrutiny by the Remuneration Committee, then approved by the Board of Directors and then submitted to the shareholders' vote at the AGM in April.

<u>Information on the criteria used for performance assessment and risk adjustment *ex ante* and *ex post*</u>

At the beginning of the year, criteria for evaluating the performance of individuals were defined, focused on qualitative/quantitative elements, formalised in an objective sheet divided into an economic and financial macro area (value creation and risk management) and a macro area related to activation of the strategic plan guidelines and specific initiatives.

For each KPI, specific targets to be achieved have previously been assigned and the Body that carries out the assessment has been identified *ex ante*.
The bonus can be reduced as far as zero (malus) in the event of disciplinary action or evidence of non-compliance due to excessive risk-taking, failure to comply with legal, statutory or code of ethics, conduct or violation of internal and/or external regulations resulting in a significant loss for the Bank or customers (as defined by the Board of Directors), including the ban on using personal hedging or insurance strategies on remuneration or other aspects that could alter or undermine risk alignment.
The Bank proceeds through clawbacks, in whole or in part, for the variable remuneration already paid and the interruption of the deferred components in case of evidence within 5 years from the accrual of the variable remuneration or from the payment of the same, of behaviour of the personnel that has determined or contributed to determining:

- violation of codes of ethics or conduct, and/or internal or external regulations which resulted in a significant loss for the Bank or its customers;

- violations of the obligations imposed pursuant to art. 26 or, when the subject is an interested party, of article 53, paragraphs 4 *et seq*., of the Consolidated Banking Act or of the obligations regarding remuneration and incentives;

- violations of the provisions of the Consolidated Law on Finance concerning the obligations regarding remuneration and incentives;

- fraudulent behaviour or gross negligence to the detriment of the Bank;

- as well as conduct resulting in disciplinary sanctions (from suspension from service to dismissal for just cause or justified subjective reason);

- limited to the Chief Executive Officer/General Manager and Executives with Strategic Responsibilities, in the event that, following a restatement of the financial statements, the overcoming of the conditions underlying the incentive component (access conditions and/or objectives) is not confirmed.

These forecasts are independent of any compensatory or disciplinary profiles and are activated also taking into account the contributory and fiscal profiles on the matter.

Review of the institution's remuneration policy over the last year and summary of any changes made, the reasons for these changes and the related impact on remuneration

In 2021, the Report on the Remuneration Policy and on the Compensation Paid was reviewed by the Corporate Bodies to bring it into line with the new regulations and best practices in the sector.
In summary, the main changes introduced in the 2021 Remuneration Report with respect to the remuneration policy approved by the shareholders in 2020 concern:

- Definition of an objectives sheet divided into an economic and financial macro area (value creation and risk management) and a macro area related to the activation of the strategic plan guidelines and specific initiatives.
- Formalisation of an approach to the definition of the overall "top-down" bonus pool strictly correlated to the level of RORAC with respect to the budget, as a further strengthening of the alignment between the overall system of variable remuneration and earnings that take into account the risks taken on, in addition to capital strength and liquidity.
- Progressive extension of the incentive system to the various area managers, in order to support the alignment between individual action and strategic objectives and strengthen the sense of teamwork in the achievement of corporate objectives.
- In line with the social responsibility that characterises the Group's long-term strategy, the ESG objectives pursued are made clear, with particular reference to environmental sustainability and inclusive management policies.

Information on how the institution ensures that persons in internal control functions are remunerated regardless of the activities they control

Those involved in control functions, with particular reference to key personnel, receive a fixed remuneration of an adequate amount to compensate for the limitation on variable remuneration attributable, in relation to performance, which in any case must be independent of parameters linked to profitability (in fact, for them the profitability gate is limited to a positive economic result and there are no indicators connected to the activities that they control in the context of their individual objectives sheet). Furthermore, for this category of personnel the Bank has defined more prudent target bonus percentages than the supervisory limits.

Policies and criteria applied for the recognition of guaranteed variable remuneration and termination indemnities

No amounts have been envisaged or paid out by way of guaranteed variable remuneration.

The Banco Desio Group adopts the following criteria for determining the compensation to be granted in the event of early termination of the employment relationship or early termination of office:

A) for all personnel

the limit on compensation is set at 2 years of fixed remuneration. For personnel hired under a subordinated employment contract, the possible definition of an amount of compensation for termination of the employment relationship within the limits mentioned above, is to be understood as supplementing the indemnity in lieu of notice and in lieu of possible additional benefits established by the CCNL;

the total amount disbursed to a single member of staff cannot in any case exceed the limit of € 1.5 million and the related amount is subject to clawback;

any remuneration paid is subject to the same malus and clawback rules envisaged for variable remuneration. In particular, the Bank takes action to have reimbursed the amounts paid in the event of an assessment, within 5 years from the payment of the immediate component or of the deferred component, of conduct on the part of employees, directors or collaborators who are beneficiaries of such amounts during their employment, in violation of internal or external rules or regulations, which have entailed a loss for the Bank that is considered "significant", violation of the conditions and of the limits for the assumption of risk assets towards those who can exercise influence on the management of the Bank and of the subjects connected to it (pursuant to art. 53 paragraphs 4 et seq. of the TUB), violation of the obligations regarding remuneration and incentives and fraudulent behaviour and gross negligence, with reference to Managers with Strategic Responsibilities, in the event of data relating to the gates or vesting conditions which subsequently proved to be manifestly incorrect.

B) for key personnel, in addition to the criteria indicated in sub A)

the amount is determined also taking into account the individual results of the person and the liquidity, capital and earnings situation of the Bank;

with reference to professionalism with particularly significant characteristics, such that the termination of the relationship may cause risks, the Bank reserves the right to define, on a case-by-case basis, non-competition agreements that provide for the recognition of a fee commensurate with the duration and extent of the constraint deriving from the agreement itself following the conclusion of the employment relationship and/or termination of office.

Consistently with the regulatory provisions, if the fees are defined within the limit of one year of fixed remuneration, they are not subject to verification of alignment with the overall results of the Bank, individual performance or duration of the employment relationship or the rules relating to the payment structure, with particular reference to deferral, malus and the connection between cash and financial instruments;

"Golden Parachutes" are included in the calculation of the proportion of variable remuneration with respect to the fixed remuneration of the last year of employment or tenure of office, with the exception of:

Amounts agreed and recognised by way of a non-competition agreement, for the portion which, for each year of duration of the agreement, does not exceed the last year of fixed remuneration;

Amounts agreed and recognised as part of an agreement between the bank and the staff, at any level of justice, for the settlement of a current or potential dispute, defined by multiplying

2 monthly payments for risk takers

6 months' wages for control functions

of the total annual remuneration (gross annual remuneration of the last year with the addition of the average of the amounts recognised as an annual incentive system, whether up-front or deferred, in the previous two years) by the number of years of service.

in any case within the maximum amount defined by the Shareholders' Meeting.

the amount will be paid in the manner provided for the variable remuneration of Risk Takers (deferral, correlation to the performance of the share for persons not belonging to the control functions, malus, clawback).

for key personnel hired under a subordinated employment contract, the disbursement methods envisaged for the variable remuneration of key risk takers are valid for the portion of the compensation that may exceed the amount due in lieu of notice calculated in accordance with the provisions of the National Collective Labour Agreement and for the amount of the PNC that exceeds the last year of fixed remuneration.

