Gruppo Banco Desio

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BASEL III PILLAR 3
PUBLIC DISCLOSURES
AT 31 DECEMBER 2020

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
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Gruppo Banco Desio

CONTENT

INTRODUCTION 3
1. RISK MANAGEMENT OBJECTIVES AND POLICIES (ART. 435 CRR) 5
2. SCOPE OF APPLICATION (ART. 436 CRR) 28
3. OWN FUNDS (ART. 437 AND 492 CRR) 29
4. CAPITAL REQUIREMENTS (ART. 438 CRR) 36
5. EXPOSURE TO COUNTERPARTY RISK (ART. 439 CRR) 41
6. ASSET QUALITY AND CREDIT RISK ADJUSTMENTS (ART. 442 CRR) 50
7. ENCUMBERED ASSETS (ART. 443 CRR) 66
8. USE OF ECAI (ART. 444 CRR) 68
9. EXPOSURE TO MARKET RISK (ART. 445 CRR) 70
10. OPERATIONAL RISK (ART. 446 CRR) 71
11. EXPOSURE IN EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO (ART. 447 CRR) 72
12. EXPOSURE TO INTEREST RATE RISK ON POSITION NOT INCLUDED IN THE TRADING PORTFOLIO (ART. 448 CRR) 75
13. EXPOSURE TO POSITIONS INVOLVED IN THE SECURITISATION (ART. 449 CRR) 77
14. REMUNERATION POLICY (ART. 450 CRR) 83
15. LEVERAGE (ART. 451 CRR) 84
16. USE OF CREDIT RISK MITIGATION TECHNIQUES (ART. 453 CRR) 87
17. GLOSSARY 88

Introduction

On 1 January 2014, the harmonised rules for banks and investment companies became effective, as contained in Regulation (EU) 575/2013 (hereinafter "CRR" or the "Regulation") and in Directive 2014/36/EU (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 to regulate:

- uniform models for the publication of information regarding the main features of equity instruments;
- standard forms for the publication of information concerning Own Funds during the period from 1 January 2014 to 31 December 2021;
- disclosure requirements on capital reserves;
- standard forms for the publication of information on the indicators of systemic importance; disclosures on unrestricted assets;
- standard forms for the publication of information on leverage (leverage ratio).

In addition to European Union legislation, regulations have been issued by the Bank of Italy in its Circular 285 of 17 December 2013, which encompasses regulations for prudential supervision applicable to banks and Italian banking groups, revised and updated to adapt internal regulations to changes made to the international regulatory framework, with particular regard to the new regulatory and institutional framework for EU banking supervision, as well as to take account of needs that have arisen in the supervision of banks and other intermediaries. The foregoing Circular lays down a number of specific regulations for the preparation and publication of Pillar 3 disclosures and refers, in particular, to EBA guidance with regard to:

- general preparation criteria (publications of 23 December 2014 and 4 August 2017);
- disclosure of encumbered and unencumbered assets (document of 27 June 2014);
- liquidity coverage ratio (reference to what was published on 21 June 2017);
- transitional arrangements for the mitigation of the impact of IFRS 9 (reference made to guidance of 16 January 2018 and subsequent amendments);
- disclosure regarding the bank's own non-performing and forborne exposures (the standard compilation schemes required by the EBA 2018/10 guidelines in force from 31 December 2019, for the part directly applicable to non-significant entities).

With its communication of 1 July 2020, the Bank of Italy 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 provision of the following information:

- 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 (2);
- new loans guaranteed by the Government or other public entities.

This public disclosure has been applied every six months from 30 June 2020; the information has therefore already been provided on 30 June 2020 as part of the consolidated half-yearly financial report.

The information contained in the Public Disclosures document at 31/12/2020 is that expressly required by the CRR. The information is published on the bank's website at least annually and, in any case, at the time of publication of the financial statements.

The 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 set out in the Group's internal

regulations. In particular, supervision of the bank's public information and communication process is the responsibility of the Board of Directors.

Banco Desio Group has 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.

For the sake of completeness, we wish to point out that the information subject to publication relates to the supervisory scope of consolidation with respect to entities consolidated for supervisory purposes. Any mismatches of sources (e.g. versus the consolidated financial statements prepared at the same reporting date) are thus attributable to differences in scope.

Further information on risks and capital adequacy is disclosed in the report on operations and in the explanatory notes to the consolidated financial statements for the year ended 31 December 2020; in particular, information on the Group's risks is included in Part E of the explanatory notes.

Unless otherwise indicated, the amounts in the tables and the figures presented in this document are expressed in thousands of Euro.

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

1. Risk management objectives and policies (art. 435 CRR)

Introduction

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 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. 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.

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 included in specific function regulations and Internal Procedures. The bodies and functions involved in the Internal Control System are as follows:

1. the Control, Risk and Sustainability Committee, which takes the form of a board sub-committee, has consultative and investigatory functions to provide support to the Board of Directors, particularly as regards assessments and decisions relating to the internal control and risk management system;
2. the Chief Executive Officer, with specific powers as part of the internal control system, who is responsible for ensuring the maintenance of an effective internal control and risk management system;
3. the General Manager, in his capacity as a member of the Management Body, who is responsible for conducting, in his capacity as person in charge of personnel management and organisation and operation of corporate structures, the bank's day-to-day affairs, in accordance with the general policy guidelines laid down by the Board of Directors, by the Executive Committee and by the Chief Executive Officer;
4. the Risk Management Committee which is assigned specific functions in the area of risk management and coordination of the internal control system;
5. the Chief Audit Officer, who is responsible for the performance of testing to ensure that the Group's Internal Control System as a whole is adequate and functional;
6. the Compliance Function, which has been assigned responsibility at Group level for the management and oversight of regulatory non-compliance risk;

7. the Chief Risk Officer, who is responsible for the measurement and monitoring of the Group's exposure to various types of risk, particularly market, credit, interest rate, liquidity and operational risks, as well as for supporting the Board of Directors with RAF governance and ICAAP/ILAAP process;
8. the Anti-Money Laundering Function, which is responsible for monitoring on an ongoing basis that corporate procedures comply with the aim of preventing and combating the breach of legislation governing money laundering and the financing of terrorism;
9. the Credit Risk Office and Rating Desk, which reports to the Chief Risk Officer, and that has the task of checking the proper undertaking of performance monitoring of credit exposures (performing and, in particular, non-performing), the consistency of classifications, the adequacy of provisions and the effectiveness of the recovery process (as per Circular 285/2013);
10. the Financial Reporting Manager pursuant to Law 262/05, 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;

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.

The Group's risk appetite

Circular 285/2013 requires banks to design a risk appetite framework (RAF), which establishes ex-ante the risk/return objectives that the intermediary intends to achieve and the consequent operating limits. For the purpose of the implementation of the RAF, the Circular provides a series of minimum information and emphasises that this should be calibrated based on the size and operational complexity of each bank. 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.

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 (Corporate risk management policy - Banco Desio Group): these relate to individual types of risk 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 (with respect to the alert and warning 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. The values of the thresholds are described in specific documents approved by corporate bodies within their respective scope of competence.

Key-risk indicators: these are defined as part of the "Corporate risk management policy - Banco Desio Group" in relation to individual types of risk related to specific operational and management aspects deemed to be particularly significant for banking operations. 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 Internal Audit, Compliance, and the Anti-Money Laundering Office. 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. The escalation processes differ depending on whether first level or second level risk indicator thresholds have been exceeded.

The implementation of the RAF requires an effective monitoring and reporting process capable of analysing and assessing the bank's risk profile. Exceeding the risk indicators 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.

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

Risks

Credit risk

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

Credit risk management strategies and processes

As far as the Group Credit Policy is concerned and with regard to businesses, it is worth expressly mentioning the following general principles to be complied with in the granting of credit: a) risk diversification among various businesses operating in different 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 capable of being offered.

Accordingly, the granting of a credit facility and the subsequent maintenance thereof by the Group are based, as a general rule, 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 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 established for credit autonomy by the Internal Regulation 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.

Gruppo Banco Desio

Within the Credit Department, the Origination 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.

The Special Credit Office, which reports directly to the Origination Office, 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.

Monitoring and Reporting Office: 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 NPL Department handles the recovery of positions classified as non-performing or unlikely to pay, both directly and via specialised external companies. The NPL Department reports directly to the General Manager and is structured as follows: 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 their recovery. 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 Risk Officer, 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 Chief Risk Officer 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.

Lastly, the Chief Audit Officer, assesses the effectiveness and reliability of the entire internal control system and, among other things, checks the operational regularity of lending activities.

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

Systems for managing and monitoring credit risk are developed in an organisational context that involves the whole cycle of the credit process, from initial inquiry and periodic review to final withdrawal and recovery. During the fact finding stages of the lending process, the Group performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer’s financial standing from what is known of the customer and of the customer's economic environment. 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. 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 class.
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 valorisation is based on an assessment of the guarantor's estate during the investigation process or for the purpose of 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.

Market risk

Market risk is the risk arising from changes in the value of a financial instrument or of a portfolio of financial instruments caused by unexpected changes in market conditions.

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. This results in the fruitful management of cash flows in order to satisfy liquidity needs and to maximize earnings. In addition to this ability to use liquid funds, the Group seeks and use tools to source and invest them with institutional, supranational counterparties (e.g. European Central Bank).

Structure and organisation of pertinent market risk management function

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 Chief Executive

Officer 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 and risk management system (to be submitted for approval by the Board) in line with the RAF (Risk Appetite Framework) and that the control functions have autonomy within the structure and are equipped with adequate resources for the conduct of their duties. In particular:

- Parent Company Risk Management guarantees an integrated risk management process, by checking and monitoring significant risks, by systematically identifying and analysing the sources of such risks, 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 risks;
- the Parent Company's Finance Area conducts the activities within its sphere of competence according to the limits and the powers assigned to it.

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

Trading by the Finance Department is subject to operating limits as set out in the "Risk policy" and in internal regulations; in order to mitigate market risk, specific limits have been set for size, duration and Value at Risk (VaR). A specific reporting system is the tool used to provide adequate information to the organisational units involved. The content and frequency of reports depend on the objectives assigned to each participant in the process. Together with the above controls, the Group also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the risk management function, which operates in complete autonomy from both the operational areas and the subsidiaries.

For the quantification of generic and specific market risks, the Group has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum probable loss of a static portfolio with reference to a specific time horizon and at a specific confidence level under normal market conditions. This method has the advantage of allowing the aggregation of positions involving heterogeneous risk factors; it also provides a summary number which, being a monetary expression, is easily used by the organisational structure involved.

The VaR model of the trading portfolio uses the Monte Carlo simulation technique which, after appropriate assumptions and correlations, estimates the value of the portfolio by calculating a number of possible revaluations and, given the vector of expected portfolio returns, determines the ideal percentile for distribution. The model uses a confidence interval of 95% with a period of 1 day. The application used to calculate the VaR is provided by Bloomberg.

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 model (ORM) governs the roles and responsibilities 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. These limits are assigned at Group level and to each Group legal entity.

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

I. Identification: recognition, collection and classification of information relating to operational risks;
II. Measurement: operational risk quantification 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: risk transfer and improvement of business processes.

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

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

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

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 Department, Area, Office or Service Manager (if he does not report directly to Management – except for General Management and the Deputy Manager of Corporate Affairs). He is 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 Area and/or Office Manager (if he reports directly to Management). He is responsible for identifying adverse events that form part of the loss data collection process; by means of an alert system, he identifies and promptly communicates 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, he assesses 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, a Business continuity plan has been revised and completed during the year, with a view to process: measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), new branches have identify (to replace the Bologna branches) as Business Continuity site as an alternative for personnel who cannot operate remotely and for 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 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 senior management, are performed:

- monitoring of total limit of gross operational losses reported (taking into account both new events and changes in the value of losses relating to events already recorded);
- analysis of gross and net losses by event;
- analysis of the number of occurrences by event;
- analysis of the events recorded/counted since the beginning of the year;
- analysis of changes in total losses and events recorded/counted;
- analysis of trend in losses per quarter;
- analysis of DIPO feedback;
- analysis of Risk Self Assessment process findings.

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 the 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 the ICT risk: IT risk assessment, attestation 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 quarterly reporting as part of the Tableau de Bord).
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.

Risk Management applied company regulations to structure an adequate monitoring and reporting system for ITC 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 Risk Management Function Reporting 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 formalized in a specific report 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 ICT Risk Assessment activities. 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;
- Procedure for Accident Management;
- IT Risk Assessment Method and 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. Within the framework of the monitoring activities performed by Risk Management, as part of the corporate risk management policy, the Board of Directors of the Parent Company has set specific limits to be monitored periodically for concentration risk related to groups of connected customers, individual exposures and economic sectors. 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 business activities.

The periodic monitoring and reporting process relating to concentration risk, comprising the monitoring of limits envisaged by risk management policy, is performed by Risk Management, which measures the exposure to concentration risk and prepares adequate reports for the corporate functions involved in the credit management and monitoring system process and for the Board of Directors. The periodic reports address analyses of concentration risk of exposures by sector/branch of economic activity benchmarked against empirical evidence obtained at Italian banking industry level.

Interest rate risk in the banking book

Interest rate risk in the banking book is the risk arising from potential movements of interest rates that impact non-trading book activities.

As far as management policies and processes for the entire Group are concerned, Risk Management conducts current and prospective interest rate risk identification, measurement, control and management processes. To the extent of our sphere of competence, the Risk Management and Finance Functions monitor and report to senior management. Risk Management monitors the interest rate risk to which the entire Group is exposed by performing sensitivity, maturity gap and economic value analysis.

For internal purposes, in order to monitor the whole of the Group's business associated with the transformation of maturities of assets and liabilities, treasury operations and the respective hedging derivatives, the Group has adopted an internal Asset and Liability Management (ALM) model using ERMAS5. This model allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income. The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of Gap Analysis. The changes in the economic value of assets and liabilities are analysed by applying a Sensitivity Analysis approach. The analyses are carried out also considering non-parallel shifts in the yield curve and the application of behavioural models for demand items. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its payment commitments. This risk may take various forms, depending on the circumstances in which the risk arises:

a) funding liquidity risk: risk that the Group will not be able to make, in an efficient and economic manner, expected and unexpected cash payments, both current and future, nor will it be able to meet collateral obligations, without an adverse effect on the Group's current operations or financial position;
b) market liquidity risk: risk that the Group is not able to sell a financial asset without incurring a capital loss due to poor liquidity or disorder in the relevant market.

