Report on Operations for 2013

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

Directors and officers

Board of Directors

Chairman	Agostino Gavazzi*
Deputy Chairman	Stefano Lado*
Chief Executive Officer	Tommaso Cartone*
Directors	Egidio Gavazzi* Luigi Gavazzi Paolo Gavazzi Guido Pozzoli* Cristina Finocchi Mahne Gerolamo Pellicanò Pier Antonio Cutellé Lorenzo Rigodanza

** Members of the Executive Committee*

Board of Statutory Auditors

Chairman	Eugenio Mascheroni
Acting Auditors	Rodolfo Anghileri Marco Piazza
Substitute Auditors	Giovanni Cucchiani Clemente Domenici Carlo Mascheroni

General Management

General Manager	Luciano Colombini
Deputy General Manager	Angelo Antoniazzi

Financial Reporting Manager as per art. 154-bis CFA

Financial Reporting Manager	Piercamillo Secchi

Independent Auditors

Deloitte & Touche S.p.A.

INTRODUCTION

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

Note that, to ensure the comparability of data, certain graphs in this *Report on Operations* that present data relating to years prior to 2011 include, for those years, aggregate figures for Banco di Desio e della Brianza S.p.A. and its subsidiaries at the time, Banco Desio Toscana S.p.A. and Banco Desio Veneto S.p.A., due to the fact that the latter two were merged by absorption into the Bank on 1 October 2011.

1 - KEY FIGURES AND RATIOS

BALANCE SHEET

Amounts in thousands of Euro	31.12.2013	31.12.2012	Change amount	Change %
Total assets	8,454,550	7,955,844	498,706	6.3%
Financial assets	1,604,819	1,159,071	445,748	38.5%
Due from banks	229,698	221,896	7,802	3.5%
Loans to customers	6,141,481	6,126,945	14,536	0.2%
of which: Loans to ordinary customers	*6,023,539*	*5,789,233*	*234,306*	*4.0%*
of which: Loans to institutional customers	*117,942*	*337,712*	*-219,770*	*(65.1%)*
Property, plant and equipment	137,285	141,163	-3,878	(2.7%)
Intangible assets	8,270	8,425	-155,000	(1.8%)
Due to banks	481,075	468,023	13,052	2.8%
Due to customers	4,846,469	4,365,020	481,449	11.0%
Debt securities in issue and Financial liabilities designated at fair value	2,130,416	2,130,207	209	0.0%
Shareholders' equity (including Net profit/loss for the period)	781,577	776,469	5,108	0.7%
Capital for supervisory purposes	809,804	802,437	7,367	0.9%
Indirect deposits	10,326,324	10,252,796	73,528	0.7%
of which: Indirect deposits from ordinary customers	*7,110,991*	*6,972,930*	*138,061*	*2.0%*
of which: Indirect deposits from institutional customers	*3,215,333*	*3,279,866*	*-64,533*	*(2.0%)*

INCOME STATEMENT [1]

Amounts in thousands of Euro	31.12.2013	31.12.2012	Change amount	Change %
Operating income	322,186	308,925	13,261	4.3%
of which: Net interest income	*165,279*	*172,155*	*-6,876*	(4.0%)
Operating costs	180,689	188,543	-7,854	(4.2%)
Result of operations	141,496	120,382	21,114	17.5%
Net profit (loss) from operations after tax	3,856	22,475	-18,619	(82.8%)
Non-recurring profit (loss) after tax	5,571	-13,270	18,841	(142.0%)
Net profit for the period	9,427	9,205	222	2.4%

[1] *from the Reclassified income statement*

BALANCE SHEET AND INCOME STATEMENT RATIOS

	31.12.2013	31.12.2012	Change amount
Capital/Total assets	9.2%	9.8%	(0.6%)
Capital/Loans to customers	12.7%	12.7%	0.0%
Capital/Due to customers	16.1%	17.8%	(1.7%)
Capital/Debt securities in issue and Financial liabilities designated a	36.7%	36.5%	0.2%
Tier 1 ratio	18%	18.3%	(0.3%)
Total capital ratio	19.6%	20.1%	(0.5%)
Financial assets/Total assets	19,0%	14.6%	4.4%
Due from banks/Total assets	2.7%	2.8%	(0.1%)
Loans to customers/Total assets	72.6%	77%	(4.4%)
Loans to customers/Direct customer deposits	88,0%	94.3%	(6.3%)
Due to banks/Total assets	5.7%	5.9%	(0.2%)
Due to customers/Total assets	57.3%	54.9%	2.4%
Debt securities in issue and Financial liabilities designated at fair va	25.2%	26.8%	(1.6%)
Direct customer deposits/Total assets	82.5%	81.6%	0.9%
Cost/Income ratio	56.1%	61%	(4.9%)
Net interest income/Operating income	51.3%	55.7%	(4.4%)
Result of operations/Operating income	43.9%	39%	4.9%
Net profit (loss) from operations after tax/Shareholders' equity[(2)]	0.5%	2.9%	(2.4%)
ROE [(2)]	1.2%	1.2%	0.0%

STRUCTURE AND PRODUCTIVITY RATIOS

	31.12.2013	31.12.2012	Change amount	%
Number of employees	1,56	1,582	-19	(1.2%)
Number of branches	164,00	164	-	-
Amounts in thousands of Euro				
Loans and advances to customers per employee [(3)]	3,91	3,841	65	1.7%
Direct deposits from customers per employee [(3)]	4,44	4,072	365	9.0%
Operating income per employee [(3)]	205,00	194	11	5.7%
Result of operations per employee [(3)]	90,00	75	15	20.0%

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

[(3)] *based on the number of employees calculated as a straight average*

2 - UNDERLYING SCENARIO

2.1 - THE MACROECONOMIC SCENARIO

2013 ended with an acceleration in global growth thanks to a widespread increase in industrial output, which, as from the third quarter onwards and with varying intensity, has gradually reached a level that is consistent with normal growth. The outlook for 2014 appears to be cautiously promising, considering the orientation of prevailing economic policies and a reduction in financial stress, especially in Europe.

United States

In the United States, GDP is forecast to grow by 1.7% on an annual basis, thanks to a positive contribution from domestic demand and net exports: domestic demand, however, grew at a lower rate than that recorded for 2012 due to restrictive fiscal policy and slow reversal of the imbalances in the labour market that have influenced household consumption and productive investments. In fact, after having grown by 2.2% in the first quarter, consumer spending slowed in the course of the year to 1.5% on an annual basis: the main problem continues to be the labour market. In relation thereto, the fall recorded in the unemployment rate (7.4% at the end of 2013, -1.5 basis points since the end of 2012) is attributable to the discouragement effect, rather than a real improvement in employment that continues to fall (75.4% versus 80% prior to the crisis). The jobs crisis also had an effect on the process of reducing household debt that was interrupted in the last quarter of the year after having recovered in the first half. As regards wealth, the property market grew by 20% compared to the minimum reached in February 2012; the stock market almost returned to its pre-crisis level, having completely recovered from the low point recorded in March 2009.

Japan

In Japan, GDP is forecast to grow by 2.3% on an annual basis, thanks to the recovery in investment in plant and machinery (+1.3%) and strong export growth (+3%), despite exports not having taken advantage of the sharp depreciation of the Yen. Consumer spending remained in positive territory (+0.8%) and significant contributions were made by public sector expenditure (+0.7%) and government spending (+3%). The growth in consumer spending, together with increased expenditure by the major trading partners, had positive repercussions for the labour market: the projected unemployment rate at the end of 2013 is 4% (-0.1 basis points on an annual basis). The trade balance has remained in deficit, as was the case in the previous three quarters, mainly due to energy imports, which are needed because of the almost complete shutdown of the nuclear power sector.

Emerging countries

Again, in the second quarter of the year, the Russian economy posted a negative performance (-0.3%): in fact, the major components of domestic demand experienced negative or zero growth. Consumer spending, which had been the major driver of growth in previous quarters, stagnated, mainly due to the growing level of household debt linked to a sharp expansion in consumer credit. Weak foreign demand and stable oil prices are behind a deterioration in the trade balance and the completion of the infrastructural works needed for the Winter Olympics has led to overcapacity that will have repercussions for future production. In the Middle East (projected growth in GDP for 2013 of +2.1%), the economies will hold up thanks to hefty public spending financed by oil revenue, though this is gradually shrinking due to lower production and the stabilisation of prices. In China (projected growth in GDP for 2013 of +7.6%), over the last few months, the economy has shown signs of a slight recovery: in fact, trade indicators have recovered, thanks to the expansionary fiscal policy measures introduced in July. In India (projected growth in GDP for 2013 of +2.9%), economic growth continues to be weak, despite the significant contribution from public spending (+10%). The weak contribution from private consumption (+1.6%) has, in part, cushioned the fall in expenditure (-1.2%): consumer spending has been impacted by labour market conditions and negative prospects relating thereto, but above all, by persistently high inflation as regards food, in particular, and aggravated by increases in fuel prices. Capital investment has met with customary legislative and bureaucratic difficulties, in addition to an increase in the cost of financing linked to the complicated period that financial markets are going through. In Latin America (projected growth in GDP for 2013 of +2.5%), there have been discordant trends in the various countries: the acceleration by Brazil and Argentina was offset by the slowdown in Chile and the decline in Mexico. The dissimilarity of industrial output and inflationary pressures in the various countries have led to forecasts of modest growth for 2013 (+2.5%), with the outlook being for slow recovery in subsequent years.

Eurozone

As from the second quarter of 2013, the euro area's economy has commenced a slow recovery phase, thanks to the renewed dynamism of global demand and a gradual easing of fiscal restraints: notwithstanding the performance recorded in the last quarter of the year (+1.2%), negative growth in GDP of 0.4% has been projected for 2013. The components thereof with annual negative growth are private consumption (-0.5%), capital investment (-3.2%) and inventories (-0.1%). Conversely, the components with annual positive growth are public consumption (+0.3%), exports (+1.1%) and, to a lesser extent, imports (+0.1%). Unemployment continues to be a cause for concern: since the start of the crisis, the unemployment rate has gradually risen and reached 12% at the end of 2013. In the course of 2013, after a sharp fall recorded in 2012, industrial output slowly advanced, albeit at a low rate (+0.3%). Inflation has gradually fallen: in October consumer prices fell by 1.8 pp on an annual basis, going from growth of 2.5% to growth of 0.7%. Producer prices fell at a much faster rate: in fact, the index went from +2.8% for 2012 to -0.9% for 2013.

Italy

In the course of 2013, the Italian economy started showing tentative signs of recovery: in fact, in the third quarter of 2013, the GDP remained virtually unchanged (-0.1%), interrupting the downward trend that started in the third quarter of 2011. This was despite projected negative growth in GDP for 2013 of 1.8%. Exports are the only component of GDP that has grown on an annual basis (+0.1%). In fact, all the other components show more or less emphatic negative growth: household consumption (-2.5%), capital investment (-5.4%), industrial output (-3.1%) and imports (-2.6%). As is the case for the euro area, the Italian labour market continues to be a major cause for concern: as of October 2013, the unemployment rate rose to 12.5% (from the figure at October 2012 of 11.3%), well above the average rates for 2011 (8.4%) and 2012 (10.7%). Youth unemployment has more or less doubled since the start of the crisis (20.7% in 2007), arriving at 41.2%. Industrial output has been falling for 26 consecutive months and is projected to be -3.1% at the end of 2013; there has been a rising trend with respect to intermediate goods (+1.9%) and consumer goods (+0.5%), whereas there has been a downward trend for energy (-4.2%) and capital goods (-2.6%). The inflation rate as of October 2013 had fallen to 0.8% (versus the prior year figure of 2.8%), whereas the core inflation rate had fallen to 1.3% (versus 1.6%).

2.2 - CAPITAL MARKETS AND THE BANKING SYSTEM IN ITALY

In December 2013, the European Central Bank left unchanged the policy rate at an all-time low (0.25%), as was the case for the interest rate on marginal refinancing transactions (0.75%) and the rate on overnight deposits (0%). In substance, the ECB's monetary policy will remain accommodative for the time that is needed to ensure the stability of the financial system. Similarly to the ECB, the Federal Reserve has also kept its policy rate within a range of 0 to 0.25% and has left the discount rate (0.75%) unchanged. Three-month Euribor has remained stable at a rate that is close to its all-time low (0.22%); inflation is projected to be 1.4% at the end of 2013, down on the previous quarter (1.5%). With regard to capital markets, thanks to a sharp increase in capitalisations, by year end, international share prices and the major European stock markets had achieved brilliant performances on an annual basis: these include Standard & Poor’s 500 +28%, Nikkei 225 +64.2%, FTSE MIB +22.8%, Dax30 +26.7%, Cac40 +23.6%, Nasdaq +34.7%, FTSE Banks +45.6% and S&P 500 Banks +30.2%.

As regards the banking system, at the end of 2013 the annual growth rate in domestic funding was down slightly, while foreign funding has declined. The growth rate of Euro deposits of Italian banks was +0.7% on a trend basis. In particular, customer deposits registered a growth rate of 5.7% on a trend basis, while the annual change in bonds came to -9.3%. The average remuneration of bank deposits was down; the average rate on funding from customers came to 1.91% in December 2013 compared to 2.08% in December 2012.

At the end of 2013, the decrease in bank loans had exceeded the prior year decrease; based on initial estimates, total loans to Italian residents have posted an annual change of -4.1% (-1.07% at the end of 2012). Loans to households and non-financial companies posted an annual change of -3.7% against the European average of -2.7%. In terms of duration, the short-term segment posted a variance of -7.5%, while the medium-long term segment declined by -2.7% on an annual basis. At the end of October loans to businesses posted a variance of -4.9%, while loans to households fell on an annual basis by -1.3%. The trend in loans has been influenced by the contraction in capital investment. Interest rates on loans have slipped and are still very low; the weighted average interest rate on total loans to households and non-financial companies comes to 3.80%, which is virtually unchanged since December 2012 (3.79%).

3 - REGIONAL MARKET PRESENCE AND CORPORATE ISSUES

3.1 - THE DISTRIBUTION NETWORK

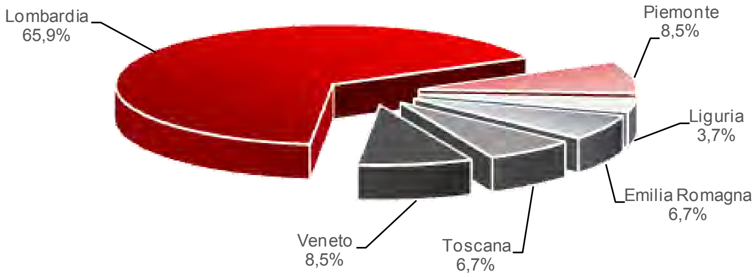
In the context of the difficult and prolonged economic and financial crisis, again in 2013 the Bank has maintained the same distribution structure that consists of 164 branches.

The distribution network, which is characterised by the high centrality of the customer relationship, aims to focus on markets where the Bank has its roots, on adjacent and complementary areas, as well as on other local opportunities and has led the Bank to increase its presence over the years in Lombardy, the territory of origin, and to expand into Emilia Romagna, Piedmont, Liguria, Tuscany and Veneto.

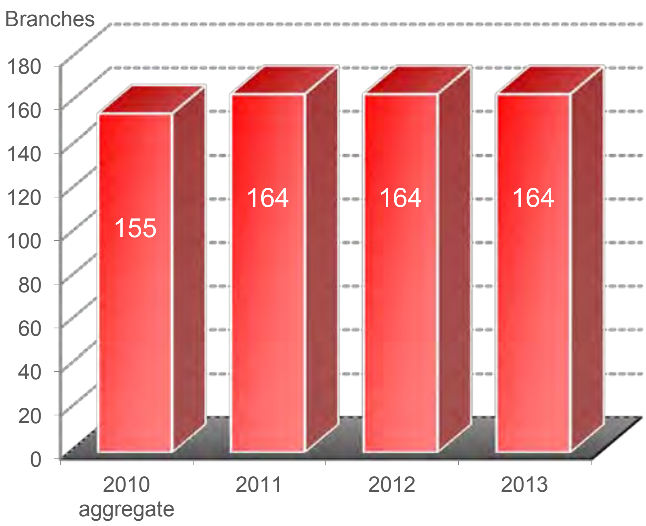
In the course of 2013, the Bank continued strengthening its online product offering, in a logic of multi-channel customer service alongside traditional banking services, moving towards a "virtual" bank.

The graph below provides details of the market presence by region, while that which follows shows the growth in size achieved in recent years that, even considering the consolidation that took place in 2012 and 2013, corresponds to an annual average compound growth over the last three years of 1.9%.

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



Graph no. 2 - **DEVELOPMENT OF DISTRIBUTION NETWORK IN RECENT YEARS**



3.2 - SIGNIFICANT EVENTS

Approval of the Group's three-year Business Plan 2013-2015

On 20 March 2013, the Parent Company's Board of Directors approved the Group's three-year Business Plan 2013-2015, with the following key points:

- ✓ Further focus again on retail activity
- ✓ revitalisation of the commercial base
- ✓ regional planning;
- ✓ careful management of credit risk;
- ✓ strong emphasis on cost control

and which provided for the following targets for 2015:

- ✓ customer loans and direct deposits up by more than 5% (CAGR 2013-2015);
- ✓ indirect deposits up by more than 3% (CAGR 2013-2015);

It was expected that this growth would have led to the following at the end of 2015:

- ✓ net interest and other banking income +5% (CAGR 2013-2015);
- ✓ forecast net profit of around 40 million in 2015;
- ✓ cost/income ratio expected to be 58% at the end of 2015;
- ✓ core tier 1 ratio over 11% and total capital ratio over 12.5% for all years of the plan.

In an extremely difficult economic and financial environment, Banco Desio has decided to undertake a process of commercial, organisational and structural development designed to bring together all of its activities in the service of the core business (economic support to families, individuals and small businesses in the territories in where the Group is present) in a competitive manner (i.e. giving priority to a reduction in all fixed costs).

For this reason, the following four strategic targets have been identified for the three years of the plan:

- *Commercial revitalisation* with significant investment in terms of renovation/upgrading of products and services, strong development of online services accompanied by an update of the Bank's local presence in terms of efficiency and effectiveness of customer relations; this target is expected to generate a significant increase in the customer base, in volumes and in the number of transactions, with an equally significant increase in revenues, mainly from 2014 onwards;
- *Review of credit risk management* that will allow us, on the one hand, to continue and increase the provision of loans to the economy that is reacting to the crisis and, on the other, to anticipate and prevent situations of deterioration, with an important objective to lower the cost of credit and, therefore, to reduce loan adjustments;
- *Spending review* for all administrative costs, with systematic renegotiation of supply contracts and implementation of a cost excellence centre to oversee and review the entire cost structure;
- *Resources programme* intended to pursue, on the one hand, a strong reduction in labour costs on the basis of a plan to be agreed as much as possible with the trade unions with the establishment of a Solidarity Fund, which in the three years 2013-2015 should be able to absorb over 100 redundancies at head office and the branches, and other specific measures to reduce costs; and, on the other, a process of generational change to bring the staff mix, over time, into line with the average situation for the Italian banking system.

During the year, all working groups were activated to ensure that the strategic objectives laid down in the business plan were achieved; as regards the Resources Programme in particular, the establishment of the Solidarity Fund has already been implemented, as explained in the next paragraph.

As of December 2013, the cost/income ratio of the Parent Company was already lower (56%) than that forecast at Group level for the end of 2015.

Note that, at the year end, the aforementioned targets were revised by Parent Company Management due to the evolution of the key drivers upon which the previous forecasts had been based, taking into account the events of 2013 (with particular regard to the actual trend of loans, net interest income, cost of credit and administrative costs, etc.) and new expectations for 2014 and subsequent years with respect to the most reliable scenario under which the Group should move with its configuration. These revisions were also taken into account for the purpose of impairment tests performed on equity investments and goodwill as disclosed in the explanatory notes.

Industrial relations

Activities that characterised 2013 – with regard to human resources – were strongly influenced by agreements entered into with the trade unions on 11 June 2013 and subsequently on 3 October 2013, relating to the Resources Programme foreseen by the Group's 2013-2015 Business Plan. The agreements, which are aimed at raising efficiency, supporting generational change and achieving structural savings that can bring personnel costs into line with the expected results of the Group and with market averages, will lead to:

- a reduction in the workforce of 113 people at Group level (of which 110 concern the Parent Company and 3 concern the subsidiary Banco Desio Lazio S.p.A.) through voluntary access to the Solidarity Fund;
- a lowering of costs from reduction/suspension of working hours, funded in part by benefits from the Solidarity Fund.

The estimated one-off cost of all these measures, which has been booked in the 2013 financial statements, comes to a total of Euro 16.8 million at consolidation level (of which Euro 16.2 million has been booked in the financial statements of the Parent Company and Euro 0.6 million has been booked in the financial statements of the subsidiary Banco Desio Lazio S.p.A.), while it is expected that the measures implemented will lead to (in 2016 and in subsequent years) a total reduction in labour costs of Euro 9.9 million at consolidation level (of which Euro 9.7 million relates to the Parent Company and Euro 0.2 million to the subsidiary Banco Desio Lazio S.p.A.).

Chiara Assicurazioni S.p.A.

Following authorisation by the Supervisory Authority (IVASS), the sale of 51% of the Parent Company's interest in Chiara Assicurazioni S.p.A. to Gruppo Assicurativo Helvetia was completed on 24 April 2013, effective from 1 May 2013.

As a result of this sale, the Parent Company's residual interest in Chiara Assicurazioni S.p.A. is now 32.66% (having been 66.66%); consequently, on leaving the Group, this company is now an associate. On consideration of Euro 12.5 million, the capital gain realised was Euro 4.6 million.

The partnership with Helvetia foresees a wider range of non-life products, as was previously the case for the life sector, which is consistent with the objective of focusing more on product distribution by Group banks.

Definition of the selling price for 30% of Chiara Vita S.p.A.

On 10 October 2013, as foreseen in the preliminary agreement with the Helvetia Group, the Board of Directors of the Parent Company has accepted Helvetia's proposal to formalise the final purchase price adjustment for the investment in Chiara Vita S.p.A. The amount agreed has been recognised in the income statement as a final purchase price adjustment of some Euro 7.2 million.

Completion of the Bank of Italy's inspection

With regard to the Bank of Italy's inspection, details of which were provided in the report on operations in the 2012 financial statements, on 23 April 2013 the members of the Board of Directors, Board of Statutory Auditors and General Management were charged fines for a total of Euro 360,000.

The Bank is involved out of forced solidarity and has exercised its right of recourse (which is also an obligation).

Tax audits

On 22 May 2013, the Italian Tax Police completed their tax audit of the Parent Company, as already detailed in the explanatory notes to the 2012 financial statements and in the subsequent consolidated financial reports, with the notification of an official report of findings.

Subsequently, on 27 December 2013, the Revenue Agency issued the Parent Company with a notice of assessment in connection with the matters cited in the report of findings.

Under these circumstances, for prudence sake, the Parent Company, based on input from its tax advisers, considered it appropriate to increase the provisions for risks and charges at 31.12.2012.

Amendments to the Articles of Association

On 30 May 2013, the Parent Company's Board of Directors approved the changes designed to bring the Articles of Association into line with Law 120/2011 on gender balance on boards of directors and statutory auditors of listed companies.

Appointment of an Independent Director

On 30 May 2013, the Parent Company's Board of Directors approved the appointment (by co-option) of Cristina Finocchi Mahne to replace Marina Brogi, who resigned on 9 May 2013 due to new commitments that are incompatible with the position held in the Bank under the so-called "ban on interlocking directorships" (art. 36 of the "Save Italy" Decree 201 of 6 December 2011).

Succession of the General Manager at 31 December 2013

On 27 June 2013, the Parent Company's Board of Directors approved - as part of the succession planning concerning the General Manager, Claudio Broggi, whose contract had expired on 31 December 2013 - the hiring of Luciano Colombini in the role of Senior Deputy General Manager with effect from 22 July 2013, anticipating his appointment as General Manager, which took place on 1 January 2014, when Mr. Broggi's employment came to an end. The Board of Directors thus gave its heartfelt thanks to Mr. Broggi for his extensive and constructive cooperation with the Bank's continuous development.

Process of regulatory simplification adopted by Consob Resolution 18079 of 20 January 2012 (the so-called "opt-out")

On 29 January 2013, the Parent Company's Board of Directors agreed to join the "opt-out" scheme provided by arts. 70, paragraph 8, and 71, paragraph 1-bis of Consob Regulation 11971/99, i.e. making use of the option to derogate from the obligations to publish the information documents foreseen in Attachment 3B of the aforementioned Consob Regulation on the occasion of significant mergers, demergers, increases in capital by contribution in kind, acquisitions and disposals.

Tax step-up pursuant to Legislative Decree 185/2008 - subsidiary Banco Desio Lazio S.p.A.

With reference to Banco Desio Lazio S.p.A., taxation for the period has benefited from the step-up for tax purposes of the goodwill included in the carrying value of the investment in FIDES S.p.A. and included in the Group consolidated financial statements for Euro 5.17 million, carried out pursuant to art. 15, paragraphs 10 bis and 10-ter of Legislative Decree 185/2008.

The positive effect on net profit for the period is Euro 0.85 million, due to the difference between the flat-rate tax paid (Euro 0.83 million) plus legal interest (Euro 0.03 million) and the change in deferred tax assets (Euro 1.71 million).

"Asset Bancari III" Real Estate Fund - Asset Management Company "Polis Fondi Immobiliari di Banche Popolari Sgrpa"

On 30 May, the Parent Company's Board of Directors approved joining the "Fondo Immobiliare Polis - Asset Bancari III", a real estate fund that specialises in the management and development of properties, mostly non-commercial, resulting (for about 2/3 of the Fund) from auctions and bankruptcy procedures or used to guarantee loans of banks and/or property arising from finance leases, and (for the other 1/3 of the Fund) from non-performing loans secured by mortgages. Membership of the Fund led to the transfer, in two tranches, of 11 properties owned by the Bank as a result of finance lease receivables in default, for a total value of around 6.3 million Euro, plus 0.2 million Euro in cash, in exchange for 26 shares of 0.25 million Euro each, for a total of 6.5 million Euro, corresponding to a participation in the Fund of around 9.85%.

Compliance with EMIR (European Market Infrastructure Regulation) Regulation

In the course of 2013 the Parent Company coordinated the measures needed to be taken by intermediaries, and thus also by the subsidiary BDL, to comply with EMIR (European Market Infrastructure Regulation) Regulation 648/2012 of 4 July 2012. The aforementioned Regulation, which concerns OTC derivatives and which will gradually come into force, provides for a series of disclosure, clearing and conduct obligations, such as, for example, the reconciliation of counterparties' portfolios and the prompt handling of any disputes. In this regard, on 5 September 2013 the Parent Company signed the ISDA 2013 EMIR PORTFOLIO RECONCILIATION, DISPUTE RESOLUTION AND DISCLOSURE PROTOCOL.