C) for the other personnel, in addition to the general criteria indicated in sub A):

the amounts agreed in view of or on the occasion of the early termination of the employment relationship are included in the calculation of the proportion of variable remuneration with respect to the fixed remuneration of the last year of employment or duration of the office, with the exception of:

amounts agreed and recognised as part of an agreement between the bank and the staff, at any level of justice, for the settlement of a current or potential dispute, defined by multiplying

2 monthly payments of the total annual remuneration (gross annual remuneration of the last year with the addition of the average of the amounts recognised as a cash incentive system in the previous two years) by the number of years of service.

in any case within the maximum amount defined by the Shareholders' Meeting.

with reference to professionalism with particularly significant characteristics, such that the termination of the relationship may cause risks, the Bank reserves the right to define, on a case-by-case basis, in continuous employment or in view of or on the occasion of the termination of the employment relationship, non-competition agreements that provide for the recognition of a fee commensurate with the duration and extent of the constraint deriving from the agreement itself following the conclusion of the employment relationship and/or termination of office.

If the fees relating to the non-competition agreements are defined within the limit of one year of the fixed remuneration, they are not subject to the limit of the variable/fixed ratio, as defined in these provisions.

If the fees relating to the non-competition agreements are defined for an overall amount that exceeds the limit of one year of fixed remuneration, they are considered variable remuneration and the related allocation and disbursement are subject to verification of compliance with the capital, financial and liquidity situation of the Group and contribute to the definition of the limit on variable remuneration with respect to fixed remuneration. In this case, by way of exception, this limit can derogate from the proportion of 1:1 and in any case within a maximum of 2:1.

This without prejudice to the provisions of Circular 285 paragraph 2.2.3 "Exemptions" point 1 as regards incentives for redundancies.

c) Description of how current and future risks are taken into account in remuneration processes. The information includes a summary of the main risks, their measurement and how these measurements affect remuneration

The Bank's incentive system is structured in such a way that the determination of variable remuneration takes into account current and future risks through various mechanisms, all defined in compliance with the risk profile determined by the Risk Appetite Framework.

First of all, the payment of variable remuneration for both key personnel and the other personnel is envisaged only if the conditions for access to the system are met (the so-called "gate objectives").

To this end, the risk indicators taken into consideration are the main indicators relating to capitalisation and liquidity which, in total consistency with what is established in the Bank's Risk Appetite Framework, must be higher than the tolerance threshold set for each of them.

More in detail, the CET1 and Total Capital Ratios are taken into consideration as regards capitalisation, and the Liquidity Coverage Ratio (LCR) and the internal Structural Liquidity Index are taken into consideration as regards liquidity.

In addition to this, approach to the definition of the overall "top-down" bonus pool, strictly correlated to the level of RORAC with respect to the budget, as a further strengthening of the alignment between the overall system of variable remuneration and earnings that take into account the risks taken on, in addition to capital strength and liquidity.

In fact, as regards determination of the bonuses of the Parent Company's PPR, excluding the control functions, the incentive system is activated only when a level of RORAC is reached that is at least equal to 80% of the target RORAC envisaged in the budget; and, if this condition comes about, the bonus pool for key personnel is determined on the basis of the RORAC achieved according to a predetermined correlation.

d) The ratios between the fixed and variable components of remuneration established in accordance with art. 94 (1) (g) of the CRD.

The remuneration policy defined by the Group lays down a ratio of 1:1 between the fixed and variable components of remuneration for key personnel not belonging to the control functions, while for resources belonging to the control functions the limit was set at 1/3.

For the "other personnel", the remuneration policy establishes a limit on the cash incentive component payable of 40% with respect to their fixed remuneration. The entire variable remuneration must in any case fall within the maximum limit of 1:1.

e) Description of how the institution seeks to link performance over the assessment period to remuneration levels. The information includes: - a summary of the main performance criteria and metrics of the institution, business lines and individual persons; - a summary of how the individual variable remuneration amounts are linked to persons and institution performance; - information on the criteria used to determine the balance between the different types of recognized instruments, including shares, equity investments, options and other instruments; - information on the measures

that the institution will implement to adjust the variable component of remuneration in the event that the performance measurement metrics are weak, including the institution's criteria for establishing that these metrics are "weak".

The remuneration system is closely linked to performance. In particular:

it is activated above all when the Group reaches certain consolidated goals ("gate objectives" in terms of liquidity, capital and earnings);

for "key personnel", excluding control functions, it provides for a bonus pool that can vary (both up and down) depending on the achievement of the objectives in terms of the ratio between Return on Risk Adjusted Capital[14] (RORAC), thus closely linking the Group's results adjusted for the risks assumed and the bonus paid; the system only activates at a level of RORAC equal to at least 80% of the RORAC envisaged in the budget.

For the other personnel, it provides for a bonus pool calculated as a percentage of the pre-tax profit (with a view to self-financing);

it envisages an objective sheet that balances the objectives of value creation and risk management and the objectives connected to the plan and the creation of sustainable value for the various stakeholders, with a minimum individual performance threshold of 80% to access the bonus;

for key personnel, the system provides for a deferral of 60% of the accrued bonus for 2 years, the related disbursement is subject to capital, liquidity and earnings conditions and linked to the performance of the stock. The balancing of the variable remuneration between the portion paid in cash and the portion paid in financial instruments is ensured by the correlation provided by the system between the determination of the deferred amounts and the performance of the ordinary stock, by virtue of an indexing mechanism, in line with the forecasts of the 25th update of Circular 285 for so-called "intermediate" banks.

f) Description of how the institution seeks to adjust remuneration to take into account long-term performance. The information includes: - a summary of the institution's policy on deferral, payment in instruments, retention periods and accruals of variable remuneration, even where it differs between members of staff or categories of staff; - information on the institution's criteria for ex post adjustments (malus during the deferral and return period after vesting, if allowed by national law); - if applicable, shareholding requirements that may be imposed on key personnel.

Once the amount of the bonus has been defined, within the limits and according to the defined targets and taking into account the overall bonus pool accrued, this is paid, in accordance with the provisions of the relevant legislation, according to the following scheme.

[14] The "absorbed capital" is calculated according to the methodologies and criteria developed in the ICAAP document.

T	t+1	t+2	t+3
Year of economic competence of the accrued bonus	**40%** **<u>Payment of the bonus</u>**	**30%** <u>Subjected to gate verification in year t +1:</u> - Capital -Liquidity - Positive consolidated result adjusted for current operations before tax **<u>Payment of the bonus</u>** *corrected for the change in the stock price between t+1 and t+2 with a corridor of +/- 20%.*	**30%** <u>Subjected to gate verification in year t+2:</u> - Capital -Liquidity - Positive consolidated result adjusted for current operations before tax **<u>Payment of the bonus</u>** *corrected for the change in the stock price between t+1 and t+3 with a corridor of +/- 20%*

The amounts deferred to year “t+2” and “t+3” are corrected for the change in the price of the BDB ordinary stock between year “t+1” and the date of disbursement, with a corridor of +/- 20%.
With reference to the information required by art. 114 bis of Legislative Decree 58/1998, note that the amount of the deferred bonus may increase or decrease, up to a maximum of +/- 20%, based on the performance of Banco Desio's ordinary stock over the time elapsing between the accrual of the bonus and the deferral period.
The price reference for the Incentive Plan for Banco Desio's Management is constituted each year by the average market price of Banco di Desio e della Brianza S.p.a.'s ordinary shares in the 30 days prior to the date of approval of the financial statements of the previous year.