These two forms of liquidity risk are often highly correlated, and may crystallise as a result of the same underlying factors. Market liquidity risk is considered to be a type of market risk (price risk); accordingly, the processes and rules for measuring, controlling and mitigating liquidity risk focus solely on the funding liquidity risk aspect.

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. The Group provides for adequate monitoring and management of liquidity 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 the Chief Executive Officer 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 and risk management system (to be submitted to the Board) in line with the established risk appetite framework and that the control functions have autonomy within the structure and are equipped with adequate resources for the conduct of their duties. The Risk Management Department guarantees an integrated risk management process, by checking and monitoring significant risks, by systematically identifying and analysing the sources of such risks, 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 risks. 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.

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, in compliance with the threshold of tolerance for the risk in question:

i. management of the *liquidity reserve* (counterbalancing capacity), being the management of an adequate stock 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;
ii. management of *short-term liquidity*, being the management of all the events that impact the Group's overall liquidity position over a time horizon of less than 30 days, with the objective of maintaining an adequate ratio of high-quality assets immediately capable of being converted into cash to the difference between cash outflows and inflows;
iii. management of *operational liquidity*, being the management of resources that ensure the Group is capable of meeting expected and unexpected payment commitments in the context of the "normal course of business" (going concern) over a short term time horizon that does not exceed 3 months;
iv. management of *structural liquidity*, being the management of all the banking book events that impact the Group's overall liquidity position over a time horizon in excess of 1 year, with the objective of maintaining an adequate amount of interdependent assets and liabilities with a restriction on the possibility of funding medium/long term assets with short term liabilities;
v. management of the *diversification of funding sources,* being the management of particular sources and/or channels of funding focused on a subdivision of funding sources, with a preference for retail

as opposed to wholesale customers, as well as on a significant number of counterparties and thus ensuring an adequate diversification of the residual maturities of liabilities.

The Group has identified specific risk indicators in order to provide further information and different views on the overall risk trend, to guarantee timely, operational monitoring of the risk exposure and to highlight trends that might require increased involvement by the management and governance bodies, so that any corrective or mitigation actions might be determined and implemented in the event that identified thresholds have been exceeded.

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.

A specific reporting system is the tool used to provide adequate information on the results of the monitoring of liquidity risk risks to the organisational units involved. The content and frequency of reports depend on the objectives assigned to each participant in the process.

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).

In order to evaluate the impact of negative events on risk exposure and on the liquidity reserve, stress tests are performed by the Group, starting with operational liquidity and a short term time horizon of up to 3 months and by analysing key significant events for the Group concerning liquidity and by measuring the effect of severe liquidity stress (at bank level), arising from market and combined stress. On account of the high level of the available liquidity reserves, the survival period in the event of a money market block would be in excess of 3 months.

The Group's structural liquidity policy requires an analysis of the financial structure as an integral part of liquidity risk management. The determination of the concentration of funding sources and the analysis of their evolution over a medium-long term time horizon, is performed internally using an asset and liability management (ALM) technique, which, having highlighted all of the cash flows generated by operations, makes it possible to evaluate and manage in the various time periods any liquidity requirement that the bank may encounter due to imbalances between inflows and outflows. The construction of a maturity ladder is the tool used to measure the balance of expected cash flows, via the matching of assets and liabilities, the maturity of which is classed in time bands, the construction of cumulative imbalances and the calculation of the net funding requirement (or surplus) over the time horizon in question. Further metrics used are based on risk indicators that search for concentration of funding by type of counterparty and the imbalance of cash flows with predetermined maturity dates with particular attention to the funding gap over a medium/long-term period.

The funding plan is the tool used to determine funding objectives and activities in accordance with short term (12 months – budget) or medium term (3 years – business plan) needs along with the maintenance of structural balance. The primary aim of the funding plan and of the related process for its determination and management over time is the specification of initiatives aimed at guaranteeing the availability to the Group of funding sources in order to support its activities. The funding plan is prepared each year as part of the overall budgeting process and is monitored and updated on a monthly basis in order to verify the maintenance of operational and structural balance along with adequate levels of liquidity.

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 funding geared towards secured markets (e.g. covered bonds, TITRO) enable greater diversification and stability.

Within the framework of regulatory metrics and in line with a time horizon of one month, the Group has complied with the LCR (Liquidity Coverage Ratio) regulatory requirement, positioning itself well above the legal limit.

The following table sets out quantitative information concerning the LCR measured in accordance with the regulatory rules (Bank of Italy Circular no 285 – Part Two, Chapter 13, Section II) where the figures relate to the simple average of the last 12 monthly observations commencing with the LCR recorded in December 2020.

Scope of application (consolidated basis)	**Total Weighted Amount**			
Currency and units (Euro million)				
Reference quarter	**31 Dec 20**	**30 Sep 20**	**30 Jun 20**	**31 Mar 20**
Number of data points used in calculating the average figures	12	12	12	12
21 LIQUIDITY RESERVE	2,946	2,756	2,654	2,461
22 TOTAL NET CASH OUTFLOWS	1,517	1,425	1,364	1,315
23 LIQUIDITY COVERAGE RATIO (%)	193.84%	193.45%	195.31%	187.77%

Regulation (EU) 2019/876 introduced a minimum level (100%) of the Net Stable Funding Ratio (NSFR), guaranteeing the institution's ability to have 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.

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 Monitoring and Reporting Office, monitors the maintenance of collateral cover for the credit granted via granting/renewal processes and performance monitoring/control. Monitoring by the Monitoring and Reporting Department is performed as part of its typical monitoring duties, while that performed by the NPL Department is to the extent of its powers concerning the management of non-performing loans. 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 level of 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 (Collateral procedure – Monitoring of eligibility controls and events), 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 doubtful, 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.

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.

Risk of excessive leverage

The risk of excessive leverage is 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 Group computes and reports the leverage ratio as required by current regulations (Regulation 575/2013).

Further details are provided in paragraph 15 of this document.

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 risk level classification, holding period, liquidity and product complexity. The operational processes relating to product approval issues were regulated and standardised; placement of bank, insurance and financial products; custody and administration of securities; trading of securities; 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.

Non-financial risk

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 types:

- 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.

For this latter area in particular, in a path of continuous improvement in the effective and evolutionary management of the stimuli given by the legislation, in 2018 the Banco Desio Group together with some of the main Italian banking groups promoted the project called "Non-financial statement and management of risks related to sustainability issues", a structured analysis of the approach adopted to manage requests for information in the ESG risk area by consulting the main parties involved, or CSR and Risk Manager functions

of the banks participating in the project as well as of the main Italian banking groups, opinion leaders and market best practices.

The Banco Desio Group has developed an initial organic mapping of the risks envisaged by Legislative Decree 254/2016 as part of the Bank's risk management policies in line with the provisions of the prudential supervisory regulations, taking into account the specific policies on sustainability that the Parent Company has adopted.

Specifically, the identification of Environmental Social and Governance (ESG) risks, related to the business risks defined in the Group's internal policies and the main impacts, the ESG risk assessment phase involves monitoring and classifying them through:

- updating of taxonomies already in use as part of the operational risk assessment and measurement processes with ESG events, an activity completed in 2020;
- the identification of KRIs/KPIs to integrate the synthetic indicator of reputational risk with the ESG area is still being studied.

These indicators must be monitored for a suitable period of time to verify their validity and reliability (test phase).

The possible impacts of ESG factors on the typical risks of the banking business (primarily credit risk) are still being studied, pending a definitive regulatory framework.

The continuation of these activities cannot ignore the evolution in the European supervisory regulations currently underway, to which it remains closely linked; in the context of the banking sector in which it operates, taking into account the expected update of the Non-Financial Reporting Directive (NFRD) EU/2014/95 in relation to the specific issue of climate change, for the next report the Banco Desio Group is thinking of integrating its analyses and, consequently, their disclosure with respect to the main impacts generated and suffered as a result of its credit and investment policies.

Strategic decisions at Group level regarding risk management are in fact left to the corporate bodies of the Parent Company; 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 relating thereto 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.

Governance systems

The **Board of Directors** of Banco Desio in office, composed of 12 directors, was appointed at the Shareholders' Meeting held on 23 April 2020 and its term of office expires on the date of the general meeting held to approve the financial statements for the year ending 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[2], the directors must satisfy specific requirements of integrity and professionalism, under pain of forfeiture of office; in particular, in terms of professionalism, at least three years' experience is required in at least one of the following: business administration, control or executive positions; professional activities in fields pertaining to the banking, financial or insurance sector or related to banking activities; university teaching experience in law or economics; public administrative or managerial functions related to the credit sector or involving the management of economic and financial resources. For the position of Chairman, at least five years' of the above experience is required; for the position of Chief Executive Officer and General Manager, specific expertise is required in fields pertaining to the credit sector, gained in suitably responsible positions over a period of at least five years.[3] Verification of the requirements for holding office pursuant to Ministerial Decree no. 161/1998 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 a nutshell, compliance with the requirements is specifically verified and approved by the Board of Directors after having sought the opinion of the Board of Statutory Auditors (after the latter has verified compliance), for each officer, with the abstention of the interested party, based on appropriate documentation produced by the Office Bearers in question (e.g. certificates, attestations, CVs, declarations in lieu of notarial deeds or certification, former employment references, etc.). This procedure will be partially modified with the so-called “Fit & Proper Assessment” introduced by Ministerial Decree no. 169/2020.

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; the related curricula are also available on the website www.bancodesio.it in the "Bank/Governance/Corporate Governance" section. The same site now also contains the summary profiles of the individual Office Bearers, the Financial Reporting Manager and the Heads of the Internal Control Functions.

Following the issue of the new Ministerial Decree referred to above, a Fit & Proper Policy will be adopted in 2021 at the same time as the regulatory updates following the adoption of the new Corporate Governance Code.

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

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 the aforementioned “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, without prejudice to the principle, sanctioned by the Code, whereby the assessment of the appropriateness of accepting office

[2] 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: 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 provisions, which were put out for consultation in 2017, apply to appointments subsequent to the date that it came into effect, i.e. 30 December 2020. Since then, the Appointments Committee has been monitoring the issue procedure.

[3] The post-AGM board meeting of 23 April 2020 appointed a Chief Executive Officer, who also holds the position of General Manager. From the same date, the role of Director in charge of the Internal Control and Risk Management System has been absorbed by that of the Chief Executive Officer.

is at the discretion of the interested parties, even in internal committees, solely “when they believe that they can devote the necessary time to the diligent performance of their duties".

At the time of reappointment of directors and officers, in order to determine the qualitative composition of the Board of Directors and Board of Statutory Auditors, the former establishes a set of skills deemed necessary for members of the Board of Directors and the Board of Statutory Auditors for the proper and effective performance of their duties.

These skills are established taking into account: regulatory and EU requirements; industry best practice; Banco Desio Group's governance needs. The skill set for each officer, as determined by the general model for the methodology for self-assessment of corporate bodies, is specified in the theoretical profile published in accordance with applicable regulations.

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 and Law 160/2019) also have to be taken into account.[4] 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.

The Board of Directors has approved Internal Regulations 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 subcommittees.

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).

With the participation of the members of the corporate bodies of the various Group companies and of a number of corporate functions, an outreach meeting has been held annually since 2015, dedicated to strategic planning and business models, the Group's positioning in the target market in light of macroeconomic and regulatory scenarios and the dynamics of regional economies (Lombardy, Umbria, etc.), led by an external banking industry expert. This initiative forms part of the “good practice” that the members of the corporate bodies should meet once or twice a year, outside board meetings, to examine and discuss strategic issues as required by Circular no. 285.

For further information about training activities, please refer to the Annual Report on Corporate Governance, which is available on the website www.bancodesio.it in the "Bank/Governance/Corporate Governance" section.

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

4 "Gulf-Moscow" law

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[5] also liaises between the Board of Directors and the other members of the internal control and risk management system[6] 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 and Risk Committee, which takes the form of a board sub-committee, has a consultative 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.

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.[7]

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.

For further information about Committee activities, please refer to the Annual Report on Corporate Governance, which is available on the website www.bancodesio.it in the "Bank/Governance/Corporate Governance" section. In the same Report on Corporate Governance and the attachments thereto, it is also possible to consult all the other information required by art. 435, paragraph 2 of the CRR in relation to directors, to the related requirements and criteria laid down by applicable legislation, to multi-directorships held thereby and to the procedure for their selection, as well as to the diversity policy and information flows.

5 See Note 3.
6 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.
7 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.

2. Scope of application (art. 436 CRR)

The information reported in this Public Disclosures document relates to Banco Desio Banking Group. The Parent Company, Banco di Desio e della Brianza S.p.A., is the entity to which the present 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.

Entities consolidated for accounting and regulatory purposes

Name	Head office	Type of relationship	% Held at 31.12.2020	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 consolidation	Full consolidation	Bank
Fides S.p.A.	Rome	1	100.0000	Full consolidation	Full consolidation	Financial
Desio OBG S.r.l. (*)	Conegliano	1	60.000	Full consolidation	Full consolidation	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 IFRS10.

For the calculation of consolidated own funds, reference has been made solely to amounts relating to banking and financial companies that form part of the banking group. These amounts also include balances (on- and off-balance sheet) due from and to other companies included in the scope of consolidation, as well as transactions therewith, 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.

Under prudential supervisory provisions of articles 11, paragraphs 2 and 3 and 13, paragraph 2 of the CRR Regulation, 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. These provisions lead to the calculation of the capital ratios at the Brianza Unione level of Luigi Gavazzi and Stefano Lado S.A.p.A., a company that controls 49.88% of Banco di Desio e della Brianza S.p.A. (of which it holds 50.44% of the ordinary shares and the 44.69% of the savings shares).

The calculation of Own Funds and of the consolidated prudential requirements at 31 December 2020, which are transmitted to the Bank of Italy in relation to the prudential supervisory reports (COREP) and statistical reports (FINREP), was therefore made with reference to Brianza Union di Luigi Gavazzi e Stefano Lado S.A.p.A. as it is the financial parent company of the banking group according to European legislation. This document therefore presents the results of this calculation, relating to the regulatory scope of the consolidated financial statements drawn up by Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. (the financial parent company).

3. Own funds (art. 437 and 492 CRR)

Qualitative information

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

1. Common Equity Tier 1 - CET 1

The components of Common Equity Tier 1 are the following: a) equity instruments, as long as they comply with the conditions set out in art. 28 or, where applicable, in article 29 of EU Regulation no. 575/2013 (see paragraph "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 recognised as common equity tier 1 only if they can be used without restriction and without delay by an entity to cover risks or losses as and when the risks or losses arise.