Credito Privato Commerciale S.A. in liquidation

The liquidation procedure duly continued during the year in a manner which resulted in a significant acceleration of its closure and the transfer to other intermediaries of the customer relationships. The shorter term of the procedure, compared to the 5/7 years that had previously been assumed by the liquidator, led to the former revising the forecasts included in the liquidation plan prepared at the start of the procedure. Consequently, the new liquidation plan, presented at the end of 2013, essentially contemplates a significant reduction in future charges relating to technical and administrative costs. In addition to this, note that, in the course of the year, no event occurred for which the procedure would prudently have required an increase in the provisions for risks and charges in relation to alleged contingent liabilities and thus, to date, there does not exist any obligation of a legal or implicit nature. Following the agreement entered into by the US Department of Justice and the Swiss Federal Department of Finance, numerous Swiss banks, despite not having yet been accused, but with the belief that they could have been involved in dealings with American citizens guilty of tax evasion, decided to sign up for the “Program for non-prosecution agreements or non-target letter for Swiss banks”; having signed up for this programme required Credito Privato Commerciale SA in liquidation to make a specific provision for risks and charges of CHF 5.5 million, which was estimated on the basis of verification work performed by the liquidator.

The application of international accounting standards (IAS/IFRS) adopted by Banco Desio Group for the preparation of the separate financial statements of the Parent Company Banco di Desio e della Brianza S.p.A. has led to a positive impact on the income statement of some Euro 5.7 million (line item “Profit (loss) from investments”), corresponding to the partial write-back of an impairment adjustment to the investment in Credito Privato Commerciale SA in liquidation due to the combined effect of the circumstances described above. It should also be noted that, again, as a result of the application of international accounting standards (IAS/IFRS) adopted by Banco Desio Group, the Group's consolidated financial statements have been impacted by a negative contribution to the income statement by the Swiss subsidiary of some Euro 9.2 million, inclusive of the provision for the aforementioned “US Tax Program”.

Brianfid-Lux S.A. in liquidation

The liquidation procedure duly proceeded and was completed in the year just ended after the liquidator had taken care of the cancellation of Brianfid-Lux S.A. in liquidation from the companies register.

Cedacri S.p.A.

On 19 December 2013, on the exercise of the pre-emption right for shareholders, the Parent Company acquired 102 shares in Cedacri S.p.A. (the Group's IT outsourcer) for a consideration of some Euro 0.8 million.

First Capital S.p.A.

During 2013, the Parent Company sold its entire holding in First Capital S.p.A., realising a gain of some Euro 0.05 million.

4 - SIGNIFICANT SUBSEQUENT EVENTS

Offer for the acquisition of control of Banca Popolare di Spoleto S.p.A.

On 5 December 2013, after having performed due diligence, the Parent Company made a binding offer for the acquisition of control of Banca Popolare di Spoleto S.p.A. in extraordinary administration. In the event that the outcome of the competitive procedure is the acceptance of the offer, it is envisaged that the acquisition would complete the redevelopment of the Group's Commercial Network, started with the 2013-2015 Business Plan, with a view to developing and enhancing the values of a bank "in defence of the territory" which are shared by Banco Desio and Banca Popolare di Spoleto S.p.A. The offer was subject to, among other things, approval by the Supervisory Authority and Consob's exemption from the requirement to make a mandatory tender offer for the shares of Banca Popolare di Spoleto S.p.A.

On 12 March 2014, the Parent Company issued a press release to communicate that, on the same date, it had been notified by the Commissioners of Banca Popolare di Spoleto in extraordinary administration that the binding offer it made on 5 December 2013 had been deemed the most suitable for the purpose of turning around Banca Popolare di Spoleto. Accordingly, the Parent Company has been invited to make contact with the Commissioners to arrive at a purchase agreement that will set out in detail the technical means of completing the transaction and the main aspects concerning the integration plan. On the execution of the purchase agreement, the process will start to obtain the necessary approvals from the relevant Supervisory Authorities.

Banco Desio Lazio S.p.A. and Credito Privato Commerciale S.A. in liquidation - Legal investigations

With reference to Criminal Proceedings 22698/08, at the hearing held on 24 January 2014, the Court of Rome upheld the application for settlement presented by the subsidiaries Banco Desio Lazio S.p.A. and Credito Privato Commerciale S.A. in liquidation, which in 2011 became involved in these proceedings in connection with the administrative liability of legal persons pursuant to Legislative Decree 231/2001 for alleged offences committed by their former officers. The payment made for the settlement (which closed the legal proceedings in question) led to a partial release in 2013 of the provision that had previously been set up.

Deputy General Manager

On 23 January 2014, the Board of Directors of the Parent Company appointed Mr. Angelo Antoniazzi as Deputy General Manager (he will continue to head up the Human Resources Department) to replace Mr. Marco Sala, whose mandate was terminated on 31 December 2013.

Brianfid-Lux S.A. in liquidation

The liquidation of the subsidiary Brianfid-Lux S.A. is in fact complete and approval is awaited from the Luxembourg Financial Sector Supervisory Commission (CSSF) for the definitive cancellation of the company.

Credito Privato Commerciale S.A. in liquidation

As previously indicated, the liquidation of the Swiss subsidiary Credito Privato Commerciale S.A. is proceeding at a faster rate than the liquidators had anticipated and, accordingly, it cannot be excluded that the closure may be substantially complete much sooner than expected.

Disposal of held to maturity securities portfolio

At the end of January 2014, having taken into account new expectations concerning an improvement of the international macroeconomic scenario which could lead one to assume a gradual increase in the interest rate curve, the Parent Company decided to proceed with the disposal of all financial instruments included in the HTM portfolio as it was not considered appropriate to hold to maturity such fixed rate debt instruments with a medium to long term duration. Following the decision taken, which did not have any impact on the results for the year ended 31 December 2013, the Parent Company will not be able to utilise this category of portfolio for the next two years (so called tainting rule).

5 - LEGISLATIVE DECREE 231/2001

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

Further information on Model 231 and on the Supervisory Body pursuant to the aforementioned Legislative Decree (the role of which has been performed since 27 September 2012 by the Board of Statutory Auditors) is provided in the Annual Report on Corporate Governance (particularly in paragraph 7) which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

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

6 - HUMAN RESOURCES

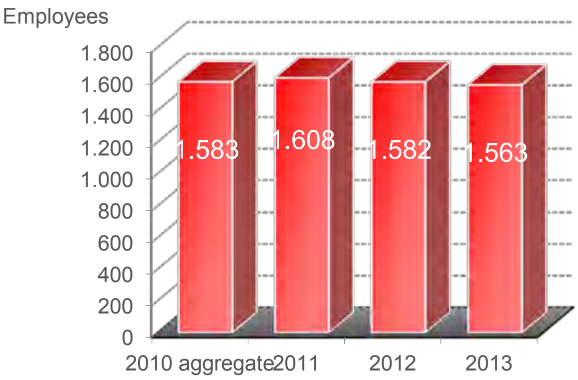
6.1 - MANAGEMENT AND BREAKDOWN OF RESOURCES

While respecting the specific nature of individual businesses, the management of resources is performed in a unitary and synergistic manner, with an emphasis on expectations and favouring professional development, as well as ensuring there are shared values within the Group. This orientation, in line with the policy of regional development, accompanies the dissemination of information and growth in the regions of origin as well as growth as an interregional reality.

At 31 December 2013, there were 1,563 employees, being nineteen less than at the previous year end, representing a reduction of 1.2%.

The trend in the workforce in recent years is shown by the graph below.

Graph no. 3 - **TREND IN PERSONNEL IN RECENT YEARS**



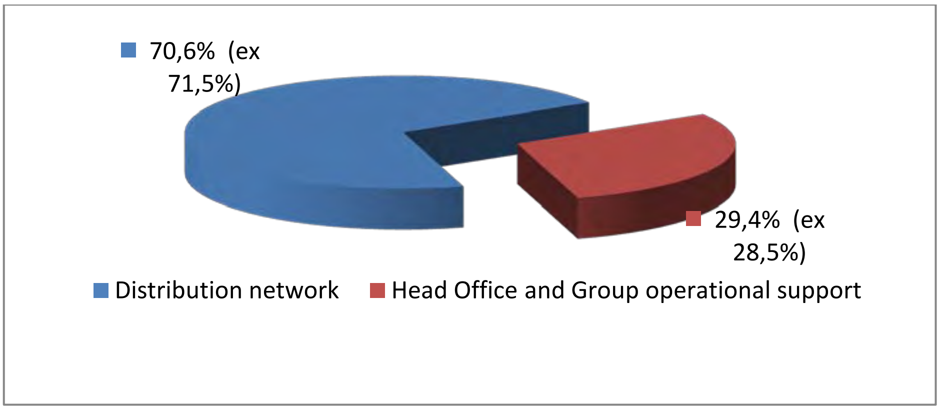
The following table analyses the breakdown of personnel by employee level.

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

No. of Employees	31.12.2013	%	31.12.2012	%	Change Amount	%
Managers	25	1.6%	27	1.7%	-2	(7.4%)
3rd and 4th level middle managers	379	24.3%	388	24.5%	-9	(2.3%)
1st and 2nd level middle managers	443	28.3%	448	28.3%	-5	(1.1%)
Other personnel	716	45.8%	719	45.5.%	-3	(0.4%)
Employees	**1,563**	**100%**	**1,582**	**100%**	**-19**	**(1.2%)**

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

Graph no. 4 - **BREAKDOWN OF EMPLOYEES BY AREA**



The average age of employees at the year end was almost 45, while the percentage of female staff increased to 35.8%.

6.2 - TRAINING ACTIVITIES

As regards training activities, which accompany processes of growth and development of resources, in compliance with Group guidelines and procedures, 7,481 man days of training were provided during the year, inclusive of internal courses, conferences, external seminars and online training activities that correspond to an average of 4.8 days of training for each employee.

Activities for 2013 were developed by following guidelines laid down at the start of the year, aimed, in particular at:

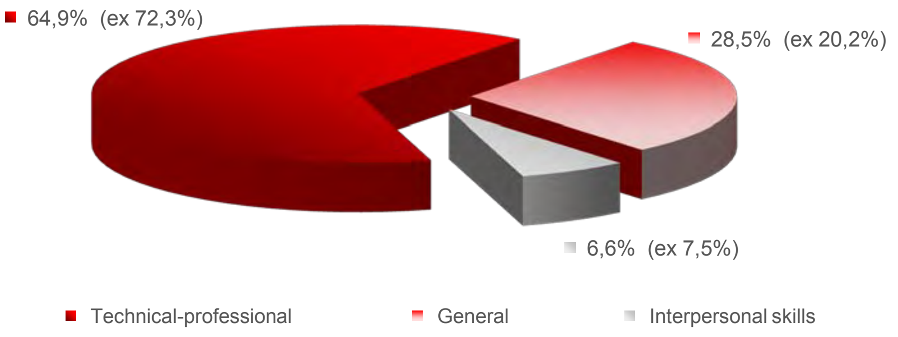
- promoting the managerial skills of those holding managerial positions and of those who are destined to take part in the generational change;
- improving the ability to select and monitor credit in order to reverse the trend of deterioration in place;
- strengthening the regional presence and the relationship of trust that ties the customer to the Bank by improving the means of offering products and services and by improving sales efficiency, while paying particular attention to companies that operate in international markets;
- constantly providing regulatory updates to staff to reduce operational risks.

The type of training that is offered may be summarised as follows:

- "General": courses catering for all professional groups with the objective of developing transverse knowledge;
- "Technical-professional": comprises courses aimed at the development of technical skills of resources that have commenced the performance of specific duties and are interested in consolidating and further improving the skills required by the role;
- "Interpersonal skills": these courses are aimed at the development of behavioural skills and facilitate the spread of corporate culture as well as the internalisation of corporate values.

The following graph shows the breakdown in percentage terms of training days that were held in the year by type of course.

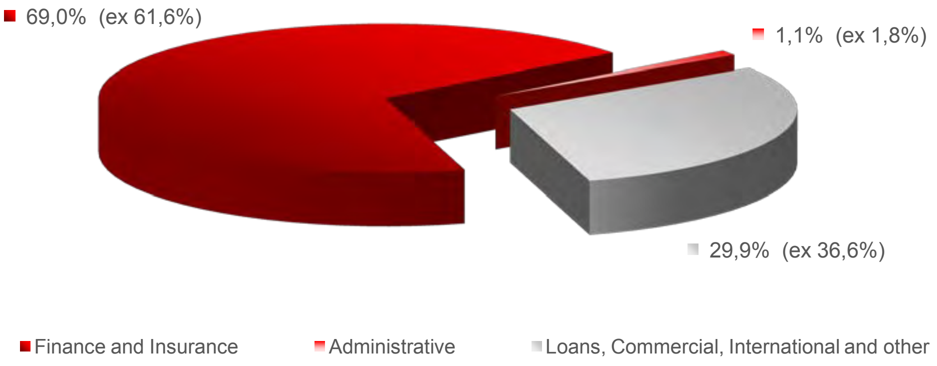
Graph no. 5 - **BREAKDOWN OF TRAINING DAYS IN 2013 BY TYPE OF TRAINING OFFERED**



With regard to “General” training held to constantly provide regulatory updates to staff, over 2,000 man days of training were provided on topics such as “Legislative Decree 231/2001” – “Anti-money laundering” – “Safety in the workplace”; in particular, training on Legislative Decree 231/2001 and on Banco Desio's Organisation and Management Model was held for the Board of Directors an all other resources.

As regards "Technical-professional" training”, the breakdown in percentage terms of the topics covered by the courses held is shown below.

Graph no. 6 - **BREAKDOWN OF "TECHNICAL-PROFESSIONAL" TRAINING IN 2013 BY TOPIC**



This type of training includes, in particular, a modular course aimed at providing the skills needed for the selection and monitoring of credit risk by means of the systematic application of analysis methodologies to prevent insolvencies arising and a training plan to improve the sales performance of businesses which operate in international markets through appropriate technical-professional skills, interpersonal skills and by planning for actions to be taken and by monitoring the results. There are also training activities on assistance and on sales development for operators in the renovated call centre and a programme of Supervisory Authority (IVASS) professional updates for all resources authorised to provide insurance brokerage services.

As regards initiatives concerning “Interpersonal skills”, new training courses have been introduced for all network and head office managers to support and develop their managerial skills, with a programme that will continue into 2014.

The attention paid by the Group to the growth and development of professional skills has again been acknowledged and supported in 2013 by the Bank and Insurance Fund (FBA), by means of the provision of funding for training activities held in the year.

7 - CONTROL ACTIVITIES

7.1 - THE LEVELS OF CONTROL IN THE MANAGEMENT CONTROL AND COORDINATION FUNCTION

In exercising its management control and coordination function, the Bank, in its capacity as Parent Company, uses a triple level of control over subsidiaries, in order to put into effect the specific “coordination model” that has been chosen, taking into account the nature and the size of the activities performed by each company, as well as its specific location, and by identifying the competent Parent Company functions for the specific control mechanisms.

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

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

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

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

7.2 - THE INTERNAL CONTROL SYSTEM

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

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

7.3 - RISK MEASUREMENT AND MANAGEMENT

As regards the specific activities performed by the Bank's Risk Management function, with the objective of ensuring that controls over the management of various types of risk by means of the adoption of integrated processes, reference should be made to Part E of the explanatory notes – Information on risks and related hedging policy.

8 - RESULTS OF OPERATIONS

8.1 - SAVINGS DEPOSITS: CUSTOMER FUNDS UNDER MANAGEMENT

Total customer funds under management rose at the end to some Euro 17.3 billion, with growth in both direct deposits of 7.4% and indirect deposits of 0.7%, despite the international economic and financial crisis. The aggregate figure has grown by some Euro 0.6 million, that is, 3.3% on the prior year end balance.

The composition and balances that make up this aggregate are shown in the following table.

Table no. 2 - **CUSTOMER DEPOSITS**

Amounts in thousands of Euro	31.12.2013	%	31.12.2012	%	Change Amount	Change %
Due to customers	4,846,469	28.0%	4,365,020	26.1%	481,45	11.0%
Debt securities in issue and Financial liabilities c	2,130,416	12.3%	2,130,206	12.7%	210,00	0.0%
Direct deposits	**6,976,885**	**40.3%**	**6,495,226**	**38.8%**	**481,66**	**7.4%**
Ordinary customer deposits	7,110,991	41.1%	6,972,930	41.6%	138,06	2.0%
Institutional customer deposits	3,215,333	18.6%	3,279,866	19.6%	-64,53	(2.0%)
Indirect deposits	**10,326,324**	**59.7%**	**10,252,796**	**61.2%**	**73,53**	**0.7%**
Total customer deposits	**17,303,209**	**100%**	**16,748,022**	**100%**	**555,19**	**3.3%**

Direct deposits

The direct deposits balance at the end of 2013 was up by some 7 billion (+7.4%) attributable to an increase in due to customers (+11%), while debt securities in issue and financial liabilities designated at fair value through profit and loss remained in line with the prior year end balances.

Due to customers of some Euro 4.8 billion represents the most significant component as it makes up 69.5% of the total balance, of which some Euro 3.8 billion relates to demand deposits, that is, current accounts and savings deposits, while some Euro 0.7 billion relates to restricted deposits and the remainder relates to repurchase agreements and other payables.

Debt securities in issue and financial liabilities designated at fair value through profit and loss relate to bonds issued and placed by the Bank of some Euro 1.9 billion (including some Euro 0.1 billion of subordinated bonds) and certificates of deposits of some Euro 0.2 billion.

In the course of 2013 the total nominal value of bonds issued and placed amounted to some Euro 0.7 billion and bonds redeemed on maturity amounted to almost Euro 0.7 billion.

Indirect deposits

Indirect deposits grew in the year by almost Euro 0.1 billion, being an increase of 0.7% on the prior year end balance, to some Euro 10.3 billion.

The increase is attributable to ordinary customer deposits, which, with a balance of some Euro 7.1 billion, have grown in the year by some Euro 0.1 billion (+2%) due to an increase in assets under management (+5.2%), partially offset by a drop in assets under administration (-0.8%).

On the other hand, institutional customer deposits were down on the prior year end balance by 2%, being a decrease of less than Euro 0.1 billion.

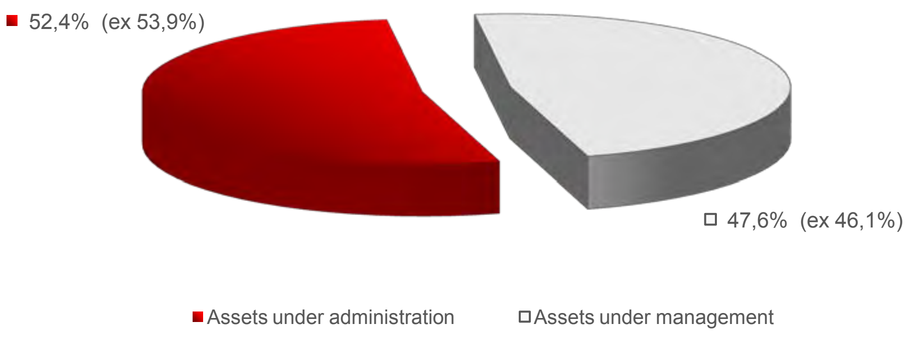
The following table provides details of the items under review, highlighting the changes that have taken place since the prior year end.

Table no. 3 - **INDIRECT DEPOSITS**

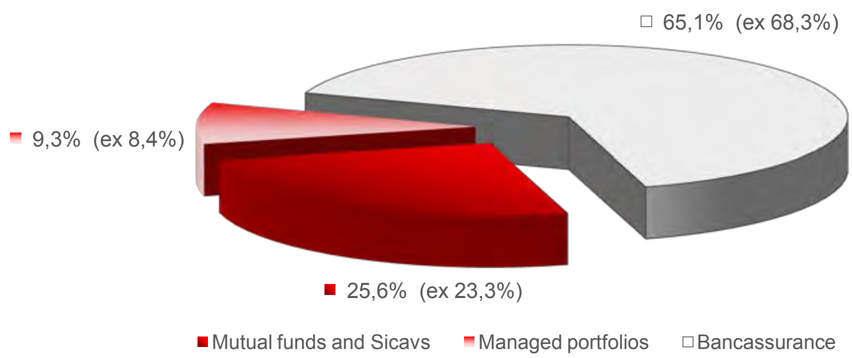
Amounts in thousands of Euro	31.12.2013	%	31.12.2012	%	Change Amount	%
Assets under administration	3,726,920	36.1%	3,757,389	36.6%	-30,469	(0.8%)
Assets under management	3,384,071	32.8%	3,215,541	31.4%	168,530	5.2%
of which: Mutual funds and Sicavs	*866,436*	*8.4%*	*749,979*	*7.3%*	*116,457*	*15.5%*
Managed portfolios	*314,054*	*3.0%*	*268,443*	*2.6%*	*45,611*	*17.0%*
Bancassurance	*2,203,581*	*21.3%*	*2,197,119*	*21.4%*	*6,462*	*0.3%*
Ordinary customer deposits	7,110,991	68.9%	6,972,930	68.0%	138,061	2.0%
Institutional customer deposits	3,215,333	31.1%	3,279,866	32.0%	-64,533	(2.0%)
Indirect deposits	10,326,324	100%	10,252,796	100%	73,528	0.7%

The following graphs show the breakdown in percentage terms of indirect customer deposits at 31 December 2013 and of the composition of assets under management.

Graph no. 7 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2013**



Graph no. 8 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2013**



With respect to the components of mutual funds and Sicavs and Managed portfolios, the performance of equity markets during the year was particularly positive, whereas, as regards bonds, positive results were achieved only by government bonds issued by peripheral countries and by corporate bonds with lower credit ratings. As regards managed bond portfolios, a preference was shown for Italian and Spanish government bonds. Overall, the Parent Company maintained a strategy of extreme diversification, with an exposure to interest rate risk that was lower than the reference parameter. As regards managed equity portfolios, the exposure was maintained in line with the benchmark and with a high degree of diversification, whereas, with regard to stock picking, a preference was shown for companies with large capitalisation, a sound financial position, good cash generation and earnings visibility.

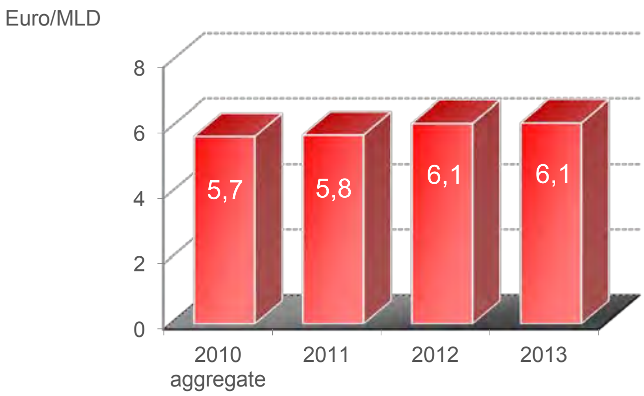
8.2 - CREDIT MANAGEMENT: LOANS TO CUSTOMERS

Despite a slowdown in the demand for credit at system level, the value of loans to ordinary customers at 31 December 2013 amounted to Euro 6 billion, over Euro 0.2 billion more than at the end of December 2012 (+4%).

On the other hand, loans to institutional customers, consisting solely of repurchase agreements, which at the year end amounted to some Euro 0.1 billion, were down by 0.2 billion on the 2012 year end figure.

The Bank's lending activity this resulted in a total amount of net loans to customers of some Euro 6.1 billion (+0.2%). The following graph shows the trend in net loans to customers in recent years, giving an average annual compound growth rate of 2.3% from 2011.

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



Changes in the amounts of the components of loans to customers by technical form are summarised in the following table, while the subsequent table shows changes in the year by customer grouping.

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

Amounts in thousands of Euro	31.12.2013	%	31.12.2012	%	Change Amount	%
Current accounts	1,586,563	25.8%	1,621,692	26.5%	-35,129	(2.2%)
Repurchase agreements	18	0.0%	0	0.0%	18	
Mortgages and other long-term loans	3,727,995	60.7%	3,479,801	56.8%	248,194	7.1%
Other	708,963	11.6%	687,740	11.2%	21,223	3.1%
Loans to ordinary customers	**6,023,539**	**98.1%**	**5,789,233**	**94.5%**	**234,306**	**4.0%**
Repurchase agreements	117,942	1.9%	337,712	5.5%	-219,770	(65.1%)
Loans to institutional customers	**117,942**	**1.9%**	**337,712**	**5.5%**	**-219,770**	**(65.1%)**
Loans to customers	**6,141,481**	**100%**	**6,126,945**	**100%**	**14,536**	**0.2%**

Table no. 5 - **BREAKDOWN OFLOANS TO CUSTOMERS BY TYPE OF CUSTOMER**

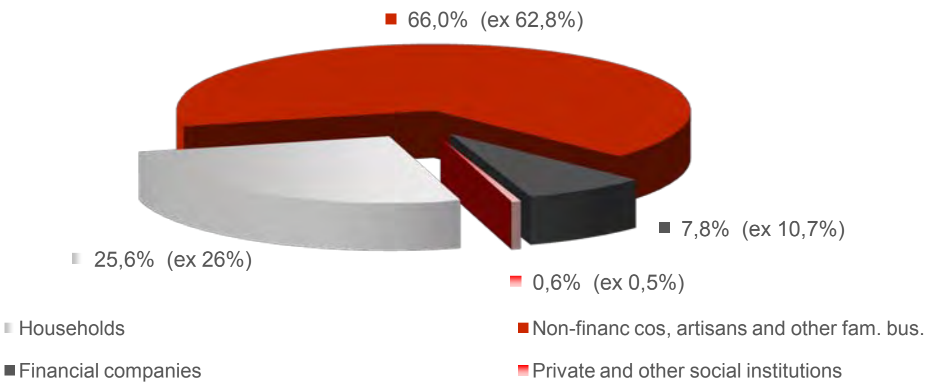
Amounts in thousands of Euro	31.12.2013	%	31.12.2012	%	Change Amount	%
Households	1,573,433	25.6%	1,590,824	26.0%	-17,391	(1.1%)
Non-financ cos, artisans and other fam. bus.	4,055,305	66.0%	3,847,886	62.8%	207,419	5.4%
Financial companies	476,273	7.8%	654,093	10.7%	-177,820	(27.2%)
Private and other social institutions [1]	36,470	0.6%	34,142	0.5%	2,328	6.8%
Loans to customers	**6,141,481**	**100%**	**6,126,945**	**100%**	**14,536**	**0.2%**

[1] *inclusive of financial and non-financial companies in the rest of the world*

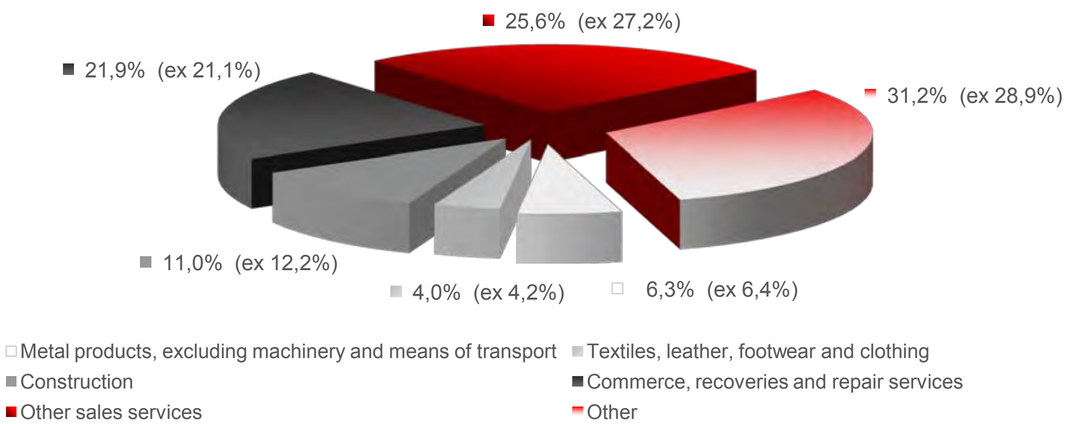
It can be seen, in particular, that there is an increased weighting of loans to non-financial companies, to artisans and to family businesses, which, at the year-end represent 66% of the total, being an amount of some Euro 4.1 billion.