Lastly, as for the variable components of the remaining key personnel, the incentive system is subject,to Malus and Clawback clauses. The bonus can be reduced as far as zero (malus) in the event of disciplinary action or evidence of non-compliance due to excessive risk-taking, failure to comply with legal, statutory or code of ethics, conduct or violation of internal and/or external regulations resulting in a significant loss for the Bank or customers (as defined by the Board of Directors), including the ban on using personal hedging or insurance strategies on remuneration or other aspects that could alter or undermine risk alignment.
The Bank proceeds through clawbacks, in whole or in part, for the variable remuneration already paid and the interruption of the deferred components in case of evidence within 5 years from the accrual of the variable remuneration or from the payment of the same, of behaviour of the personnel that has determined or contributed to determining:

- violation of codes of ethics or conduct, and/or internal or external regulations which resulted in a significant loss for the Bank or customers;
- violations of the obligations imposed pursuant to art. 26 or, when the subject is an interested party, of article 53, paragraphs 4 *et seq*., of the Consolidated Banking Act or of the obligations regarding remuneration and incentives;

- violations of the provisions of the Consolidated Law on Finance concerning the obligations regarding remuneration and incentives;
- fraudulent behaviour or gross negligence to the detriment of the Bank;
- as well as conduct resulting in disciplinary sanctions (from suspension from service to dismissal for just cause or justified subjective reason);
- limited to the Chief Executive Officer/General Manager and Executives with Strategic Responsibilities, in the event that, following a restatement of the financial statements, the overcoming of the conditions underlying the incentive component (access conditions and/or objectives) is not confirmed.

These forecasts are independent of any compensatory or disciplinary profiles and are activated also taking into account the contributory and fiscal profiles on the matter.

g) A description of the main parameters and rationales for any variable remuneration scheme and any other non-monetary benefit in accordance with Article 450 (1) (f) of the CRR. The information includes: - information on the specific performance indicators used to determine the variable components of remuneration and the criteria used to determine the balance between the different types of recognised instruments, including shares, equivalent equity investments, instruments linked to shares, equivalent non-monetary instruments, options and other instruments.

The variable components of remuneration are balanced between a part (40%) disbursed in cash in year "t+1" and another part (60%) deferred over two years ("t+2" and "t+3").
The deferred amounts are corrected for the change in the price of the BDB ordinary stock between year "t+1" and the date of disbursement, with a corridor of +/- 20%.
The amount of the deferred bonus may increase or decrease, up to a maximum of +/- 20%, based on the performance of Banco Desio's ordinary stock over the time elapsing between the accrual of the bonus and the deferral period.
The price reference for the Incentive Plan for Banco Desio's Management is constituted each year by the average market price of Banco di Desio e della Brianza S.p.a.'s ordinary shares in the 30 days prior to the date of approval of the financial statements of the previous year.

As regards the definition of individual objectives, in order to link the bonuses accrued to the performance and objectives achieved at the level of the company function and individually, each member of staff involved receives annually an objectives sheet including individual qualitative and quantitative objectives.
The objective sheets are structured in strategic areas of quantitative performance (value creation and risk management) and qualitative performance (activation of strategic plan guidelines and implementation of initiatives), in order to balance qualitative and quantitative elements and ensure a medium/long-term perspective.

h) At the request of the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management.

See following tables.

i) Information on whether a waiver as per art. 94 (3) of the CRD has been applied to the institution in accordance with art. 450 (1) (k) of the CRR. - For the purposes of this point, institutions benefiting from this exemption indicate whether it is based on art. 94 (3) (a) and/or (b) of the CRD. They also indicate to which of the remuneration principles the exemption or exemptions apply, the number of members of staff benefiting from the exemption or exemptions and their overall remuneration, divided into fixed and variable remuneration.

The remuneration policy defined by the Group for 2021 envisages a materiality threshold of Euro 30,000 at which the variable remuneration is paid in cash, up front, without deferral.
The exemption in question is based on article 94 paragraph 3b. There were 8 members of key personnel to whom the rule was applied for the fixed and variable remuneration shown below.

Exemption for application of the materiality threshold	
PPR number for which the exemption has been applied	8
fixed remuneration	€ 791,941
variable remuneration	€ 144,953

Quantitative information [15]

EU REM1 model: remuneration paid in the year

			a	b	c	d
			Management body - strategic superv isory function	Management body - management function	Other members of senior management	Other key personnel
1	Fixed remuneration	Number of key personnel	15	6	10	8
2		Total fixed remuneration	1,685,812	1,179,149	1,699,836	1,028,107
3		Of which in cash	1,685,812	1,179,149	1,699,836	1,028,107
9	Variable remuneration	Number of key personnel	1	2	10	8
10		Total v ariable remuneration	19,000	482,934	500,169	154,816
11		Of which in cash	19,000	203,445	264,190	135,334
EU-13b		Of which equity-related instruments or equiv alent non-monetary instruments	-	279,489	235,979	19,482
17	Total remuneration (2 + 10)		1,704,812	1,662,083	2,200,005	1,182,923

* for v ariable remuneration, we used the data currently av ailable on the company bonus pursuant to art. 48 of the national collectiv e labour contract (CCNL) pertaining to 2020 and paid in 2021.

EU REM2 Model: special payments to key personnel whose professional activities have a material impact on the bank's risk profile.

Non applicable.

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15 The tables in this section are drawn up in euro units.

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EU REM3 model: deferred remuneration

		a	b	c	d	e	f	EU-g	EU-h
	Deferred remuneration subject to maintenance	Total amount of deferred remuneration awarded for previous periods of service	Of which amounts accruing during the year	Of which amounts that will accrue in subsequent years	Amount of the performance correction made during the year to the deferred remuneration that should have accrued during the year	Amount of the performance correction made during the year to the deferred remuneration that should have accrued in subsequent years of service	Total amount of corrections made during the year due to implicit *ex post* corrections (i.e. changes in the value of the deferred remuneration due to changes in the prices of the instruments)	Total amount of deferred remuneration awarded before the year, but paid during the year	Total amount of deferred remuneration awarded for the previous performance period that has been accrued but subject to maintenance periods
1	Management body - strategic supervisory function	30,000	15,000	15,000			-340	14,660	
4	Instruments linked to shares or equivalent non-monetary instruments	30,000	15,000	15,000			-340	14,660	
7	Management body - management function	57,184	10,413	46,771			-236	10,177	
10	Equity-linked instruments or equivalent non-monetary instruments	57,184	10,413	46,771			-236	10,177	
13	Other members of senior management	113,478	47,379	66,099			-316	47,063	
14	Cash	85,578	33,429	52,149				33,429	
16	Instruments linked to shares or equivalent non-monetary instruments	27,900	13,950	13,950			-316	13,634	
19	Other key personnel	41,546	20,773	20,773			-250	20,523	
20	Cash	19,452	9,726	9,726				9,726	
22	Instruments linked to shares or equivalent non-monetary instruments	22,094	11,047	11,047			-250	10,797	
25	Total amount	242,208	93,565	148,643			-1,142	92,423	

EU REM4 Model: remuneration of Euro 1 million or more per year

Non applicable.

EU REM5 Model: information on the remuneration of key personnel whose professional activities have a material impact on the bank's risk profile

		a	b	c	d	e	f	g	h	i	j
		Remuneration of the administrative body			Business areas						
		Management body - strategic supervisory function	Management body - management function	Total administrative body	Investment bank	Retail banking services	Asset management	Business functions	Independent internal control functions	All others	Total
1	Total number of key personnel										39
2	Of which members of the administrative body	15	6	21							
3	Of which other members of senior management					4	1	5			
4	Of which other key personnel					5			3		
5	Overall remuneration of key personnel	1,704,812	1,662,083	3,366,895		1,710,108	139,399	1,096,435	436,986		
6	Of which variable remuneration	19,000	482,934	501,934		394,415	38,196	193,365	29,009		
7	Of which fixed remuneration	1,685,812	1,179,149	2,864,961		1,315,693	101,203	903,070	407,977		

* for variable remuneration, we used the data currently available on the company bonus pursuant to art. 48 of the national collective labour contract (CCNL) pertaining to 2020 and paid in 2021.