2. Additional Tier 1 - AT1

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

3. Tier 2 - T2

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

On 23 January and 25 January 2018, the Boards of Directors of Banca Popolare di Spoleto and Banco di Desio e della Brianza, taking account of a best estimate of the higher adjustments for expected losses on performing and non-performing loans on first-time adoption of IFRS 9, resolved to adopt the transitional arrangements 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:

- modification of the IFRS 9 transitional instructions, allowing banks to sterilise - albeit to a lesser extent over time - the impact on their capital requirements of the increase in loan adjustments in the period 2020-2024 compared with the position at 1 January 2020 for stage 1 and 2 portfolios,
- bringing forward the date of application of a) SMEs Supporting Factor, b) the more correct calibration of salary/pension-secured loans, with a weighting of 35%,
- the 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).

In accordance with the harmonised rules for banks and investment companies contained in the EU Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) of 26/06/2013 that transpose into EU law the standards defined by the Basel Committee for banking supervision (Basel 3 framework), which became effective on 1 January 2014, the Group's consolidated own funds calculated with reference to Brianza Unione at 31 December 2020 (by applying these transitional provisions and also without applying them) are as follows:

Breakdown of Own Funds with and without application of the transitional arrangements

	Application of transitional arrangements	Without IFRS 9 transitional arrangements	Fully loaded
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	770,423	766,734	767,197
of which: CET 1 capital instruments subject to transitional arrangements	-	-	-
B. CET 1 prudential filters (+/-)	-	-	-
C. CET 1 gross of amounts to be deducted and the effects of transitional arrangements (A +/- B)	770,423	766,734	767,197
D. Items to be deducted from CET 1	29,784	15,895	15,895
E. Transitional arrangements – Impact on CET 1 (+/-)	-	-	-
Adjustments due to IFRS 9 transitional arrangements	46,778	-	-
F. Total Common Equity Tier 1 (CET 1) (C – D +/-E)	**787,417**	750,839	751,302
G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional arrangements	56,672	55,920	55,542
of which: AT1 capital instruments subject to transitional arrangements	-	-	-
H. Items to be deducted from AT1	-	-	-
I. Transitional arrangements – Impact on AT1 (+/-)	-	-	-
L. Total Additional Tier 1 (AT1) (G - H +/- I)	56,672	55,920	55,542
Tier 1 capital	**844,089**	806,759	806,843
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional arrangements	83,008	82,542	82,621
of which: T2 capital instruments subject to transitional arrangements	-	-	-
N. Items to be deducted from T2	-	-	-
O. Transitional arrangements – Impact on T2 (+/-)	-	-	-
P. Total Tier 2 (T2) (M - N +/- O)	83,008	82,542	82,621
Q. Total Own Funds (F + L + P)	**927,097**	889,301	889,464

Banco Desio

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	2	3
1	Issuer	Banco di Desio e della Brianza	Banco di Desio e della Brianza	Banco di Desio e della Brianza
2	Unique identifier (1)	IT0001281374	IT0005107880	IT0005136335
3	Governing law(s) of instrument	Italian	Italian	Italian
	Regulatory treatment			
4	Transitional CRR rules	Additional Tier 1 capital	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules		Tier 2 capital	Tier 2 capital
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo and sub-consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (2)	Savings shares representing share capital	Bond - art. 62 CRR	Bond - art. 62 CRR
8	Amount recognised in regulatory capital (in thousands of euro) (3)	759	19,638	6,907
9	Nominal amount of instrument (in thousands of euro)	6,865	80,000	50,000
9a	Issue price	N/A	100	100
9b	Redemption price	N/A	100	100
10	Accounting classification	P180 - Share capital	Liabilities at fair value	Liabilities at fair value
11	Original date of issuance	N/A	28:05:2015	16:10:2015
12	Perpetual or dated	PERPETUAL	DATED	DATED
13	Original maturity date	N/A	28:05:2022	16:10:2021
14	Early redemption at discretion of issuer subject to prior approval by Supervisory Authority	N/A	NO	NO
15	Optional early redemption date, early redemption date and redemption amount	N/A	N/A	N/A
16	Subsequent early redemption dates, when relevant	N/A	N/A	N/A
	Coupons/dividends			
17	Fixed or floating dividend/coupon	FLOATING	FLOATING	FLOATING
18	Coupon rate and any related index	N/A	3M EURIBOR +200 bps	3M EURIBOR +200 bps
19	Existence of a dividend stopper	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	N/A	N/A	N/A
20b	Fully discretionary, partially discretionary or mandatory - in terms of amount	N/A	N/A	N/A
21	Existence of step up or other incentive to redeem	N/A	NO	NO
22	Non-cumulative or cumulative	N/A	NON-CUMULATIVE	NON-CUMULATIVE
23	Convertible or non-convertible	N/A	NON-CONVERTIBLE	NON-CONVERTIBLE
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	N/A	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (4)	N/A	SENIOR	SENIOR
36	Non-compliant transitioned features	N/A		
37	If yes, specify non-compliant features	N/A		
Insert "N/A" if the information is not applicable				

(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

Banco Desio

The following table provides details of the elements included in own funds at 31/12/2020 using the format required by Attachment VI to the Commission Implementing Regulation (EU) No 1423/2014.

	Common Equity Tier 1 (CET1) capital: instruments and reserves	(A) Amount at disclosure date	(C) Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual amount of regulation (EU) no. 575/2013
1	Capital instruments and the related share premium accounts	64,835	
	of which: ordinary shares	54,026	
	of which: instrument type 2	-	
	of which: instrument type 3	-	
2	Retained earnings	-	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	417,853	
3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	
	Public capital contributions benefiting from grandfathering clause up to 1 January 2018	-	
5	Minority interests (amount allowed in consolidated CET1)	276,190	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	11,545	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**770,423**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-	
8	Intangible assets (net of related tax liability) (negative amount)	- 15,895	
9	Empty set in the EU	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	- 13,889	-
11	Fair value reserves related to gains or losses on cash flow hedges	-	
12	Negative amounts resulting from the calculation of expected loss amounts	-	
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
20	Empty set in the EU	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	
20c	of which: securitisation positions (negative amount)	-	
20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38.3 are met) (negative amount)	-	
22	Amount exceeding the 15% threshold (negative amount)	-	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities' equity instruments	-	
24	Empty set in the EU	-	
25	of which: deferred tax assets arising from temporary differences	-	
25a	Losses for the current financial year (negative amount)	-	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	
26	Regulatory adjustments applied to Common Equity Tier 1 (CET1) capital in relation to amounts subject to pre-CRR treatment	-	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-	
	of which: unrealised gains on exchange differences	-	
	of which: unrealised gains on equity instruments	-	
	of which: unrealised gains on debt securities issued by European Union central administrations	-	
	of which: unrealised gains on debt securities relating to issuers other than European Union central administrations	-	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required	46,778	
	of which: adjustments due to IFRS 9 transitional arrangements	46,778	
27	Eligible deductions from Additional Tier 1 capital that exceed the entity's Additional Tier 1 capital (negative amount)	-	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1) capital**	**16,994**	
29	**Common Equity Tier 1 (CET1) capital**	**787,417**	

	Common Equity Tier 1 (CET1) capital: instruments and reserves	(A) Amount at disclosure date	(C) Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual amount of regulation (EU) no. 575/2013
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	
	Public capital contributions benefiting from grandfathering clause up to 1 January 2018	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	56,672	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Common Equity Tier 1 (AT1) capital: before regulatory adjustments**	**56,672**	
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
41	Regulatory adjustments applied to AT1 capital in relation to amounts subject to pre-CRR treatment and transitional arrangements, subject to phase out pursuant to Regulation (EU) No 575/2013 (residual CRR amounts)	-	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	
	of which: items to be detailed line by line, e.g. significant net losses for the period, intangible assets, lack of provisions to cover expected credit losses, etc.	-	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	
	of which: items to be detailed line by line, e.g. reciprocal cross-holdings in Tier 2 capital instruments, insignificant direct holdings in other financial sector entities, etc.	-	
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-	
	of which: … any filter for unrealised losses	-	
	of which: … any filter for unrealised gains	-	
	of which: …	-	
42	Eligible deductions from Tier 2 capital that exceed the entity's Tier 2 capital (negative amount)	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	
44	**Additional Tier 1 (AT1) capital)**	**56,672**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**844,089**	
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	-	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	
	Public capital contributions benefiting from grandfathering clause up to 1 January 2018	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	83,008	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	-	
51	**Tier 2 (T2) capital: before regulatory adjustments**	**83,008**	
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
54a	of which: new holdings not subject to transitional arrangements	-	
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements	-	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
56	Regulatory adjustments applied to T2 in relation to amounts subject to pre-CRR treatment and transitional treatment, subject to phase out pursuant to Regulation (EU) No 575/2013 (residual CRR amounts)	-	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	
	of which: items to be detailed line by line, e.g. significant net losses for the period, intangible assets, lack of provisions to cover expected credit losses, etc.	-	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	
	of which: items to be detailed line by line, e.g. reciprocal cross-holdings in Additional Tier 1 capital instruments, insignificant direct holdings in other financial sector entities, etc.	-	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	-	
	of which: any filter for unrealised losses	-	
	of which: unrealised gains on AFS securities subject to additional national filter	-	
	of which: unrealised gains on exchange differences subject to additional national filter	-	
	of which: minority interests subject to additional national filter	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	
58	**Tier 2 capital (T2)**	**83,008**	
59	**Total capital (TC = T1 + T2)**	**927,097**	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
	of which: … items not deducted from Common Equity Tier 1 capital (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line e.g. deferred tax assets based on future profitability net of any related tax liability, indirect holdings of own CET1 instruments, etc.)	-	
	of which: … items not deducted from Common Equity Tier 1 capital (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line e.g. reciprocal cross-holdings in Tier 2 capital instruments, insignificant direct holdings in other financial sector entities, etc.	-	
	Items not deducted from Tier 2 capital (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line e.g. indirect holdings of own Tier 2 instruments, insignificant indirect holdings in other financial sector entities, significant indirect holdings in other financial sector entities, etc.)	-	
60	**Total risk weighted assets**	7,020,179	

	Common Equity Tier 1 (CET1) capital: instruments and reserves	(A) Amount at disclosure date	(C) Amounts subject to pre-regulation (EU) no. 575/2013 treatment or prescribed residual amount of regulation (EU) no. 575/2013
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.216%	
62	Tier 1 (as a percentage of total risk exposure amount)	12.024%	
63	Total capital (as a percentage of total risk exposure amount)	13.206%	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer (G-SII or O-SII buffers) expressed as a percentage of risk exposure amount)	7.350%	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: countercyclical buffer requirement	-	
67	of which: systemic risk buffer requirement	-	
67a	of which: *Global Systemically Important Institution* (G-SII) or *Other Systemically Important Institution* (O-SII) buffer	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) *(1)*	4.77%	
69	[non relevant in EU regulation]	-	
70	[non relevant in EU regulation]	-	
71	[non relevant in EU regulation]	-	
	Capital ratios and buffers		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	5,303	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	795	
74	Empty set in the EU	-	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	16,847	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

(1) The amount reported in Column C relates to the amount of minority interests allowed in consolidated common equity tier 1 capital, pursuant to transitional arrangements under Articles 479 and 480 of the CRR.
(2) Amount expressed as a percentage of risk-weighted assets, obtained by excluding the following elements from common equity tier 1 capital: (i) common equity tier 1 capital requirement; (ii) additional tier 1 capital requirement, to the extent of the portion recognised in common equity tier 1.

Banco Desio Group's Own Funds, computed in accordance with the foregoing regulatory requirements, include Common Equity Tier 1 capital that accounts for 84.93% of the Group's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 6.11% and 8.96%, 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.

The following table provides a reconciliation between Common Equity Tier 1 and the book value of the Group's shareholders' equity.

Reconciliation of balance sheet amounts to own funds

Assets	Amounts reported	Amounts recognised as own funds	
70. Equity investments	0	0	
100. Intangible assets, of which:	18,513		
- Goodwill	15,322	-14,750	
- *Other intangible assets*	3,191	-1,145	(1)
110. Non-current assets and disposal groups held for sale - equity investments	0	0	
Total assets		**-15,895**	

Liabilities and shareholders' equity	Amounts reported	Amounts recognised as own funds	
10. Debt securities in issue	1,608,927		
- of which: Subordinated liabilities included in computation of Tier 2 capital	130,087	0	
120. Valuation reserves consisting mainly of	32,969		
- Valuation reserves relating to financial assets measured at fair value through other comprehensive	23,765	23,302	(2)
- Property, plant and equipment	80	80	
- Actuarial gains (losses) on defined-benefit pension plans	-1,916	-1,916	
- Special revaluation laws	11,505	11,505	
- Cash-flow hedges	-465	0	
- Portion of valuation reserves relating to investments carried at equity	0	0	
150. Reserves	384,923	384,882	(3)
160. Share premium reserve	10,809	10,809	
170. Share capital	54,026	54,026	
- of which: Ordinary shares	54,026	54,026	
- of which: Savings shares	0	0	
190. Minority interests (+/-)	498,714	415,870	
200. Profit (loss) for the period (+/-)	11,545	11,545	
Total liabilities and shareholders' equity		**910,103**	

Other reconciling items to arrive at own funds	Amounts recognised as own funds	
Total other items recognised as own funds	32,889	(4)

Total Own Funds	927,097

(1) As per regulation 2020/2176, the amount is shown net of the assets in the form of software that had a 100% weighting in the RWAs.
(2) Following the exercise of the option as per regulation 2020/873, the amount is shown net of unrealized profits and losses measured at fair value recognised in the other comprehensive income.
(3) The reduced amount is due to an allocation to "Charity reserve and to the higher dividend distributed with respect to the profit.
(4) The amount includes the following items recognised as own funds:

- positive elements: (i) impact of CET 1 transitional arrangements (includes IFRS 9 adjustment);
- negative elements: (i) prudential filters arising from entity's own credit risk relating to derivative liabilities.

4. Capital requirements (art. 438 CRR)

Qualitative 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.

Quantitative information

As previously indicated in the section dedicated to “Own Funds”, total regulatory capital consists of the sum of the following:

- Tier 1 capital (capable of absorbing losses on a going-concern basis). This capital can be sub-divided into Common Equity Tier 1 and Additional Tier 1;
- Tier 2 capital (capable of absorbing losses in the event of crisis).

Under the provisions of articles 11, paragraphs 2 and 3 and 13, paragraph 2 of the CRR Regulation, the banks controlled by a "financial parent company" have to comply with the requirements established by the aforementioned regulation on the basis of the consolidated situation of the financial parent company. This made it necessary to change the Group's scope of consolidation for supervisory purposes, leading to calculate

capital ratios at the level of Brianza Unione di Luigi Gavazzi and Stefano Lado S.A.p.A., which is the company that controls 49.88% of Banco di Desio e della Brianza S.p.A. (of which 50.44% of ordinary shares and 44.69% of savings shares).