The graph below shows the breakdown in percentage terms of loans at the 2013 year end by type of customer, while the subsequent graph focuses on the breakdown of loans to the customer categories non-financial companies, artisans and family businesses by business sector.

Graph no. 10 - **BREAKDOWN OF LOANS TO CUSTOMERS BY TYPE OF CUSTOMER**



Graph no. 11 - **BREAKDOWN OF LOANS TO CUSTOMERS AT 31.12.2013 REGARDING NON-FINANCIAL COMPANIES, ARTISANS AND FAMILY BUSINESSES**



As can be seen from the above, loans to customers pertaining to the tertiary sector, in general, represent a major component, particularly those pertaining to other sales related services, to wholesale and retail services, recoveries and repairs and to the construction industry. Taken together, these loans represent 58.4% of the total of the category subject to analysis, corresponding to some Euro 2.4 billion.

As regards the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of 2013 in comparison to the prior year end figures reflects a high degree of risk diversification, as shown in the following table.

Table no. 6 - **RATIOS OF CONCENTRATION OF CREDIT ON LARGEST CUSTOMERS**

Number of customers [1]	31.12.2013	31.12.2012
First 10	1,7%	1,5%
First 20	2,7%	2,4%
First 30	3,5%	3,2%
First 50	4,9%	4,5%

[1] *net of loans to the subsidiary FIDES S.p.A. and to Cassa di Compensazione e Garanzia S.p.A.*

In compliance with supervisory regulations in force, at the 2013 year end two positions were identified that are classifiable as "Major risks" and which amount to a total nominal value (inclusive of guarantees given and commitments) of some Euro 2 billion, which, in terms of the total weighted amount, comes to zero. Calculated excluding balances with Group companies and the Treasury Ministry, with the latter consisting of investments in government bonds, there would be no such position.

With the explosion of litigation in recent years at the level of the banking system, the Bank has continued with its commitment to render the monitoring of exposures more systematic, as well as to increase the degree of analysis of investigatory functions.

The total amount of net non-performing loans at the end of the year, made up of doubtful loans, watchlist loans, past due loans (i.e. persistent breaches with continuous overruns), as well as restructured loans, came to Euro 401.2 million, net of adjustments of Euro 202.6 million, an increase of Euro 61.4 million compared with 2012. In particular, net doubtful loans totalled Euro 214.4 million, net watchlist loans Euro 147.2 million, past due loans Euro 38 million and restructured loans Euro 1.7 million.

The following table summarises the gross and net indicators relating to credit risk, showing figures that are up compared with the previous year due to a direct correlation with the prolonged economic crisis.

Table no. 7 - **INDICATORS OF CREDIT RISK VERSUS CUSTOMERS**

% of gross loans	31.12.2013	31.12.2012
Gross non-performing loans to customers	9.46%	7.78%
of which:		
- gross doubtful loans	5.54%	4.01%
- gross watchlist loans	3.25%	3.11%
- gross past due loans	0.64%	0.58%
- gross restructured loans	0.03%	0.09%

% of net loans	31.12.2013	31.12.2012
Net non-performing loans to customers	6.53%	5.71%
of which:		
- net doubtful loans	3.49%	2.69%
- net watchlist loans	2.40%	2.38%
- net past due loans	0.62%	0.56%
- net restructured loans	0.03%	0.08%

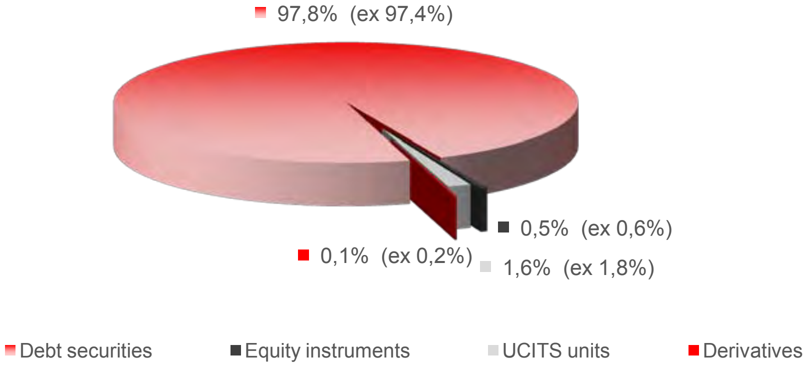
8.3 THE SECURITIES PORTFOLIO AND INTERBANK POSITION

Securities portfolio

At 31 March 2013, the total financial assets of Banco Desio amounted to Euro 1.6 billion, an increase of Euro 0.4 billion compared with the end of 2012 (+38.5%).

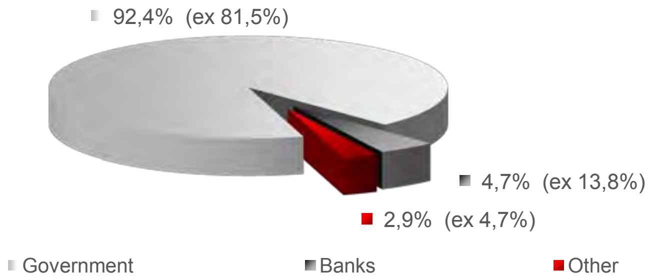
The graph below presents the breakdown in percentage terms of the portfolio by type of security, showing how it almost entirely consists of debt securities, which almost entirely relate to government bonds and securities issued by primary banks.

Graph no. 12 - **BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2013 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the year, 92.4% relates to government securities (almost entirely Italian securities), 4.7% relates to securities issued by primary banks and the remainder relates to other issuers, as represented graphically below.

Graph no. 13 - **BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2013 BY TYPE OF ISSUER**



In Italy, 2013 ended with the yield on 10-year BTPs at a level that was slightly lower than that at the beginning of the year, but the yield curve was subjected to phases of volatility and instability in the year. In fact, despite the dampening effect consequent to LTRO operations, in 2013 turbulence returned on several occasions: at the end of February due to the political stalemate following the Italian elections; in May following the announcement made by the Fed concerning tapering; in September and the first days of October due to the uncertainty caused by a renewed phase of political instability. To take advantage of these events and with the right timing in mind, but with a prudent approach, the Bank introduced strategies that allowed particularly significant results to be achieved. The activities performed during the year were characterised by significant trading in Italian government bonds. Investments were concentrated on Italian government bonds, for which the percentage share of the total portfolio at the end of 2013 had increased by more than 15% compared with the previous year end, with a significant increase in the zero coupon (CTZ and BOT) component.

Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 31.12.2013 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

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

Amounts in thousands of Euro		Italy	Spain	31.12.2013
Financial assets available for trading	Nominal value	470		470
	Book value	563		563
Financial assets available for sale	Nominal value	1,255,000	50,000	1,305,000
	Book value	1,261,819	49,886	1,311,705
Financial assets held to maturity	Nominal value	170,000		170,000
	Book value	171,446		171,446
Sovereign debt	**Nominal value**	**1,425,470**	**50,000**	**1,475,470**
	Book value	**1,433,828**	**49,886**	**1,483,714**

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

Amounts in thousands of Euro		Italy	Spain	31.12.2013 Nominal value	31.12.2013 Book value
Financial assets available for trading	up to 1 year				
	1 to 3 years				
	3 to 5 years	470		470	563
	over 5 years				
	Total	470		470	563
Financial assets available for sale	up to 1 year	500,000		500,000	496.154
	1 to 3 years	200,000		200,000	200.198
	3 to 5 years	365,000	50,000	415,000	417.604
	over 5 years	190,000		190,000	197.748
	Total	1,255,000	50,000	1,305,000	1.311.705
Financial assets held to maturity	up to 1 year				
	1 to 3 years				
	3 to 5 years				
	over 5 years	170,000		170,000	171.446
	Total	170,000		170,000	171.446
Sovereign debt	**up to 1 year**	**500,000**		**500,000**	**496.154**
	1 to 3 years	**200,000**		**200,000**	**200.198**
	3 to 5 years	**365,470**	**50,000**	**415,470**	**418.167**
	over 5 years	**360,000**		**360,000**	**369.194**
	Total	**1,425,470**	**50,000**	**1,475,470**	**1.483.714**

Net interbank position

The net interbank position at the year end is a net debt amount of some Euro 0.2 billion, in line with the prior year end balance.

With reference to treasury activities, the Bank's excess liquidity during the year was largely invested in the MMF market.

8.4 - SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

Shareholders' equity at 31 December 2013, inclusive of net profit for the year, increased to Euro 781.6 million compared to Euro 776.5 million at the 2012 year end.

Shareholders' equity calculated in accordance with current regulatory provisions increased to Euro 809.8 million, compared with Euro 802.4 million at the end of 2012 and consists of Tier 1 capital of Euro 741.6 million (compared with Euro 728.8 million at the end of 2012) and Tier 2 capital of Euro 68.2 million (compared with Euro 73.6 million at the end of 2012) for revaluation reserves and subordinated liabilities. The amounts to be deducted come to a total of Euro 8.3 million and are attributable to investments in financial and insurance institutions.

The Tier 1 ratio (Tier 1 capital/Risk-weighted assets) is 18% compared with 18.3% at the end of 2012, and coincides with Core Tier 1, whereas the Total capital ratio (Total capital/Risk-weighted assets) increased to 19.6% from a comparative figure of 20.1%.

8.5 - RECLASSIFIED INCOME STATEMENT

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

The presentation criteria for this table are as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- the "Net profit (loss) for the period" has been split between "Profit (loss) from operations after taxes" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 190 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers and flat-rate tax on long-term loans, as well as amortisation of leasehold improvements, reclassified respectively as a reduction to caption 150b) "Other administrative expenses" and as an increase in caption 180 "Net adjustments to intangible assets" included in "Operating expenses";
- dividends receivable from investments in subsidiaries have been reclassified from caption 70 "Dividends and similar income" to the caption "Dividends from investments in subsidiaries" below "Result of operations";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of loans" of "Operating income" is reclassified to the appropriate caption "Gains (losses) on disposal or repurchase of loans" after "Operating profit";
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 190 "Net provisions for risks and charges" to caption 130a) "Net impairment adjustments to loans and advances", both captions coming after the "Result of operations";

- provisions of an extraordinary nature or which are “one-off” have been reclassified to the caption "Provisions for risks and charges on extraordinary transactions";
- the tax effect on "Non-recurring profit (loss)" is reclassified from caption 260 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

As shown by the following table that presents the reclassified income statement with comparatives, the 2013 financial year closed with a net profit for the year of Euro 9.4 million, up 2.4% on prior year. The result, however, had to absorb the increasing burden of net adjustments to loans (which went from Euro 81.5 million in 2012 to Euro 121.6 million in 2013) in addition to increases in the Solidarity Fund provision of Euro 16.2 million, resulting from implementation of the Group's 2013-2015 Business Plan.

Table no. 10 - **RECLASSIFIED INCOME STATEMENT**

	Captions *Amounts in thousands of Euro*	**31.12.2013**	**31.12.2012**	**Change** **Amount**	**%**
10+20	Net interest income	165,279	172,155	-6,875	(4.0%)
70	Dividends and similar income	2,117	372	1,745	469.5%
40+50	Net commission income	101,071	94,261	6,810	7.2%
80+90+100 +110	Net income from trading and hedging and disposal/repurchase of loans, financial assets and liabilities designated at fair value through profit and loss	41,465	30,728	10,737	34.9%
190	Other operating income/expense	12,253	11,409	844	7.4%
	Operating income	**322,186**	**308,925**	**13,261**	**4.3%**
150 a	Payroll costs	-119,401	-125,101	5,700	(4.6%)
150 b	Other administrative costs	-53,250	-54,872	1,622	(3.0%)
170+180	Net adjustments to property, plant and equipment and intangible a	-8,038	-8,570	532	(6.2%)
	Operating costs	**-180,689**	**-188,543**	**7.854**	**(4.2%)**
	Result of operations	**141,496**	**120,382**	**21,115**	**17.5%**
	Gains (Losses) on disposal or repurchase of loans	-1,229	-1.788	559	(31.2%)
130 a	Net impairment adjustments to loans and advances	-121,589	-81,454	-40	49.3%
130 b	Net impairment adjustments to financial assets available for sale	-573,814	-277,468	-296	106.8%
130 d	Net impairment adjustments to other financial assets	-1,532	-643,892	-889	138.0%
160	Net provisions for risks and charges	-7,577	-2,294	-5,283	230.3%
	Dividends from equity investments in subsidiaries	2,846	2,290	556	24.3%
	Profit (loss) from operations before tax	**11,841**	**36,215**	**-24,374**	**(67.3%)**
260	Income taxes on current operations	-7,985	-13,740	5,755	(41.9%)
	Profit (loss) from operations after tax	**3,856**	**22,475**	**-18,619**	**(82.8%)**
210	Profit (loss) from equity investments	17,466	-25,770	43,236	167.8%
	Provisions for risks and charges on extraordinary transactions	-16,183	11,855	-28,038	236.5%
	Non-recurring profit (loss) before tax	**1,283**	**-13,915**	**15,198**	**109.2%**
	Income taxes from non-recurring items	4,288	645	3,644	565.1%
	Non-recurring profit (loss) after tax	**5,571**	**-13,270**	**18,842**	**142.0%**
290	**Net profit (loss) for the period**	**9,427**	**9,205**	**222,825**	**2.4%**

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

Table no. 11 - **RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME**

Captions		As per financial statements	Reclassifications						Reclassified income statement
Amounts in thousands of Euro		**31.12.2013**	Recovery of taxes	Dividends from subsidiaries	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Uses of/accruals to provisions for risks	Income taxes	**31.12.2013**
10+20	Net interest income	165,279	-	-	-	-	-	-	165,279
70	Dividends and similar income	4,963	-	- 2,846	-	-	-	-	2,117
40+50	Net commission income	101,071	-	-	-	-	-	-	101,071
80+90+100+110	Net income from trading and hedging and disposal/repurchase of loans, financial assets and liabilities designated at fair value through profit and loss	40,236	-	-	-	1,229	-	-	41,465
190	Other operating income/expense	28,599	18,503	-	2,156	-	-	-	12,253
	Operating income	**340,149**	**18,503**	**- 2,846**	**2,156**	**1,229**	-	-	**322,186**
150 a	Payroll costs	- 135,584	-	-	-	-	16,183	-	- 119,401
150 b	Other administrative costs	- 71,753	18,503	-	-	-	-	-	- 53,250
170+180	Net adjustments to property, plant and equipment and int	- 5,882	-	-	- 2,156	-	-	-	- 8,038
	Operating costs	**- 213,219**	**18,503**	-	**- 2,156**	-	**16,183**	-	**- 180,689**
	Result of operations	**126,930**	-	**- 2,846**	-	**1,229**	**16,183**	-	**141,496**
	Gains (Losses) on disposal or repurchase of loans	-	-	-	-	- 1,229	-	-	- 1,229
130 a	Net impairment adjustments to loans and advances	- 121,584	-	-	-	-	- 4,775	-	- 121,589
130 b	Net impairment adjustments to financial assets available for sale	- 573,814	-	-	-	-	-	-	- 573,814
130 d	Net impairment adjustments to other financial assets	- 1,532	-	-	-	-	-	-	- 1,532
160	Net provisions for risks and charges	- 7,582	-	-	-	-	4,775	-	- 7,577
	Dividends from equity investments in subsidiaries	-	-	- 2,846	-	-	-	-	2,846
	Profit (loss) from operations before tax	**- 4,342**	-	-	-	-	**16,183**	-	**11,841**
260	Income taxes on current operations	- 3,696	-	-	-	-	-	- 4,288	- 7,985
	Profit (loss) from operations after tax	**- 8,038**	-	-	-	-	**16,183**	**- 4,288**	**3,856**
210	Profit (loss) from equity investments	17,466	-	-	-	-	-	-	17,466
	Provisions for risks and charges on extraordinary transactions	-	-	-	-	-	- 16,183	-	- 16,183
	Non-recurring profit (loss) before tax	**17,466**	-	-	-	-	**- 16,183**	-	**1,283**
	Income taxes from non-recurring items	-	-	-	-	-	-	4,288	4,288
	Non-recurring profit (loss) after tax	**17,466**	-	-	-	-	**- 16,183**	**4,288**	**5,571**
290	**Net profit (loss) for the period**	**9,427**	-	-	-	-	-	-	**9,427**

Table no. 12 - **RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 31.12.2012**

Captions		As per financial statements	Reclassifications						Reclassified income statement
Amounts in thousands of Euro		31.12.2012	Recovery of taxes	Dividends from subsidiaries	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Uses of/accruals to provisions for risks	Income taxes	31.12.2012
10+20	Net interest income	172,155							172,155
70	Dividends and similar income	2,661		-2,290					371,739
40+50	Net commission income	94,261							94,261
80+90+100+110	Net income from trading and hedging and disposal/repurchase of loans, financial assets and liabilities designated at fair value through profit and loss	28,941				1,788			30,728
190	Other operating income/expense	22,114	-12.981,419		2,276				11,409
	Operating income	**320,132**	**-12.981,419**	**-2,290**	**2,276**	**1,788**	**-**	**-**	**308,925**
150 a	Payroll costs	-125,101							-125,101
150 b	Other administrative costs	-67,854	12.981,419						-54,872
170+180	Net adjustments to property, plant and equipment and int	-6,294			-2,276				-8,570
	Operating costs	**-199,249**	**12.981,419**		**-2,276**		**-**	**-**	**-188,543**
	Result of operations	**120,884**	**-**	**-2,290**	**-**	**1,788**	**-**	**-**	**120,382**
	Gains (Losses) on disposal or repurchase of loans					-1,788			-1,788
130 a	Net impairment adjustments to loans and advances	-81,651					198		-81,454
130 b	Net impairment adjustments to financial assets available for sale	-277,468							-277,468
130 d	Net impairment adjustments to other financial assets	-643,892							-643,892
160	Net provisions for risks and charges	9,758					-12,052		-2,294
	Dividends from equity investments in subsidiaries			2,290					2,290
	Profit (loss) from operations before tax	**48,069**	**-**	**-**	**-**	**-**	**-11,855**	**0**	**36,215**
260	Income taxes on current operations	-13,095						-645	-13,740
	Profit (loss) from operations after tax	**34,975**	**-**	**-**	**-**	**-**	**-11,855**	**-645**	**22,475**
210	Profit (loss) from equity investments	-25,770							-25,770
	Provisions for risks and charges on extraordinary transactions						11,855		11,855
	Non-recurring profit (loss) before tax	**-25,770**	**-**	**-**	**-**	**-**	**11,855**	**0**	**-13,915**
	Income taxes from non-recurring items							645	644,813
	Non-recurring profit (loss) after tax	**-25,770**	**-**	**-**	**-**	**-**	**11,855**	**645**	**-13,270**
290	**Net profit (loss) for the period**	**9,205**	**-**	**-**	**-**	**-**	**0,000**	**0**	**9,205**

Based on the above, the breakdown and changes in the main reclassified income statement captions are summarised below.

Operating income

Core revenues increased by 4.3% on prior year, rising to Euro 322.2 million, being an increase of some Euro 13.3 million. Of this increase, Euro 10.7 million is attributable to a higher contribution from *net trading income, hedging and disposal/repurchase of loans and financial assets and liabilities designated at fair value through profit and loss*, Euro 6.8 million relates to an increase in net commission income (+7.2%), some 1.8 million relates to *dividends and similar income*, attributable, in particular, to the higher dividend income earned by Chiara Assicurazioni S.p.A., which became an associated company during the year (moreover, for the sake of comparability, with reference to the 2012 financial year, the dividend received by the same company of some Euro 0.3 million, has no longer been reclassified from caption 70 "Dividends and similar income" to the caption “Dividends from investments in subsidiaries”) and some Euro 0.9 million relates to *other operating income/expense*; on the other hand, *net interest income* fell by Euro 6.9 million (-4%).

From the following table that shows the breakdown of *net commission income* by type, it can be seen that the increase is mainly attributable to commissions from the maintenance and management of current accounts and commissions from the distribution of insurance products.

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

Amounts in thousands of Euro	31.12.2013	%	31.12.2012	%	Change Amount	%
Collection and payment services	16,850	16.7%	16,307	17.3%	543	3.3%
placement of securities	6,978	6.9%	6,513	6.9%	465	7.1%
Managed portfolios and order taking	10,257	10.1%	10,510	11.1%	-253	(2.4%)
Distribution of insurance products	9,442	9.3%	7,349	7.8%	2,093	28.5%
Maintenance and management of current account	49,400	48.9%	45,769	48.6%	3,631	7.9%
Other commission	8,144	8.1%	7,813	8.3%	331	4.2%
Net commission income	**101,071**	**100%**	**94**	**100%**	**7 7.2%**	

Operating costs

Operating costs, which include *payroll costs*, *other administrative expenses* and *net adjustments to property, plant and equipment and intangible assets*, show an overall balance of Euro 180.7 million, a decrease of Euro 7.8 million (-4.2%) on 2012. The recovery is mainly attributable to payroll costs which, net of one-off charges for the various measures affecting human resources in implementation of the Group's 2013-2015 Business Plan (as explained in the paragraph on "Industrial relations" under "Significant events") totalling Euro 16.2 million and reclassified to Non-recurring profit (loss), have decreased by Euro 5.7 million (-4.6%); the other two captions show a decrease as well, with other administrative expenses down by Euro 1.6 million (-3%) and with net adjustments to property, plant and equipment and intangible assets down by Euro 0.5 million (-6.2%).

Result of operations

The *result of operations* for the year comes to Euro 141.5 million, which, in comparison to the prior year result of Euro 120.4 million, is up by around 17.5%.

Net profit (loss) from operations after tax

Net impairment adjustments to loans and advances of Euro 121.6 million, which are Euro 40.1 million higher than in 2012, *net provisions for risks and charges* of Euro 7.6 million, representing an increase of Euro 5.3 million with respect to the prior year comparative (primarily to provide for higher charges and operating risks inclusive of those relating to the tax dispute), *losses on disposal or repurchase of loans* of Euro 1.2 million, *net impairment adjustments to financial assets available for sale* of Euro 0.6 million, *net impairment adjustments to other financial assets* of Euro 1.5 million, the contribution from *dividends from investments in subsidiaries* of Euro 2.8 million, as well as taxes on income from continuing operations of Euro 8 million, down by Euro 5.8 million, lead to *net profit from operations after tax* of some Euro 3.8 million, compared to the prior year net profit of Euro 36.2 million (-82.8%).

Non-recurring profit (loss) after tax

The *non-recurring profit after tax* amounts to Euro 5.6 million and consists of the gain realised by way of price adjustment on the sale in late 2012 of the residual 30% of the former associate Chiara Vita S.p.A., amounting to

Euro 7.2 million, of the gain realised on the sale of a controlling interest in Chiara Assicurazioni S.p.A. (from 66.66% to 32.66%), amounting to Euro 4.6 million (as described in the appropriate paragraphs under "Significant events"), of the impact of the one-off charges for the various measures affecting human resources in implementation of the Group's 2013-2015 Business Plan (as explained in the paragraph on "Industrial relations" under "Significant events") of Euro 16.2 million, as well as the contribution from the taxation of non-recurring profit of Euro 4.3 million, arising from the tax effect of the one-off charges and taxes on the gains referred to above.

The prior year result was a *non-recurring loss after tax* of Euro 13.9 million attributable to: (i) the negative impact of the write-downs of the investments in the subsidiaries Credito Privato Commerciale SA in liquidation and Brianfid-Lux SA in liquidation totalling Euro 31.9 million, the positive impact arising from the release of the remaining Euro 11.9 million of the provision set up at the end of 2008 to cover the risk of a partial revision of the price received for the sale of 70% of Chiara Vita S.p.A. and a gain of Euro 6.1 million arising from the sale of the remaining 30% holding in the same company.

Net profit for the year

Net profit from operations after tax plus the non-recurring result after tax, leads to the net profit for 2013 of Euro 9.4 million, representing an increase of 2.4% compared to the prior year.