15. Disclosure on encumbered and unencumbered assets (art.18 reg. 2021/637)

EU AE4 table: accompanying descriptive information

The Group offers a portion of its assets as collateral for the following purposes:

- secured financing transactions;
- central bank facilities;
- collateral agreements;
- collateral provided under netting arrangements.

Encumbered assets consist of debt securities and loans recognised in the financial statements. Debt securities, which are mainly Italian Government bonds, are offered as collateral for short to medium term funding by means of operations to access to central bank facilities.
Loans, which account for approximately 75.7% of secured assets, have been offered as collateral for the following:

- issues of covered bonds;
- access to European Central Bank facilities.

Collateral provided for the TLTRO III refinancing operations of Euro 3.85 billion with the European Central Bank consist of A.Ba.Co. loans and debt securities.

EU AE1 Model - Encumbered and unencumbered assets

			Carrying value of encumbered assets		Fair value of encumbered assets		Carrying value of unencumbered assets		Fair value of unencumbered assets	
				of which notionally admissible EHQLA and		of which notionally admissible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
			010	030	040	050	060	080	090	100
010	**Activities of the institution that publishes the information**	**Activities of the institution that publishes the information**	**5,956,853**	**4,361,050**			**11,532,984**	**3,359,535**		
030	Equity instruments	Equity instruments	-	-	-	-	81,611	-	81,472	-
040	Debt securities	Debt securities	1,507,116	1,507,116	1,524,222	1,524,222	2,061,246	1,477,555	2,085,367	1,503,572
050	of which cov ered bonds	of which cov ered bonds	-	-	-	-	8,011	8,011	8,155	8,155
060	*of which securitisations*	*of which securitisations*	-	-	-	-	*277,480*	-	*291,666*	-
070	*of which issued by public administrations*	*of which issued by public administrations*	*1,499,150*	*1,499,150*	*1,516,236*	*1,516,236*	*1,228,491*	*1,227,757*	*1,255,048*	*1,255,048*
080	*of which issued by financial companies*	*of which issued by financial companies*	*3,285*	*3,294*	*3,297*	*3,297*	*776,798*	*214,307*	*803,602*	*220,960*
090	*of which issued by non-financial companies*	*of which issued by non-financial companies*	-	-	-	-	*52,648*	*34,858*	*52,875*	*34,980*
120	Other activ ities	Other activ ities	4,508,770	2,901,115			9,438,348	1,850,798		
	Activities of the institution that publishes the information at 3	**Activities of the institution that publishes the information**	**4,026,323**	**n.d.**			**10,915,464**	**n.d.**		

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EU AE2 model: collateral received and own debt securities

		Fair value of collateral received or own encumbered debt securities issued		Not encumbered	
				Fair value of collateral received or own unencumbered debt securities issued	
			of which notionally admissible		of which EHQLA and HQLA
		010	030	040	060
130	**Collateral received by the institution that publishes the information**	**-**	**-**	**-**	**14,305,179**
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	168,930
160	Debt securities	-	-	-	221,513
170	*of which covered bonds*	-	-	-	-
180	*of which securitisations*	-	-	-	-
190	*of which issued by public administrations*	-	-	-	*120,187*
200	*of which issued by financial companies*	-	-	-	*88,323*
210	*of which issued by non-financial companies*	-	-	-	*12,197*
220	Loans and advances other than loans on demand	-	-	-	20,006
230	Other collateral received	-	-	-	13,894,708
240	**Own debt securities issued other than covered bonds or own securitisations**	**-**	**-**	**-**	**-**
241	**Own covered bonds and securitisations issued not yet pledged as collateral**			**-**	**-**
250	**TOTAL OF REAL GUARANTEES RECEIVED AND OWN DEBT SECURITIES ISSUED AT**	**5,956,853**	**582,204**		
	TOTAL OF REAL GUARANTEES RECEIVED AND OWN DEBT SECURITIES ISSUED AT 31/12/2020	**4,026,323**	**n.d.**		

EU AE3 model: sources of encumbrance

		Matching liabilities, contingent liabilities or loaned securities	Assets, collateral received and own debt securities issued other than covered bonds and securitisations, encumbered
		010	030
010	**Carrying value of selected financial liabilities**	**4,888,340**	**5,956,853**
	Carrying value of selected financial liabilities at 31/12/2020	**3,120,427**	**4,026,323**

16. Information on exposure to interest rate risk on position not included in the trading portfolio (art. 448 CRR)

Qualitative information

For the purposes of regulatory supervision, the Group uses the calculation methods provided for by the relevant legislation, Circular no. 285 of 2013 (Part One, Title III, Chapter 1, Annex C and C-bis) and respecting the criteria defined by the EBA guidelines (ABE/GL/2018/02).
To determine the banking book's exposure to interest rate risk, the Group measures the potential impacts on the economic value and on the net interest income, considering different scenarios of variance in the level and shape of the yield curve, as envisaged by supervisory regulations and respecting the criteria defined by the EBA guidelines with the application of the minimum floor at the post shock rate.
In line with its belonging to regulatory class 2, the Group adopts an approach that incorporates some changes with respect to the application of the simplified approach proposed by Circular no. 285.
The main modelling assumptions refer to the use of management data, performed on the basis of the results of the internal repricing gap model and on the application of a statistical-behavioural model for items with no contractual expiry date.

Quantitative information

The sensitivity of economic value is calculated by applying the interest rate shocks as defined by the EBA guidelines (ABE/GL/2018/02), referring only to the euro as the other currencies are not relevant:

- parallel upside shock (+200bp);
- parallel downside shock (-200bp);
- steepener shock (fall in short-term rates and rise in long-term rates);
- flattener shock (rise in short-term rates and fall in long-term rates);
- short-term rate shock up;
- long-term rate shock down.

The table below provides a representation of the change in the economic value for each rate shock; the values as at 30/06/21 are shown for consistency with the evolution of the model that took place in the first half of the year.

(figures in € mn)	***Change in Economic Value***	
Rate shock	**31/12/2021**	**30/06/2021**
parallel upside shock (+200bp;	*-132.493*	*-92.183*
parallel downside shock (-200bp)	*48.854*	*28.882*
steepener shock	*-113.326*	*-94.327*
flattener shock;	*100.074*	*84.978*
short-term rate shock up	*60.352*	*58.388*
long-term rate shock down	*-5.919*	*-4.902*

The bank is structurally exposed to the risk of rate hikes from the perspective of economic value sensitivity. This exposure increased in 2021 mainly due to the decrease in MLT fixed rate funding following the natural maturity in the absence of renewal, due to the shift in the shorter time bands of TLTRO and of the covered bonds issued as the natural maturities and the increase in fixed-rate assets over longer maturities, such as financial and instalment instruments.
Exposure to risk remains within the limits defined by the prudential supervisory regulations (Circular no. 285 of 2013).

The sensitivity of net interest income is calculated on an annual basis on the assumption of a constant balance sheet, starting from the effective repricing date until the end of the simulation period, with the application of prudential interest rate shocks envisaged by the regulations. Only the euro is material as other currencies are not relevant:

- parallel upside shock (+200bp);
- parallel downside shock (-200bp);

The table below provides a representation of the change in economic value for each rate shock.