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 parent 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 new prudential regulations have imposed a capital reserve (2.5%) that is in addition to the minimum regulatory requirements, with the objective of equipping the banks with high quality capital to be used in times of market stress to prevent any malfunctioning of the banking system and to avoid interruptions in the credit granting process.

It should also be noted that with regard to resolution planning for Less Significant Institutions (LSI), on 24 April 2019 the Banco Desio Group has received from the Bank of Italy, as the Resolution Authority, a communication that does not require compliance with an MREL (Minimum Requirement for own funds and Eligible Liabilities to be subject to bail-in).

The following table compares the consolidated capital requirements at 31 December 2020[8] with the minimum requirements at that date in accordance with current regulations (with regard to the Banking Group and with reference to the regulatory consolidation at Brianza Unione level).

	Banco Desio Group [A)	Brianza Unione Group (B)	SREP (C)	difference (A-C)	difference (B-C)
CET 1	14.665%	11.216%	7.35%	7.315%	3.866%
TIER 1	14.675%	12.024%	8.95%	5.725%	3.074%
TOTAL CAPITAL RATIO	15.053%	13.206%	11.10%	3.953%	2.106%

For the purposes of calculating the "Risk assets and supervisory ratios", EU legislation subjects SMEs to a facilitated weighting system (support factor equal to 0.7619 for exposures up to € 2.5 million and 0.85 for the part in excess € 2.5 million).

In application of the uniform disclosure relating to the transitional provisions introduced by Regulation (EU) 2395/2017 and subsequent amendments to mitigate the impact of IFRS 9 on own funds pursuant to art. 473 of the CRR and for the temporary treatment of capital gains/losses on FVOCI government bonds pursuant to art. 468 of the CRR (EBA Guidelines 2018/01 and subsequent amendments), the capital requirements calculated at the level of Brianza Unione (prudential consolidation) are shown with and without the transitional rules:

[8] In application of the transitional arrangement introduced to mitigate the impact of IFRS 9 and the temporary treatment of capital gains/losses on FVOCI government bonds.

Gruppo Banco Desio

	31.12.2020			30.09.2020		
	Application of the transitional arrangements	Without application of IFRS 9 transitional arrangements	Fully loaded	Application of the transitional arrangements	Without application of IFRS 9 transitional arrangements	Fully loaded
OWN FUNDS						
Common Equity Tier 1 (CET 1) capital	787,417	750,839	751,302	772,503	742,682	743,564
Tier 1 capital	844,089	806,759	806,843	829,645	799,202	799,706
Total Own Funds	927,097	889,301	889,464	916,342	885,646	886,208
RISK ASSETS						
Risk-weighted assets	7,020,179	6,926,402	6,926,402	7,078,733	7,001,191	7,001,191
CAPITAL RATIOS						
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	11.216%	10.840%	10.847%	10.913%	10.608%	10.621%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	12.024%	11.648%	11.649%	11.720%	11.415%	11.422%
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.206%	12.839%	12.842%	12.945%	12.650%	12.658%
LEVERAGE RATIO						
Leverage ratio measure of exposure	15,470,072	15,470,072	15,470,072	15,706,018	15,706,018	15,706,018
Leverage ratio	5.5%	5.2%	5.2%	5.3%	5.1%	5.1%

	30.06.2020		31.03.2020		31.12.2019	
	Application of IFRS 9 transitional arrangements	Without application of IFRS 9 transitional arrangements	Application of IFRS 9 transitional arrangements	Without application of IFRS 9 transitional arrangements	Application of IFRS 9 transitional arrangements	Without application of IFRS 9 transitional arrangements
OWN FUNDS						
Common Equity Tier 1 (CET 1) capital	768,926	738,070	746,709	722,496	758,312	726,873
Tier 1 capital	826,748	795,235	801,731	776,980	814,341	782,234
Total Own Funds	917,545	885,877	892,390	867,537	908,564	876,513
RISK ASSETS						
Risk-weighted assets	7,163,537	7,081,656	7,509,195	7,442,046	7,590,001	7,506,550
CAPITAL RATIOS						
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	10.734%	10.422%	9.944%	9.708%	9.991%	9.683%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	11.541%	11.230%	10.677%	10.440%	10.729%	10.421%
Total Own Funds/Risk-weighted assets (Total capital ratio)	12.809%	12.509%	11.884%	11.657%	11.971%	11.677%
LEVERAGE RATIO						
Leverage ratio measure of exposure	15,532,146	15,531,488	14,695,216	14,695,216	14,680,989	14,680,989
Leverage ratio	5.3%	5.1%	5.5%	5.3%	5.5%	5.3%

At 31 December 2020 the consolidated ratios calculated for the financial parent company are above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority through the SREP procedure previously referred to, with and without application of the transitional rules.

Credit and counterparty risk: capital requirement by asset class

Regulatory portfolio	Amount at 31.12.2020				Amount at 31.12.2019			
	Credit risk		Counterparty risk		Credit risk		Counterparty risk	
	RWA	Capital requirement	RWA	Capital requirement	RWA	Capital requirement	RWA	Capital requirement
1. Exposures to or guaranteed by central governments and central banks	223,120	17,850	-	-	222,358	17,789	-	-
2. Exposures to or secured by regional governments or local authorities	791	63	-	-	2,515	201	-	-
3. Exposures to or guaranteed by public sector bodies	20	2	-	-	19	2	-	-
4. Exposures to or guaranteed by multilateral development banks	760	61	-	-	1,209	97	-	-
5. Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
6. Exposures to or guaranteed by supervised intermediaries	266,128	21,290	2,380	190	220,024	17,602	1,300	104
7. Exposures to or guaranteed by companies	2,331,046	186,484	488	39	2,375,431	190,034	444	36
8. Retail exposures	1,169,505	93,560	-	-	1,818,902	145,512	-	-
9. Exposures secured by property	1,232,673	98,614	-	-	1,159,040	92,723	-	-
10. Exposures in default	323,583	25,887	-	-	443,245	35,460	-	-
11. High-risk exposures	127,119	10,170	-	-	105,337	8,427	-	-
12. Guaranteed bank bonds	-	-	-	-	-	-	-	-
13. Current exposures to companies or supervised intermediaries	-	-	-	-	-	-	-	-
14. Exposures to mutual funds (UCITS)	49,603	3,968	-	-	35,956	2,876	-	-
15. Exposures in equity instruments	113,429	9,074	-	-	88,590	7,087	-	-
16. Other exposures	404,364	32,349	-	-	331,217	26,497	-	-
17. Securitisation positions	28,180	2,254	-	-	10,754	860	-	-
Total standardised approach	**6,270,321**	**501,626**	**2,868**	**229**	**6,814,598**	**545,168**	**1,743**	**139**

Gruppo Banco Desio

Credit and counterparty risk	Capital requirement 31.12.2020	Capital requirement 31.12.2019
Total credit risk	6,270,321	6,814,598
Total counterparty risk	2,868	1,743
Total credit and counterparty risk	**6,273,189**	**6,816,341**

Market risk: capital requirement

Market risk - Standardised approach	Capital requirement 31.12.2020	Capital requirement 31.12.2019
- position risk on debt instruments	749	628
- position risk on equity instruments	276	840
- exchange rate risk	-	-
Total market risk	**1,026**	**1,468**

Operational risk: capital requirement

Operational risk	Capital requirement 31.12.2020	Capital requirement 31.12.2019
Basic approach	58,695	60,367
Total operational risk	**58,695**	**60,367**

Specific risks: capital requirement

Credit rating downgrade risk	Capital requirement 31.12.2020	Capital requirement 31.12.2019
Standardised approach	38	58
Total credit rating downgrade risk	**38**	**58**

Capital ratios

	Brianza Unione Group		Banco Desio Group	
Capital ratios	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Common Equity Tier 1 Ratio	11.22%	9.99%	14.66%	12.97%
Tier 1 ratio	12.02%	10.73%	14.68%	12.98%
Total capital ratio	13.21%	11.97%	15.05%	13.67%

We point out a significant capital strengthening (CET1 of the Banco Desio Group +170 bps Y/Y) due to the derisking carried out on the portfolio and regulatory interventions by the European Union.

5. Exposure to counterparty risk (art. 439 CRR)

Qualitative information

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). In the use of this approach, the Group has adopted, for the calculation of the amount of the exposure, the mark-to-market method as required by the relevant regulations (Circ. no. 285/13 Part Two – Chapter 7, Section I).

Quantitative information

Derivatives held in the trading book: period end notional values

Underlying assets/Type of derivatives	Total 31/12/2020			Total 31/12/2019		
	Over the counter			Over the counter		
	Central counterparties	Without central counterparties	Organised markets	Central counterparties	Without central counterparties	Organised markets
1. Debt securities and interest rates	-	14,514	-	-	15,227	-
a) Options	-	-	-	-	-	-
b) Swaps	-	14,514	-	-	15,227	-
c) Forward	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-
e) Other	-	-	-	-	-	-
2. Equities and equity indices	-	109	-	-	119	-
a) Options	-	109	-	-	119	-
b) Swaps	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-
e) Other	-	-	-	-	-	-
3. Currency and gold	-	142,278	-	-	279,939	-
a) Options	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-
c) Forward	-	142,278	-	-	279,939	-
d) Futures	-	-	-	-	-	-
e) Other	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-
5. Other	-	-	-	-	-	-
Total	**-**	**156,901**	**-**	**-**	**295,285**	**-**

Gruppo Banco Desio

Derivatives held in the trading book: gross positive and negative fair value - breakdown by product

Type of derivative	31/12/2020			31/12/2019		
	Over the counter		Organised markets	Over the counter		Organised markets
	Central counterparties	Without central counterparties		Central counterparties	Without central counterparties	
1. Positive fair value						
a) Options	-	109	-	-	119	-
b) Interest rate swaps	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-
e) Forward	-	647	-	-	1,350	-
f) Futures	-	-	-	-	-	-
g) Other	-	-	-	-	-	-
Total	**-**	**756**	**-**	**-**	**1,469**	**-**
2. Negative fair value						
a) Options	-	-	-	-	-	-
b) Interest rate swaps	-	6,935	-	-	6,874	-
c) Cross currency swaps	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-
e) Forward	-	592	-	-	1,264	-
f) Futures	-	-	-	-	-	-
g) Other	-	-	-	-	-	-
Total	**-**	**7,527**	**-**	**-**	**8,138**	**-**

Banco Desio

OTC derivatives held in the trading book – notional values, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
1) Debt securities and interest rates				
- notional value	-	14,514	-	-
- positive fair value	-	-	-	-
- negative fair value	-	6,935	-	-
2) Equities and equity indices				
- notional value	-	-	-	109
- positive fair value	-	-	-	109
- negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	71,642	57,870	12,766
- positive fair value	-	505	-	142
- negative fair value	-	132	211	249
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

Residual life of OTC derivatives used for hedging: notional values

Underlying/Residual life		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives linked to debt securities and interest rates		655	2,750	11,109	14,514
A.2 Financial derivatives linked to equities and stock indices		-	109	-	109
A.3 Financial derivatives linked to currencies and gold		142,278	-	-	142,278
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	**31/12/2020**	**142,933**	**2,859**	**11,109**	**156,901**
Total	**31/12/2019**	**280,652**	**2,772**	**11,861**	**295,285**

Banco Desio

Hedging financial derivatives: period end notional values

Underlying assets/Type of derivatives	Total 31/12/2020			Total 31/12/2019		
	Over the counter		Organised markets	Over the counter		Organised markets
	Central counterparties	Without central counterparties		Central counterparties	Without central counterparties	
1. Debt securities and interest rates	-	130,000	-	-	130,000	-
a) Options	-	-	-	-	-	-
b) Swaps	-	130,000	-	-	130,000	-
c) Forward	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-
e) Other	-	-	-	-	-	-
2. Equities and equity indices	-	-	-	-	-	-
a) Options	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-
e) Other	-	-	-	-	-	-
3. Currency and gold	-	-	-	-	-	-
a) Options	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-
e) Other	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-
5. Other	-	-	-	-	-	-
Total	**-**	**130,000**	**-**	**-**	**130,000**	**-**

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Financial derivatives used for hedging: gross positive and negative fair value - breakdown by product

Type of derivative	Positive and negative fair value					
	31/12/2020			31/12/2019		
	Over the counter			Over the counter		
	Central counterparties	Without central counterparties	Organised markets	Central counterparties	Without central counterparties	Organised markets
Positive fair value						
a) Options	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-
g) Other	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**
Negative fair value						
a) Options	-	-	-	-	-	-
b) Interest rate swaps	-	1,540	-	-	2,157	-
c) Cross currency swaps	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-
g) Other	-	-	-	-	-	-
Total	**-**	**1,540**	**-**	**-**	**2,157**	**-**

OTC derivatives used for hedging – notional values, gross positive and negative fair value by counterparty

Underlying assets	Central counter-parties	Banks	Other financial companies	Other parties
1) Debt securities and interest rates				
- notional value	-	130,000	-	-
- positive fair value	-	-	-	-
- negative fair value	-	1,540	-	-
2) Equities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Other instruments				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

Residual life of OTC derivatives used for hedging: notional values

Underlying/Residual life		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives linked to debt securities and interest rates		50,000	80,000	-	-
A.2 Financial derivatives linked to equities and stock indices		-	-	-	-
A.3 Financial derivatives linked to currencies and gold		-	-	-	-
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	**31/12/2020**	**50,000**	**80,000**	**-**	**-**
Total	**31/12/2019**	**-**	**130,000**	**-**	**-**

Counterparty risk – credit equivalent (standardised approach)

Regulatory portfolio	SFT transactions	Derivatives and long-term settlement transactions
1. Exposures to or guaranteed by central governments and central banks	-	-
2. Exposures to or secured by regional governments or local authorities	-	-
3. Exposures to or guaranteed by public sector bodies	-	-
4. Exposures to or guaranteed by multilateral development banks	-	-
5. Exposures to or guaranteed by international organisations	-	-
6. Exposures to or guaranteed by supervised intermediaries	-	2,380
7. Exposures to or guaranteed by companies	-	488
8. Retail exposures	-	-
9. Exposures secured by property	-	-
10. Exposures in default	-	-
11. High-risk exposures	-	-
12. Guaranteed bank bonds	-	-
13. Current exposures to companies or supervised intermediaries	-	-
14. Exposures to mutual funds (UCITS)	-	-
15. Exposures in equity instruments	-	-
16. Other exposures	-	-
Total	**-**	**2,868**

6. Asset quality and credit risk adjustments (art. 442 CRR)

Qualitative information

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.