9 - OTHER INFORMATION

9.1 - INVESTMENTS IN BANCO DI DESIO E DELLA BRIANZA S.P.A. HELD BY MEMBERS OF THE BOARDS OF DIRECTORS AND STATUTORY AUDITORS, BY THE GENERAL MANAGER AND BY THE DEPUTY GENERAL MANAGER HOLDING OFFICE AT THE YEAR END

Name and Surname	Offices held at Banco di Desio e della Brianza S.p.A.	Title / Nature of holding	Ordinary shares at 31.12.2012	%	Savings shares at 31.12.2012	%	Ordinary shares purchased	Savings shares purchased	Ordinary shares sold	Savings shares sold	Ordinary shares at 31.12.2013	%	Savings shares at 31.12.2013	%
Agostino Gavazzi	Chairman	Owned	78,244	0.0668	-	-	-	-	-	-	78,244	0.07	-	-
		Bare ownership	5,500	0.0047	-	-	-	-	-	-	5,500	-	-	-
		Registered to spouse	2,900	0.0024	-	-	-	-	-	-	2,900	-	-	-
Stefano Lado *	Deputy Chairman	Owned	2,122,656	1.814	196,000	1.485	-	-	-	-	2,122,656	1.814	196,000	1.485
		Registered to spouse	6,500	0.0055	-	-	-	-	-	-	6,500	0.006	-	-
		Owned via Vega Finanziaria SpA	6,885,730	5.885	571,522	4.329	-	-	-	-	6,885,730	5.885	571,522	4.329
Tommaso Cartone	Chief Executive Officer		-	-	-	-	-	-	-	-	-	-	-	-
Pier Antonio Cutellè	Director		-	-	-	-	-	-	-	-	-	-	-	-
Cristina Finocchi Mahne	Director (by co-option on 30 May 2013)		-	-	-	-	-	-	-	-	-	-	-	-
Egidio Gavazzi	Director	Owned	35,000	0.030	-	-	-	-	20,000	-	15,000	0.013	-	-
Luigi Gavazzi	Director	Owned	84,340	0.072	-	-	-	-	-	-	84,340	0.072	-	-
		Bare ownership	5,500	0.005	-	-	-	-	-	-	5,500	0.005	-	-
Paolo Gavazzi	Director	Owned	715,453	0.611	15,004	0.114	-	-	-	-	715,453	0.611	15,004	0.114
Gerolamo Pellicano'	Director		-	-	-	-	-	-	-	-	-	-	-	-
Guido Pozzoli	Director	Owned	37,000	0.032	-	-	-	-	-	-	37,000	0.032	-	-
		Registered to spouse	12,500	0.011	-	-	-	-	-	-	12,500	0.011	-	-
		Usufruct	50,000	0.043	3,000	0.023	-	-	-	-	50,000	0.043	3,000	0.023
Lorenzo Rigodanza	Director		-	-	-	-	-	-	-	-	-	-	-	-
Eugenio Mascheroni	Chairman of the Board of Statutory Auditors		-	-	-	-	-	-	-	-	-	-	-	-
Rodolfo Anghileri	Acting Statutory Auditor		-	-	20,000	0.151	-	-	-	-	-	-	20,000	0.151
Marco Piazza	Acting Statutory Auditor		-	-	-	-	-	-	-	-	-	-	-	-
Claudio Broggi **	General Manager		-	-	-	-	-	-	-	-	-	-	-	-
Giovanni Cucchiani	Alternate Statutory Auditor	Owned	14,240	0.012	1,000	0.008	-	-	-	-	14,240	0.012	1,000	0.008
		Registered to spouse	3,200	0.003	-	-	-	-	-	-	3,200	0.003	-	-
Clemente Domenici	Alternate Statutory Auditor	Owned	1,000	0.001	-	-	-	-	-	-	1,000	0.001	-	-
Carlo Mascheroni	Alternate Statutory Auditor		-	-	-	-	-	-	-	-	-	-	-	-
Luciano Colombini **	Senior Deputy General Manager (from 22 July 2013)		-	-	-	-	-	-	-	-	-	-	-	-
Marco Sala	Deputy General Manager		-	-	-	-	-	-	-	-	-	-	-	-

9.2 - INVESTMENTS IN SUBSIDIARIES HELD BY MEMBERS OF THE BOARDS OF DIRECTORS AND STATUTORY AUDITORS, BY THE GENERAL MANAGER AND BY THE DEPUTY GENERAL MANAGER HOLDING OFFICE AT THE YEAR END

At 31 December 2013 no equity investments were held in subsidiaries by members of the Boards of directors and statutory auditors, by the General Manager and by the Deputy General Manager holding office at the year end and neither have there been any movements in relation thereto in the course of the year.

9.3 - TREASURY SHARES

At 31 December 2013, as was the case at the previous year end, the Bank did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi & C. S.a.p.A. and neither have there been any movements in relation thereto in the course of the year.

9.4 - TRANSACTIONS BETWEEN BANCO DI DESIO E DELLA BRIANZA S.P.A. AND THE PARENT COMPANY AND WITH SUBSIDIARIES OR COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

Set out below is a summary of balances at 31 December 2013 and transactions in the year then ended with the Bank's parent company and with its subsidiaries or companies subject to significant influence, by counterparty and by nature.

Table no. 14 - **TRANSACTIONS WITH THE PARENT COMPANY AND WITH SUBSIDIARIES OR COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE IN THE YEAR ENDED 31.12.2013**

Amounts in thousands of Euro	Assets	Liabilities	Guarantees/commit	Income	Expenses
Parent Company					
Brianza Unione di Luigi Gavazzi & C. S.a.p.A.	-	1,386	-	8	28
Subsidiaries					
Banco Desio Lazio S.p.A.	16,611	50,381	17,868	3,783	963
Brianfid-Lux S.A. in liquidation	-	-	-	33	-
Credito Privato Commerciale S.A. in liquidation	96	7,532	-	26	-
Rovere Societé de Gestion S.A.	436	-	-	2,270	-
FIDES S.p.A.	278,407	81	-	9,663	6
Associates (subject to significant influence)					
Chiara Assicurazioni S.p.A.	265	6,247	-	4,214	57
Istifid S.p.A.	11	370	-	14	133
Transactions by company	**295,826**	**65,997**	**17,868**	**20,011**	**1,187**
Breakdown of transactions by type					
Financial	294,469	65,983	9,277	14,468	1,019
Trade	447	14	8,591	4,063	40
Lease / management of assets	-	-	-	395	-
Supply of services	765	-	-	669	128
Other	145	-	-	416	-
Transactions by type	**295,826**	**65,997**	**17,868**	**20,011**	**1,187**

Note that all the transactions disclosed in the above table have been entered into, where it has been possible to make a comparison, by applying market conditions and rates.

In compliance with art. 37 paragraph 2 of Consob's Market Regulations (Resolution 16191 of 29 October 2007), it is hereby disclosed that Brianza Unione di Luigi Gavazzi & C. S.a.p.A., the Bank's parent company, as laid down by its articles of association, does not exercise any management control and coordination activities over the Bank and its subsidiaries and neither does it do so under banking legislation nor under civil law. For further details on the Group structure concerning the exercise of management control and coordination activities, reference should be made to paragraph 2.3 of the Annual Report on Corporate Governance, which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations.

9.5 - RATINGS

On 26 July 2013, as part of a rating survey involving several banks, Fitch Ratings confirmed the ratings of the Parent Company Banco di Desio e della Brianza S.p.A., namely:

- Long Term Issuer Default Rating: confirmed at "BBB+"
- Short Term Issuer Default Rating: confirmed at "F2"
- Viability rating: confirmed at "bbb+"
- Support Rating: confirmed at "4"
- Support Rating Floor: confirmed at "B+"
- Negative outlook

These ratings reflect the Bank's robust performance despite the persistent macroeconomic difficulties. Our prudent lending policy and diversified loan portfolio were both judged positively. During the recession, the deterioration in our asset quality was lower than that of our main competitors. In addition, there is the positive contribution of a large and stable share of customer deposits, an extremely low use of funding on the interbank market and a healthy level of capitalisation.

The IDR rating and outlook are at the same levels as the Sovereign State. Fitch has said that a downgrade of the sovereign rating could also lead to the Bank's rating being downgraded.

9.6 - PERSONAL DATA PROTECTION CODE (Legislative Decree no. 196/2003)

The requirement to adopt a “Policy Document on Privacy” was revoked by Legislative Decree no. 5 of 9.2.2012 regarding “Urgent provisions concerning simplification and development”; however, the requirements concerning minimum privacy measures are still fully applicable and thus Data Controllers must continue to comply therewith.

Despite the fact that the aforementioned decree permits the postponement of its specific requirements and while awaiting further indications from the Supervisory Authority, note that, regardless, an annual update has been performed of the Policy Document - that in 2012 became the “Policy Document on Privacy Measures” - in compliance with what was then required by art. 34, paragraph g), of Legislative Decree no. 196 of 30 June 2003 - Personal data protection code.

This Document includes a description of the issues laid down in the Code pursuant to rule 19 of the Technical Discipline - Appendix B - of the Code.

9.7 - TRANSACTIONS WITH RELATED PARTIES AND ASSOCIATED PERSONS

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

Details of transactions with related parties approved by the Board of directors in the course of 2013 are disclosed in Part H of the explanatory notes.

9.8 - INFORMATION ON INCENTIVE PLANS (STOCK OPTIONS)

With reference to the plan activated during the course of 2008, involving shares of the indirect subsidiary FIDES S.p.A. (shares already held by Banco Desio Lazio S.p.A.), in the course of the year the final date for exercising these options was again extended - for the last time - by the Board Directors of Banco Desio Lazio S.p.A. to 31 December 2013.

As regards the plan, reference should be made to Part I of the explanatory notes to the Group's consolidated financial statements.

9.9 - ADOPTION OF THE CODE OF CONDUCT FOR LISTED COMPANIES

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

9.10 - RESEARCH AND DEVELOPMENT ACTIVITIES

In its capacity as Parent Company, the Bank, as described in paragraph 7.1 “The levels of control in the management control and coordination function”, undertakes development with a view to supporting and coordinating the companies belonging to the Group, as well as research and investment in operational solutions aimed, in particular, at continuous improvements in the customer relationship.

9.11 - OPT-OUT FROM OBLIGATION TO PUBLISH INFORMATION DOCUMENTS FOR EXTRAORDINARY OPERATIONS PURSUANT TO CONSOB REGULATIONS

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

10 - OUTLOOK FOR 2014 AND PRINCIPAL RISKS AND UNCERTAINTIES

In view of the forthcoming integration of Banca Popolare di Spoleto, which has been the subject of prompt market updates, it is envisaged that a new Group business plan will be prepared during the year in compliance with a procedure which will hopefully meet the approval of the Commissioners of Banca Popolare di Spoleto.

Regardless of the outcome of the planned business aggregation, the Parent Company, in line with the strategic profile of recent years, will continue concentrating on its core business from an operational, commercial and regional point of view, with the objective of rationalising costs and focusing on revenue and, accordingly, it is envisaged that a new Group business plan will be prepared during the year.

As regards the principal risks and uncertainties, note that this report and, more generally, the financial statements at 31 December 2013 has been prepared on a going-concern basis, as there is no plausible reason to believe the opposite in the foreseeable future. The capital and financial structure and operating performance of the business provide absolute confirmation of the foregoing.

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

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

11 - MOTION FOR APPROVAL OF FINANCIAL STATEMENTS AND ALLOCATION OF NET PROFIT

Dear Shareholders,

we hereby submit for your approval the financial statements for the year ended 31 December 2013, which report a net profit for the year of Euro 9,427,417.55 as shown by the income statement.

Taking account of the provisions of art. 31 of the Articles of Association, the following allocation of net profit is hereby proposed:

- 10% to be allocated to the legal reserve	Euro	942,742.00
- 10% to be allocated to the statutory reserve	Euro	942,742.00
- to the shareholders:		
Euro 0.0214 for each of the 117,000,000 ordinary shares	Euro	2,503,800.00
Euro 0.0364 for each of the 13,202,000 savings shares	Euro	480,552.80
- further allocation to the statutory reserve	Euro	4,557,580.75
Total net profit	**Euro**	**9,427,417.55**

Desio, 13 March 2014

The Board of Directors

Financial Statements

BALANCE SHEET

ASSETS

Assets	31.12.2013	31.12.2012	Change amount	Change %
10. Cash and cash equivalents	24,322,157	29,218,319	(4,896,162)	-16.8%
20. Financial assets held for trading	2,797,735	4,320,208	(1,522,473)	-35.2%
40. Financial assets available for sale	1,420,453,094	1,004,146,255	416,306,839	41.5%
50. Financial assets held to maturity	181,567,955	150,604,234	30,963,721	20.6%
60. Due from banks	229,698,156	221,895,974	7,802,182	3.5%
70. Loans to customers	6,141,481,121	6,126,944,723	14,536,398	0.2%
80. Hedging derivatives	5,052,139	9,005,113	(3,952,974)	-43.9%
100. Equity investments	117,459,942	104,807,343	12,652,599	12.1%
110. Property, plant and equipment	137,285,382	141,162,889	(3,877,507)	-2.7%
120. Intangible assets	8,270,489	8,425,406	(154,917)	-1.8%
of which:				
- goodwill	6,958,401	6,958,401		
130. Tax assets	84,398,939	48,749,478	35,649,461	73.1%
a) current	3,986,724	1,364,190	2,622,534	192.2%
b) deferred	80,412,215	47,385,288	33,026,927	69.7%
of which Law 214/2011	*70,516,308*	*39,196,218*	*31,320,090*	*79.9%*
140. Non-current assets and disposal groups held for sale		15,153,264	(15,153,264)	-100.0%
150. Other assets	101,763,271	91,410,463	10,352,808	11.3%
Total assets	**8,454,550,380**	**7,955,843,669**	**498,706,711**	**6.3%**

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities and shareholders' equity	31.12.2013	31.12.2012	Change amount	Change %
10. Due to banks	481,074,887	468,023,239	13,051,648	2.8%
20. Due to customers	4,846,469,176	4,365,019,643	481,449,533	11.0%
30. Debt securities in issue	2,091,798,521	2,092,674,281	(875,760)	0.0%
40. Financial liabilities held for trading	480,308	518,652	(38,344)	-7.4%
50. Financial liabilities designated at fair value through profit and loss	38,617,148	37,532,427	1,084,721	2.9%
60. Hedging derivatives	2,893,904	6,696,123	(3,802,219)	-56.8%
80. Tax liabilities	13,417,374	13,039,800	,377,574	2.9%
a) current	*1,852,358*	*139,095*	*1,713,263*	*1231.7%*
b) deferred	*11,565,016*	*12,900,705*	*(1,335,689)*	*-10.4%*
100. Other liabilities	144,167,691	156,371,025	(12,203,334)	-7.8%
110. Provision for termination indemnities	23,438,562	23,883,340	(444,778)	-1.9%
120. Provisions for risks and charges:	30,615,624	15,616,073	14,999,551	96.1%
b) other provisions	*30,615,624*	*15,616,073*	*14,999,551*	*96.1%*
130. Valuation reserves	23,482,442	23,525,191	(42,749)	-0.2%
160. Reserves	664,817,197	659,889,154	4,928,043	0.7%
170. Share premium reserve	16,145,088	16,145,088		
180. Share capital	67,705,040	67,705,040		
200. Net profit (loss) for the period (+/-)	9,427,418	9,204,593	222,825	2.4%
Total liabilities and shareholders' equity	**8,454,550,380**	**7,955,843,669**	**498,706,711**	**6.3%**

INCOME STATEMENT

Captions	31/12/2013	31/12/2012	change amount	change %
10. Interest and similar income	273,707,886	284,378,781	(10,670,895)	-3.8%
20. Interest and similar expense	(108,428,440)	(112,224,214)	3,795,774	-3.4%
30. Net interest income	**165,279,446**	**172,154,567**	**(6,875,121)**	**-4.0%**
40. Commission income	105,622,739	98,554,833	7,067,906	7.2%
50. Commission expense	(4,551,877)	(4,293,810)	(258,067)	6.0%
60. Net commission income	**101,070,862**	**94,261,023**	**6,809,839**	**7.2%**
70. Dividends and similar income	4,962,755	2,661,339	2,301,416	86.5%
80. Net trading income	1,595,082	3,164,109	(1,569,027)	-49.6%
90. Net hedging gains (losses)	4,052	(1,377,068)	1,381,120	-100.3%
100. Gains (losses) on disposal or repurchase of:	40,043,004	29,300,823	10,742,181	36.7%
a) loans	*(1,228,982)*	*(1,787,517)*	558,535	-31.2%
b) financial assets available for sale	*41,594,322*	*30,345,551*	11,248,771	37.1%
d) financial liabilities	*(322,336)*	*742,789*	(1,065,125)	-143.4%
110. Net results on financial assets and liabilities designated at fair value	(1,405,813)	(2,146,943)	741,130	-34.5%
120. Net interest and other banking income	**311,549,388**	**298,017,850**	**13,531,538**	**4.5%**
130. Net impairment adjustments to:	(123,690,417)	(82,572,588)	(41,117,829)	49.8%
a) loans	*(121,584,136)*	*(81,651,228)*	*(39,932,908)*	*48.9%*
b) financial assets available for sale	*(573,814)*	*(277,468)*	*(296,346)*	*106.8%*
d) other financial assets	*(1,532,467)*	*(643,892)*	*(888,575)*	*138.0%*
140. Net profit from financial activities	**187,858,971**	**215,445,262**	**(27,586,291)**	**-12.8%**
150. Administrative costs:	(207,336,747)	(192,954,726)	(14,382,021)	*7.5%*
a) payroll costs	*(135,584,042)*	*(125,101,041)*	*(10,483,001)*	*8.4%*
b) other administrative costs	*(71,752,705)*	*(67,853,685)*	*(3,899,020)*	*5.7%*
160. Net provisions for risks and charges	(7,581,696)	9,758,317	*(17,340,013)*	*-177.7%*
170. Net adjustments to property, plant and equipment	(5,267,351)	(5,764,494)	*497,143*	*-8.6%*
180. Net adjustments to intangible assets	(614,837)	(529,479)	*(85,358)*	*16.1%*
190. Other operating charges/income	28,599,393	22,114,482	*6,484,911*	*29.3%*
200. Operating costs	**(192,201,238)**	**(167,375,900)**	**(24,825,338)**	**14.8%**
210. Profit (loss) from equity investments	17,465,873	(25,769,978)	43,235,851	-167.8%
250. Profit (loss) from current operations before tax	**13,123,606**	**22,299,384**	**(9,175,778)**	**-41.1%**
260. Income taxes on current operations	(3,696,188)	(13,094,791)	9,398,603	-71.8%
270. Profit (loss) from current operations after tax	**9,427,418**	**9,204,593**	**222,825**	**2.4%**
290. Net profit (loss) for the period	**9,427,418**	**9,204,593**	**222,825**	**2.4%**

STATEMENT OF COMPREHENSIVE INCOME

	Captions	31.12.2013	31.12.2012
10.	**Net profit (loss) for the period**	**9,427,418**	**9,204,592**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Property, plant and equipment		
30.	Intangible assets		
40.	Actuarial gains (losses) on defined-benefit pension plans	187,664	(1,201,059)
50.	Non-current assets and disposal groups held for sale		
60.	Portion of the valuation reserves of the equity investments carried at equity		
	Other elements of income, net of income taxes with reversal to income statement		
70.	Foreign investment hedges		
80.	Exchange differences	(558,237)	(174,262)
90.	Cash-flow hedges		
100.	Financial assets available for sale	327,824	36,560,796
110.	Non-current assets and disposal groups held for sale		
120.	Portion of the valuation reserves of the equity investments carried at equity		
130.	**Total other elements of income (net of income taxes)**	**(42,749)**	**35,185,475**
140.	**Total comprehensive income (Captions 10+110)**	**9,384,669**	**44,390,067**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31.12.2013

	Balance at 31.12.2012	Changes in opening balances	Balance at 01.01.2013	Allocation of prior year results		Changes during the year								Shareholders' equity at 31.12.2013
							Transactions on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 31.12.2013	
Share capital:	67,705,040		67,705,040											67,705,040
a) ordinary shares	60,840,000		60,840,000											60,840,000
b) other shares	6,865,040		6,865,040											6,865,040
Share premium reserve	16,145,088		16,145,088											16,145,088
Reserves:	659,889,154		659,889,154	4,368,865								559,178		664,817,197
a) from profits	659,510,311		659,510,311	4,368,865								29,111		663,908,287
b) other	378,843		378,843									530,067		908,910
Valuation reserves	23,525,191		23,525,191										(42,749)	23,482,442
Equity instruments														
Treasury shares														
Net profit (loss) for the period	9,204,593		9,204,593	(4,368,865)	(4,835,728)								9,427,418	9,427,418
Shareholders' equity	**776,469,066**		**776,469,066**	**-**	**(4,835,728)**								**559,178**	**9,384,669**	**781,577,185**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31.12.2012

	Balance at 31.12.2011	Changes in opening balances	Balance at 01.01.2012	Allocation of prior year results		Changes during the year								Shareholders' equity at 31.12.2012
						Changes in reserves	Transactions on shareholders' equity						Comprehensive income at 31.12.2012	
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options		
Share capital:	67,705,040		67,705,040											67,705,040
a) ordinary shares	60,840,000		60,840,000											60,840,000
b) other shares	6,865,040		6,865,040											6,865,040
Share premium reserve	16,145,088		16,145,088											16,145,088
Reserves:	630,254,136		630,254,136	29,286,826								348,192		659,889,154
a) from profits	630,223,485		630,223,485	29,286,826										659,510,311
b) other	30,651		30,651									348,192		378,843
Valuation reserves	(11,660,285)		(11,660,285)										35,185,476	23,525,191
Equity instruments														
Treasury shares														
Net profit (loss) for the period	43,235,278		43,235,278	(29,286,826)	(13,948,452)								9,204,593	9,204,593
Shareholders' equity	**745,679,257**		**745,679,257**	**-**	**(13,948,452)**							**348,192**	**44,390,069**	**776,469,066**

CASH FLOW STATEMENT

A. OPERATING ACTIVITIES	Amount	
	31.12.2013	31.12.2012
1. Cash generated from operations	**138,486,110**	**122,050,918**
- interest received (+)	271,758,788	285,359,991
- interest paid (-)	(108,037,631)	(111,139,715)
- dividends and similar income (+)	-	38,426
- net commissions (+/-)	101,659,615	94,791,580
- payroll costs (-)	(135,062,262)	(124,800,012)
- other costs (-)	(68,577,774)	(62,130,035)
- other revenues (+)	80,441,563	53,025,474
- taxation (-)	(3,696,188)	(13,094,791)
- costs/revenues for disposal groups, net of tax effect (+/-)	-	-
2. Cash generated (absorbed) by financial assets	**(601,239,336)**	**(578,941,536)**
- financial assets held for trading	2,829,185	9,596,831
- financial assets designated at fair value through profit and loss	-	-
- financial assets available for sale	(411,883,935)	(94,130,570)
- loans to customers	(142,857,620)	(438,831,619)
- due from banks: on demand	13,057,599	(49,522,859)
- due from banks: other receivables	(20,859,781)	(5,357,391)
- other assets	(41,524,784)	(695,928)
3. Cash generated (absorbed) by financial liabilities	**476,118,907**	**527,652,246**
- due to banks: on demand	16,211,715	(83,061,967)
- due to banks: other debts	(3,160,067)	157,712,401
- due to customers	481,449,534	851,784,209
- debt securities in issue	2,692,529	(364,717,018)
- financial liabilities held for trading	(646,256)	(1,447,120)
- financial liabilities designated at fair value through profit and loss	285,795	(54,456,246)
- other liabilities	(20,714,343)	21,837,987
Net cash generated/absorbed by operating activities (A)	**13,365,681**	**70,761,628**
B. INVESTING ACTIVITIES		
1. Cash generated by	**19,135,796**	**25,552,859**
- sale of equity investments	12,305,452	22,305,003
- dividends collected on equity investments	4,962,755	2,622,913
- sale/redemption of financial assets held to maturity	1,839,010	401,144
- sale of property, plant and equipment	28,579	223,800
- sale of intangible assets	-	-
- sale of lines of business	-	-
2. Cash absorbed by	**(32,561,912)**	**(78,045,012)**
- purchase of equity investments	(48,419)	(43,982,886)
- purchase of financial assets held to maturity	(30,635,151)	(30,116,223)
- purchase of property, plant and equipment	(1,418,423)	(3,374,520)
- purchase of intangible assets	(459,919)	(571,384)
- purchase of lines of business	-	-
Net cash generated/absorbed by investing activities (B)	**(13,426,116)**	**(52,492,153)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares	-	-
- issue/purchase of equity instruments	-	-
- dividends distributed and other allocations	(4,835,727)	(13,948,452)
Net cash generated/absorbed by financing activities (C)	**(4,835,727)**	**(13,948,452)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(4,896,162)**	**4,321,023**

RECONCILIATION

Captions	2013	2012
Cash and cash equivalents at beginning of period	29,218,319	24,897,296
Net increase (decrease) in cash and cash equivalents	(4,896,162)	4,321,023
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at end of period	24,322,157	29,218,319

Explanatory Notes

Part A - ACCOUNTING POLICIES

A.1 - GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation 1606 of 19 July 2002, the financial statements of Banco di Desio e della Brianza are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2013.

Section 2 - Basis of preparation

The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and the explanatory notes; they are also accompanied by the Directors' report on operations.
For the preparation of the financial statements and the content of the explanatory notes, the Bank applied the Bank of Italy's Circular 262 of 22 December 2005 and subsequent updates. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

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

The financial statements have been prepared on a going-concern basis, in accordance with the accrual principle and, in the recognition and presentation of the results of operations, the principle of substance over form has been given precedence.

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

Section 3 - Subsequent events

Please refer to the Report on Operations.

Section 4 - Other aspects

Use of estimates and assumptions in preparing the financial statements

The preparation of the financial statements requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement, and on the disclosures provided in the notes. The use of such estimates involves the use of available information and the adoption of subjective assessments, partly based on historical experience, in order to make reasonable assumptions for the recognition of operating events. By their nature, these estimates and assumptions may change from year to year and, therefore, it cannot be excluded that the values currently shown here may in future differ because of a change in the subjective assessments used.

The main areas in which the use of subjective assessment is applied are:

- the valuation models used for carrying out impairment tests relating to investments and to intangible assets with an indefinite useful life (goodwill);
- quantification of the losses arising from the impairment of loans and financial assets in general;
- determination of the fair value of financial instruments for disclosure purposes;
- the use of valuation models for determining the fair value of financial instruments not quoted in active markets (Level 2 and 3);
- the quantification of the provision for termination indemnities and of provisions for risks and charges;
- estimates and assumptions about the recoverability of deferred tax assets.

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

Audit

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

A.2 - MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

The accounting policies explained below, which were used in preparing the financial statements at 31 December 2013, comply with the IAS/IFRS endorsed by the European Commission and in force on the reference date, and have been applied on a going-concern basis.

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

Financial assets held for trading

Recognition

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

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

Classification

"Financial assets held for trading" include debt securities, equities, positive derivatives held for trading and other assets that, according to the initial designation, are classified as financial instruments held for trading in the short term.

Since classification derives from initial designation, subsequent transfers to other categories are generally not allowed for this category of financial assets, except as in rare circumstances specified in IAS 39. The transfer value is represented by the fair value at the time of reclassification.