(figures in € mn)	***Change in net interest income***
Rate shock	**31/12/2021**
parallel upside shock (+200bp)	*68.890*
parallel downside shock (-200bp)	*-17.231*

The bank is structurally exposed to the risk of a fall in interest rates, from the perspective of net interest income.

17. Moratoriums granted and new disbursements subject to public guarantee schemes in the context of Covid-19 (EBA/GL/2020/07)

The social and economic emergency caused by Covid-19 led to the need for pro-active credit risk management. To this end, a series of initiatives were undertaken to provide customer support and monitor portfolio risk.

Given that we understood the strong economic impact of the epidemic on people and companies and in line with our values as a territorial bank, close to households and businesses, the Group took the following steps to support our customers during 2020: extension of the "ABI Credit Agreement 2019" in favour of companies, steps to support corporate and retail customers such as suspension of the principal portion of mortgages for 6 or 12 months, free renegotiation fees where applicable, no change in the rates and charges applied, non-compulsory extension of the explosion-fire insurance coverage for mortgage and land loans. The Group then shared and promoted the support measures introduced by the "Cure Italy" Decree of 17 March 2020 and the "Liquidity" Decree of 8 April 2020, continuing this action during the current year.

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 them.

Overall, as of 31 December 2021, the Banco Desio Group has granted:

a) loans of up to Euro 30 thousand backed 100% by the Guarantee Fund for SMEs (art.13 of the Liquidity Decree) equal to approximately 15 thousand relationships for a total of approximately Euro 0.3 billion,

b) loans of more than Euro 30 thousand backed 90% by the Guarantee Fund for SMEs (art.13 of the Liquidity Decree) equal to approximately 8 thousand relationships for a total of approximately Euro 2.1 billion,

c) Sace guarantee backed loans for Corporate businesses of Euro 156 million.

Since the beginning of the pandemic, the Banco Desio Group has also approved moratoriums pursuant to law and ABI/Assofin agreements, as well as those granted independently by the Bank for over 2.9 billion euro (approximately 23 thousand relationships); at 31 December 2021, there are still some active moratoriums for approximately € 0.6 billion, mainly attributable to moratoriums pursuant to law (Art. 56 of the Liquidity Decree), on which regular amortisation is in most cases expected to resume in early 2022.

The concessions or suspensions carried out for "COVID" legislative purposes, requested by customers by 30 September 2020, were not 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. Since the last quarter of 2020, a series of detailed checks have been 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 were also carried out in the last quarter of 2021 and the results were reported to the Board of Directors. They had limited effects on the classification of exposures as impaired.

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 and amount - in order to identify the strategies to be adopted in terms of support and the mitigation of risk.

Considering, in addition, that the latent riskiness of a cluster of exposures at the reference date cannot be fully reflected in the models for measuring expected losses pursuant to IFRS 9 in terms of staging allocation, due to the application of expected losses as a result of the specific situation that the government support measures continue to create on the liquidity of businesses and the normal monitoring of loans (past-due amounts, financial tensions, etc.), the Group deemed it appropriate to adopt a prudent approach in line with that required by ESMA in the "European Common Enforcement Priorities for 2021 Annual Financial Reports" in assessing the long-term impacts of Covid-19, defining post model adjustments ("management overlays") which consider the following for the transfer to stage 2:

- the moratoriums on mortgages still outstanding as at 30 September 2021, mainly consisting of legislative moratoriums pursuant to art. 56 of the so-called Liquidity Decree are subject to further extension during the year,
- the updating of the analyses on the attractiveness of the sectors carried out by the Bank starting from Prometeia sector studies, focused on ratings equal to or worse than the median class (rating 5).

Within positions in stage 2, for loans to businesses, specific high risk clusters were identified, on which to apply increasing minimum coverage:

- Cluster 1: active moratoriums (in force at 30 September 2021) with rating classes 1-3 and moratoriums expired before 30 September 2021 for sectors with low attractiveness;
- Cluster 2: active moratoriums with rating classes 1-3 for sectors with low attractiveness;
- Cluster 3: active moratoriums with ratings >= 4 and other loans in sectors with loan attractiveness (ratings >=7);
- Cluster 4: active moratoriums with ratings >= 4 for sectors with low attractiveness.

The moratoriums in force at 30 September 2021 or subsequently on loans to individual customers were considered a single risk cluster on which to apply a minimum coverage level which could reflect higher underlying risk.

To define the minimum coverage to apply to the various clusters identified, within a range from 3% to 13%, the average coverage levels expressed by the model on different risk stages were considered.

The disclosure required according to the EBA/GL/2020/07 formats is provided below with reference to the moratoriums granted and the new disbursements subject to public guarantee schemes in the context of Covid-19 as of 31 December 2021. The legislative moratoriums shown in table 2 are moratoriums on both principal and interest, while the other moratoriums granted by the bank (including the ABI and Assofin moratoriums) are only for principal.
With reference to the disbursements in table 3, they consist of liquidity disbursements with a maximum duration of 10 years guaranteed by MCC and Sace, for an amount included, depending on the characteristics of the borrower and the amount requested, between 80% and 100% of the amount disbursed. The increase in guaranteed disbursements compared with 31 December 2020, at around 0.6 billion euro, is evidence of a continuation of the derisking measures on the loan book already taken last year and of the economic support provided by the Group through the provision of new liquidity to businesses.

Model 1. Information on loans and advances subject to legislative and non-legislative moratoriums

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying value							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying value
			Performing			Non-performing				Performing			Non-performing			Inflows into non-performing exposures
				Of which: exposures subject to forbearance	Of which: instruments with a significant increase in credit risk after initial recognition, but which are not non-performing (Phase 2)		Of which: exposures subject to forbearance	Of which: probable defaults that have not expired or which have not been past due for more than 90 days			Of which: exposures subject to forbearance	Of which: instruments with a significant increase in credit risk after initial recognition, but which are not non-performing (Phase 2)		Of which: exposures subject to forbearance	Of which: probable defaults that have not expired or which have not been past due for more than 90 days	
1	Loans and advances subject to a moratorium	**574,125**	542,065	100,552	525,104	32,059	21,501	26,324	**(59,315)**	(48,531)	(10,967)	(48,431)	(10,784)	(7,532)	(8,369)	17,301
2	of which: to households	**78,278**	76,240	18,049	73,409	2,038	1,892	1,889	**(6,129)**	(5,440)	(1,575)	(5,425)	(689)	(643)	(624)	1,183
3	*of which: secured by residential real estate as collateral*	**36,157**	34,677	8,246	34,441	1,481	1,481	1,380	**(2,782)**	(2,271)	(554)	(2,271)	(511)	(511)	(466)	1,051
4	of which: to non-financial companies	**489,861**	460,004	81,530	449,125	29,857	19,609	24,338	**(52,995)**	(42,946)	(9,340)	(42,875)	(10,048)	(6,889)	(7,710)	16,118
5	*of which: to small and medium-sized enterprises*	**475,011**	446,803	80,091	437,781	28,207	18,511	23,272	**(51,540)**	(42,203)	(9,153)	(42,139)	(9,337)	(6,398)	(7,265)	15,606
6	*of which: secured by non-residential real estate as collateral*	**298,287**	279,484	66,635	279,075	18,802	12,333	16,502	**(35,945)**	(29,938)	(7,929)	(29,932)	(6,007)	(4,061)	(5,284)	10,153