To be able to appreciate the quality of the Group's entire loan portfolio, it is important to distinguish between:

- customers making regular payments (performing loans) that fall into the category of performing exposures;
- customers that have missed their first regular payment (watchlist customers) or have been habitually irregular (impaired customers) that fall into the category of non-performing exposures.

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.

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 has introduced 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):

a) stage 1 for exposures performing in line with expectations;
b) stage 2 for exposures performing below expectations or that have recorded a significant increase in credit risk compared with when they were originated (or purchased);
c) stage 3 for non-performing exposures (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 proposed classification may also be formulated by the Credit Office, by the Area Head or by the branch. The classification of a position under control may be made by the Monitoring and Reporting Office and by Internal Audit by communicating the change in customer master status to the branch.

With reference to the current context characterised by the Covid-19 pandemic, IFRS 9 requires an entity to estimate its expected credit losses taking into consideration all available current and future information deemed reasonable and supportable.

The European supervisory and regulatory bodies and standard setters (the Authorities) that have expressed opinions on this matter concur in suggesting extreme caution when changing the scenarios considered, at least during the phase of acute uncertainty. At the same time, the ECB's suggestion to use a reference scenario anchored to its indications seemed to indicate the intention of the Authorities to want to centrally direct the banks in this particular situation, providing a homogeneous set of parameters for forecasts of future economic trends. On 10 December 2020, the projections for the Eurozone were announced by the ECB, which published the document "Eurosystem staff macroeconomic projections for the Euro Area", which was followed by the "Macroeconomic projections for the Italian economy" for the three-year period 2020-23 published by the Bank of Italy on 11 December 2020.

So taking into account: (i) the guidance mentioned previously that it was better to focus on long-term prospects to grasp the structural effects of the crisis without emphasising the procyclicality and avoiding mechanical applications of the models for estimating expected credit losses, and (ii) the complexities of applying the ordinary models for estimating expected losses, which consider prospective forecasts (macroeconomic scenarios) for only three years, so with a strong incidence of short-term movements, the Group followed the instructions provided by the various authorities to update the ordinary assessment process conditioned by the exceptional and completely new characteristics of the current crisis.

In particular, reference was made to the orientation expressed in the ECB letter dated 4 December 2020 “Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic”, addressed to all significant entities, with specific regard to current complexities in identifying increased credit risk (staging) and estimated expected losses given *inter alia* the application of managerial overlay to the portfolio of performing loans (stages 1 and 2).

The economic effects of these interventions have been quantified from an operational point of view as a total of € 33.7 million (gross of the tax effect). The changes made to the measurement of expected losses on performing loans are described in the note on the “Model for measuring expected losses on performing loans” in “Section 1 - Credit risk” of “Part E -– Information on risks and related hedging policy” in the explanatory notes to the consolidated financial statements.

Non-Performing Exposures

The new 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 that assist 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: included in this category are all exposures to debtors (other than those reported as doubtful or unlikely to pay), which, at the reporting date, are more than 90 days past due or overdrawn, with an absolute materiality threshold of Euro 500 for corporate customers and

private individuals. Individual past due or overdrawn exposures must be determined with reference to individual borrower criteria (applied by the Group) and to individual transaction criteria.

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.
   Exposures to retail customers may be classified in the "unlikely to pay" category at the individual transaction level, rather than at individual customer level, if the Group does not believe that the conditions exist for classifying the entire exposure to that customer in that category.
3. Doubtful 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.
   Doubtful 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. During the period, there was a deterioration in the quality of part of the customer loan portfolio (substantially due to the slowdown in collections) for which the appropriate interventions were promptly activated in order to manage the contingency of the Covid-19 epidemic and, in any case, to ensure the correct classification and assessment of recoverability of exposures classified as NPL with consequent impact on the cost of non-performing credit for the period and on the increase in the levels of coverage of NPLs compared with 31 December 2019, also taking into account the sales made in the period.

As discussed further in "Part E – Information on risks and related hedging policies" in the consolidated financial statements, on 1 October 2020 the Board of the Parent Company approved changes to the lending policy in the following main areas:

- introduction of new measurement metrics for the UTP portfolio and refinements for doubtful loans,
- release of synergies with framework internal rating models (use of the LGD and Danger Rate parameters),
- alignment with leading market practices: assessment of the forbearance measures with normal performance, positions past due for more than one year, use of the Danger Rate and identification of an exposure threshold for the application of a general write-down.

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.

The concessions/suspensions carried out by 30 September, pursuant to the “Covid-19” legislation and at the request of customers, were not classified as forborne (in accordance with the instructions given by the Supervisory Authorities). The legal suspensions arranged subsequent to 30 September were analysed to determine whether the forbearance criteria were met. Commencing from the final quarter, a series of detailed checks were carried out on counterparties with the largest exposures and applying portfolio logic to those of lower amount, to look for evidence that they should be classified as forborne or, in the case of significant anomalies, as UTP.

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.

Quantitative information

Quantitative information at 31 December 2020 relates to the classification of exposures based on Bank of Italy regulations (Circular 272) in force at the reference date of this document.

Gross, net and average gross credit exposures by main exposure category 1/2

	Doubtful loans			Unlikely to pay			Past due non-performing loans		
	Gross	Net	Average gross (*)	Gross	Net	Average gross (*)	Gross	Net	Average gross (*)
1. Financial assets at amortised cost	300,886	117,442	- 306,132	278,106	186,010	293,862	1,730	1,568	2,617
2. Financial assets at fair value through other comprehensive income			-			-			-
3. Financial assets designated at fair value			-			-			-
4. Other financial assets mandatorily at fair value									
Total 31.12.2020	**300,886**	**117,442**	**306,132**	**278,106**	**186,010**	**293,862**	**1,730**	**1,568**	**2,617**
Total 31.12.2019	**311,378**	**120,018**	**294,381**	**309,618**	**217,062**	**346,423**	**3,504**	**3,100**	**4,134**

* annual average of data at 31.12.19 and at 31.12.20

Gross, net and average gross credit exposures by main exposure category 2/2

	Other assets			TOTAL		
	Gross	Net	Average gross (*)	**Gross**	**Net**	**Average gross (*)**
1. Financial assets at amortised cost	14,097,913	14,022,330	13,632,364	14,678,635	14,327,350	14,234,975
2. Financial assets at fair value through other comprehensive income	588,337	588,165	548,851	588,337	588,165	548,851
3. Financial assets designated at fair value	X	-	X	X	-	X
4. Other financial assets mandatorily at fair value	X	860	X	X	860	X
Total 31.12.2020	**14,686,250**	**14,611,355**	**14,181,214**	**15,266,972**	**14,916,375**	**14,783,825**
Total 31.12.2019	**13,166,814**	**13,121,189**	**12,967,981**	**13,791,314**	**13,461,369**	**13,612,918**

* annual average of data at 31.12.19 and at 31.12.20

Gruppo Banco Desio

Territorial distribution of on- and off-balance sheet credit exposures to customers 1/2

Exposures/Geographical areas		ITALY			Other European countries			AMERICA		
		Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
A. On-balance sheet exposures										
A.1 Doubtful loans		300,768	183,375	117,393	118	69	49	-	-	-
A.2 Unlikely to pay		277,507	92,025	185,482	599	71	528	-	-	-
A.3 Past due non-performing loans		1,729	162	1,567	1	-	1	-	-	-
A.4 Performing loans		13,172,747	75,089	13,097,658	112,709	150	112,559	20,930	18	20,912
TOTAL A		**13,752,751**	**350,651**	**13,402,100**	**113,427**	**290**	**113,137**	**20,930**	**18**	**20,912**
B. Off-balance sheet exposures										
B.1 Non-performing loans		32,849	1,985	30,864	-	-	-	-	-	-
B.2 Performing loans		3,525,710	2,895	3,522,815	4,751	-	4,751	465	-	465
TOTAL B		**3,558,559**	**4,880**	**3,553,679**	**4,751**	**-**	**4,751**	**465**	**-**	**465**
TOTAL (A+B)	**31/12/2020**	**17,311,310**	**355,531**	**16,955,779**	**118,178**	**290**	**117,888**	**21,395**	**18**	**21,377**
TOTAL (A+B)	**31/12/2019**	**15,942,556**	**334,519**	**15,608,037**	**97,366**	**284**	**97,082**	**21,065**	**17**	**21,048**

Territorial distribution of on- and off-balance sheet credit exposures to customers 2/2

Exposures/Geographical areas		ASIA			REST OF THE WORLD			TOTAL		
		Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
A. On-balance sheet exposures										
A.1 Doubtful loans		-	-	-	-	-	-	300,886	183,444	117,442
A.2 Unlikely to pay		-	-	-	-	-	-	278,106	92,096	186,010
A.3 Past due non-performing loans		-	-	-	-	-	-	1,730	162	1,568
A.4 Performing loans		168	1	167	407	-	407	13,306,961	75,258	13,231,703
TOTAL A		**168**	**1**	**167**	**407**	**-**	**407**	**13,887,683**	**350,960**	**13,536,723**
B. Off-balance sheet exposures										
B.1 Non-performing loans		-	-	-	-	-	-	32,849	1,985	30,864
B.2 Performing loans		4	-	4	5	-	5	3,530,935	2,895	3,528,040
TOTAL B		**4**	**-**	**4**	**5**	**-**	**5**	**3,563,784**	**4,880**	**3,558,904**
TOTAL (A+B)	**31/12/2020**	**172**	**1**	**171**	**412**	**-**	**412**	**17,451,467**	**355,840**	**17,095,627**
TOTAL (A+B)	**31/12/2019**	**206**	**1**	**205**	**108**	**1**	**107**	**16,061,301**	**334,822**	**15,726,479**

Territorial distribution of on- and off-balance sheet credit exposures to banks 1/2

Exposures/Geographical areas		ITALY			Other European countries			AMERICA		
		Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
A. On-balance sheet exposures										
A.1 Doubtful loans		-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-	-	-	-	-
A.4 Performing loans		1,250,230	433	1,249,797	128,707	57	128,650	3,020	2	3,018
TOTAL A		**1,250,230**	**433**	**1,249,797**	**128,707**	**57**	**128,650**	**3,020**	**2**	**3,018**
B. Off-balance sheet exposures										
B.1 Non-performing loans		-	-	-	-	-	-	-	-	-
B.2 Performing loans		11,032	1	11,031	2,505	-	2,505	-	-	-
TOTAL B		**11,032**	**1**	**11,031**	**2,505**	**-**	**2,505**	**-**	**-**	**-**
TOTAL (A+B)	**31/12/2020**	**1,261,262**	**434**	**1,260,828**	**131,212**	**57**	**131,155**	**3,020**	**2**	**3,018**
TOTAL (A+B)	**31/12/2019**	**829,781**	**447**	**829,334**	**102,054**	**57**	**101,997**	**1,100**	**1**	**1,099**

Territorial distribution of on- and off-balance sheet credit exposures to banks 2/2

Exposures/Geographical areas		ASIA			REST OF THE WORLD			TOTAL		
		Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
A. On-balance sheet exposures										
A.1 Doubtful loans		-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-	-	-	-	-
A.4 Performing loans		317	-	317	805	5	800	1,383,079	497	1,382,582
TOTAL A		**317**	**-**	**317**	**805**	**5**	**800**	**1,383,079**	**497**	**1,382,582**
B. Off-balance sheet exposures										
B.1 Non-performing loans		-	-	-	-	-	-	-	-	-
B.2 Performing loans		-	-	-	-	-	-	13,537	1	13,536
TOTAL B		**-**	**-**	**-**	**-**	**-**	**-**	**13,537**	**1**	**13,536**
TOTAL (A+B)	**31/12/2020**	**317**	**-**	**317**	**805**	**5**	**800**	**1,396,616**	**498**	**1,396,118**
TOTAL (A+B)	**31/12/2019**	**4,260**	**1**	**4,259**	**3,836**	**1**	**3,835**	**941,031**	**507**	**940,524**

Grupo Banco Desio

Distribution by sector of on- and off-balance sheet credit exposures to customers (book value) 1/2

Exposures/Counterparties	Public administrations			Financial companies			Financial companies (of which: insurance companies)		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
A. On-balance sheet exposures									
A.1 Doubtful loans	-	-	-	11,919	9,751	2,168	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	608	289	319	4,258	1,220	3,038	-	-	-
- of which: exposures subject to forbearance	-	-	-	4,059	1,070	2,989	-	-	-
A.3 Past due non-performing loans	-	-	-	3	-	3	-	-	-
- of which: exposures subject to forbearance	-	-	-	-	-	-	-	-	-
A.4 Performing loans	2,690,153	725	2,689,428	548,338	1,420	546,918	5,076	-	5,076
- of which: exposures subject to forbearance	-	-	-	415	13	402	-	-	-
Total A	**2,690,761**	**1,014**	**2,689,747**	**564,518**	**12,391**	**552,127**	**5,076**	**-**	**5,076**
B. Off-balance sheet exposures									
B.1 Non-performing loans	-	-	-	10	-	10	-	-	-
B.2 Performing loans	15,912	-	15,912	115,029	10	115,019	-	-	-
Total B	**15,912**	**-**	**15,912**	**115,039**	**10**	**115,029**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**2,706,673**	**1,014**	**2,705,659**	**679,557**	**12,401**	**667,156**	**5,076**	**-**	**5,076**
Total (A+B) 31/12/2019	**2,632,409**	**2,137**	**2,630,272**	**563,118**	**12,161**	**550,957**	**790**	**-**	**790**

Distribution by sector of on- and off-balance sheet credit exposures to customers (book value) 2/2