Measurement

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

Italian and foreign bonds traded in an active market are measured at the bid price (*fair value level 1).*

For equities and bonds not traded in an active market, the fair value is determined using valuation techniques based on objective factors observable in the market (*fair value level 2).*

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

Derecognition

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

Recognition of items affecting the income statement

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

Financial assets available for sale

Recognition

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

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

Classification

“Financial assets available for sale” include financial assets - derivatives excluded - not classified as Loans, Assets held for trading or as Assets held to maturity.

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

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

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

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

Measurement

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

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

Unquoted financial assets for which a reliable determination of fair value is not possible are carried at cost.

The fair value measurement of non-controlling interests is carried out using valuation techniques (*Level 3*). Mutual fund units (UCITS) are measured at NAV at the assessment date, or at the latest available NAV (*Level 1*).

At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated, taking into account whether the issuer is in financial difficulty or other similar factors. As required by IAS 39 para. 61, "significant" (higher than 50%) or "extended" (more than 24 months) write-downs are considered to be objective impairment indicators for equities.

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

Derecognition

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

Recognition of items affecting the income statement

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

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

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

Financial assets held to maturity

Recognition

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

Classification

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

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

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

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

Measurement and recognition of items affecting the income statement

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

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

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

For equities quoted on active *markets, the fair value* corresponds to the market price (*Level 1*), while securities traded in an active market, the fair value is determined using valuation techniques based on objective factors observable in the market (*fair value of Level 2).*

Derecognition

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

Loans and receivables

Recognition

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

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

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

Classification

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

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

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

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

Measurement

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

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

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

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

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

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

Non-performing loans include the various categories of impaired loans established by the Bank of Italy: doubtful loans, watchlist loans, restructured loans and past due or overrun loans.

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

Performing loans have been evaluated on a general basis by dividing them into classes of risk, determining the Expected Loss (EL) by applying the Probability of Default (PD) produced by the Credit Rating System (CRS) model, and the loss that would be incurred in the event of default (*Loss Given Default* - LGD) derived from the historical-statistical analysis of doubtful and watchlist loans. The expected loss takes into account the deterioration of loans that has taken place at the reporting date, but for which the amount is not yet known at the time of the assessment, in order to shift the valuation model from the concept of "expected loss" to that of "latent loss".

Specific analyses are carried out for exposures of a significant amount.

Non-performing loans include all receivables for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted at the original effective interest rate. The evaluation is analytical, and takes account of the presumed possibility of recovery, the expected timing of collection, and outstanding guarantees.

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

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

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

Fair value is based on future cash flows according to the contract, using a risk-free discount rate and taking into consideration the credit risk in terms of PD and LGD detected by the CRS model (*Level 3*).

Derecognition

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

Even if the transfer of essentially all the risks and benefits cannot be demonstrated, loans are derecognised if no form of control over them has been retained. By contrast, the partial or total retention of such control means that the related loans are reported in the balance sheet to the extent of the residual involvement, as measured by the exposure to changes in the value of the loans sold and to changes in their cash flows.
Lastly, loans sold are derecognised if there is retention of the contractual rights to collect the related cash flows, with a parallel commitment to pay all such flows, and only these, to third parties.

Recognition of items affecting the income statement

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

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

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

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

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

Hedging transactions

Recognition

The recognition of hedging transactions assumes:

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

Classification

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

The type of hedge used is the fair value hedge: the objective is to hedge the risk of changes in the fair value of the hedged instrument.

Measurement and recognition of items affecting the income statement

The fair value of hedging instruments not quoted in an active market is determined using valuation models for estimating and discounting future cash flows (*fair value Level 2 or Level 3* - based on the significance of unobservable inputs used in the valuation models).

The contra-entries to changes in the fair value of hedging derivatives and of the financial instruments being hedged (to the extent attributable to the hedged risk) are recorded in the income statement.

Such offsetting is booked through the recognition in the income statement under item 90 "Net hedging gains (losses)" of changes in the value of both the hedged element (as regards the changes produced by the underlying risk factor) and the hedging instrument. Any difference determines the consequent net economic effect.
A hedging transaction is defined as effective if the changes in fair value (or cash flows) of the hedging instrument offset the changes in the financial instrument being hedged within the 80%-125% limits laid down in IAS 39.

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

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

Derecognition

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

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

Equity investments

Recognition

Equity investments are recognised on the settlement date. Initial recognition is at cost, including directly attributable ancillary costs.

Classification

This item includes investments in subsidiaries and associates, as defined in IAS 27 and 28. Other equity investments are booked in accordance with IAS 39. They are classified as financial assets available for sale and follow the measurement criteria provided for that class of financial assets.

Measurement

Subsequent to initial recognition, investments in subsidiaries and associates are measured at cost.

At each annual or interim 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).

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

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

Derecognition

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

Recognition of items affecting the income statement

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

Property, plant and equipment

Recognition

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

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

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

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

Classification

Property, plant and equipment include land. buildings, equipment, furniture and fittings and other office equipment

This consists of property, plant and equipment held for use in the provision of services and for rental to third parties and for which it is deemed that they will be used for more than one financial year.

Measurement

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

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

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

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

Solely for disclosure purposes, the fair value of investment property is measured at cost less accumulated depreciation. Fair value is determined by the use of direct or market comparables for similar assets (*Level 3*).

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

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

Intangible assets

Recognition

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

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

Classification

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

Leasehold improvements are booked to other assets.

Measurement

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

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

Goodwill is not amortised as it is considered to have an indefinite useful life; instead, it is subjected annually to an impairment test). The cash-generating unit to which the goodwill was allocated is identified for this purpose. The amount of any impairment loss is determined as the amount by which the goodwill's carrying value exceeds its recoverable amount.

The recoverable amount is the higher of the cash-generating unit's fair value, net of any selling costs, or its related value in use.

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

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

Derecognition

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

Recognition of items affecting the income statement

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

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

Non-current assets and disposal groups held for sale

Recognition

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

Classification

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

Measurement and recognition of items affecting the income statement

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

When assets are classified as non-current assets held for sale, the depreciation process, if still underway, is interrupted.

Derecognition

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

Current and deferred taxation

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

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

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

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

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

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

Provision for termination indemnities

Measurement

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

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

Recognition of items affecting the income statement

The provision for termination indemnities arising from the actuarial valuation, as allowed by IAS 19, is recorded as a contra-entry to the valuation reserves for the component of actuarial gains (losses) and in the income statement under provisions for other components such as accrued interest due to the passage of time (discounting) and the adjustment of values at 31.12.2006 as a result of the pension reform introduced by the 2007 Finance Law.

Provisions for risks and charges - Other provisions

Classification

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

Provisions represent the best estimate of the future cash flows needed to settle the obligation at the balance sheet date.

.

Measurement

In cases where the effect of time is a significant factor, the amounts provided are discounted, taking into account when the obligation is likely to fall due. The discount rate reflects the current value of money, taking into consideration the risks specific to the liability.

The evaluation of long-service bonuses to employees is made by independent external actuaries and follows the same logic as described above for calculating the provision for termination indemnities.

Recognition of items affecting the income statement

Provisions are charged to the income statement. An exception is made for the amounts set aside for bonuses to employees, which are booked as a contra-entry to valuation reserves.

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

Debts and debt securities in issue

Recognition

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

Classification

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

Measurement and recognition of items affecting the income statement

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

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

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

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

Securities issued are shown net of any repurchases.

Solely for disclosure purposes, the fair value is determined of debt and securities issued; for debt, the fair value substantially equates to book value, which represents a reasonable approximation thereof, while the fair value of issued securities is determined using valuation models for estimating and discounting future cash flows (*fair value Level 2 or Level 3* - based on the significance of unobservable inputs used in the valuation models).

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

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

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

Financial liabilities held for trading

Recognition

Liabilities held for trading are recorded at fair value.

Classification

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

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

Measurement and recognition of items affecting the income statement

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

Derivative instruments traded in active markets are valued at the closing price on the valuation date (*Level 1*).

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

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

Financial liabilities designated at fair value through profit and loss

Recognition

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

Classification

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

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

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

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

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

Measurement and recognition of items affecting the income statement

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

The fair value is determined through valuation techniques using observable elements in active markets (*Level 2*). The methodology is that of discounting cash flows using a zero coupon curve based on elements available in the market, and applying a credit spread calculated using the euro swap curve and the yield curve for bonds issued by European banks with ratings equal to that of Banco Desio (*Level 2*). For subordinated bonds, a specific adjustment factor is also considered.

Derecognition

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

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

Currency transactions

Recognition

Currency transactions are recorded at the time of settlement by converting them into euro at the exchange rate ruling on the transaction date.

Measurement

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

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

Recognition of items affecting the income statement

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

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

Other information

Valuation reserves

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

Recognition of costs and revenues

Revenues are recognised when they are earned or, in any case, when it is probable that benefits will be received and these benefits can be reliably measured. In particular:

- interest expense is recognised on a pro-rata basis at the contractual interest rate or, in the case of application of amortised cost, at the effective interest rate. Interest income (expense) also includes positive (negative) differentials or margins on financial derivatives accrued at the date of the financial statements:

a) hedging assets and liabilities that generate interest;

b) classified in the balance sheet in the trading book, but operationally linked to assets and/or liabilities measured at fair value (fair value option);

c) operationally linked to assets and liabilities classified as held for trading and providing for the settlement of differentials or margins on several maturities;

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

Expenses are recognised in the income statement in the periods when the related revenues are booked. If costs and revenues can be associated in a generic and indirect way, costs are allocated systematically to several periods with rational procedures.

Costs that cannot be associated with income are booked immediately to the income statement.

Finance leases

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

A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

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

In particular, it is possible to reclassify:

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

There have not been any portfolio transfers in 2013 nor in prior years.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

In May 2011 the IASB published a new accounting standard, IFRS 13 “Fair Value Measurement” that has to be applied for annual periods beginning on or after 1 January 2013. With the publication of IFRS 13, a single accounting standard provides fair value definitions that had previously been included in various IFRSs and defines a single framework for fair value measurement.

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

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

With the introduction of IFSR13, the techniques used for the determination of fair value must maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

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

A significant aspect of IFRS 13 relates to the fair value measurement of OTC derivatives, for which the counterparty risk needs to be considered.

The application of the new standard has had a marginal impact on the Bank's results and financial position.

A.4.1 Levels of fair value 2 and 3: valuation techniques and inputs used

The fair value of financial assets and liabilities is measured by using valuation techniques that take into account the characteristics of the financial instrument being measured. For Level 2 of the fair value hierarchy, the fair value is determined by using a valuation price from an external information provider or a price calculated using internal valuation techniques that use directly observable inputs (entry prices, exit prices, volumes) and indirectly observable inputs (analysis of historical correlations of observable market information for comparable instruments) together with inputs other than prices (volatility, credit spreads, interest rates).

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

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

A.4.2 Process and sensitivity of valuations

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

The measurement process for financial instruments consists of the phases summarised below:
– for each asset class, market inputs are identified as well as the manner in which they have to be incorporated and used;
– the market inputs used are checked to ensure they are worthy of use in the valuation techniques employed;
– the valuation techniques used are compared with market practices to identify any critical issues and to determine if any changes need to be made to the valuation.

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

A.4.3 Fair value hierarchy

For financial assets and liabilities measured at fair value on a recurring basis, their categorisation within the aforementioned fair value hierarchy levels reflects the significance of the inputs used for the valuation. In particular, Level 1 is assigned when there are prices quoted in an active market, and Level 2 and 3 in the case of an active market in which one is unable to carry out a transaction at the price of that market on the valuation date or with no active market. Categorisation as Level 2 and 3 takes place on the basis of the nature and significance of the inputs used: Level 2 when there are inputs that are observable for the asset or liability, either directly or indirectly; Level 3 when inputs are unobservable and are significant for the valuation model.

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

A.4.4 Other information

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

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities designated at fair value	31.12.2013			31.12.2012		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	596	1,705	497	1,877	2,443	
2. Financial assets designated at fair value through profit and loss						
3. Financial assets available for sale	1,287,725	125,046	7,682	873,620	123,914	6,612
4. Hedging derivatives		5,052			9,005	
5. Property, plant and equipment						
6. Intangible assets						
Total	**1,288,321**	**131,803**	**8,179**	**875,497**	**135,362**	**6,612**
1. Financial liabilities held for trading			480	34	485	
2. Financial liabilities designated at fair value through profit and loss		38,617			37,532	
3. Hedging derivatives		2,894			6,696	
Total		**41,511**	**480**	**34**	**44,713**	

Investments valued on the basis of unobservable inputs (Level 3) are a very limited share of financial assets measured at fair value (0.57% compared with 0.65% last year).

These investments consist of Euro 7,596 thousand of non-controlling interests classified as “Financial assets available for sale”.

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

	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Hedging derivatives	Property, plant and equipment	Intangible assets
A. Opening balance			**6,612**			
2. Increases	**497**		**1,185**			
2.1. Purchases	497		826			
2.2. Profits posted to:						
2.2.1. Income statement			102			
Capital gains			0			
2.2.2. Shareholders' equity			257			
2.3. Transfers from other levels						
2.4. Other increases						
- of which: business combinations						
3. Decreases			**115**			
3.1. Sales						
3.2. Repayments			115			
3.3. Losses posted to:						
3.3.1. Income statement						
of which: capital losses						
3.3.2. Shareholders' equity						
3.4. Transfers to other levels						
3.5. Other decreases						
- of which: business combinations						
4. Closing balance	**497**		**7,682**			

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (Level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit and loss	Hedging derivatives
1. Opening balance			
2. Increases	480		
2.1. Issues	480		
2.2. Losses posted to:			
2.2.1. Income statement			
- of which: capital losses			
2.2.2. Shareholders' equity			
2.3. Transfers from other levels			
2.4. Other increases			
3. Decreases			
3.1. Redemptions			
3.2. Repurchases			
3.3. Profits posted to:			
3.3.1. Income statement			
- of which: capital gains			
3.3.2. Shareholders' equity			
3.4. Transfers to other levels			
3.5. Other decreases			
4. Closing balance	**(480)**		

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2013				31.12.2012			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	181,568	181,066	10,434		150,604	152,258		
2. Due from banks	229,698			229,698	221,896			221,896
3. Loans to customers	6,141,481			6,506,265	6,126,944			6,473,439
4. Investment property	1,111			972	6			10
5. Non-current assets and disposal groups held for sale					15,153			
Total	**6,553,858**	**181,066**	**10,434**	**6,736,935**	**6,514,603**	**152,258**		**6,695,345**
1. Due to banks	481,075			481,127	468,023			468,023
2. Due to customers	4,846,469			4,846,352	4,365,020			4,365,020
3. Debt securities in issue	2,091,799		1,872,406	218,837	2,092,674		2,067,467	
4. Liabilities associated with assets held for sale								
Total	**7,419,343**		**1,872,406**	**5,546,316**	**6,925,717**		**2,067,467**	**4,833,043**

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

In relation to the Group's operations and on the basis of internal methodologies for assessment currently in use, any differences between the transaction price and the initial value of the financial assets and liabilities recorded (the so-called "day one profit/loss") have not been recognised.

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - caption 10

1.1 Cash and cash equivalents: breakdown

	31.12.2013	31.12.2012
a) Cash	24,322	29,218
b) Demand deposits with central banks		
Total	**24,322**	**29,218**

Section 2 - Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31/12/2013			31/12/2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	563			1,834		
1.1 Structured securities						
1.2 Other debt securities	*563*			*1,834*		
2. Equity instruments						
3. UCITS units						
4. Loans						
4.1 Repurchase agreements						
4.2 Other						
Total A	**563**			**1,834**		
B. Derivatives:						
1. Financial derivatives:	33	1,541	497	43	2,443	
1.1 for trading	*33*		*497*	*43*	*317*	
1.2 connected with the fair value		*1,541*			*2,126*	
1.3 Other						
2. Credit derivatives		164				
2.1 for trading		*164*				
2.2 connected with the fair value						
2.3 other						
Total B	**33**	**1,705**	**497**	**43**	**2,443**	
Total (A+B)	**596**	**1,705**	**497**	**1,877**	**2,443**	

Caption 20 "Financial assets held for trading" comprises:

a) cash assets held for trading;
b) derivatives held for trading and those for which the fair value option has been exercised.

The derivatives for which the fair value option has been exercised consist of derivatives operationally linked to bond issues for which the Bank exercised the fair value option.

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

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

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

Captions/Amounts	31.12.2013	31.12.2012
A. CASH ASSETS		
1. Debt securities	**563**	**1,834**
a) Government and central banks	*563*	*1,834*
b) Other public entities		
c) Banks		
d) Other issuers		
2. Equity instruments		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies		
- Other		
3. UCITS units		
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total A	**563**	**1,834**
B. DERIVATIVES		
a) Banks		
- Fair value	*2,041*	*2,317*
b) Customers		
- Fair value	*194*	*169*
Total B	**2,235**	**2,486**
Total (A+B)	**2,798**	**4,320**

2.3 Cash financial assets held for trading: changes of the year

	Debt securities	Equity instruments	UCITS units	Loans	Total
A. Opening balance	**1,834**				**1,834**
B. Increases	**196,808**	**25**			**196,833**
B.1 Purchases	196,564	25			196,589
B.2 Positive changes in fair value	13				13
B.3 Other changes	231				231
C. Decreases	**198,079**	**25**			**198,104**
C.1 Sales	194,587	25			194,612
C.2 Redemptions	3,440				3,440
C.3 Negative changes in fair value					
C.4 Transfers to other portfolios					
C.5 Other changes	52				52
D. Closing balance	**563**				**563**

The caption “B 3 Other changes” includes trading profits of Euro 228 thousand, as well as accrued coupon interest and accrued issue spread of Euro 3 thousand.

Conversely, the caption “C 5 Other changes” includes trading losses and losses on redemption of Euro 33 thousand; it also includes the reversal of accruals made for coupon interest and issue spread at the prior year end of Euro 19 thousand.

The result of the fair value measurement of financial assets held for trading, included in caption “B 2 Positive changes in fair value” is recognised in the income statement in caption 80 “Net trading income”.

Section 3 - Financial assets designated at fair value through profit and loss - caption 30

There are no balances at both year ends.

Section 4 - Financial assets available for sale - caption 40

4.1 Financial assets available for sale: breakdown

Captions/Amounts	31.12.2013			31.12.2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	1,261,819	125,046	86	852,101	123,914	99
1.1 Structured securities		*1,950*			*1,910*	
1.2 Other debt securities	*1,261,819*	*123,096*	*86*	*852,101*	*122,004*	*99*
2. Equity instruments			7,596	410		6,513
2.1 Valued at fair value			*6,034*	*410*		*4,951*
2.2 Valued at cost			*1,562*			*1,562*
3. UCITS units	25,906					
4. Loans						
Total	**1,287,725**	**125,046**	**7,682**	**873,620**	**123,914**	**6,612**

Caption 40 “Financial assets available for sale” comprises:

- the bond portfolio and UCITS units not held for trading,
- portions of equity investments in companies with voting rights of less than 20% of the share capital of companies that are not strategic investments for the Bank.

Debt securities include securities associated with repurchase agreements.

UCITS units: breakdown by main category

	31/12/2013	31/12/2012
Equity funds		5,236
Bond funds	17,138	13,690
Flexible funds	2,197	2,083
Hedge funds	100	100
Closed-end property funds	6,471	
Total	**25,906**	**21,109**

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

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

Captions/Amounts	31/12/2013	31/12/2012
1. Debt securities	**1,386,950**	**976,114**
a) Government and central banks	1,311,704	802,512
b) Other public entities		
c) Banks	62,996	146,986
d) Other issuers	12,250	26,616
2. Equity instruments	**7,597**	**6,923**
a) Banks		
b) Other issuers:	7,597	6,923
- insurance companies		
- financial companies	*1,534*	*1,534*
- non-financial companies	*6,063*	*5,389*
- Other		
3. UCITS units	**25,906**	**21,109**
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	**1,420,453**	**1,004,146**

4.3 Financial assets available for sale with specific hedge

Captions/Amounts	31.12.2013	31.12.2012
1. Financial assets with specific fair value hedges	**19,636**	**73,121**
a) interest rate risk	19,636	73,121
b) exchange rate risk		
c) credit risk		
d) other risks		
2. Financial assets with specific cash flow hedges		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total	**19,636**	**73,121**

The table provides details of assets available for sale that are hedged.

4.4. Financial assets available for sale: changes in the year

	Debt securities	Equity instruments	UCITS units	Loans	Total
A. Opening balance	**976,115**	**6,924**	**21,109**		**1,004,148**
B. Increases	**4,507,370**	**1,132**	**19,359**		**4,527,861**
B.1 Purchases	4,451,044	826	18,518		4,470,388
B.2 Positive changes in fair value	10,800	257	318		11,375
B.3 Write-backs					
- recognised in income statement					
- recognised in equity					
B4. Transfers from other portfolios					
B.5 Other changes	45,526	49	523		46,098
C. Decreases	**4,096,534**	**459**	**14,563**		**4,111,556**
C.1 Sales	3,939,570	458	14,259		3,954,287
C.2 Redemptions	144,226				144,226
C.3 Negative changes in fair value	2,533		304		2,837
C.4 Impairment writedowns	574				574
- recognised in income statement	*574*				*574*
- recognised in equity					
C.5 Transfers to other portfolios					
C.6 Other changes	9,631	1			9,632
D. Closing balance	**1,386,951**	**7,597**	**25,905**		**1,420,453**

The captions “B2 Positive changes in fair value” and “C3 Negative changes in fair value” relate to gains and losses, gross of the tax effect, recognised in equity in the caption “130 Valuation reserves”.

As regards “Debt securities”, the caption “B5 Other changes” comprises:

. gains from trading and from redemption of Euro 33,786 thousand, recognised in the income statement in the caption “100 Gains/losses on disposal or repurchase of financial assets available for sale”;
. accrued interest, including that for issue spread, and the positive change in amortised cost of Euro 11,406 thousand, recognised in the income statement in the caption “10 interest income on securities;

. income from hedge accounting measurement adjustment of Euro 48 thousand recognised in the income statement in the caption “90 Net hedging gains (losses”;

conversely, caption “C6 Other changes” includes:

. prior year accrued interest and the negative change in amortised cost of Euro 7,485 thousand, recognised in the income statement in the caption “10 interest income on securities”,
. losses from hedge accounting adjustment of Euro 964 thousand, recognised in the income statement in caption “90 Net hedging gains (losses”;
. losses from trading and from redemption of Euro 1,182 thousand, recognised in the income statement in caption “100 Gains/losses on disposal or repurchase of financial assets available for sale”.

With respect to the “Equity instruments” column, the caption “B5 Other changes” relates to the gain on sale of the non-controlling interest in First Capital S.p.A.

Lastly, as regards the “UCITS units” column, the amount indicated by the caption “B5 Other changes” relates to trading profits recognised in the income statement in the caption “100 Gains/losses on disposal or repurchase of financial assets available for sale”.

Impairment tests of financial assets available for sale

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

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

Section 5 - Financial assets held to maturity - caption 50

5.1 Financial assets held to maturity: breakdown

	31.12.2013				31.12.2012			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	181,568	181,066	10,434		150,604	152,258		
- structured								
- other	*181,568*	*181,066*	*10,434*		*150,604*	*152,258*		
2. Loans								

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

Type of transaction/Amounts	31/12/2013	31/12/2012
1. Debt securities	**181,568**	**150,604**
a) Government and central banks	171,446	140,485
b) Other public entities		
c) Banks	10,122	10,119
d) Other issuers		
2. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	**181,568**	**150,604**
Total FV	**191,500**	**152,258**

5.3 Financial assets held to maturity: with specific hedge

At the reference date there are no financial assets held to maturity with specific hedge.

5.4. Financial assets held to maturity: change of the year

	Debt securities	Loans	Total
A. Opening balance	**150,604**		**150,604**
B. Increases	**32,878**		**32,878**
B.1 Purchases	30,635		30,635
2. Write-backs			
B.3 Transfers from other portfolios			
B.4 Other changes	2,243		2,243
C. Decreases	**1,914**		**1,914**
C.1 Sales			
C.2 Reimbursements			
C.3 Write-downs			
C.4 Transfers from other portfolios			
C.5 Other changes	1,914		1,914
D. Closing balance	**181,568**		**181,568**

"B4 Other changes” include interest and issue spread accrued at the year end of Euro 2,178 thousand and amortised cost for the year of Euro 65 thousand, all of which has been recognised in the income statement in “10 interest and similar income”.

“C5 Other changes” include prior year end accruals of Euro 1,839 thousand and the negative change in amortised cost in the year of Euro 75 thousand; both components are recognised in the income statement as offsetting entries to the caption “10 interest and similar income”.

Section 6 - Due from banks - caption 60

6.1 Due from banks: breakdown

Type of transaction/Amounts	31/12/2013				31/12/2012			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	**92,096**			**92,096**	**11,766**			**11,766**
1. Restricted deposits								
2. Reserve requirement	92,096				11,766			
3. Repurchase agreements								
4. Other								
B. Due from banks	**137,602**				**210,130**			
1. Loans	112,582			112,582	184,673			184,673
1.1 Current accounts and demand deposits	67,793				80,850			
1.2 Restricted deposits	44,742				96,250			
1.2.1 Mandatory reserve requirement met indirectly								
1.2.2 Other	44,742				96,250			
1.3. Other loans:	47				7,573			
- Repurchase agreements								
- Finance leases								
- Other	47				7,573			
2. Debt securities	25,020			25,020	25,457			25,457
2.1 Structured securities	25,020				25,457			
2.2 Other debt securities								
Total	**229,698**			**229,698**	**221,896**			**221,896**

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

At the year end, Banco Desio's commitment to maintain the reserve requirement, inclusive of the commitment on behalf of the subsidiary Banco Desio Lazio, amounts to Euro 50.1 million (Euro 47.4 million at the prior year end).

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

Amounts due from the subsidiary Banco Desio Lazio amount to Euro 15,961 thousand (Euro 29,563 thousand at the prior year end), of which Euro 15,954 thousand relates to current accounts and demand deposits (Euro 21,965 thousand at the prior year end). The subordinated loan of Euro 7.5 million at the prior year end, included in the caption “Other loans: other”, reached maturity on 1 July 2013 and has been redeemed.

6.2 Due from banks with specific hedge

At the date of the financial statements there are no amounts due from banks with specific hedge.

6.3 Finance leases

Banco Desio has no amounts due from banks linked to finance leases.