Model 2. Breakdown of advance loans subject to legislative and non-legislative moratoriums by residual duration of the moratoriums

		a	b	c	d	e	f	g	h	i
			Gross carrying value							
		Number of debtors		Of which: legislative moratoriums	Of which: past due	Residual duration of the moratoriums				
						<= 3 months	> 3 months <= 6 months	<= 9 months	<= 12 months	> 1 year
1	Loans and advances for which a moratorium has been offered	14,743	**2,072,942**							
2	Loans and advances subject to a moratorium (granted)	14,537	**2,072,942**	1,338,006	1,498,817	527,263	40,180	1,179	1,129	4,373
3	of which: to households		**711,645**	370,075	633,367	55,845	20,728	737	746	222
4	of which: secured by residential real estate as collateral		**562,476**	280,169	526,319	20,127	14,339	737	746	208
5	of which: to non-financial companies		**1,338,295**	957,970	848,434	465,433	19,452	442	383	4,151
6	of which: to small and medium-sized enterprises		**1,149,531**	862,477	674,520	453,118	19,412	442	383	1,655
7	of which: secured by non-residential real estate as collateral		**624,718**	471,966	326,432	278,510	15,451	422	-	3,903

Model 3. Information on new loans and advances subject to newly applied public guarantee schemes introduced in response to the Covid-19 crisis

		a	b	c	d
		Gross carrying value		Maximum amount of the collateral that can be considered	Gross carrying value
			of which: subject to forbearance	Public guarantees received	Inflows into non-performing exposures
1	**New loans and advances subject to public guarantee schemes**	**2,439,784**	**8,723**	**2,089,533**	**12,484**
2	of which: to households	177,322			-
3	of which: secured by residential real estate as collateral	-			-
4	of which: to non-financial companies	2,255,945	8,502	1,919,738	11,886
5	of which: to small and medium-sized enterprises	1,910,811			-
6	of which: secured by non-residential real estate as collateral	-			-

18. Glossary

- **ABS (Asset Backed Securities)**

Debt securities, generally issued by a special purpose vehicle (SPV), backed by various types of asset portfolios (loans, consumer credit, credit arising from credit card transactions, etc.) and that are designed solely for the satisfaction of the rights incorporated in the securities. The redemption of principal and the payment of interest are subject to the performance of the securitised assets and any additional collateral backing the transaction. ABS securities are subdivided into various tranches (senior, mezzanine, junior) based on the priority assigned thereto for repayment of principal and interest.

- **AIRB (Advanced Internal Rating Based)**

Method that requires an estimation by the financial intermediary of all the key risk parameters (specifically, PD, LGD and EAD, as defined below) used in weighting formulas for the calculation of the minimum regulatory capital requirement for credit risk.

- **ALM (Asset & Liability Management)**

Integrated process for management of assets and liabilities (on-balance sheet and endorsement exposures, including derivative positions) designed to ensure the governance of exposure to financial risks in line with risk objectives and limits, as well as the optimisation of the intermediary's risk-yield profile.

- **AQR (Asset Quality Review)**

Review of asset quality. This is a general control promoted by the European Central Bank, the objective of which is to verify the solidity of major European banks, to increase the transparency of their financial statements, to stimulate corrective measures needed for financial statements and to restore investor confidence by following harmonised criteria and methodologies at European level.

- **AT1 (Additional Tier 1)**

Additional Tier 1 capital is an inferior quality regulatory capital component compared to Common Equity Tier 1 capital and is used with the latter to calculate Tier 1 capital and the corresponding ratio. It consists, in particular, of "new" hybrid securities (and related share premiums) that are characterised by higher loss absorption capabilities - in a going concern or liquidation situation - with respect to traditional innovative instruments.

- **BIA (Basic Indicator Approach)**

Method for the determination of the operational risk capital requirement, based on a regulatory capital ratio (15%) applied to net interest and other banking income plus other operating income as adjusted for certain components (gains and losses realised on the sale of securities not included in the trading book, income from extraordinary or irregular items and insurance income).

- **Business Continuity**

Business continuity. Approach which, starting with the identification of business processes, defines, for each of these, organisational controls and business continuity measures commensurate with risk levels. Concrete measures to be taken aimed at reducing, to a level deemed acceptable, damages arising from accidents or disasters that directly or indirectly hit an intermediary, take account of standards and best practices established at international level and/or established by trade bodies.

- **Cash-flow hedges**

Hedging of exposure to the risk of variability of cash flows with the aim of stabilising the cash flows of the hedged instrument with the flows of the hedging instrument. Elements that may be hedged are future cash flows arising from different types of transactions, such as variable rate financial receivables and variable rate loans.

- **CET1 (Common Equity Tier 1)**

Common Equity Tier 1, composed of paid in capital, equity instruments that meet the regulatory requirements (Articles 28 and 29 of the CRR), the related share premiums and retained earnings, net of treasury shares held, goodwill, other intangible assets and the total provision amount that exceeds the expected loss amount.

- **CFRP (Contingency Funding Recovery Plan)**

Plan that facilitates the determination of intervention strategies in the event of liquidity tension, of the exogenous or endogenous nature of the tension and of specific skills and responsibilities of corporate functions in emergency situations. It is approved by the Board of Directors of the Parent Company, is revised periodically and is applied to the legal entities that fall within the scope for monitoring of the liquidity risk.

- **Change Management**

Initiatives for the evolution of the organisational structure, tools and business processes designed to ensure compliance with regulations for the prudential supervision of banks that intend to adopt advanced A-IRB internal models.

- **Collateral**

Asset pledged as security for repayment of a loan.

- **Counterbalancing Capacity**

Amount of high-quality, unrestricted liquid assets that are eligible with the central bank and which can be promptly converted into cash to meet liquidity needs.

- **Coverage Ratio**

The ratio of the provision associated with each balance sheet asset to the nominal value of the asset.

- **CRD IV (Capital Requirements Directives)**

European Parliament and Council Directive 2014/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of banks and investment firms, which amends Directive 2002/87/EC and repeals Directives 2006/48/EC and 2006/49/EC.

- **CRR (Capital Requirements Regulation)**

European Parliament and Council Regulation (EU) 575/2013 of 26 June 2013 on prudential requirements for banks and investment firms (CRR), which amends Regulation (EU) 648/2012.

- **CUSIP (Committee on Uniform Securities Identification Procedures)**

Nine-character alphanumeric code that identifies a security and its issuer.

- **Data Quality (DQ) / DQ process**

Quality of data used in business processes, defined in terms of accuracy (absence of systematic distortions induced by input data or by collection and integration processes), completeness (use of all relevant information) and pertinence (usefulness for specific purposes). The data quality process makes use of data collection, archiving and processing procedures, which must guarantee compliance with high quality standards. It identifies the functions involved in data collection and in the production of information, with the related roles and responsibilities. It establishes the controls required and the measures for the processing of missing or unsatisfactory data.

- **DBPOA (Corporate Database of Operational Losses - CDBOL)**

Database of operational losses prepared and updated at corporate level and which monitors information relating to significant operational risk events.

- **Derecognition**

The elimination of a previously recognised financial asset from the balance sheet (IAS 39).

- **DIPO (Italian Database of Operational Losses - IDBOL)**

Database of operational losses prepared and updated at consortium level based on periodic reports of operational losses by member banks.

- **Drive-by appraisals**

Appraisals aimed at assessing the fair market value of a property. These constitute an external inspection of a building and are based on data provided by the client originating from documents such as existing preliminary deeds of sale and purchase and/or purchase deeds and/or original appraisals.

- **Duration**

Financial duration of a bond expressed in years and determined as the weighted average of the maturities of payments of principal and interest associated therewith. It constitutes an indicator of the interest rate risk to which the bond is subject to: higher amounts correspond to a greater exposure of the bond to changes in market interest rates. The indicator falls on approaching the maturity of the bond and rises if the frequency of coupon payments decreases. The duration of a portfolio equates to the weighted average of the duration of the individual securities included therein.