Exposures/Counterparties	Non-financial companies			Households			Total		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
A. On-balance sheet exposures									
A.1 Doubtful loans	212,441	134,769	77,672	76,526	38,924	37,602	300,886	183,444	117,442
- of which: exposures subject to forbearance	18,563	10,581	7,982	11,177	4,707	6,470	29,740	15,288	14,452
A.2 Unlikely to pay	179,449	65,251	114,198	93,791	25,336	68,455	278,106	92,096	186,010
- of which: exposures subject to forbearance	80,232	23,324	56,908	53,837	13,317	40,520	138,128	37,711	100,417
A.3 Past due non-performing loans	472	63	409	1,255	99	1,156	1,730	162	1,568
- of which: exposures subject to forbearance	183	26	157	156	21	135	339	47	292
A.4 Performing loans	5,864,092	45,576	5,818,516	4,204,378	27,537	4,176,841	13,306,961	75,258	13,231,703
- of which: exposures subject to forbearance	71,527	4,365	67,162	56,586	3,085	53,501	128,528	7,463	121,065
Total A	**6,256,454**	**245,659**	**6,010,795**	**4,375,950**	**91,896**	**4,284,054**	**13,887,683**	**350,960**	**13,536,723**
B. Off-balance sheet exposures									
B.1 Non-performing loans	32,186	1,938	30,248	653	47	606	32,849	1,985	30,864
B.2 Performing loans	3,155,182	2,705	3,152,477	244,812	180	244,632	3,530,935	2,895	3,528,040
Total B	**3,187,368**	**4,643**	**3,182,725**	**245,465**	**227**	**245,238**	**3,563,784**	**4,880**	**3,558,904**
Total (A+B) 31/12/2020	**9,443,822**	**250,302**	**9,193,520**	**4,621,415**	**92,123**	**4,529,292**	**17,451,467**	**355,840**	**17,095,627**
Total (A+B) 31/12/2019	**8,522,446**	**251,150**	**8,271,296**	**4,343,328**	**69,374**	**4,273,954**	**16,061,301**	**334,822**	**15,726,479**

1. Distribution of financial assets and liabilities by residual contractual duration

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**1,133,013**	**68,232**	**117,826**	**166,831**	**677,973**	**739,603**	**845,888**	**6,449,959**	**4,105,247**	**839,871**
A.1 Government securities	-	-	1,379	-	11,122	299,887	85,361	1,615,921	599,790	-
A.2 Other debt securities	37	-	137	387	22,208	11,579	16,291	333,625	408,891	2,950
A.3 Mutual funds	49,603	-	-	-	-	-	-	-	-	-
A.4 Loans	1,083,373	68,232	116,310	166,444	644,643	428,137	744,236	4,500,413	3,096,566	836,921
- Banks	154,479	35,064	4,077	2,500	-	1,569	-	-	342	836,921
- Customers	928,894	33,168	112,233	163,944	644,643	426,568	744,236	4,500,413	3,096,224	-
Cash liabilities	**9,662,156**	**21,449**	**7,764**	**30,040**	**179,626**	**251,151**	**197,152**	**3,374,407**	**568,774**	**-**
B.1 Deposits and current accounts	9,598,931	20,042	7,706	24,895	108,462	162,553	109,756	56,942	-	-
- Banks	1,375	14,287	-	-	-	-	-	-	-	-
- Customers	9,597,556	5,755	7,706	24,895	108,462	162,553	109,756	56,942	-	-
B.2 Debt securities	545	1,407	58	5,127	70,828	83,469	79,775	875,738	502,693	-
B.3 Other liabilities	62,680	-	-	18	336	5,129	7,621	2,441,727	66,081	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	8,939	19,588	104,323	7,870	9,032	113	10	-	-
- Short positions	-	8,995	19,580	104,298	7,860	8,986	98	109	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	6,935	-	-	112	169	297	599	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance										
- Long positions	821	3	-	123	1,394	14	57	15,258	55,809	-
- Short positions	73,477	3	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Description/Categories	Doubtful loans	Unlikely to pay loans	Past due non-performing loans
A. Opening gross exposure	**311,378**	**309,618**	**3,504**
- of which: exposure sold but not derecognised	-	7,629	-
B. Increases	**57,636**	**118,053**	**20,417**
B.1 transfers from performing exposures	121	80,218	19,500
B.2 transfers from impaired financial assets acquired or originated	-	357	140
B.3 transfers from other categories of non-performing exposures	57,180	6,959	262
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	335	30,519	515
C. Decreases	**68,128**	**149,565**	**22,191**
C.1 transfers to performing exposures	4	16,788	14,344
C.2 write-offs	14,743	188	-
C.3 collections	17,496	52,988	757
C.4 proceeds from disposal	7,912	16,179	-
C.5 losses on disposal	27,885	6,199	-
C.6 transfers to other categories of non-performing exposures	88	57,223	7,090
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposure	**300,886**	**278,106**	**1,730**
- of which: exposure sold but not derecognised	-	8,962	55

Lastly, specific disclosure is provided regarding the bank's own non-performing and forborne exposures according to the standard compilation schemes required by the EBA 2018/10 guidelines which came into force on 31 December 2019, for the part directly applicable to non-significant entities.

Table 1 - Credit quality of exposures subject to forbearance

	Gross carrying amount/Nominal amount of exposures subject to forbearance				Cumulative adjustments, cumulative negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on exposures subject to forbearance	
	Performing exposures subject to forbearance	Non-performing exposures 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 forbearance
			of which in default	of which impaired				
Loans and advances	128,529	168,207	168,207	168,207	7,464	53,045	218,558	108,708
Central banks	-	-	-	-		-	-	
Public administrations	-	-	-	-		-	-	
Banks	-	-	-	-		-	-	
Other financial companies	*415*	*4,058*	*4,058*	*4,058*	*13*	*1,070*	*2,895*	2,493
Non-financial companies	*71,527*	*98,977*	*98,977*	*98,977*	*4,365*	*33,930*	*118,215*	60,697
Households	*56,587*	*65,172*	*65,172*	*65,172*	*3,086*	*18,045*	*97,448*	45,518
Debt securities								
Commitments to grant credit								
Total	**128,529**	**168,207**	**168,207**	**168,207**	**7,464**	**53,045**	**218,558**	**108,708**

Table 3 - Credit quality of performing and non-performing exposures by number of days past due

	Gross carrying amount/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 and < 180 days	Past due by > 180 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
Loans and advances	11,272,211	11,201,470	70,741	580,723	138,628	24,603	26,496	85,897	183,617	36,710	84,772	580,723
Central banks	*836,893*	*836,893*		-								-
Public administrations	*67,135*	*67,135*		*625*	*16*			*609*				*625*
Banks	*198,026*	*198,026*		-								-
Other financial companies	*130,057*	*130,052*	*5*	*16,180*	*2,148*	*1*	*15*	*1,666*	*11,611*	*604*	*135*	*16,180*
Non-financial companies	*5,836,929*	*5,833,569*	*3,360*	*392,377*	*76,443*	*13,934*	*16,666*	*61,619*	*130,198*	*27,753*	*65,764*	*392,377*
- of which SMEs	*3,812,871*	*3,811,528*	*1,343*	*242,181*	*50,859*	*8,161*	*10,664*	*36,099*	*78,184*	*18,802*	*39,412*	*242,181*
Households	*4,203,171*	*4,135,795*	*67,376*	*171,541*	*60,021*	*10,668*	*9,815*	*22,003*	*41,808*	*8,353*	*18,873*	*171,541*
Debt securities	3,414,036	3,414,036	-	-	-	-	-	-	-	-	-	-
Central banks	-	-		-								
Public administrations	*2,623,090*	*2,623,090*		-								
Banks	*345,229*	*345,229*		-								
Other financial companies	*417,707*	*417,707*		-								
Non-financial companies	*28,010*	*28,010*		-								
Commitments to grant credit	3,110,013			26,022								26,022
Central banks	-			-								
Public administrations	*15,841*			-								
Banks	-			-								
Other financial companies	*109,687*			*10*								*10*
Non-financial companies	*2,765,521*			*25,539*								*25,539*
Households	*218,964*			*473*								*473*
Total	**17,796,260**	**14,615,506**	**70,741**	**606,745**	**138,628**	**24,603**	**26,496**	**85,897**	**183,617**	**36,710**	**84,772**	**606,745**

Table 4 - Performing and non-performing exposures and related adjustments and provisions

	Gross carrying amount/nominal amount					Cumulative adjustments, cumulative negative changes in fair value due to credit risk and provisions					Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures		Performing exposures			Non-performing exposures		On non-performing exposures	On performing exposures
	total	of which stage 1	of which stage 2	total	of which stage 3	total	of which stage 1	of which stage 2	total	of which stage 3		
Loans and advances	11,272,211	8,909,756	2,362,455	580,723	580,723	74,229	17,445	56,784	275,704	275,704	265,108	7,047,132
Central banks	*836,893*	*836,893*		-		-	-		-		-	
Public administrations	*67,135*	*67,135*		*625*	*625*	-			*290*	*290*	-	
Banks	*198,026*	*198,026*		-	-	*149*	*149*		-	-	-	
Other financial companies	*130,057*	*103,765*	*26,292*	*16,180*	*16,180*	*1,003*	*357*	*646*	*10,971*	*10,971*	*2,620*	*61,159*
Non-financial companies	*5,836,929*	*4,162,525*	*1,674,404*	*392,377*	*392,377*	*45,541*	*9,023*	*36,518*	*200,087*	*200,087*	*166,043*	*3,827,439*
- of which SMEs	*3,812,871*	*2,710,284*	*1,102,587*	*242,181*	*242,181*	*29,657*	*6,153*	*23,504*	*121,010*	*121,010*	*107,039*	*2,815,666*
Households	*4,203,171*	*3,541,412*	*661,759*	*171,541*	*171,541*	*27,536*	*7,916*	*19,620*	*64,356*	*64,356*	*96,445*	*3,158,534*
Debt securities	3,414,036	3,414,036	-	-	-	1,522	1,522	-	-	-	-	206,000
Central banks	-	-		-		-			-			
Public administrations	*2,623,090*	*2,623,090*		-		*724*	*724*		-			
Banks	*345,229*	*345,229*		-		*345*	*345*		-			
Other financial companies	*417,707*	*417,707*		-		*417*	*417*		-			*206,000*
Non-financial companies	*28,010*	*28,010*		-		*36*	*36*		-			
Commitments to grant credit	3,110,013	3,046,676	63,337	26,022	26,022	2,213	1,876	337	-	-	10,731	716,323
Central banks	-	-	-	-	-	-	-	-	-			
Public administrations	*15,841*	*15,841*		-	-	-	-	-	-			*150*
Banks	-			-	-	-	-	-	-			
Other financial companies	*109,687*	*109,346*	*341*	*10*	*10*	*54*	*54*		-			*7,377*
Non-financial companies	*2,765,521*	*2,706,889*	*58,632*	*25,539*	*25,539*	*2,059*	*1,739*	*320*	-		*10,543*	*646,715*
Households	*218,964*	*214,600*	*4,364*	*473*	*473*	*100*	*83*	*17*	-		*188*	*62,081*
Total	**17,796,260**	**15,370,468**	**2,425,792**	**606,745**	**606,745**	**77,964**	**20,843**	**57,121**	**275,704**	**275,704**	**275,839**	**7,969,455**

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 2020. 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. For further details, please refer to the Consolidated Financial Statements at 31 December 2020.

Table 1: Information on loans and advances subject to legislative and non-legislative moratoriums

	Gross carrying amount							Loss of recorded value, negative changes calculated at fair value due to credit risk							Gross carrying amount
		Performing exposures			Non-performing exposures				Performing exposures			Non-performing exposures			
			Of which: Forborne loans	Of which: Instruments with significant increase in credit risk from initial recognition but not non-performing (Stage 2)		Of which: forbearance	Of which: Unlikely to pay or past-due <= 90 days			Of which: Forborne loans	Of which: Instruments with significant increase in credit risk from initial recognition but not non-performing (Stage 2)		Of which: Forborne loans	Of which: Unlikely to pay or past-due <= 90 days	Inflows to impaired exposures
Loans and advances subject to a moratorium	2,664,716	2,605,949	98,211	1,352,147	58,767	42,667	53,168	53,535	39,914	6,126	37,905	13,621	9,437	11,573	19,210
of which: Households	835,130	812,637	37,470	451,455	22,493	18,458	21,144	19,901	14,919	2,160	14,453	4,982	4,099	4,582	3,828
of which: Secured by residential property	644,751	625,577	32,600	356,029	19,173	15,855	18,601	15,527	11,743	1,864	11,497	3,784	3,106	3,691	3,370
of which: Non-financial companies	1,803,136	1,768,455	60,350	897,547	34,681	22,616	30,431	33,279	24,872	3,954	23,366	8,407	5,105	6,758	13,789
of which: Small and medium-sized enterprises	1,182,395	1,159,153	38,612	600,892	23,242	14,073	20,678	21,975	16,266	2,289	15,291	5,710	3,392	4,655	8,737
of which: Secured by commercial property	698,806	678,340	38,117	449,320	20,465	15,313	19,460	19,310	14,992	2,532	14,632	4,318	3,476	3,965	9,575

Banco Desio

Table 2: Breakdown of loans and advances subject to legislative and non-legislative moratoriums by residual duration of the moratorium

	Number of debtors	Gross carrying amount							
			Of which: legislative moratorium	Of which: past-due	Residual maturity of the moratorium				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which a moratorium has been offered	17,651	2,664,716							
Loans and advances subject to a moratorium (granted)	17,651	2,664,716	1,094,071	19,101	1,396,381	1,077,043	154,934	10,375	6,882
of which: Households		835,130	139,426	5,582	400,861	404,924	13,596	9,297	870
of which: Secured by residential property		644,751	66,439	479	309,043	323,638	3,173	7,824	594
of which: Non-financial companies		1,803,136	946,449	13,518	976,392	666,622	139,512	1,079	6,013
of which: Small and medium-sized enterprises		1,182,395	691,492	11,034	654,629	411,270	101,340	118	4,004
of which: Secured by commercial property		698,806	408,930	18	436,425	252,702	5,396	961	3,304

Banco Desio

Table 3: Information on next generation loans and advances provided under newly implemented public guarantee schemes introduced in response to the Covid-19 crisis

	Gross carrying amount		Maximum amount of collateral that can be considered	Gross carrying amount
		of which: Forborne	Public guarantees received	Inflows to impaired exposures
Newly established loans and advances subject to public guarantee schemes	**1,817,333**	**760**	**1,573,376**	**2,153**
of which: Households	134,437			353
of which: Secured by residential property				-
of which: Non-financial companies	1,678,926	585	1,440,706	1,800
of which: Small and Medium Enterprises	1,150,768			1,222
of which: Secured by commercial property	-			-

7. Encumbered assets (art. 443 CRR)

Qualitative information

The information shown below is based on median values of 20209 quarterly figures, as required by EBA Guidelines (EBA/GL/2014/03).

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 repurchase agreements and/or for access to central bank facilities.

Loans, which account for approximately 83.72% 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 2.4 billion with the European Central Bank consist of A.Ba.Co. loans and debt securities.