Section 7 - Loans to customers - caption 70

7.1 Loans to customers: breakdown

Type of transaction/Amounts	31.12.2013						31.12.2012					
	Book value			Fair value			Book value			Fair value		
	Performing loans	Non-performing loans		L1	L2	L3	Performing loans	Non-performing loans		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	5,740,246		401,235			6,506,265	5,754,994		349,550			6,451,039
1. Current accounts	1,474,279		112,284				1,520,615		101,077			
2. Repurchase agreements	117,960						337,712					
3. Mortgage loans	2,925,249		253,198				2,669,739		210,998			
4. Credit cards, personal loans and assignments of one-fifth of salary	55,097		2,651				51,844		3,537			
5. Finance leases	464,042		27,758				514,553		29,129			
6. Factoring	17,698		478				14,207		316			
7. Other loans	685,921		4,866				646,324		4,493			
Debt securities							22,400					22,400
8. Structured securities												
9. Other debt securities							22,400					
Total	**5,740,246**		**401,235**			**6,506,265**	**5,777,394**		**349,550**			**6,473,439**

Gross loans amount to Euro 6,382,632 thousand (Euro 6,304,205 thousand at the prior year end), while total writedowns amount to Euro 241,151 thousand (Euro 177,260 thousand at the prior year end).

"Repurchase agreements" are exclusively for investing surplus liquidity with institutional counterparties.

“7. Other loans” include capitalisation contracts entered into with insurers of Euro 23,087 thousand, whereas, at the prior year end, they were included in the caption “9 Other debt securities”.

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

Loans and receivables from companies belonging to the Banco Desio Group amount to Euro 278,241 thousand, they relate all to the indirect subsidiary Fides S.p.A., last year the amount was of Euro 229,886 thousand, of which Euro 229,555 thousand from Fides S.p.A.

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amounts	31.12.2013			31.12.2012		
	Performing loans	Non-performing loans		Performing loans	Non-performing loans	
		Purchased	Other		Purchased	Other
1. Debt securities				**22,400**		
a) Governments						
b) Other public entities						
c) Other issuers				22,400		
- non-financial companies						
- financial companies						
- insurance companies				*22,400*		
- Other						
2. Loans to:	**5,740,246**		**401,235**	**5,754,995**		**349,550**
a) Governments						
b) Other public entities						
c) Other parties	5,740,246		401,235	5,754,995		349,550
- non-financial companies	*3,765,222*		*290,352*	*3,600,295*		*250,579*
- financial companies	*478,133*		*545*	*653,701*		*403*
- insurance companies	*26,126*			*1,719*		
- Other	*1,470,765*		*110,338*	*1,499,280*		*98,568*
Total	**5,740,246**		**401,235**	**5,777,395**		**349,550**

7.3 Loans to customers: assets with specific hedge

At the date of the financial statements there are no loans to customers with specific hedge.

7.4 Finance leases

Reconciliation between gross investment in leases and present value of minimum lease payments and unsecured residual value payable to lessor.

Type of transaction	31/12/2013 Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)	31/12/2012 Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)
Finance lease	591,359	-110,444	480,915	70,796	652,785	-124,716	528,069	77,890
- of which leaseback agreements	37,231	-7,350	29,881	5,629	40,032	-7,726	32,306	5,815
Total	**591,359**	**-110,444**	**480,915**	**70,796**	**652,785**	**-124,716**	**528,069**	**77,890**

Falling due	31/12/2013 Gross investment	Deferred profit	Net investment	31/12/2012 Gross investment	Deferred profit	Net investment
- Within one year	10,189	-183	10,006	15,598	-321	15,277
- Between one and five years	187,804	-14,255	173,549	200,947	-15,182	185,765
- Beyond five years	393,366	-96,006	297,360	436,240	-109,213	327,027
Total	**591,359**	**-110,444**	**480,915**	**652,785**	**-124,716**	**528,069**

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

Section 8 - Hedging derivatives - caption 80

8.1 Hedging derivatives: breakdown by type and level

	31.12.2013				31.12.2012			
	FV			NV	FV			NV
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives		5,052		174,217		9,005		216,637
1) Fair value		5,052		174,217		9,005		216,637
2) Cash flows								
3) Foreign investments								
B) Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**5,052**		**174,217**		**9,005**		**216,637**

Key:

NV = - notional value

The table shows the positive book value of hedging derivative contracts.

Securities subject to hedging are those issued by the Bank, for which the decision to hedge was made subsequent to the issue and for which there is no intention to maintain the hedge for the contractual duration of the issue.

8.2 Hedging derivatives: breakdown by hedge portfolios and by type of hedge

Type of transaction/Amounts	Fair value						Cash flows		Foreign investments
	Specific hedge					Generic hedge	Specific hedge	Generic hedge	
	interest rate risk	exchange rate risk	credit risk	price risk	other risks				
1. Financial assets available for sale									
2. Loans and receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets									
1. Financial liabilities	5,052								
2. Portfolio									
Total liabilities	**5,052**								
1. Expected transactions									
2. Financial assets and liabilities portfolio									

The specific fair value hedge in connection with financial liabilities relates to hedges in place for bonds issued by the bank.

Retrospective and prospective assessments performed during the year in compliance with the requirements of IAS 39 have confirmed the effectiveness of the hedging relationship.

Section 9 - Adjustment to financial assets with generic hedge - caption 90

At the balance sheet date there are no financial assets with generic hedge.

Section 10 - Equity investments - caption 100

10.1 Investments in subsidiaries, companies subject to joint control and companies subject to significant influence: details of holdings

Name	Head office	% Held	% voting rights
A. Subsidiaries			
Banco Desio Lazio S.p.A.	*Rome*	100.000	
Rovere Societé de gestion S.A.	*Luxembourg*	70.000	
Brianfid-Lux S.A. in liquidation	*Luxembourg*	100.000	
Credito Privato Commerciale S.A. in liquidation	*Lugano*	100.000	
C. Associates (subject to significant influence)			
Chiara Assicurazioni S.p.A.	*Desio*	32.665	
Istifid S.p.A.	*Milan*	29.943	

10.2 Investments in subsidiaries, companies subject to joint control and companies subject to significant influence: accounting information

Name	Total assets	Total revenues	Net profit (loss)	Shareholders' equity	Book value
A. Subsidiaries					
Banco Desio Lazio S.p.A.	903,897	49,398	622	72,135	66,081
Rovere Societè de gestion S.A.	2,484	4,678	721	1,316	350
Brianfid-Lux S.A. in liquidation (1)	4,596	1,469	99	3,990	3,957
Credito Privato Commerciale S.A. in liquidation (1)					38,725
Total A	**910,977**	**55,545**	**1,442**	**77,441**	**109,113**
C. Associates (subject to significant influence)					
Chiara Assicurazioni S.p.A. (2)	69,632	28,038	3,593	19,098	7,415
Istifid S.p.A. (2)	7,250	5,113	212	3,875	932
Total C	**76,882**	**33,151**	**3,805**	**22,973**	**8,347**
Total	**987,859**	**88,696**	**5,247**	**100,414**	**117,460**

(1) figures taken from audited financial statements prepared for consolidation purposes.
(2) with the exception of book value, other figures refer to the 2012 financial statements, the last financial statements approved.

10.3 Equity investments: changes of the year

	2013	2012
A. Opening balance	**104,807**	**124,180**
B. Increases	**25,784**	**53,908**
B.1 Purchases	48	41,983
B.2 Write-backs	5,690	
B.3 Revaluations		
B.4 Other changes	20,046	11,925
C. Decreases	**13,131**	**73,281**
C.1 Sales	12,554	22,547
C.2 Write-downs		
C.3 Other changes	577	50,734
D. Closing balance	**117,460**	**104,807**
E. Total revaluations		
F. Total write-downs		

Details of the main changes in the year are provided below.

The sub-caption “B.1 Purchases” includes the acquisition of 14,241 shares in Istifiid S.p.A., taking the holding to 29.943% (from 28.961%).

The sub-caption “B.4 other changes” includes the following changes related to Chiara Assicurazione S.p.A.:

- Euro 15.1 million, reclassification from the caption “Assets held for sale”.
- a gain of Euro 4.8 million, gross of directly attributable costs, arising from the sale of 4,219,471 shares.

The sub-caption “C.1 Sales” includes the consideration received for the partial sale of the investee Chiara Assicurazioni S.p.A.

The amount of the caption “C.3 Other changes” of Euro 0.56 million relates to an adjustment made to the investment in C.P.C. S.A. in liquidation resulting from varying exchange rates.

10.3.1 Impairment testing of equity investments

In compliance with the requirements of IAS 36 and taking account of the guidance laid down in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, details are provided below of impairment testing of equity investments held at 31 December 2013.

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

The recoverable amount of equity investments was determined, where there was no fair value arising from transactions concerning the target of the impairment test (as was the case for the associate Istifid Spa) or from market transactions involving similar targets, by reference to the value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived therefrom, using an appropriate discount rate for the time period in which the cash flows will be generated.

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

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

a) Criterion to estimate the recoverable amount (impairment)

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

“Explicit” time period for the determination of future cash flows
The time horizon for impairment testing is the five year period 2014-2018 for which forecasts have been prepared by Management and approved by the Board of Directors. These forecasts take account of the changes that took place in the year preceding the underlying economic scenario, after having:

- replaced the 2014 forecast included in the 2013-2015 Business Plan with the 2014 budget approved by the Board of Directors on 19 December 2013;
- revised the 2015 forecast included in the 2013-2015 Business Plan and prepared forecasts for 2016 – 2017;
- prepared projections for 2018.

A five year time horizon for the projections is considered to be appropriate, considering the current financial and economic crisis, to minimise the distortions that could result from the use of a shorter time horizon, which would be impacted by the ongoing effects of the crisis (which, for the banking system have been, in particular, the credit crunch and a high cost of credit) or by extraordinary events that would need to be adjusted in order to normalise the results to correctly focus on the medium to long term potential of the entity subjected to testing.

For particular cases, such as companies in liquidation or companies which are party to commercial agreements related to specific business development plans, the time horizon considered reflects the specific circumstances of those cases for which it was possible to accurately estimate future cash flows for an "explicit" time horizon up to 2019.

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

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

Growth rate of cash flows beyond the “explicit” time period for the determination of future cash flows
A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value
This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity in the future within a finite time horizon.

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

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

Legal entity	Model	Input used	CAGR RWA / Assets under management / Gross premiums	Ke	g	Currency	Plan flows	Capital ratio
Banco Desio Lazio Spa	DDM	2014 Budget 2013-2015 plan updated and extended to 2018	3.77%	9.89%	2%	€	Net results	CET 1 8.5% (*)
Rovere Sdg Sa	DDM	2014 Budget 2013-2015 plan updated and extended to 2018	0.85%	12.39 %	2%	€	Net results	(**)
CPC in Liquidation	DDM	2014-2019 Revised liquidation plan	-	1.83%	-	CHF	Net results	(**)
Brianfid-Lux in Liquidation	-	2014 Report on operational closure of the liquidation	-	-	-	€	-	-
Chiara Assicurazioni Spa	DDM	2013-2022 Development plan backed by contractual agreements	11.52%	9.17%	2%	€	Net results	(**)
Istifid Spa	-	MKT transaction price	-	-	-	€	-	-

(*) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA), which is compliant with the requirements of the Bank of Italy Circular no. 285/2013 and the so-called supporting factor, being the discount factor to be applied to the capital requirement (that is, the capital absorption reduction coefficient for exposures to SMEs – small medium enterprises – below Euro 1.5 million).
(**) Complies with the requirements of the respective industry specific or local regulatory authorities in the countries where the entity is located.

As a result of the impairment testing performed, no writedown was needed of the aforementioned equity investments.

In particular, as regards the equity investment in CPC in Liquidation, the resulting value in use exceeds the carrying amount net of writedowns made in the previous year. The higher value in use determined at the reporting date is a consequence of the liquidators having revised the 2014-2019 liquidation plan to take account of an expected significant reduction in liquidation costs due to the fact that the liquidation procedure is proceeding better than initially planned; accordingly, conditions have arisen to support a partial write-back of impairment of Euro 5.690 million.

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

c) Sensitivity analysis

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

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the equity investments match their carrying amounts. CPC in liquidation and Brianfid Lux in Liquidation have been excluded from the sensitivity analysis as there would be no need for significant change to have the recoverable amount substantially in line with the book value.

Equity investments	SCR multiplier (1)	Increase in p.p. of discount rate used for future cash flows (FCFE)	Decrease in p.p. of growth rate in projections used to calculate the terminal value	Decrease in net future results (RN)	MKT transaction price difference
Banco Desio Lazio Spa	-	683	over 1,000	-	-
Rovere SdG Sa	-	over 1,000	-	108.5%	-
Chiara Assicurazioni Spa	120%	over 1,000	-	55.2%	-
	150%	over 1,000	-	52.7%	-
Istifid Spa		-	-	-	37%

(1) Sensitivity measured on the basis of two different scenarios for capital allocation: of 120% and of 150% of the SCR Solvency Capital Requirement – Solvency II – IVASS

10.4 Commitments relating to equity investments in subsidiaries

There are no commitments at 31.12.2013 relating to equity investments in subsidiaries.

10.6 Commitments relating to investments in companies subject to significant influence

There are no commitments at 31.12.2013 relating to investments in companies subject to significant influence.

LIST OF EQUITY INVESTMENTS

(amounts in Euro)

Equity investments	Number of shares or quotas	% Held	Nominal value	Book value
Subsidiaries				
Banco Desio Lazio S.p.A.	47,700,000	100.000	47,700,000	66,080,697
Rovere Societé de Gestion S.A.	35,000	70.000	350,000	350,000
Brianfid-Lux S.A. in liquidation	400,000	100.000	4,000,000	3,957,373
Credito Privato Commerciale S.A. in liquidation	11,000	100.000	11,000,000	38,724,515
Total subsidiaries				**109,112,585**
Associates				
Chiara Assicurazioni S.p.A	4,054,001	32.665	8,273,472	7,415,568
Istifid S.p.A (1)	434,178	29.943	419,937	931,789
Total associates				**8,347,357**
Total Equity investments				**117,459,942**

(1) of which 0.623%, equating to 9035 shares, in bare ownership

(amounts in Euro)

Equity investments	Number of shares or quotas	% Held	Nominal value	Book value
Other (*)				
Cedacri S.p.A.	745	5.908	745	6,034,500
AcomeA Sgr p.a.	50,000	9.091	500,000	1,500,000
Be.Ve.Re.Co. S.r.l.	30,000	5.825	15,000	15,494
Carta Si	60,826	0.103	36,496	34,174
S.S.B. Società Servizi Bancari S.p.A.	51,491	0.030	6,694	3,640
Consorzio Bancario S.I.R. S.p.A.	882,939	0.057	883	274
S.W.I.F.T. - Bruxelles	10	0.011	1,250	5,571
Sviluppo Brianza	1	0.698	2,462	2,612
				7,596,265

(*) Investments recognised in caption 40 "Financial assets available for sale"

LIST OF RELEVANT EQUITY INVESTMENTS (art. 126 CONSOB RESOLUTION 11971/1999)

Name	Number of shares or quotas with voting rights	% stake with voting rights	Title	Nature of holding
Banco Desio Lazio S.p.A.	47,700,000	100.000	ownership	direct
FIDES S.p.A.	2,264,922	100.000	ownership	indirect through Banco Desio Lazio
Rovere Societè de gestion S.A.	40,000	80.000	ownership	70% direct 10% indirect through Banco Desio Lazio S.p.A.
Brianfid-Lux S.A. in liquidation	400,000	100.000	ownership	direct
Credito Privato Commerciale S.A. in liquidation	11,000	100.000	ownership	direct
Chiara Assicurazioni S.p.A.	4,054,001	32.665	ownership	direct
ISTIFID S.p.A.	434,178	29.943	ownership	direct

Section 11 - Property, plant and equipment - caption 110

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

Assets/Amounts	31.12.2013	31.12.2012
1.1 Own assets	**136,174**	**141,157**
a) land	39,148	39,590
b) property	83,676	86,111
c) furniture	5,495	6,617
d) electronic systems	1,574	1,947
e) other	6,281	6,892
1.2 Assets purchased under finance leases		
a) land		
b) property		
c) furniture		
d) electronic systems		
e) other		
Total	**136,174**	**141,157**

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

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, all the other tangible fixed assets are measured at cost.

The expected useful lives of the main asset categories are as follows:
. buildings: 50 years
. office furniture, fittings, miscellaneous plant and equipment, office machines, armoured counters and compasses and alarm systems: 10 years,
. vehicles used for business purposes: 8 years;
. terminals and PCs, mixed use vehicles: 4 years.

Within each asset category, where necessary, certain types of assets may be attributed different useful lives.

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

11.2 Investment property, plant and equipment: breakdown of assets valued at cost

Assets/Amounts	31.12.2013				31.12.2012			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Freehold land and property	**1,111**			**972**	**6**			**10**
a) land	448			395	6			10
b) property	663			577				
2. Land and property under finance lease								
a) land								
b) property								
Total	1,111			972	6			10

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

As at the respective balance sheet dates, the Bank did not have any revalued property, plant and equipment for business purposes.

11.4 Investment property: breakdown of assets carried at fair value

As at the respective balance sheet dates, the Bank did not have any investment property measured at fair value.

11.5 Property, plant and equipment for business purposes: change of the year

Assets/Amounts	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**39,590**	**100,565**	**30,437**	**19,257**	**36,914**	**226,763**
A.1 Net total write-downs		14,454	23,820	17,310	30,022	85,606
A.2 Net opening balance	**39,590**	**86,111**	**6,617**	**1,947**	**6,892**	**141,157**
B. Increases		**330**	**232**	**603**	**1,752**	**2,917**
B.1 Purchases		155	130	301	832	1,418
B.2 Capitalised improvement costs						
B.3 Write-backs		83				83
B.4 Increase in fair value booked to:						
- a) shareholders' equity						
- b) income statement						
B.5 Exchange gains						
B.6 Transfer from investment property						
B.7 Other changes		92	102	302	920	1,416
C. Decreases	**442**	**2,765**	**1,354**	**976**	**2,363**	**7,900**
C.1 Sales			108	302	942	1,352
C.2 Depreciation		1,995	1,246	674	1,421	5,336
C.3 3. Impairment write-downs booked to:						
- a) shareholders' equity						
- b) Income statement						
C.4 Decreases in fair value booked to:						
- a) Shareholders' equity						
- b) Income statement						
C.5 Exchange losses						
C.6 Transfers to:	442	770				1,212
- a) investment property, plant and equipment	442	770				1,212
- b) assets held for sale						
C.7 Other changes						
D. Net closing balance	**39,148**	**83,676**	**5,495**	**1,574**	**6,281**	**136,174**
D.1 Net total write-downs		16,275	24,964	17,682	30,523	89,444
D.2 Gross closing balance	**39,148**	**99,951**	**30,459**	**19,256**	**36,804**	**225,618**
E. Measurement at cost						

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

From the sale of property, plant and equipment, as indicated by the sub-caption “C.1 Sales”, realised gains of Euro 29 thousand and realised losses of Euro 9 thousand arose on disposal and have been recognised in the income statement

in the caption 190 “Other operating charges/income”.

The caption “B.7 Other changes” relates to the reversal of accumulated depreciation pertaining to assets disposed of or transferred to another category.

The disposal of property, plant and equipment resulted in losses of Euro 9 thousand and gains of Euro 29 thousand, booked to the income statement under caption “190 Other operating charges/income”.

11.6 Investment property, plant and equipment: changes of the year

	Total	
	Land	Property
A. Opening balance	**6**	
B. Increases	**442**	**769**
B.1 Purchases		
B.2 Capitalised improvement costs		
B.3 Positive changes in fair value		
B.4 Write-backs		
B.5 Foreign exchange gains		
B.6 Transfers from assets used in business	442	769
B.7 Other changes		
C. Decreases		**(106)**
C.1 Sales		
C.2 Depreciation		(14)
C.3 Negative changes in fair value		
C.4 Impairment write-downs		
C.5 Foreign exchange losses		
C.6 Transfers to other asset categories		
a) assets used in business		
b) non-current assets and disposal groups held for sale		
C.7 Other changes		(92)
D. Closing balance	**448**	**663**
E. Measurement at fair value		

11.7 Commitments to purchase property, plant and equipment (IAS 16/74.c)

Capital commitments at the year end amount to Euro 7,700 thousand and relate to an option for the purchase of property for business purposes.

OWN PROPERTY
(excluding property under finance lease)

Location of the property		surface area of office space (sqm)	Net carrying amount (in thousands of Euro)
ALBINO	Viale Libertà 23/25	332	712
ARCORE	Via Casati, 7	362	574
BAREGGIO	Via Falcone, 14	200	287
BESANA BRIANZA	Via Vittorio Emanuele, 1/3	625	846
BOLOGNA SANTA VIOLA	Via Della Ferriera, 4	200	1,030
BOVISIO MASCIAGO	Via Garibaldi, 8	382	437
BRESCIA	Via Verdi, 1	530	1,857
BRESCIA	1st floor Via Verdi, 1	190	1,114
BRIOSCO	Via Trieste, 14	430	425
BRUGHERIO	Viale Lombardia, 216/218	425	1,314
BUSTO ARSIZIO	Via Volta, 1	456	1,021
CADORAGO	Via Mameli, 5	187	305
CANTU'	Via Manzoni, 41	1,749	2,274
CARATE BRIANZA	Via Azimonti, 2	773	1,005
CARUGATE	Via XX Settembre, 8	574	634
CARUGO	Via Cavour, 2	252	384
CASTELLANZA	Corso Matteotti, 18	337	432
CESANO MADERNO	Corso Roma, 15	692	902
CHIAVARI	Piazza Matteotti,11	68	1,036
CINISELLO BALSAMO	Via Frova, 1	729	935
CINISELLO BALSAMO	Piazza Gramsci	26	16
COLOGNO MONZESE	Via Cavallotti, 10	128	49
CUSANO MILANINO	Viale Matteotti, 39	522	703
DESIO	Piazza Conciliazione, 1	1,694	2,150
DESIO	Via Rovagnati, 1	20,032	29,693
DESIO	Via Volta, 96	238	609
EMPOLI	Via Masini, 58	448	1,683
GARBAGNATE	Via Varese, 1	400	1,246
GIUSSANO	Via Addolorata, 5	728	958
LECCO	Via Volta, ang. Via Montello	615	1,737
LEGNANO	Corso Italia, 8	1,545	2,763
LISSONE	Via San Carlo, 23	583	1,398
MEDA	Via Indipendenza, 60	678	827
MILAN	Via della Posta, 8	1,912	7,831
MILAN	Via Foppa	223	808
MILAN	Via Menotti	825	3,012
MILAN	Via Moscova, 30/32	668	5,343
MILAN	Via Trau', 3	422	2,129
MILAN	P.za De Angeli, 7/9	385	2,256
MISINTO	Piazza Mosca, 3	330	371
MODENA	Via Saragozza, 130	720	4,378
MONZA	Via Manzoni, 37	397	747
MONZA	Corso Milano, 47	2,143	4,004
MONZA	Via Rota, 66	330	565
MONZA	P.za S. Paolo, 5	496	3,825
NOVA MILANESE	Piazza Marconi, 5	526	701

NOVATE MILANESE	Via Matteotti, 7	462	667
ORIGGIO	Largo Croce, 6	574	782
PADUA	Via Matteotti, 20	550	3,556
PALAZZOLO MILANESE	Via Monte Sabotino, 1	605	609
PIACENZA	Via Vittorio Veneto,67/a	486	1,477
REGGIO EMILIA	Via Terrachini,1 ang. Via Risorgimento	713	2,724
RENATE	Piazza don Zanzi, 2	429	667
RHO	Via Martiri Libertà, 3	410	733
RUBIERA	Via Emilia Ovest, 7	310	1,425
SARONNO	Via Rimembranze, 42	530	760
SEGRATE	Via Cassanese, 200	170	299
SEREGNO	Via Trabattoni, 40	1,233	2,140
SESTO SAN GIOVANNI	Piazza Oldrini	377	820
SEVESO	Via Manzoni, 9	382	1,115
SOVICO	Via Frette, 10	673	1,101
TURIN	Via Filadelfia, 136	370	1,731
VAREDO	Via Umberto I°, 123	501	538
VEDUGGIO	Via Vittorio Veneto, 51	257	249
VERANO BRIANZA	Via Preda, 17	322	400
VERANO BRIANZA	Via Furlanelli, 3	790	719
VIGEVANO	Via Decembrio, 21	480	2,019
VIMERCATE	Via Milano, 6	338	967
Sub total		**57,469**	**122,824**
Investment property			
MEDA parking space	Via Indipendenza, 60	15	6
MILAN	1st floor Via Trau', 3	205	1,105
Sub total		**220**	**1,111**
Total		**57,689**	**123,935**

Table of revaluation of assets in the financial statements
(pursuant to art. 10 Law 72 of 19/3/1983)

(amounts in Euro)

	Revaluations in line with inflation			Revaluations to reflect change in value		TOTAL
	Law 576/75	Law 72/83	Law 413/91	Merger deficit	Voluntary revaluation	
DESIO, via Rovagnati		937,369	6,844,273			7,781,642
CINISELLO P.zza Gramsci			1,173			1,173
CUSANO M.NO Via Matteotti	10,170	25,483	19,944		12,925	68,522
CANTU' Via Manzoni		22,884	185,972	1,321,713		1,530,569
CARUGATE Via XX Settembre			355		4,132	4,487

MILAN Via della Posta			189,958		51,645	241,603
NOVATE M.SE Via Matteotti			22,022	170,257		192,279
GIUSSANO Via dell'Addolorata			26,067			26,067
MEDA Via Indipendenza			51,616			51,616
MONZA Corso Milano			227,521			227,521
BOVISIO Via Garibaldi			26,357			26,357
PADERNO DUGNANO Via Casati			24,339			24,339
LEGNANO Corso Garibaldi			176,676			176,676
SOVICO Via G. da Sovico			62,703			62,703
Total	**10,170**	**985,736**	**7,858,976**	**1,491,970**	**68,702**	**10,415,554**

Section 12 - Intangible assets - caption 120

12.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2013		31.12.2012	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		6,958		6,958
A.2 Other intangible assets	1,312		1,467	
A.2.1 Carried at cost:	1,312		1,467	
a) Intangible assets generated internally				
b) Other assets	1,312		1,467	
A.2.2 Carried at fair value:				
a) Other intangible assets generated internally				
b) Other assets				
Total	1,312	6,958	1,467	6,958

The intangible assets of the Bank are valued at cost.

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

Other intangible assets are amortised on a straight line basis over their useful lives. For compensation for abandonment of leasehold premises, the useful life is the length of the lease agreement, while for computer software it is 4 years and for application software it is 5 years.