- **Duration Gap**

Interest rate risk measurement methodology based on the calculation of the duration of assets and liabilities and which is used to quantify the sensitivity of the market value thereof to changes in market interest rates.

- **EAD (Exposure at Default)**

Expected credit exposure at the time of default associated with a generic position, calculated as the sum of drawn amounts as per the financial statements plus any headroom weighted by a credit conversion factor (CCF). The latter is obtained from the ratio of the estimated undrawn facility amount that could be used in the event of default to the current undrawn amount. This factor represents the probability that the undrawn component will be drawn. This parameter is used to estimate the expected loss and RWAs on adoption of the AIRB approach.

- **ECAI (External Credit Assessment Institutions)**

Party recognised by the Supervisory Authority that performs assessments of credit rating and that issues ratings that may be used by financial intermediaries for the calculation of the minimum regulatory capital requirement for credit risk.

- **ECL (Expected Credit Loss)**

The amount of the average loss that the bank estimates it will incur from a financial asset. As required by IFRS 9, the calculation of the expected loss is based on the staging criteria, that is, by calculating the 12-month expected loss for positions classified in stage 1 and the lifetime expected loss for financial assets classified in stage 2 and stage 3. For stage 1 exposures, ECL equates to the product of the one-year PD class (or pool), LGD and EAD risk parameters, while, for stage 2 exposures, the PD, LGD and EAD parameters are calculated over the entire expected life of a financial instrument.

- **Forborne exposures**

Credit exposures for which a modification of the terms and conditions of the contract or its refinancing have been granted to a counterparty in financial difficulties that could have led to a loss for the lender. There is a rebuttable presumption that forbearance has taken place when the positions are past due by more than a month at least once during the three months prior to the contractual modification, thus lowering the past-due threshold with respect to the 90 days stated in the definition of default.

- **FVTPL (Fair Value Through Profit or Loss)**

Financial instrument (financial asset or liability) measured at fair value with changes therein recognised in profit or loss. According to IFRS 9 "Financial instruments", FVTPL accounting classification is applicable to: i) held for trading, ii) designation on initial recognition at fair value through profit or loss, iii) mandatory measurement at fair value for instruments with cash flow characteristics that are incompatible with other accounting classifications required by the standard.

- **Going Concern**

Context of normal course of business.

- **G-SII**

Global systemically important institutions

- **IAS/IFRS**

International Accounting Standards issued by the International Accounting Standards Board (IASB), to which the accounting professions in the main countries are affiliated, as well as, with observer status, the European Union, the IOSCO (International Organization of Securities Commissions) and the Basel Committee. This body, which replaces the International Accounting Standards Committee (IASC), has the aim of promoting the harmonisation of rules for the preparation of companies' financial statements. With the transformation of the IASC into the IASB, it was decided, among other things, to call the new accounting standards "International Financial Reporting Standards" (IFRS).

- **ICAAP (Internal Capital Adequacy Assessment Process)**

Second Pillar provisions of the Basel regulations for prudential supervision that require banks to adopt processes and tools to determine an adequate level of internal capital needed to cover significant risks, including those other than covered by the total capital requirement ("First Pillar"), as part of an assessment of current and prospective exposure, which takes account of the strategies and evolution of the frame of reference, even under conditions of stress.

- **ICT (Information Communication Technology, Area)**

Organisational unit of the Parent Company, Banco Desio, designated as an Area and responsible, among other things, for: (i) management of activities related to the planning and control of the IT project portfolio involving architecture and technological innovation (ii) monitoring the technological infrastructure by implementing interventions for the development and innovation of resources linked to the functioning of IT and telecommunication systems supporting business processes, (iii) guaranteeing the implementation of appropriate mechanisms for linking with business lines, with particular regard to the determination and planning of IT initiatives.

- **Impairment - Financial assets (IFRS 9)**

In accordance with IFRS 9 "Financial instruments", financial assets not measured at fair value through profit or loss are subject to an impairment process, being the determination of the recoverable amount using a calculation model based on expected losses, determined on the basis of past events, current and reasonable conditions and "supportable" future forecasts (current model based on losses incurred but not recorded). For the purpose of the determination of impairment, IFRS 9 introduced loan portfolio segmentation into three stages with an increasing level of credit risk (due to changes over time): 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 (exposures with habitually irregular payment falling within the non-performing exposures or NPL category). Included in the impairment calculation model are forward-looking components, such as expected changes in the macroeconomic scenario. The standard requires a one year (stage 1) or lifetime (stages 2 and 3) calculation horizon for expected loss.

- **Impairment – Assets not falling within the scope of application of IFRS 9**

An impairment situation arises when the carrying amount of an asset exceeds its recoverable amount, being the amount that could be obtained from the sale or use of the asset. For this purpose, impairment testing is conducted periodically, consisting of an estimation of the recoverable amount (the greater of fair value less costs to sell and value in use) of an asset or group of assets. Intangible assets with an indefinite useful life, goodwill acquired through a business combination and, generally, any asset for which there exist indications of impairment should be subject to impairment testing annually.

- **Unlikely to pay loans**

Credit exposures, other than bad loans, for which the bank deems it unlikely that the debtor will pay its credit obligations in full (principal and interest) without the enforcement of collateral.

- **ISIN**

International securities identification number.

- **ITS EBA (International Technical Standards of the European Banking Authority)**

Document published by the EBA containing implementing technical standards concerning supervisory reporting with reference to forbearance measures and non-performing exposures.

- **Key-Risk Indicators**

Risk indicators used to monitor and assess risks.

- **LCR (Liquidity Coverage Requirement)**

Regulatory liquidity indicator. It measures the short-term liquidity position (30 days) and is calculated as the ratio of high quality liquidity assets (HQLA) (e.g. government bonds) to the net cash flow (cash out -cash in) recorded in the 30-day period, using stress assumptions.

- **Leverage Ratio**

Indicator consisting of the ratio of Tier 1 to Total assets, introduced by Basel rules with the aim of containing the rise in leverage in the banking sector, by adding to the risk based requirements a different metric based on balance sheet aggregates.

- **LGD (Loss Given Default)**

Loss rate in the event of default determined as the ratio of the loss incurred on an exposure due to default by a counterparty to the residual amount at the time of default.

- **LLP (Loan Loss Provision)**

Recognition of impairment of a loan due to the deterioration of the counterparty's credit rating, being a writedown recognised as a cost in the income statement and as an increase to the loan loss provision. Performing loans are measured collectively by dividing them into homogeneous risk classes; the “collective” writedown is determined by multiplying the classes by the three risk parameters PD, LGD and EAD. Non-performing loans are subject to analytical assessment, which takes into account the presumed possibility of recovery, the expected timing of collection and any collateral in place. The provision associated with each asset is determined as the difference between the nominal value of the asset and the present value of the estimated future cash flows arising from the recovery thereof. In the event that, with the passage of time, the prospective recovery is revised upwards, or the recovery occurs early, the associated provision is recognised in the income statement as income under the form of a write-back.

- **Loss Data Collection**

Structured process for gathering data on operational losses arising within the Bank.

- **LTV (Loan to Value)**

Ratio of the loan to the value of the collateral.

- **Maturity Gap**

Methodology used to measure the exposure of an intermediary's earnings to changes in market interest rates, applied to assets and liabilities that are sensitive to rates based on the measurement and analysis of the maturity gap or mismatch.

- **Rating model**

Procedure for classifying each counterparty in risk classes with homogeneous and increasing probability of insolvency.

- **NPL (Non Performing Loans)**

Loans for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted using the original effective interest rate. This category includes loans classified as past due, unlikely to pay and bad.