Quantitative information

Template A - Assets of the reporting institution					
	CAPTIONS	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Assets of the institution**	**4,026,323**		**10,915,464**	
020	Loans on demand	0		677,440	
030	Equity securities	0	0	97,284	97,001
040	Debt securities	655,291	660,324	2,737,124	2,751,887
100	Loans other than loans on demand	3,371,032		6,782,786	
120	Other assets	0		620,830	

* taking into account expected haircuts at book value

Gruppo Banco Desio

Template B - Collateral received by the reporting institution				
	CAPTIONS	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal value of unencumbered collateral received or own debt securities issued
		010	040	070
130	**Collateral received by the institution**	**0**	**43,471**	**13,933,839**
140	Loans on demand	0	0	0
150	Equity securities	0	0	123,314
160	Debt securities	0	43,471	233,213
220	Loans other than loans on demand	0	0	21,072
230	Other collateral received	0	0	13,556,241
240	**Own debt securities issued other than own covered bonds or ABS**	**0**	**0**	**0**

Template C - Sources of encumbrance			
	CAPTIONS	Matching liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABS
		(+)	(-)
		010	030
010	**Carrying amount of selected financial liabilities**	**-3,120,427**	**4,026,323**
020	Derivatives	0	1,148
040	Deposits	-2,048,092	2,558,978
090	Debt securities issued	-1,072,334	1,466,197
120	**Other sources of encumbrance**	**0**	**0**
130	Nominal value of collateral received	0	0
140	Nominal value of financial collateral received	0	0
150	Fair value of securities borrowed with non-cash collateral	0	0
160	Other sources of encumbrance	0	0
170	**TOTAL SOURCES OF ENCUMBRANCE**	**-3,120,427**	**4,026,323**

8. Use of ECAI (art. 444 CRR)

Qualitative information

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 2020 the Group has made use of external ECAI credit assessment ratings issued by Cerved Group 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).

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.

Banco Desio

Quantitative information

Distribution of exposures by credit rating class and by regulatory class

SUB-ITEM	Credit rating classes	Net exposure without credit risk mitigation	Net exposure with credit risk mitigation
Exposures to or guaranteed by central governments and central banks		**3,715,749**	**5,739,172**
	- 0%	3,541,013	5,563,384
	- 20%	-	962
	- 50%	-	90
	- 100%	142,599	142,599
	- 250%	32,137	32,137
Exposures to or guaranteed by regional governments or local authorities		**17,589**	**19,125**
	- 20%	17,589	19,125
Exposures to or guaranteed by public sector bodies		**759**	**759**
	- 20%	546	546
	- 100%	213	213
Exposures to or guaranteed by multilateral development banks		**-**	**8,527**
	- 0%	-	4,393
	- 20%	-	4,135
Exposures to or guaranteed by international organisations		**-**	**3,174**
	- 0%	-	3,174
Exposures to or guaranteed by supervised intermediaries		**570,401**	**577,904**
	- 0%	-	-
	- 20%	187,264	189,736
	- 50%	299,470	304,500
	- 100%	77,618	77,618
	- 150%	6,049	6,049
Exposures to or guaranteed by companies		**5,505,506**	**4,463,059**
	- 20%	-	68
	- 50%	647,796	618,171
	- 70%	-	12,870
	- 100%	4,830,183	3,811,636
	- 150%	27,527	20,314
Retail exposures		**4,708,198**	**3,852,056**
	- 35%	708,600	708,600
	- 75%	3,999,598	3,143,456
Exposures secured by property		**3,407,940**	**3,377,304**
	- 35%	2,615,434	2,588,164
	- 50%	792,506	789,140
Exposures in default		**332,245**	**325,654**
	- 100%	256,379	251,922
	- 150%	75,867	73,732
High risk exposures		**85,382**	**84,746**
	- 150%	85,382	84,746
Exposures in the form of guaranteed bank bonds		**-**	**-**
Current exposures to companies or supervised intermediaries		**-**	**-**
Exposures to Collective Investment Undertakings (UCITS)		**49,603**	**49,603**
	- 100%	49,603	49,603
Exposures in equity instruments		**113,410**	**113,436**
	- 100%	113,410	113,436
Other exposures		**496,284**	**594,546**
	- 0%	56,525	153,658
	- 20%	34,751	35,881
	- 35%	11,096	11,096
	- 75%	1,903	1,903
	- 100%	392,008	392,008
Securitisations		**262,166**	**56,166**
	- 0%	206,000	-
	- 15%	50,317	50,317
	- 198%	4,989	4,989
	- 1250%	860	860
TOTAL CREDIT AND COUNTERPARTY RISK		**19,265,232**	**19,265,232**

9. Exposure to market risk (art. 445 CRR)

Qualitative information

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).

Quantitative information

Information about capital requirements is provided in paragraph 4.

10. Operational risk (art. 446 CRR)

Qualitative information

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).

Quantitative information

Information about capital requirements is provided in paragraph 4.

11. Exposure in equity instruments not included in the trading portfolio (art. 447 CRR)

Qualitative information

Definition

The rules for classification required by IFRS 9 state that equity instruments other than equity investments are to be classified at fair value through profit or loss (FVTPL). In the event, however, that the equity instruments are not held for trading, an option exists for them to be classified at FVOCI.

The option has the following characteristics:

- it is exercisable at the level of an individual financial instrument;
- it is exercisable at the time of initial recognition of the instrument;
- it is irrevocable;
- it may be exercised solely for instruments not held for trading.

The distinctive features of this classification are the following:

- capital at fair value
- dividends recognised in the income statement
- changes in fair value recorded in an appropriate equity reserve (OCI)
- no recycling of the reserve to the income statement when the instrument is sold
- no impairment.

The option is exercisable at the discretion of the Bank for all equity instruments not held for trading.

On the first-time application of IFRS 9 “Financial instruments” (1 January 2018), it was deemed more consistent with the reasons for equity instruments being held to exercise the FVOCI option for all those recognised at 31 December 2017 as financial assets available for sale (“AFS”), based on IAS 39 that was applicable at the time, on account of the fact that the aim of holding them as a strategic investment prevails over the objective of maximising the value of the instruments for their subsequent sale. Effective 1 January 2018, upon the purchase of an equity instrument not held for trading, a decision is made whether to exercise or not the OCI option and evidence thereof shall be provided.

Accordingly, equity exposures in the banking book[9] are recognised as “financial assets measured at fair value through other comprehensive income”. This caption includes all equity interests below 20%. The “equity investments” caption, however, includes equity interests in associates.

Mutual funds classified as financial assets available for trading are classified as instruments mandatorily measured at fair value through profit or loss. These instruments are held as a financial investment under a held to collect & sell business model, but the characteristics thereof, which are not compatible with passing the SPPI (solely payments of principal and interests) test, require them to be measured at fair value through profit or loss.

Objectives

The main objectives pursued are:

- strategic: the holding of interests that enable a significant influence to be exercised over financial and insurance companies;
- financial investment: through the holding of equity investments or mutual fund units for which a return on the investment is expected in terms of appreciation of the fair value of holdings or units held long-term.

Accounting policies

[9] The banking book includes all financial instrument assets and liabilities not included in the trading book.

Financial assets measured at fair value through other comprehensive income and financial assets mandatorily measured at fair value through profit or loss

Financial assets recognised in these categories are measured at fair value. For unlisted financial assets, including non-controlling interests, measurement at fair value is performed by using valuation techniques (Level 3). For Level 3 fair value measurements, unobservable inputs are used. Use of these inputs, including those from internal sources, is allowed if there is no observable market information to help make estimates; they should reflect the assumptions that market participants would make in determining the price.

Mutual funds that are traded in an active market are measured at the closing price observable in the principal market on the assessment date or, in the absence thereof, in the most advantageous market (fair value level 1).

Mutual funds that are not traded in an active market (particularly closed-end funds) are measured at the latest published N.A.V. or the N.A.V. that has been provided by the fund manager, to which an appropriate adjustment is made (of 20%) to take account of the liquidability of the units (level 3).

Equity investments

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

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

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

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

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

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

If the reasons for impairment cease to exist due to an event occurring after the recognition thereof, a write-back is recognised in the consolidated income statement in line item 250 "Gains (losses) on equity investments".

Quantitative information

Exposures in equity instruments not included in the trading book

	Book value		Fair value		Market value		Realised gains/losses and impairment		Unrealised gains/losses recorded in the balance sheet	
	level 1	level 2/3	level 1	level 2/3	level 1	level 2/3	level 1	level 2/3	level 1	level 2/3
Financial assets at FVOCI/mandatorily measured at FV										
- equity securities (FVOCI)	186	74,295	186	74,295	186	x		35	(32)	47,675
- Mutual funds (FVTPL)	15,995	33,608	15,995	33,608	15,995	x	517		809	(5,419)

With respect to UCITS units classified as “financial assets mandatorily measured at fair value”, it should be noted that:

- the "Realised gains and losses” line item includes the income statement impact recognised for the sale of units, gross of the related tax effect;
- the “Gains/losses on disposal” line item includes the income statement impact of the measurement of units held at 31 December 2020, gross of the related tax effect.

As regards equity instruments classified as “assets measured at fair value through other comprehensive income”, the “Gains/losses on disposal” line item includes the impact of their measurement recognised in equity, in the relevant valuation reserve, gross of the related tax effect. It is not expected that the reserve pertaining to equity instruments designated in this category will be recycled through profit or loss upon the sale of an instrument.

12. Exposure to interest rate risk on position not included in the trading portfolio (art. 448 CRR)

Qualitative information

The measurement of interest rate risk is performed for the Group banks, which account for almost the entire banking book. The whole of the Group's business associated with the transformation of maturities of assets and liabilities, portfolio securities, treasury operations and the respective hedging derivatives are monitored with Asset and Liability Management (ALM) methods using ERMAS5. The static analysis allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income. In this context, the results of the banking book for financial statement purposes are also presented, excluding analysis of financial instruments in the trading portfolio for supervisory purposes. The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of Gap Analysis. Changes in the economic value of assets and liabilities are analysed by applying models based on the concept of duration gap and sensitivity analysis. The analyses are carried out also considering non-parallel shifts in the yield curve and the application of behavioural models for demand items. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

With a view to prudent and active management of the risks associated with operations, the Group performs cash flow hedging with the aim of stabilising the cash flows of the instrument being hedged with the flows of the hedging instrument.

To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges. For hedging, we use derivatives represented by unlisted securities - interest rate swaps - but only to hedge interest rate risk. The Parent Company has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (IAS). The method used for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

Quantitative information

The Group's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value of own funds.
The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date has, however, some peculiarities arising from the current market environment, which sees an increase in demand and short-term deposits; this has led to a physiological decrease in the average duration of liabilities, whereas assets have not undergone any substantial changes in terms of average duration.

The following table shows the results of the impact on the interest margin and on other economic amounts of the analyses carried out at 31 December 2020, assuming a parallel shift in the yield curve, and considering the time effect of entries repricing and in 1-year time horizon. Given the economic-financial situation, the low level of interest rates and application of the non-negative rates constraint, specific hypotheses were used for absorbing the effects of the scenarios. In particular, for the on demand balances with customers, 50% absorption was assumed for the positive scenario, while no absorption was assumed for the negative scenario reaching, in this last case, an absolute floor in the rates.

Risk ratios: parallel shifts in the yield curve at 31.12.2020

	+100 bps	***-100 bps***
% of the expected margin	4.47%	-7.80%
% of net interest and other banking income	3.25%	-5.67%
% of shareholders' equity	0.75%	-1.23%

In terms of economic value, the effect of the change, estimated with the help of measurement models in a static perspective, shows a risk exposure at levels that do not have a significant impact on total capital.
The following table shows the changes in the overall current economic value of the Group's assets and liabilities analysed by applying deterministic approaches with parallel shifts in the yield curve.

Risk ratios: parallel shifts in the yield curve at 31.12.2020.

	+100 bps	***-100 bps***
% of the economic value	-10.03%	2.32%

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

Third party securitisations

Qualitative information

On 7 May 2020, the Board of Banco Desio resolved to subscribe 50 million euro for an asset-backed security (“ABS”) issued by Lumen SPV S.r.l. (a special-purpose vehicle), representing medium/long-term loans granted by Credimi S.p.A. (“Originator”) to SMEs and assisted by 90% guarantees from Medio Credito Centrale (MCC), as envisaged in Decree 23 dated 8 April 2020 (the "Liquidity" Decree).

The objectives of this initiative are to:

1. obtain an expected return consistent with the risk profile of the operation with underlying loans that are 90% guaranteed by Medio Credito Centrale;
2. increase the number of clients with a target profile consistent with the established commercial and lending policies (location, business size and expected loss on the portfolio), resulting in about 750 new clients in the territories where Banco Desio is present;
3. commence operations in fintech channels (co-branded portal) that provide clients with a fully on-line user experience that is simple and quick.

During 2020, with a view to diversifying the securities portfolio and seeking attractive returns, the Bank also 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.

Methods for calculating exposures

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

Quantitative information

The presentation of third-party securitisations in the financial statements is summarised in the following table:

Regulatory consolidation - Exposures arising from principal "third party" securitisations, broken down by type of securitised asset and by type of exposure

TYPE OF UNDERLYING ASSETS/EXPOSURES	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
Loans to customers	50,536	218				
Unlisted debt securities	5,022	33				

Own securitisations

Qualitative information

In execution of its capital management strategy of 2018, a securitisation has been carried out that makes use of the Italian State guarantee on the senior securities issued following a securitisation of doubtful 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.

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 (or "derecognition") of the NPLs concerned.

On 3 October 2018, the Banco Desio Group received a formal communication that the Minister of Economy and Finance, with the provision of 5 September 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.

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 securitisation completed by Banco Desio Group involving the sale of doubtful loans, following the sale of 95% of the junior and mezzanine notes, meets the derecognition requirements of IAS/IFRS and it has thus 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.

Quantitative information

The balance sheet exposure, which is summarised in the following table, consists of:

- the amount of senior notes measured at amortised cost (including the upfront costs incurred and the interest accrued, 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.

Regulatory consolidation - Exposures deriving from principal "own" securisations, analysed by type of asset securitised and by type of exposure

TYPE OF SECURITISED ASSETS/ EXPOSURES	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
A. Derecognised in full	206,057	58	859		1	
- *financial assets at amortised cost*	*206,057*	*58*				
B. Derecognised in part						
C. Not derecognised						

The securitisation exposure qualifies for a risk weighting of 1,250% for junior and mezzanine notes retained, while a weighting factor of 0% is applied to senior notes that benefit from government guarantees.