12.1.1 Impairment test

According to the provisions of IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, we report below information on the impairment test on cash generating units (CGU) carried out at 31 December 2013.

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

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

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

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

Impairment testing was thus conducted for the legal entity Banco di Desio e della Brianza Spa on the basis of the criteria and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

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

“Explicit” time period for the determination of future cash flows

The time horizon for impairment testing is the five year period 2014-2018 for which forecasts have been prepared by Management and approved by the Board of Directors. These forecasts take account of the changes that took place in the year preceding the underlying economic scenario, after having:

- replaced the 2014 forecast included in the 2013-2015 Business Plan with the 2014 budget approved by the Board of Directors on 19 December 2013;
- revised the 2015 forecast included in the 2013-2015 Business Plan and prepared forecasts for 2016 – 2017;
- prepared projections for 2018.

A five year time horizon for the projections is considered to be appropriate, considering the current financial and economic crisis, to minimise the distortions that could result from the use of a shorter time horizon, which would be impacted by the ongoing effects of the crisis (which, for the banking system have been, in particular, the credit crunch and a high cost of credit) or by extraordinary events that would need to be adjusted in order to normalise the results to correctly focus on the medium to long term potential of the entity subjected to testing.

Cash flows

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

Discount rate

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

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

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

Terminal Value

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

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

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

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco di Desio e della Brianza Spa	DDM	2014 Budget 2013-2015 plan updated and extended to 2018	2.49%	9.89%	2%	Net results	CET 1 8.5% (*)

(*) The ratio of Common Equity Tier 1 to Risk Weighted Assets (RWA), which is compliant with the requirements of the Bank of Italy Circular no. 285/2013 and the so-called supporting factor , being the discount factor to be applied to the capital requirement (that is, the capital absorption reduction coefficient for exposures to SMEs – small medium enterprises – below Euro 1.5 million).

As a result of the impairment testing performed, no writedown was needed of the aforementioned goodwill.

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

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

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

CGU	Increase in p.p. of discount rate used for future cash flows (FCFE)	Decrease in p.p. of growth rate over the plan (g) for the calculation of the terminal value (*)
Banco di Desio e della Brianza Spa	120	323

(*) The specific stress test replaces the "flat earnings over the time horizon" test used previously, as the impairment testing was conducted on the value in use of the legal entity, after having deducted the book value of shareholders' equity, rather than just on value in use of the legal entity.

12.2 Intangible assets: changes of the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets:		Total
		Limited duration	Unlimited duration	Limited duration	Unlimited duration	
A. Gross opening balance	**8,966**			**4,965**		**13,931**
A.1 Total net writedowns	2,008			3,498		5,506
A.2 Net opening balance	**6,958**			**1,467**		**8,425**
B. Increases				**460**		**460**
B.1 Purchases				460		460
B.2 Increases in internally generated intangible assets						
B.3 Write-backs						
B.4 Positive changes in fair value						
- recognised in equity						
- recognised in income statement						
B.5 Foreign exchange gains						
B.6 Other changes						
C. Decreases				**615**		**615**
C.1 Sales						
C.2 Write-downs				615		615
- amortisation				615		615
- Write-downs						
+ shareholders' equity						
+ income statement						
C.3 Negative changes in fair value						
- recognised in equity						
- recognised in income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Foreign exchange losses						
C.6 Other changes						
D. Net closing balance	**6,958**			**1,312**		**8,270**
D.1 Total net writedowns	2,008			4,113		6,121
E. Gross closing balance	**8,966**			**5,425**		**14,391**
F. Measurement at cost						

12.3. Other information

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

Section 13 - Tax assets and liabilities - Asset caption 130 and Liability caption 80

13.1 Deferred tax assets: breakdown

temporary differences	ires	irap	31.12.2013	31.12.2012
a) with contra-entry to the income statement				
writedown of loans to customers deductible on a straight-line basis (over 18 years)	35,395		35,395	37,784
writedown of loans to customers deductible on a straight-line basis (over 5 years)	28,433	5,418	33,851	
general allowance for doubtful accounts	305		305	305
write-down of loans to customers outstanding at 31.12.1994	9		9	9
expenses relating to Interbank Deposit Protection Fund	267		267	
write-down of securities classified as AFS		32	32	
tax deductible goodwill	1,057	214	1,271	1,412
statutory depreciation of property, plant and equipment	64		64	125
provision for guarantees and commitments	363		363	342
provision for solidarity fund	3,458		3,458	
other provisions for personnel costs	498		498	1,312
provision for lawsuits	2,158		2,158	1,373
provision for claw-backs	369		369	617
provision for sundry charges	116		116	111
tax provision for termination indemnities	294		294	293
other general expenses deductible in the following year	85		85	106
Total a)	**72,871**	**5,664**	**78,535**	**43,789**
b) with contra-entry to shareholders' equity				
tax provision for termination indemnities	530		530	585
write-down of securities classified as AFS	1,110	238	1,348	3,011
writedown of equity investments			-	-
Total b)	**1,640**	**238**	**1,878**	**3,596**
Total	**74,511**	**5,902**	**80,413**	**47,385**

The deferred tax assets that have been recognised, with an opposite entry to the income statement, are derived mainly from temporary differences, deductible in future years, relating to:

- writedowns of loans to customers in excess of the limit for immediate deductibility, provided for by tax law, totalling Euro 69,560 thousand (Euro 38,098 thousand last year);
- charges relating to interventions by the Interbank Deposit Protection Fund of Euro 267 thousand;
- provision for guarantees and commitments of Euro 363 thousand (Euro 342 thousand last year);
- provision for solidarity Fund of Euro 3,458 thousand;
- other employee related provisions of Euro 498 thousand (Euro 1,312 thousand last year).
- tax provision for termination indemnities of Euro 294 thousand (Euro 293 thousand last year);
- provision for future charges of Euro 2,643 thousand (2,101 last year),
- tax deductible goodwill of Euro 1,271 thousand (Euro 1,412 thousand last year),
- statutory depreciation of property, plant and equipment of Euro 64 thousand (Euro 125 thousand last year);
- write-down of securities classified as AFS of Euro 32 thousand;
- other general expenses deductible in the following year of Euro 85 thousand (Euro 106 thousand last year).

13.2 Deferred tax liabilities: breakdown

temporary differences	ires	irap	31.12.2013	31.12.2012
a) with contra-entry to the income statement				
tax depreciation of buildings	7,057	940	7,997	8,081
tax depreciation of property, plant and equipment		15	15	21
tax amortisation of goodwill	560	113	673	587
tax amortisation of deferred charges (software)	2	5	7	8
gains on disposal of AFS securities	319		319	
Total a)	**7,938**	**1,073**	**9,011**	**8,697**
b) with contra-entry to shareholders' equity				
revaluation of AFS securities	1,937	392	2,329	3,997
revaluation of equity investments	6	24	30	12
tax provision for termination indemnities	195		195	195
Total b)	**2,138**	**416**	**2,554**	**4,204**
Total	**10,076**	**1,489**	**11,565**	**12,901**

13.3 Change deferred tax assets (as a contra-entry to the income statement)

	2013	2012
1. Opening balance	**43,789**	**31,066**
2. Increases	**39,171**	**17,755**
2.1 Deferred tax assets recognised during the year	39,029	17,321
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	*39,029*	*17,321*
2.2 New taxes or increases in tax rates		
2.3 Other increases	142	434
3. Decreases	**4,425**	**5,032**
3.1 Deferred tax assets cancelled in the year	4,418	5,032
a) reversals	*4,418*	*5,032*
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
a) conversion to tax credits		
of which Law 214/2011		
b) other	7	
4. Closing balance	**78,535**	**43,789**

The table shows the deferred tax assets that will be absorbed in future years with an opposite entry to the income statement.

Caption “2.1 Deferred tax assets recognized in the year” refers to:
- writedowns of loans to customers, in excess of the limit deductible in the year, of Euro 33,869 thousand;
- charges relating to interventions by the Interbank Deposit Protection Fund of Euro 267 thousand;
- provision for guarantees and commitments of Euro 948 thousand;
- provision for solidarity fund of Euro 3,458 thousand;
- provision for personnel costs of Euro 371 thousand;
- other provision and charges deductible in future years of Euro 116 thousand.

The sub-caption “2.3 Other increases” relates to the recognition of a deferred tax asset as a result of the recomputation, made for the purpose of the tax return, of the deferred tax asset at 31.12.2012 pertaining to the writedown of loans and on costs recognised for invoices to be received, which were not received, and were thus treated as non-deductible on the presentation of the tax return for 2012.

The caption “3.1 Taxes cancelled in the year – reversals” includes the amounts pertaining to the year of:
- writedowns of loans to customers of Euro 2,407 thousand;
- utilisation of provisions made and taxed in prior years of Euro 1,816 thousand;
- the charge for the year for amortisation of goodwill and depreciation of tangible fixed assets of Euro 195 thousand.

The caption “3.3 Other decreases” relates to the cancellation of deferred tax assets as a result of the recomputation, made for the purpose of the tax return, of the deferred tax asset at 31.12.2012 pertaining to the amortisation of intangible assets.

13.3.1 Change in deferred tax assets ex Law 214/2011 (as a contra-entry to the income statement)

	2013	2012
1. Opening balance	**39,196**	**24,707**
2. Increases	**33,870**	**16,100**
- business combinations		
- exchange differences		
- other changes	*33,870*	*16,100*
3. Decreases	**2,549**	**1,611**
3.1 Reversals	2,549	1,611
3.2 Conversion to tax credits		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other decreases		
4. Closing balance	**70,516**	**39,196**

13.4 Change in deferred tax liabilities (as a contra-entry of the income statement)

	2013	2012
1. Opening balance	**8,697**	**8,718**
2. Increases	**405**	**86**
2.1 Deferred tax liabilities recognised during the year	405	86
a) relating to prior years		
b) due to changes in accounting policies		
c) other	*405*	*86*
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**91**	**107**
3.1 Deferred tax liabilities cancelled during the year	91	107
a) reversals	*91*	*107*
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**9,011**	**8,697**

The table shows the deferred tax liability that will be reabsorbed in future years with an opposite entry to the income statement.

The caption “2.1 Deferred tax liabilities recognised during the year: other” relates to the recognition of deferred tax liabilities of:

- Euro 319 thousand, related to capital gains on financial assets that, in accordance with art. 86, para. 4, of the Consolidated Income Tax Act, are taxable in five equal portions in the year of the gain and in the four subsequent years;
- Euro 86 thousand, related to depreciation and amortisation.

“Deferred tax liabilities cancelled in the year" relate to the difference between the depreciation of tangible fixed assets for book purposes and that for tax purposes.

13.5 Change in deferred tax assets (as a contra-entry to the shareholders' equity)

	2013	2012
1. Opening balance	**3,596**	**18,206**
2. Increases	**942**	**117**
2.1 Deferred tax assets recognised during the year	942	117
a) relating to prior years		
b) due to changes in accounting policies		
c) other	942	117
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**2,660**	**14,727**
3.1 Deferred tax assets cancelled in the year	2,660	14,727
a) reversals	2,660	14,727
b) written down as no longer recoverable		
c) due to changes in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**1,878**	**3,596**

The changes in “Deferred tax assets arising in the year” and “Deferred tax assets cancelled in the year" are almost entirely attributable to changes in equity reserves relating to financial assets available for sale.

13.6 Change in deferred tax liabilities (as a contra-entry of the shareholders' equity)

	2013	2012
1. Opening balance	**4,204**	**884**
2. Increases	**2,081**	**3,994**
2.1 Deferred tax liabilities recognised during the year	2,081	3,994
a) relating to prior years		
b) due to changes in accounting policies		
c) other	2,081	3,994
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**3,731**	**674**
3.1 Deferred tax liabilities cancelled during the year	3,731	674
a) reversals	3,731	674
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**2,554**	**4,204**

Similarly, as regards deferred tax liabilities, for both those arising in the year and those cancelled in the year, the changes are almost entirely attributable to changes in equity reserves relating to financial assets available for sale.

13.7. Other information

Current tax assets

Captions	31.12.2013	31.12.2012
Ires		1,364
Irap	3,987	
Total	**3,987**	**1,364**

Current tax liabilities

Captions	31.12.2013	31.12.2012
Ires	1,852	
Irap		139
Total	**1,852**	**139**

Probability test on deferred taxes

An analysis has been performed to verify whether the Bank's future earnings will be capable of absorbing the deferred tax recognised in the financial statements.

In particular, the check was carried out by:

- excluding from the computation the deferred tax assets relating to writedowns of loans and goodwill, for which Legislative Decree 225/2010 has established that such assets may be converted to tax credits on the event of a loss for the year being reported in the separate financial statements or on the event of a tax loss arising, whereby the deferred tax assets have attributed to the losses in question;
- identifying the deferred tax assets by nature and according to the timing of their reabsorption;
- determining, on the basis of the Bank's future earnings, the related taxable income.

The results of the analysis were that future taxable income will be sufficient to allow the recovery of the deferred tax assets recorded in the financial statements at 31 December 2013.

Section 14 - Non-current assets and disposal groups held for sale associated liabilities – Asset caption 140 and Liability caption 90

At the end of the year these captions showed a zero balance; last year balance of Euro 15,153 thousand referred to the investment held in Chiara Assicurazioni S.p.A..

Section 15 - Other assets – caption 150

15.1 Other assets: breakdown

	31.12.2013	31.12.2012
Tax credits		
- capital portion	6,914	7,087
Amounts recoverable from the tax authorities for advances paid	17,049	6,336
Cheques negotiated to be cleared	21,511	22,299
Invoices issued to be collected	857	30
Debtors for securities and coupons to be collected by third parties		96
Items being processed and in transit with branches	23,229	23,998
Currency spreads on portfolio transactions	36	
Investments of the supplementary fund for termination indemnities	549	610
Leasehold improvement expenditure	17,010	18,994
Accrued income and prepaid expenses	476	722
Other items	14,132	11,240
Total	**101,763**	**91,412**

The change in "Tax credits: capital portion" relates to a decrease in the VAT receivable pertaining to leasing activities.

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

- a receivable for withholding tax on interest on deposits and current accounts of Euro 901 thousand, generated by the difference between provisional advances paid in the year and the actual tax withheld; the increase in the receivable in the year is due to an uplift in the amount of the advance, as established by law, from 100% to 110%;
- a receivable for virtual stamp duty of Euro 12,623 thousand, up by Euro 6,287 thousand on the prior year end, due to an increase in the tax rate;

- a receivable for an advance payment of substitute tax due on capital gains of Euro 3,396 thousand, introduced by art. 2, para. 5, of legislative decree no. 40 of November 2013;
- a receivable for an advance payment of substitute tax on medium/long term loans of Euro 129 thousand.

"Items being processed and in transit with branches" include transactions that are usually settled in the first days of the year.

The amount of “Currency spreads on portfolio transactions” results from the offset of illiquid liability positions of Euro 686 thousand against illiquid asset positions of Euro 722 thousand relating to remittances pertaining to customers' and the bank's portfolios.

“Leasehold improvement expenditure” is amortised each year in accordance with the residual period of the lease agreement. New investments of Euro 172 thousand have been made during the year; the related amortisation charge, which is recognised in the caption “190 – Other operating charges”, amounts to Euro 2,156 thousand.

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

The most significant component of “Other items” relates to receivables still to be collected and invoices to be issued totalling Euro 11,149 thousand; these include loans to Group companies of Euro 909 thousand.

LIABILITIES AND SHAREHOLDERS' EQUITY

Section 1 - Due to banks - caption 10

1.1 Due to banks: breakdown

Type of transaction/Amounts	31.12.2013	31.12.2012
1. Due to central banks	**405,546**	**403,297**
2. Due to banks	**75,529**	**64,726**
2.1 Current accounts and demand deposits	35,009	18,796
2.2 Restricted deposits	40,518	45,922
2.3 Loans		
2.3.1 Repurchase agreements		
2.3.2 Other		
2.4 Payables for commitments to repurchase own equity instruments		
2.5 Other payables	2	8
Total	**481,075**	**468,023**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**481,127**	**468,023**
Total fair value	**481,127**	**468,023**

Intragroup balances at the year end with the subsidiary Banco Desio Lazio amount to Euro 57,908 thousand (Euro 37,194 thousand at the prior year end), of which Euro 29,118 thousand relates to current accounts and demand deposits, Euro 28,788 thousand relates to restricted deposits and Euro 2 thousand relates to other payables.

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

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

1.3 Details of "Due to banks": structured loans

As at the reporting date, Banco Desio did not have any structured loans due to banks.

1.4 Due to banks with specific hedge

At the reference dates, Banco Desio did not have amounts due to banks with specific hedge.

1.5 Finance lease payables

At the reference dates, Banco Desio did not have finance lease contracts with banks.

Section 2 - Due to customers - caption 20

2.1 Due to customers: breakdown

Type of transaction/Amounts	31.12.2013	31.12.2012
1. Current accounts and demand deposits	3,770,883	3,558,968
2. Restricted deposits	720,500	640,812
3. Loans	333,292	146,050
3.1 Repurchase agreements	326,207	132,087
3.2 Other	7,085	13,963
4. Payables for commitments to repurchase own equity instruments		
5. Other payables	21,794	19,190
Total	**4,846,469**	**4,365,020**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**4,846,352**	**4,365,020**
Fair value	**4,846,352**	**4,365,020**

“3.1 repurchase agreements” include transactions with institutional counterparties of Euro 324,445 thousand (Euro 125,319 thousand last year).

The main components of “Other payables” relate to: cashier's checks for Euro 21,098 thousand and checks for Euro 557 thousand (last year cashier's checks for Euro 18,463 thousand and checks for Euro 531 thousand respectively).

Amounts due to Group companies total Euro 81 thousand (Euro 3,059 thousand last year). Transactions are carried out at market rates.

2.2 Details of caption 20 “Due to customers”: subordinated loans

As at the reporting date, Banco Desio did not have any subordinated loans due to customers.

2.3 Details of caption 20 “Due to customers”: structured loans

As at the reporting date, Banco Desio did not have any structured loans due to customers.

2.4 Due to customers with specific hedge

At the reference dates, Banco Desio did not have amounts due to customers with specific hedge.

Section 3 - Debt securities in issue - caption 30

3.1 Debt securities in issue: breakdown

	31.12.2013				31.12.2012			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,872,962		1,872,406		1,846,668		1,821,460	
1.1 structured	*51,327*		*51,688*		*51,976*		*51,006*	
1.2 other	*1,821,635*		*1,820,718*		*1,794,691*		*1,770,454*	
2. Other securities	218,837			218,837	246,007		246,007	
2.1 structured								
2.2 other	*218,837*			*218,837*	*246,007*		*246,007*	
Total	**2,091,799**		**1,872,406**	**218,837**	**2,092,674**		**2,067,467**	

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

During the year, new debt securities were issued of Euro 708,985 thousand, while debt securities redeemed on maturity amounted to Euro 654,746 thousand. Again, during the year, repurchases were made of securities for Euro 78,314 thousand and which were subsequently reissued for Euro 53,075 thousand.

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 201,379 thousand were issued with a short term maturity and Euro 17,452 thousand were issued with a longer than short term maturity. The remainder consists of certificates of Euro 6 thousand that have reached maturity and which are due to be redeemed.

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

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

Bonds	31/12/2013	31/12/2012
maturity 3.6.2013		12,994
maturity 4.5.2014	30,015	29,991
maturity 15.12.2014	29,984	29,970
maturity 1.12.2015	12,993	12,991
maturity 29.12.2016	13,001	13,001
maturity 15.6.2017	13,009	13,015
maturity 3.6.2018	13,029	
Total	**112,031**	**111,962**

During the year, the Bank issued a subordinated bond denominated "Banco di Desio e della Brianza 3/6/2013-3/6/2018 floating rate subordinated lower tier II", the main features of which are summarised below:

- total nominal value: Euro 13,000,000, split into 13,000 bonds with nominal value of Euro 1000 each;
- issue price of bonds: equal to 100% of their nominal value, i.e. Euro 1,000;
- duration: 5 years, expiry date 03/06/2018;
- index parameter and quotation date: 360 basis against 6-month Euribor, quoted on the fifth last working day prior to the date that coupon interest entitlement commences;
- spread: the index parameter shall be increased by a 2.50% spread;
- frequency of payment of coupons: coupon interest will be paid in arrears every six months on 3/6 and 3/12 of each year;
- reimbursement payment and method: redemption will be made in full at par value in one instalment on the maturity date;
- subordination: the subordination clauses envisage that, in the event of the liquidation of the Bank, the capital element of the bonds and the interest relating thereto will be redeemed only once all non-subordinated creditors have been satisfied.

The subordinated bonds issued in prior years have similar features to those issued in the year just ended.

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

	31/12/2013	31/12/2012
1. Securities with specific fair value hedge:	176,323	224,858
a) interest rate risk	176,323	224,858
b) exchange rate risk		
c) other risks		
2. Securities with specific cash flow hedge:		
a) interest rate risk		
b) exchange rate risk		
c) other		

Section 4 - Financial liabilities held for trading - caption 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	31.12.2013					31.12.2012				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured										
3.1.2 Other bonds										
3.2 Other securities										
3.2.1 Structured										
3.2.2 Other										
Total A										
B. Derivatives										
1. Financial derivatives				480			34	309		
1.1 For trading				480			34	309		
1.2 Connected with the fair value option										

1.3 Other			
2. Credit derivatives			176
2.1 For trading			176
2.2 Connected with the fair value option			
2.3 Other			
Total B	**480**	**34**	**485**
Total A+B	**480**	**34**	**485**

Key:
NV = Nominal or notional value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

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

At the reference dates, Banco Desio did not have subordinated financial liabilities held for trading.

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

As at the reporting date, Banco Desio's financial liabilities held for trading did not include any structured loans.

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

No change during the year.

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

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

Type of transaction/Amounts	31.12.2013					31.12.2012				
	nominal value	fair value			FV*	nominal value	fair value			FV*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Due to banks										
1.1 Structured										
1.2 Other										
2. Due to customers										
2.1 Structured										
2.2 Other										
3. Debt securities	**37,800**		**38,617**		**39,731**	**37,800**		**37,532**		**40,403**
3.1 Structured	37,800		38,617			37,800		37,532		
3.2 Other										
Total	**37,800**		**38,617**		**39,731**	**37,800**		**37,532**		**40,403**

The table shows financial liabilities that consist of bonds, which have been measured at fair value and which have been systematically hedged by the use of derivatives.

5.2. Financial liabilities designated at fair value through profit and loss: subordinated liabilities

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

5.3. Financial liabilities designated at fair value through profit and loss: changes of the year

	Due to banks	Due to customers	Debt securities in issue	Total
A. Opening balance			**37,532**	**37,532**
B. Increases			**3,605**	**3,605**
B1. Issues				
B2. Sales			1,909	1,909
B3. Positive change in fair value			808	808
B4. Other changes			888	888
C. Decreases			**2,520**	**2,520**
C1. Purchases			1,900	1,900
C.2 Redemptions				
C.3 Negative changes in fair value			9	9
C4. Other changes			611	611
D. Closing balance			**38,617**	**38,617**

The caption “B.2 Sales” includes amounts relating to the reissue of bonds that had previously been repurchased.

The captions “B.3 Positive changes in fair value” and “C3 Negative changes in fair value” relate to gains and losses arising from changes in fair value measurements, which are recognised in the income statement under the caption “110 Net results from financial assets and liabilities designated at fair value”.

The caption “B.4 Other changes” includes interest and issue spread accrued at the year end of Euro 878 thousand and trading losses of Euro 10 thousand.

The caption “C.4 Other changes” includes the reversal of prior year end accruals of Euro 599 thousand and trading profits of Euro 12 thousand.

Section 6 - Hedging derivatives - caption 60

6.1 Hedging derivatives: breakdown by type and level

	31/12/2013				31/12/2012			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives		**2,894**		**15,000**		**6,696**		**65,000**
1) Fair value		2,894		15,000		6,696		65,000
2) Cash flows								
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**2,894**		**15,000**		**6,696**		**65,000**

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

Operation/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other risks				
1. Financial assets available for sale	2,894								
2. Loans and receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets	**2,894**								
1. Financial liabilities									
2. Portfolio									
Total liabilities									
1. Expected transactions									
2. Financial assets and liabilities portfolio									

Section 7 - Adjustment to financial liabilities with generic hedge - caption 70

At the reference dates, Banco Desio did not have financial liabilities with generic hedge.

Section 8 - Tax liabilities - caption 80

The breakdown and changes in the year of tax liabilities are disclosed in Section 13, Assets, together with information on deferred tax assets.

Section 9 - Liabilities associated with assets held for sale - caption 90

At the reference date, Banco Desio did not have liabilities associated with assets held for sale.

Section 10 - Other liabilities - caption 100

10.1 Other liabilities: breakdown

	31.12.2013	31.12.2012
Due to tax authorities	46	151
Amounts payable to tax authorities on behalf of third parties	11,863	11,815
Social security contributions to be paid	4,663	4,616
Dividends due to shareholders	9	13
Suppliers	9,609	11,481
Amounts available to customers	13,749	11,084
Interest and dues to be credited	217	516
Payments against bill instructions	221	376
Early payments on loans not yet due	96	259
Items being processed and in transit with branches	32,176	12,043
Currency differences on portfolio transactions	47,383	49,251
Due to personnel	4,845	2,410
Sundry creditors	15,503	49,372
Provisions for guarantees given and commitments	2,290	1,240
Accrued expenses and deferred income	1,498	1,744
Total	**144,168**	**156,371**

"Items being processed and in transit with branches" are generally settled in the early days of the new year. The main component thereof relates to bank transfers being processed of Euro 24,594 thousand (Euro 6,743 thousand at the prior year end).

The amount of “Currency differences on portfolio transactions” is the result of the offset of illiquid liability positions of Euro 1,189,713 thousand against illiquid asset positions of Euro 1,142,330 thousand, in relation to various types of transactions in connection with the accounts of customers and of correspondent banks.

“Due to personnel” includes the payable relating to early retirement incentives of Euro 3,610 thousand and the year end balance of the amount due for holiday pay of Euro 1,235 thousand (Euro 2,410 thousand at the prior year end).

The main items included under caption “Sundry creditors” refer to: bank transfers being processed of Euro 2,626 thousand (Euro 22,721 thousand last year), sundry creditors arising from currency trading of Euro 4,475 thousand (Euro 9,265 thousand last year) and creditors for bills paid of Euro 3,396 thousand (Euro 8,233 thousand last year).