- **NSFR (Net Stable Funding Ratio)**

The Net Stable Funding Ratio is a regulatory liquidity indicator, calculated as the ratio between the amount of stable funding available (Available Stable Funding - ASF) and the amount of stable funding required (Required Stable Funding - RSF). It is expressed as a percentage.

- **UCITS**

Undertakings for Collective Investments in Transferable Securities.

- **SFT (Securities Financing Transactions)**

Repurchase and reverse repurchase agreements involving securities or commodities, securities or commodities lending transactions or margin loans.

- **ORM (Operational Risk Management)**

Operational risk management model that governs the roles and responsibilities of the functions involved in risk management. This assigns specific monitoring limits for each loss event and for the total amount of gross operational losses reported per year.

- **O-SII (Other Systemically Important Institutions)**

Systemically important institutions other than those operating globally (G-SII).

- **OTC (Over the Counter)**

Unregulated securities market used for placement, trading and redemption of securities. The functioning of this market and the securities and the operators admitted are not subject to specific regulations or authorisation by supervisory authorities for regulated markets are not registered in an appropriate register. Trading procedures are not standardised and it is possible to enter into "atypical" contracts. OTC markets in Italy are known as organised trading facilities (OTFs).

- **Outsourcer**

Supplier of goods or services from outside the Group. Outsourcing contracts provide for appropriate minimum service levels and the right of access to the outsourcer's systems by the supervisory authority.

- **Rating Override**

Manual correction of an automatic rating obtained from a statistical rating model based on an expert assessment.

- **Past Due**

in compliance with the new definition of default applicable from 1 January 2021, this group includes all exposures to debtors (other than those reported as bad or unlikely to pay loans), which at the date of the report include receivables that are overdue or overdrawn for more than 90 days, with an absolute materiality threshold of 100 euro for retail exposures and 500 euro for non-retail exposures and a related significance threshold of 1%. The individual past due and/or overdrawn exposures must be at Group level.

- **PD (Probability of Default)**

Probability of default by a counterparty over a time horizon of one year.

- **Probation Period**

A two year probation period, at the end of which, positions classified as performing and previously classified as forborne may exit from the forborne exposures category.

- **Product Approval**

Banco Desio Group operating and decision-making process for the definition and approval of new products/services and entry into new markets that identifies the operational phases and the roles and responsibilities of the corporate bodies and business functions involved.

- **RAF (Risk Appetite Framework)**

Framework that establishes - in line with the maximum assumable risk, the business model and strategic plan - the risk appetite, tolerance thresholds, risk limits, risk management policies and the key processes needed to define and implement them.

- **Risk Appetite**

Level of risk (overall and by type) that the bank is willing to expose itself to in the pursuit of its strategic objectives.

- **Risk Capacity**

Highest level of risk technically acceptable by a bank without violating regulatory requirements or other constraints imposed by the shareholders or by the supervisory authority.

- **Risk Limits**

Breaking down of risk objectives into defined operational limits, in accordance with the principle of proportionality, by type of risk, business unit and/or line, product line and type of customer.

- **Risk Profile**

Actual risk assumed, measured at a given point in time.

- **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.

- **Risk Tolerance**

Maximum permitted deviation from risk appetite. The tolerance threshold is set in a manner that ensures that the bank will have sufficient margins to operate, even under conditions of stress, within the maximum acceptable risk.

- **Risk Triggers**

Internal or external risk indicators used to detect anomalies and designed to classify performing exposures as positions under control, which are subject to specific monitoring activities.

- **RWA (Risk Weighted Assets)**

Risk-weighted assets are on-balance sheet and off-balance sheet assets (derivatives and collateral) classified and weighted based on fixed ratios that reflect counterparty and operational risk (inclusive of that related to collateral), in accordance with regulations for the prudential supervision of banks.

- **Sensitivity Analysis**

Analysis that quantifies the impact on cash flows from funding or lending transactions of changes in input parameters (risk factors).

- **SPV (Special Purpose Vehicle)**

Special purpose vehicle set up to pursue strategic objectives, primarily to isolate financial risks. Its assets consist of a portfolio whose income is used to service bonds issued (liability). Typically, SPVs are used to manage asset securitisations.

- **SREP (Supervisory Review and Evaluation Process)**

Supervisory review and evaluation process implemented by the Supervisory Authority consisting of three main elements: a risk assessment system (RAS), which assesses risk levels and controls of banks, an overall review of the ICAAP and ILAAP, a capital and liquidity quantification methodology, which evaluates capital and liquidity needs given the results of the risk assessment.

- **CFA (Consolidated Finance Act)**

Legislative decree 58/1998 of 24 February 1998 (Consolidated Finance Act) pursuant to articles 8 and 21 of Law 52 of 6 February 1996.

- **T1 (Tier 1)**

Tier 1 capital, being the sum of CET 1 and AT1.

- **T2 (Tier 2)**

Tier 2 capital. Measure of capital that mainly includes eligible subordinated liabilities and any provision amount that exceeds the expected loss amount pertaining to risk-weighted exposures (for banks authorised to use the AIRB approach).

- **TC (Total Capital)**

Total Own Funds. Group's total capital given by the sum of the following components: Common Equity Tier 1 (CET 1), Additional Tier 1 (AT1) and Tier 2 (T2).

- **CBA (Consolidated Banking Act)**

Consolidated Banking Act enacted by means of Legislative Decree 385 of 1 September 1993, in force since 1 January 1994.

- **Unlikely to Pay**

Exposures for which the bank deems it unlikely that the debtor will pay its credit obligations in full without the enforcement of collateral.

- **VAR (Value At Risk)**

Measure of risk that indicates the maximum potential loss pertaining to a portfolio of financial instruments, estimated using Monte Carlo simulations, 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.

- **What-if Analysis**

Technique used to determine how forecast performance is affected by changes in underlying assumptions and which makes a judgement about their probability and consequences prior to their occurrence. Via an analysis of historical data, it is possible to design predictive systems capable of estimating future results, enabling the formulation of a number of forecast scenarios with the aim of evaluating the behaviour of a real system.

Attestation of the Financial Reporting Manager

The Financial Reporting Manager, Mauro Walter Colombo, declares pursuant to paragraph 2 of Article 154-bis of the Consolidated Finance Act that the accounting information contained in this document entitled "Basel III Pillar 3 at 31 December 2021" agrees with the supporting documents, books of account and accounting records.

Financial Reporting Manager

Mauro Walter Colombo

Attestation on disclosure policies and obligations pursuant to Part eight, art. 431 paragraph 3 of the European Regulation 575/2013 of 26 June 2013 and subsequent amendments and additions[16]

The undersigned Alessandro Decio, Chief Executive Officer, and Mauro Walter Colombo, Financial Reporting Officer of Banco di Desio e della Brianza S.p.A. attest the following, taking into account the provisions of art. 431 of EU Regulation 575/2013 (CRR) and subsequent amendments and additions:

- the adequacy of the document "Basel III Pillar 3 at 31 December 2021" with respect to what is required in "Part eight - Disclosure by institutions" of the CRR and
- the application of administrative procedures in preparing these public disclosures in accordance with the Bank's formal policy and with its processes, systems and internal controls.

Chief Executive Officer	Financial Reporting Manager
Alessandro Decio	*Mauro Walter Colombo*

[16] In this regard, note that to date no standard has been set for this type of attestation. Taking into account the fact that financial and reporting information constitute a preponderant part of the disclosures provided, the Bank has opted for a joint attestation by the Chief Executive Officer and the Financial Reporting Officer.