Covered bond transactions

2017 saw the launch of the "Covered Bond - Desio OBG" programme, designed to achieve benefits for the Group in terms of funding (diversification of deposits, lower funding cost and funding sources with longer maturities). The Programme, which is multi-seller in nature, involves:

- Banco di Desio e della Brianza (Parent Company) in the role of (1) originator bank, (2) lending bank, and (3) bank issuing the covered bonds;
- Desio OBG S.r.l. (Vehicle or SPV), as a special purpose vehicle for the sale of eligible assets by Banco Desio, 60% owned by the Parent Company;
- BNP Paribas, as the counterparty in the swap taken out to hedge the potential risk generated by the mismatch between the fixed rate on the covered bond and the mix of rates on the portfolio.

More specifically, the "Covered Bond - Desio OBG" programme is characterised by:

1. non-revolving sales without recourse of a residential mortgage loan portfolio;
2. disbursement of a subordinated loan to the SPV by Banco Desio;

3. issuance by Banco di Desio e della Brianza of covered bonds for institutional investors for Euro 575 million (issued in 2017) and Euro 500 million (issued in 2019) with a maturity of 7 years.
4. a liability swap on the covered bonds issued taken out by the SPV for a notional amount of Euro 300 million (for the 2017 issue) and for a notional amount of Euro 200 million (for the 2019 issue) with BNP Paribas as counterparty;
5. a back-swap taken out by Banco di Desio e della Brianza for the same notional amount with the same counterparty, as a mirror-image of the previous one.

At 31 December 2020, the loan portfolio sold by the Bank has a book value of about Euro 1,473 million.

Main characteristics of the issues

The main characteristics of the issue are summarised below:

- SPV name: Desio OBG S.r.l.
- Type of underlying loans: Residential mortgage loans;
- The value of the loans sold: total of Euro 1,961 million;
- Amount of subordinated loan at the reference date: 1,560 million euro;
- Nominal value of the covered bonds issued: 575 million euro series IT0005277451 issued on 12 September 2017 and 500 million euro series IT0005380446 issued on 24 July 2019;
- Interest rate on covered bonds issued: fixed rate of 0.875% (issue of 2017) equal to 0.375% (issue of 2019);
- Duration: 7 years.

An additional covered bond for 100 million euro maturing in 2031 was issued in a private placement on 12 January 2021 at mid-swap level plus 34 bps (zero-coupon bond with an issue price of 98.493%).

Key parties involved

Issuer of the covered bonds	Banco di Desio e della Brianza S.p.A.
Guarantor of the covered bonds	Desio OBG S.r.l.
Transferor	Banco di Desio e della Brianza S.p.A.
Subordinated lender	Banco di Desio e della Brianza S.p.A.
Servicer	Banco di Desio e della Brianza S.p.A.
Corporate Servicer	Securitisation Services S.p.A.
Guarantor Calculation Agent	Securitisation Services S.p.A.
Account Bank	BNP Paribas Securities Services
Guarantor Paying Agent	BNP Paribas Securities Services
Representative of the Covered Bondholders	Securitisation Services S.p.A.
Back-Up Servicer Facilitator	Securitisation Services S.p.A.
Liability Swap Provider	BNP Paribas
Asset Monitor	BDO Italia S.p.A.

Quotaholder	Stichting Morricone
Stichting Corporate Services Provider	Wilmington Trust SP Services (London) Limited
Cash Manager	Banco di Desio e della Brianza S.p.A.
Test Calculation Agent	Banco di Desio e della Brianza S.p.A.
Issuer Paying Agent	Banco di Desio e della Brianza S.p.A.
Luxembourg Listing Agent	BNP Paribas Securities Services, Luxembourg branch.

Limits on the sale of Eligible Assets

The Provisions set limits to the possibility for banks to sell Eligible Assets, which are based on the level of their Tier 1 (T1) and Common Equity Tier 1 (CET1) ratio.

Sale restrictions refer to total transactions of this kind made by a banking group.

Banking groups are classified into three categories, with corresponding specific limits as shown below:

- "a" band: for banking groups with T1 Ratio equal to or higher than 9% and CET1 Ratio equal to or higher than 8%, for which there are no sale limits;
- "b" band: for banking groups with T1 Ratio equal to or higher than 8% and CET1 Ratio equal to or higher than 7%, for which there is a sale limit of 60% of appropriate assets;
- "c" band: for banking groups with T1 Ratio equal to or higher than 7% and CET1 Ratio equal to or higher than 6%, for which there is a sale limit of 25% of appropriate assets.

Accounting impact

With the issue of OBGs, Banco Desio as the transferor bank substantially maintains all the risks and benefits of the assets transferred since:

- they are required to reinstate, in line with several alternatives, the collateral should the value of assets sold deteriorate and their value fall below the thresholds set by contract;
- the repayment of the subordinated loan granted to the special purpose vehicle is linked to the performance of the secured assets.

The primary objective of creating a special purpose vehicle and the sale of eligible assets there to is, in fact, to legally segregate, by means of a without recourse sale contract, the selling bank's assets within a separate legal entity. These assets, segregated in this manner, are subject to a restriction as to their use pursuant to Law 130/99 for the protection, among others, of the holders. Thus, the holders of Covered Bonds benefit, on the one hand, from the general guarantee represented by the issuer's capital and on the other, from the guarantee issued by the SPV in respect of the segregated portfolio for which they have priority creditor rights. This structure of "dual protection" facilitates the creation of conditions for a potential reduction in funding costs. The overall risk profile of the originator banks is not altered in any way. The selling banks retain the same capital requirement that they are already required to comply with, in respect of the assets sold, prior to the sale. The transactions, therefore, do not qualify for derecognition: the selling banks must continue to recognise the transferred assets in their entirety in the balance sheet and the considerations received from the sale must be accounted for as opposite entries to the financial liabilities due to the SPVs. In turn, these liabilities must be shown net of the subordinated loans granted to the vehicles, due to the principle of substance over form: it is as if the purchase of loans by the SPVs had never taken place. The subordinated loans are not taken into consideration for the purposes of counterparty risk; these loans must not, in fact, be considered, as the credit risk is already reflected in the valuation of the mortgage loans being sold.

As regards the impact at consolidation level, it should be noted that the SPV is a Group entity, as the Parent Company has a 60% holding; it is therefore subject to consolidation, although limited to its own results and financial position.

14. Remuneration policy (art. 450 CRR)

The remuneration and incentive policies are an essential tool used to support the Group's medium and long-term strategies. There are designed with the objective of value creation over time and the pursuit of sustainable growth for shareholders, employees and customers.

Their aim is to attract, motivate and retain people, thus creating a sense of identity and developing a culture linked to performance and merit.

Information concerning the Group's remuneration and incentive policy and remuneration paid is provided in the Report on Remuneration, to which reference should be made. This annual report includes all the information required by art. 450 of the CRR concerning remuneration policy and practices relating to staff categories whose professional duties have a significant impact on the bank's risk profile, including the disclosure of names (of those required by art. 450 of the CRR) and of remuneration for 2020. The report is available on the bank's website at: www.bancodesio.it.

Gruppo Banco Desio

15. Leverage (art. 451 CRR)

Qualitative information

The risk of excessive leverage is the risk that a particularly high level of debt with respect to capital makes the bank vulnerable, forcing it to adopt corrective measures in its business plan, such as selling off assets at a loss, which could result in impairment on the part of the remaining assets. The Group computes and reports the leverage ratio as required by current regulations (Regulation 575/2013).

The Group has adopted a RAF that imposes, among other things, specific leverage limits. The decision to include this metric in its RAF, with periodical monitoring of the related thresholds, arises from the awareness that a high level of leverage may generate a significant impact on the Group's results and financial position and from the desire to specifically monitor the indicator in view of the future application of prudential limits, which will become effective at the end of the experimental phase required by prudential regulations. For the determination of RAF limits, reference was made to measurement rules laid down by relevant regulations. The Group has also determined the indicator values in terms of risk appetite and risk tolerance in accordance with the extent of the risk and capitalisation implicit in the figures included in the business plan.

On 7 June 2019, the complex set of measures to further strengthen the resilience of the banks of the European Union was published in the Official Journal of the European Union. Furthermore, the European Parliament and Council Regulation 2019/876, which amends Regulation (EU) 575/2013 (CRR) with respect to, among other thing, the leverage ratio, requires banks to meet, as from 28, and in addition to their risk-based requirements, a leverage ratio equating to 06% of tier 1 capital.

The leverage ratio is monitored periodically and reporting thereon is an integral part of the reports produced by Risk Management as part of the Tableau de Bord of risks. The maintenance of a balanced asset to liability ratio also forms an integral part of the assessments made when preparing the RAF and the business plan.

Banco Desio

Quantitative information

The following tables provide the detailed harmonised information required by Implementing Regulation (EU) 2016/200, which sets out the implementing technical standards regarding information about the leverage ratio.

Table LRCom: Leverage ratio common disclosure

		31.12.2020
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	15,651,612
2	(Asset amounts deducted in determining Tier 1 capital)	- 15,895
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) 16.2.2016 L 39/9 Official Journal of the European Union IT	15,635,717
Derivative exposures		
4	Replacement cost associated with derivatives transactions (net of the variation margin in eligible cash)	109
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) EU-5a Exposure determined under Original Exposure Method	689
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	798
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	647
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	614
15	Agent transaction exposures EU-15a (Exempted CCP leg of client-cleared SFT exposure)	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	1,262
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	3,576,564
18	(Adjustments for conversion to credit equivalent amounts)	- 3,059,410
19	Other off-balance sheet exposures (sum of lines 17 to 18)	517,154
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
UE - 19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) no. 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) no. 575/2013 (on and off balance sheet))	- 684,858
Capital and total exposures		
20	Tier 1 capital	844,089
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	15,470,072
Leverage ratio		
22	Leverage ratio	5.456%
Choice of transitional arrangements for the definition of the capital measure		
EU-23	Choice of transitional arrangements for the definition of the capital measure	Transitional
UE - 24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		31.12.2020
1	Total assets as per published financial statements	**15,663,522**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	
4	Adjustments for derivative financial instruments	798
5	Adjustments for securities financing transactions "SFTs"	1,262
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) EU-6a (Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013) EU-6b (Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	517,154
7	Other adjustments	- 712,664
8	Total leverage ratio exposure	15,470,072

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures 31.12.2020
UE - 1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:**	**15,651,612**
EU-2	Trading book exposures	-
UE - 3	Banking book exposures, of which:	6,033,274
UE - 4	*- Covered bonds*	
UE - 5	*- Exposures treated as sovereign issuers*	*223,110*
UE - 6	*- Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns issuers 16.2.2016 L 39/11 Official Journal of the European Union IT*	*12*
UE - 7	*- Institutions*	*266,325*
UE - 8	*- Secured by mortgages on immovable properties*	*1,232,673*
UE - 9	*- Retail exposures*	*1,138,955*
UE - 10	*- Corporate*	*2,231,645*
UE - 11	*- Exposures in default*	*317,033*
UE - 12	*- Other exposures (e.g. equities, securitisations and other non-credit obligation assets)*	*623,521*

The leverage ratio at the reference date, without application of the transitional arrangements under IFRS 9 “Financial instruments”, is 5.5%.

Banco Desio

16. Use of credit risk mitigation techniques (art. 453 CRR)

Qualitative information

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 Organisation and Systems 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 valorisation is based on an assessment of the guarantor's estate during the investigation process or for the purpose of 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.

Quantitative information

Credit risk mitigation techniques: protected amount

Regulatory portfolio	Financial collateral	Unsecured guarantees	Secured by residential property	Secured by commercial property
1. Exposures to or guaranteed by central governments and central banks				
2. Exposures to or secured by regional governments or local authorities				
3. Exposures to or guaranteed by public sector bodies				
4. Exposures to or guaranteed by multilateral development banks				
5. Exposures to or guaranteed by international organisations				
6. Exposures to or guaranteed by supervised intermediaries				
7. Exposures to or guaranteed by companies	107,594	956,457	225,609	457,923
8. Retail exposures	77,949	778,193	2,362,555	331,217
9. Exposures secured by property	8,323	22,313		
10. Exposures in default	961	5,630		
11. High-risk exposures	636			
12. Guaranteed bank bonds				
13. Current exposures to companies or supervised intermediaries				
14. Exposures to mutual funds (UCITS)				
15. Exposures in equity instruments				
16. Other exposures				
17. Securitisation positions				
TOTAL	**195,464**	**1,762,593**	**2,588,164**	**789,140**

17. 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.

- **Counterbalancy 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)**

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)**

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

- **Dollar Offset Method**

Methodology used to perform effectiveness tests in terms of consistency between changes in fair value of the hedged item (asset or liability) and the hedging instrument.

- **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.

- **UFE (Unique Front End)**

Banco Desio Group procedure that makes it possible to access various sectoral procedures (e.g. current accounts, deposits, loans, etc.) in both a consultation and operational mode.

- **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.

- **FVTOCI (Fair Value through Other Comprehensive Income)**

Financial instrument (financial asset or liability) measured at fair value with changes therein recognised in a specific equity reserve, that is, through other comprehensive income. According to IFRS 9 "Financial instruments", FVOCI accounting classification is applicable to: i) securities with cash flow characteristics that are compatible with passing the SPPI (solely payments of principal and interests) test as indicated in the standard, held under a held to collect & sell business model, ii) equity instruments irrevocably designated by the bank at FVOCI.

- **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 doubtful 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)**

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.

- **Logit - Statistical model**

Logit model or logistic model, a regression model that is used for the development of internal rating models to estimate the relationship between explanatory dependent variables (e.g. financial ratios) and independent variables being analysed, represented by the counterparty's status (performing or default).

- **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.

- **NAV (Net Asset Value)**

Represents the total amount of a fund's net assets. It is the sum of the value of a fund's assets, minus its liabilities; to calculate it, there is a need to know the quantity and market prices of each financial instrument and of each asset in which the fund has invested.

- **Entity Legal Form (ELF)**

Nature of an entity's legal form (spa, srl, snc, etc.).

- **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 doubtful.

- **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**

Exposures to debtors (other than those reported as doubtful or unlikely to pay), which, at the reporting date, are more than 90 days past due or overdrawn, with an absolute materiality threshold of Euro 500 for corporate customers and private individuals.

- **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.

- **RON**

Representative of the Noteholders.

- **RWA (Risk Weighted Assets)**

Risk-weighted assets. 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).

- **SICAV**

Investment company with variable capital with its registered office and general management in Italy whose sole purpose is the collective investment of funds raised by offering its shares to the public. Unlike mutual funds, an investor in a SICAV is also a shareholder and, as such, may influence, via the exercise of voting rights, corporate affairs and investment policy.

- **SPV**

Special purpose vehicle formed 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 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.

Gruppo Banco Desio

Certification 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 2020" agrees with the supporting documents, books of account and accounting records.

Mauro Walter Colombo

Financial Reporting Manager