Section 11 - Provision for termination indemnities - caption 110

11.1 Provision for termination indemnities: changes of the year

	31.12.2013	31.12.2012
A. Opening balance	**23,883**	**23,091**
B. Increases	**809**	**2,532**
B.1 Provision for the year	809	982
B.2 Other changes		1,550
C. Decreases	**1,253**	**1,740**
C.1 Payments made	1,196	1,740
C.2 Other changes	57	
D. Closing balance	**23,439**	**23,883**

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

The liability due at the year end amounts to Euro 24,652 thousand (Euro 25,376 thousand at the prior year end).

The provision made in the year does not include amounts paid directly by the Bank, depending on the choice made by employees, to supplementary pension schemes or to the state pension scheme managed by INPS.

The cost of the foregoing payments, which for the year just ended amounts to Euro 7,994 thousand (Euro 8,222 thousand last year), is recognised in Personnel expenses in the sub-caption “g) payments to external supplementary pension funds: defined contribution”.

11.2. Other information

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

Demographic assumptions

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

Economic-financial assumptions

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

. technical discounting rate 3.15%

. annual inflation rate 2.00%

. total annual income growth rate 3%

. termination indemnity annual growth rate 3%.

As regards the discount rate, the actuary took as a reference point for this parameter the iBoxx Eurozone Corporates AA 10+ index, while last year the actuary had used the iBoxx Eurozone Corporates A 10+ index. The reason for the change in the parameter adopted by the actuary at the end of 2012 (which up to 31.12.2011 had, however, taken as a reference a basket of securities with an AA rating), is due to interpretative uncertainty relating to the concept of high quality corporate bonds for which, as a result of the crisis in financial markets, the National Institute of Actuaries had advised, for measurements carried out at 31.12.2012, the use of interest rates on European bonds with at least an A rating, since the number of those with an AA rating had fallen significantly. Following further discussions that were held in the course of 2013, it was deemed preferable to identify a discount rate for termination indemnities by taking as a reference point a basket of securities with an AA rating, as this was considered to be the most appropriate way to meet the requirements of the applicable accounting standard.
The impact of the change has led to a total increase in the provisions for termination indemnities and long-service bonuses, and a consequence a reduction in valuation reserves, of Euro 485 thousand.

12.1 Provisions for risks and charges: breakdown

Captions/Amounts	31.12.2013	31.12.2012
1. Pensions and similar commitments		
2. Other provisions for risks and charges	30,616	15,616
2.1 legal disputes	*9,188*	*7,238*
2.2 personnel expenses	*16,844*	*7,512*
2.3 other	*4,584*	*865*
Total	**30,616**	**15,616**

The “Legal disputes” caption includes provisions made for losses expected to arise from disputes, of which Euro 7,847 thousand relates to legal disputes (Euro 4,494 thousand at the prior year end) and Euro 1,341 thousand relates to bankruptcy clawback actions (Euro 2,244 thousand at the prior year end). The caption “personnel expenses” includes: provision for solidarity fund of Euro 12,573 thousand (charge for the year just ended); provision for bonuses of Euro 1,797 thousand (Euro 4,474 thousand at the prior year end); provisions for long-service bonuses and additional holidays of Euro 1,926 thousand (Euro 2,128 thousand at the prior year end).

The caption “other” includes provisions for charges pertaining to other operating risks, including those relating to tax disputes.

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

12.2 Provisions for risks and charges: changes of the year

	Pensions and similar commitments	Other provisions	Total
A. Opening balance		**15,616**	**15,616**
B. Increases		**21,818**	**21,818**
B.1 Provision for the year		21,412	21,412
B.2 Changes due to the passage of time		220	220
B.3 Changes due to changes in the discount rate			
B.4 Other changes		186	186
C. Decreases		**(6,818)**	**(6,818)**
C.1 Utilisations during the year		(5,732)	(5,732)
C.2 Changes due to changes in the discount rate			
C.3 Other changes		(1,086)	(1,086)
D. Closing balance		**30,616**	**30,616**

"B.1 Provisions of the year" include provisions for:

. the Staff Solidarity Fund of Euro 12,573 thousand,
. other employee related provisions of Euro 1,350 thousand,
. charges for legal disputes and bankruptcy of Euro 3,360 thousand,
. other operational risks of Euro 4,129 thousand.

The caption "B.2 Changes due to the passage of time" includes interest cost accrued in the year at the assumed discount rates on the provision for legal disputes, due to the proximity of the expected maturities of liabilities.

The caption "C.1 Utilisations in the year" includes direct utilisations of Provisions for risks and charges as a result of agreements and settlements executed in the year, as well as conditions having been met for the payment of provisions to the personnel. In particular, the utilisations relate to payments made with respect to legal disputes and bankruptcy clawback actions of Euro 1,503 thousand, to personnel costs of Euro 3,800 thousand and to other operating risks of Euro 429 thousand.

The caption "C.3 Other changes" includes the release of provisions made in prior years, of which Euro 128 thousand relates to legal disputes and bankruptcy clawback actions and Euro 958 thousand relates to personnel costs.

12.3 Pensions and similar commitments - defined benefits

At the reference dates, the caption shows a zero balance.

12.4 Provisions for risks and charges: other provisions

	31.12.2013	31.12.2012
legal disputes	9,188	7,238
other operating risks	4,584	1,166
solidarity fund	12,573	
long-service bonuses and additional holidays	1,926	2,128
other employee related provisions	2,345	5,084
Total	**30,616**	**15,616**

Section 13 - Redeemable shares - caption 140

Banco Desio does not have this type of shares.

Section 14 - Shareholders' equity - captions 130, 150, 160, 170, 180, 190 and 200

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

	31/12/2013	31/12/2012
A. Share capital		
A.1 - Ordinary shares	60,840	60,840
A.2 Savings shares	6,865	6,865
A.3 Preference shares		
B. Treasury shares		
B.1 - Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		

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

. 117,000,000 ordinary shares with nominal value of Euro 0.52 each,

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

The Bank does not hold and has not held any treasury shares in the last two financial years.

14.2 Share capital - Number of shares: changes of the year

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

14.3. Share capital: other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

14.4 Reserves: other information

In compliance with the requirements of art. 2427, paragraph 1.7 bis of the Civil Code, set out below is a summary of the components of shareholders' equity in accordance with their origin and with an indication of their possible use and distribution, as well as their utilisation in the previous three years.

	31.12.2013	Possible uses	Unrestricted portion	Uses in the last three years	
				Loss coverage	Other uses
Share capital	67,705	-	-	-	-
Share premium reserve	16,145	A,B,C (1)	16,145		
Legal reserve	80,263	A, B (2)			
Statutory reserve	463,713	A,B,C	463,713		
Stock grant/option plan reserve	1,429	A			
Merger surplus/deficit reserve	(6,201)				
Valuation reserves:					
. financial assets available for sale	2,259	(3)			
. actuarial measurement of provision for termination indemnities	(940)	(3)			
. special revaluation laws	22,199	A,B (4)			
. revaluation reserve Law 413/1991	697	A,B,C			
. exchange differences	(732)				
IAS transition reserve	123,356	(5)			
Other	2,260	A,B,C	2,231		
Total	**772,153**		**482,089**		

Key: A = increase in share capital B = for loss coverage C = for distribution

(1) Pursuant to article 2431 of the Civil Code, that portion of the share premium reserve needed to ensure the legal reserve meets the minimum legal requirements (one fifth of share capital) is non distributable
(2) This may be used for increases in share capital, but only the portion that exceeds one fifth of the share capital

(3) Restricted reserve as per art. 6 of Legislative Decree 38/2005

(4) Reserve set up on first-time adoption of IAS/IFRS for the impact of the valuation at "deemed cost" of property and equipment, as required by the "IAS decree"

(5) The IAS/IFRS transition reserve complies with article 7 of Legislative Decree 38/2005

14.5 Equity instruments: breakdown and changes of the year

None.

14.6. Other information

There are no other information other than that in this Section.

OTHER INFORMATION

1. Guarantees given and commitments

Transactions	31.12.2013	31.12.2012
1) Financial guarantees:	11,541	11,818
a) Banks	8,427	9,045
b) Customers	3,114	2,773
2) Commercial guarantees:	196,798	194,349
a) Banks	12,293	12,233
b) Customers	184,505	182,116
3) Irrevocable commitments to disburse loans	114,806	189,368
a) Banks	13,803	87,843
i) certain to be called on	*10,470*	*87,843*
ii) not certain to be called on	*3,333*	
b) Customers	101,003	101,525
i) certain to be called on	*20,582*	*11,235*
ii) not certain to be called on	*80,421*	*90,290*
4) Commitments underlying credit derivatives: sale of protection	25,000	25,000
5) Assets pledged to guarantee third-party commitments	1,529	1,541
6) Other commitments		
Total	**349,674**	**422,076**

2. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31.12.2013	31.12.2012
1. Financial assets held for trading		
2. Financial assets designated at fair value through profit and loss		
3. Financial assets available for sale	757,347	555,356
4. Financial assets held to maturity	130,145	85,757
5. Due from banks		
6. Loans to customers		
7. Property, plant and equipment		

3. Information on operating leases

This is not foreseen in Banco Desio.

4 Management and trading on behalf of third parties

Type of services	31.12.2013
1. Execution of orders on behalf of customers	**128,311**
a) purchases	50,253
1. Settled	43,267
2. Unsettled	6,986
b) sales	78,058
1. Settled	70,490
1. Unsettled	7,568
2. Portfolio management	**884,253**
a) Individual	315,935
b) Collective	568,318
3. Custody and administration of securities	**18,799,763**
a) Third-party securities on deposit as custodian bank (excluding portfolio management schemes)	
1. securities issued by the reporting bank	
2. other securities	
b) third-party securities held on deposit (excluding portfolio management schemes): other	8,701,586
1. securities issued by the reporting bank	2,233,502
2. other securities	6,468,084
c) Third-party securities deposited with third parties	8,478,891
d) Portfolio securities deposited with third parties	1,619,286
4. Other transactions	

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

None.

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

None.

PART C - INFORMATION ON THE INCOME STATEMENT

Section 1 - Interest – captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2013	31.12.2012
1. Financial assets held for trading	246		831	1,077	1,473
2. Financial assets designated at fair value through profit and loss					
3. Financial assets available for sale	25,692			25,692	28,194
4. Financial assets held to maturity	7,060			7,060	5,247
5. Due from banks	739	1,121		1,860	2,845
6. Loans to customers		233,863		233,863	243,298
7. Hedging derivatives			4,150	4,150	3,246
8. Other assets			6	6	76
Total	**33,737**	**234,984**	**4,987**	**273,708**	**284,379**

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

Interest on “Loans to customers” is recognised net of default interest accrued in the year on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question amounts to Euro 7,835 thousand (Euro 4,667 thousand last year).
Conversely, the caption includes default interest collected in the year of Euro 490 thousand (Euro 382 thousand last year), of which Euro 442 thousand relates to prior years (Euro 315 thousand last year).
The caption includes interest payable by Group companies of Euro 9,607 thousand (Euro 7,261 thousand last year), of which Euro 9,233 thousand relates to loans to Fides S.p.A. (Euro 7,090 thousand last year).

1.2 Interest and similar income: differentials on hedging transactions

Captions	31.12.2013	31.12.2012
A. Positive differentials on hedging transactions	6,222	7,517
B. Negative differentials on hedging transactions	(2,072)	(4,271)
C. Balance (A-B)	**4,150**	**3,246**

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

Technical forms	31.12.2013	31.12.2012
Due from banks	341	390
Loans to customers	669	895
Total	**1,010**	**1,285**

1.3.2 Interest income from finance leases

Total interest recognised as income in the year is included in the caption “Loans to customers – loans” and amounts to Euro 13,686 thousand (Euro 16,296 thousand last year); of this, Euro 12,713 thousand relates to index-linked contracts, of which Euro 630 thousand relates to leaseback agreements (in 2012 Euro 15,378 thousand related to index-linked contracts, of which Euro 822 thousand related to leaseback agreements).

Financial income pertaining to subsequent years amounts to Euro 110,444 thousand, of which Euro 7,350 thousand relates to leaseback agreements (last year Euro 124,716 thousand and Euro 7,726 thousand, respectively).

1.4 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2013	31.12.2012
1. Due to central banks	(2,250)			(2,250)	(3,247)
2. Due to banks	(978)			(978)	(2,157)
3. Due to customers	(49,817)			(49,817)	(48,285)
4. Debt securities in issue		(54,218)		(54,218)	(56,839)
5. Financial liabilities held for trading					
6. Financial liabilities designated at fair value through		(1,162)		(1,162)	(1,696)
7. Other liabilities and provisions			(3)	(3)	
8. Hedging derivatives					
Total	**(53,045)**	**(55,380)**	**(3)**	**(108,428)**	**(112,224)**

The caption includes interest payable to Group companies of Euro 925 thousand (Euro 1,642 thousand last year).

1.5 Interest and similar expense: differentials on hedging transactions

Details are provided at point 1.2 above.

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

Captions/Technical forms	31.12.2013	31.12.2012
Due to banks	(184)	(390)
Due to customers	(76)	(895)
Total	**(260)**	**(1,285)**

1.6.2 Interest expense on finance leases

Banco Desio is not party to any finance lease agreements that generate interest expense.

Section 2 – Commission - Captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2013	31.12.2012
a) guarantees given	1,973	1,912
b) credit derivatives		
c) management, brokerage and consulting services:	29,877	27,680
1. trading in financial instruments		
2. trading in foreign exchange	1,117	1,013
3. asset management	2,439	2,433
3.1. individual	1,866	1,717
3.2. collective	573	716
4. custody and administration of securities	1,520	1,660
5. custodian bank		
6. placement of securities	7,001	6,559
7. order taking	7,818	8,077
8. advisory services		
8.1 regarding investments		
8.2 regarding financial structuring		
9. distribution of third-party services	9,982	7,938
9.1 asset management	418	456
9.1.1. individual	418	456
9.1.2. collective		
9.2 insurance products	9,442	7,349
9.3 other products	122	133
d) collection and payment services	19,330	18,693
e) servicing related to securitisation		
f) services for factoring transactions	157	116
g) tax collection services		
h) management of multilateral trading systems		
i) maintenance and management of current accounts	49,400	45,769
j) other services	4,886	4,385
Total	**105,623**	**98,555**

Commission income from Group companies amounts to Euro 1,869 thousand (Euro 4,056 thousand last year). The decrease in the year is a consequence of Chiara Assicurazioni S.p.A. having left the Group, since it is no longer a subsidiary company.

2.2 Fee and commission income: product and service distribution channels

Channels/Amounts	31.12.2013	31.12.2012
a) at own branches		
1. portfolio management	2,439	2,433
2. placement of securities	7,001	6,559
3. distribution of third-party services and products	9,982	7,938
b) doorstep banking		
1. portfolio management		
2. placement of securities		
3. distribution of third-party services and products		
c) other distribution channels		
1. portfolio management		
2. placement of securities		
3. distribution of third-party services and products		

2.3 Commission expense: breakdown

Services/Amounts	31.12.2013	31.12.2012
a) guarantees received	(27)	(36)
b) credit derivatives	-	-
c) management and brokerage services	(1,265)	(1,228)
1. trading in financial instruments	(58)	(32)
2. trading in foreign exchange	-	-
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	(1,184)	(1,150)
5. placement of financial instruments	(23)	(46)
6. offer of securities, financial products and services through	-	-
d) collection and payment services	(2,480)	(2,386)
e) other services	(780)	(644)
Total	(4,552)	(4,294)

Commission expense payable to Group companies amounts to Euro 41 thousand (Euro 62 thousand last year).

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2013		31.12.2012	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading				
B. Financial assets available for sale	117		38	
C. Financial assets designated at fair value through fi...				
D. Equity investments	4,846		2,623	
Total	**4,963**		**2,661**	

In addition to the amounts of dividends received from subsidiaries and associates, the table shows dividend income from non-controlling interests classified as financial assets available for sale.

Dividend income from equity investments, as per "caption D", relates to:

Banco Desio Lazio	Euro 2,290 thousand	(previously Euro 2,290 thousand)
Chiara Assicurazioni	Euro 2,000 thousand	(previously Euro 333 thousand)
Rovere Société de Gestion *	Euro 556 thousand	

(*) became a directly controlled subsidiary in 2012

Section 4 - Net trading income - caption 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains	Trading profits	Capital losses	Trading losses	Net result 31.12.2013	Net result 31.12.2012
1. Financial assets held for trading	**12**	**330**		**(33)**	**309**	**615**
1.1 Debt securities	12	228		(33)	207	625
1.2 Equity instruments						(124)
1.3 UCITS units						
1.4 Loans						
1.5 Other		102			102	114
2. Financial liabilities held for trading						
2.1 Debt securities						
2.2 Payables						
2.3 Other						
3. Other financial assets and liabilities: exchange differences					**912**	**825**
4. Derivatives	**406**		**(32)**		**374**	**1,724**
4.1 Financial derivatives:	406		(32)		374	1,724
- On debt securities and interest rates	379		(32)		347	1,726
- On equities and equity indices	17				17	1
- On currency and gold	10				10	(3)
- Other						
4.2 Credit derivatives						
Total	**418**	**330**	**(32)**	**(33)**	**1,595**	**3,164**

The captions “1. Financial assets held for trading” and “4. Derivatives” include income from financial assets held for trading, with the exception of derivatives hedging financial instruments for which the fair value option was adopted and for which the measurement results are shown in Section 7.

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

Section 5 - Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income item/Amounts	31.12.2013	31.12.2012
A. Income relating to:		
A.1 Fair value hedges	4,196	4,580
A.2 Hedged financial assets (fair value)	48	743
A.3 Hedged financial liabilities (fair value)	3,959	61
A.4 Cash flow hedges		
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	**8,203**	**5,384**
B. Charges relating to:		
B.1 Fair value hedges	(7,235)	(4,331)
B.2 Hedged financial assets (fair value)	(964)	(48)
B.3 Hedged financial liabilities (fair value)		(2,382)
B.4 Cash flow hedges		
B.5 Foreign currency assets and liabilities		
Total charges from hedging activity (B)	**(8,199)**	**(6,761)**
C. Net hedging gains (losses) (A-B)	**4**	**(1,377)**

The caption includes net hedging gains (losses). The various sub-captions indicate income components arising from the measurement process for hedged assets and liabilities – financial assets available for sale and bonds issued by the Bank, respectively – as well as from the related hedging derivatives.

Section 6 - Gains (losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	31.12.2013			31.12.2012		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks						
2. Loans to customers	13	(1,242)	(1,229)	46	(1,834)	(1,788)
3. Financial assets available for sale	45,556	(3,962)	41,594	46,046	(15,700)	30,346
3.1 Debt securities	44,152	(3,865)	40,287	44,725	(14,780)	29,945
3.2 Equity instruments	49	(1)	48	11		11
3.3 UCITS units	1,355	(96)	1,259	1,310	(920)	390
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**45,569**	**(5,204)**	**40,365**	**46,092**	**(17,534)**	**28,558**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities in issue	138	(460)	(322)	792	(49)	743
Total liabilities	**138**	**(460)**	**(322)**	**792**	**(49)**	**743**

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

The caption “2. Loans to customers” includes the net gain (loss) on disposal of non-performing loans.

The caption “3. Financial assets available for sale” includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect. The gains from the sale of UCITS units include the related tax credit.

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

Section 7 - Net results on financial assets and liabilities designated at fair value - caption 110

7.1 Net change in value of financial assets and liabilities designated at fair value: breakdown

Transactions/Income components	Capital gains	Gains on disposal	Capital losses	Losses on disposal	Net result 31.12.2013	Net result 31.12.2012
1. Financial assets						
1.1 Debt securities						
1.2 Equity instruments						
1.3 UCITS units						
1.4 Loans						
2. Financial liabilities	**9**	**11**	**(808)**	**(10)**	**(798)**	**(2,911)**
2.1 Debt securities	9	11	(808)	(10)	(798)	(2,911)
2.2 Due to banks						
2.3 Due to customers						
3. Other financial assets and liabilities: exchange differences						
4. Derivatives	**39**		**(647)**		**(608)**	**764**
Total	**48**	**11**	**(1,455)**	**(10)**	**(1,406)**	**(2,147)**

The net gains (losses) on financial assets and liabilities designated at fair value result from the difference between the fair value measurement of bonds, subject to "natural hedging" on having applied the fair value option and the corresponding financial derivatives.

They also include the net gains (losses) from trading in our bonds.

Section 8 - Net impairment write-downs / write-backs - caption 130

Transactions/Income components	Write-downs			Write-backs					
	Specific		Portfolio	Specific		Portfolio		31.12.2013	31.12.2012
	Write-offs	Other		interest	other write-backs	interest	other write-backs		
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers									
Impaired loans acquired									
- Loans									
- Debt securities									
Other receivables									
- Loans	(31,411)	(106,406)	(2,602)	8,314	10,521			(121,584)	(81,651)
- Debt securities									
C. Total	**(31,411)**	**(106,406)**	**(2,602)**	**8,314**	**10,521**			**(121,584)**	**(81,651)**

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

As regards "Write-downs" the figure in the "Write-offs" column relates to losses of Euro 31,411 thousand (Euro 16,251 thousand last year) from the write-off of non-performing loans.

"Write-downs – Other", determined by the analytical assessment of the probability of recovery of doubtful loans and by discounting cash flows expected to be generated thereby, particularly from non-performing loans, relate to:

. non-performing loans	Euro 56,245 thousand	(previously Euro 30,327 thousand)
. watchlist loans	Euro 47,703 thousand	(previously Euro 40,526 thousand)
. restructured loans	Euro 60 thousand	(previously Euro 236 thousand)
. persistent breaches	Euro 2,398 thousand	(previously Euro 2,076 thousand)

"Portfolio" write-downs, which amount to Euro 2,602 thousand (Euro 9,648 thousand last year), relate to the performing loans portfolio.

Specific "interest" write-backs relate to the write-back of interest at the assumed discount rates on the capital element which is deemed to be recoverable, of which Euro 6,665 thousand relates to non-performing loans (Euro 5,079 thousand last year) and 1,626 to watchlist loans (Euro 1,566 thousand last year).

"Other" specific write-backs relate to:

. non-performing loans amortised in prior years	Euro 2,095 thousand	(previously Euro 940 thousand)
. collections of loans previously written down	Euro 4,652 thousand	(previously Euro 4,203 thousand)
. measurement write-backs	Euro 3,773 thousand	(previously Euro 5,617 thousand)

8.2 Net impairment write-downs / write-backs of financial assets available for sale: breakdown

Transactions/Income components	Write-downs		Write-backs		31.12.2013	31.12.2012
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities		(574)			(574)	
B. Equity instruments						(277)
C. UCITS units						
D. Loans to banks						
E. Loans to customers						
F. Total		**(574)**			**(574)**	**(277)**

This caption includes a write-down of bonds classified as Financial assets available for sale.

8.3 Net impairment write-downs / write-backs of financial assets held to maturity: breakdown

No impairment adjustments have been made to financial assets held to maturity in the year just ended nor in the prior year.

8.4 Net impairment adjustments to other financial assets: breakdown

This caption includes impairment write-downs / write-backs concerning guarantees given in relation to losses that have already occurred and expected to occur on enforcement of the guarantees.

Transactions/Income components	Write-downs			Write-backs				31.12.2013	31.12.2012
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		interest	other write-backs	interest	other write-backs		
A. Guarantees given	(482)	(1,045)	(148)		98		45	(1,532)	(644)
B. Credit derivatives									
C. Commitments to disburse funds									
D. Other transactions									
E. Total	**(482)**	**(1,045)**	**(148)**		**98**		**45**	**(1,532)**	**(644)**

The caption includes a charge arising from the intervention, already approved and ratified, by the Interbank Deposit Protection Fund regarding Banca Tercas in extraordinary administration, of Euro 1,452 thousand, of which Euro 482 thousand, included in the “Write-offs” column, is certain and is not subject to any condition and the remainder of Euro 970 thousand, included in the “Write-downs – specific: other” column, relates to a further portion, the amount of which is not yet certain as it is subject to the occurrence of events that have not yet been completely defined.

Section 9 - Administrative costs - caption 150

9.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2013	31.12.2012
1) Employees	(132,521)	(119,894)
a) Wages and salaries	(81,865)	(83,570)
b) Social security charges	(20,720)	(20,958)
c) Termination indemnities		
d) Pension expenses		
e) Provision for termination indemnities	(809)	(937)
f) Provision for post-retirement benefits and similar commitments:		
- defined contribution		
- defined benefit		
g) Payments to external supplementary pension funds:	(7,994)	(8,222)
- defined contribution	(7,994)	(8,222)
- defined benefit		
h) Equity-based payments	(339)	(167)
i) Other personnel benefits	(20,794)	(6,039)
2) Other active employees	(639)	(1,332)
3) Directors and auditors	(2,840)	(4,102)
4) Retired personnel		
5) Recovery of cost of employees seconded to other companies	416	228
6) Reimbursement of cost of third-party employees seconded to the Company		
Total	**(135,584)**	**125,101**

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

Details of caption “1.i) – other employee benefits” are provided in table 9.4 below.

9.2 Average number of employees by level

	31.12.2013	31.12.2012
1) Employees	**1,572**	**1,592**
a) managers	26	28
b) middle managers	828	843
c) other employees	718	721
2) Other personnel	**11**	**22**

9.3 Defined post-employment benefit obligations: total costs

None.

9.4 Other personnel benefits

	31.12.2013	31.12.2012
Provision for sundry charges	(981)	(2,439)
Contributions to healthcare fund	(1,233)	(1,233)
Training and instruction costs	(151)	(163)
Rent expense of property used by employees	(113)	(95)
Redundancy incentives	(16,183)	
Other	(2,133)	(2,110)
Total	(20,794)	(6,040)

The main components of the “Other” caption include company canteen costs of Euro 1,468 thousand (Euro 1,533 thousand last year) and costs relating to insurance premiums of Euro 286 thousand (Euro 273 thousand last year).

9.5 Other administrative costs: breakdown

	31.12.2013	31.12.2012
Indirect taxes and duties:		
- Stamp duty	(16,498)	(11,977)
- Other	(4,308)	(3,559)
Other costs:		
- IT expenses	(8,869)	(9,180)
- Lease of property and other assets	(9,262)	(9,693)
- Maintenance of buildings, furniture and equipment	(3,279)	(3,491)
- Post office and telegraph	(1,758)	(1,801)
- Telephone and data transmission	(3,544)	(4,513)
- Electricity, heating, water	(3,531)	(3,542)
- Cleaning services	(967)	(1,060)
- Printed matter, stationery and consumables	(572)	(1,555)
- Transport costs	(607)	(677)
- Surveillance and security	(1,138)	(1,284)
- Advertising	(839)	(919)
- Information and surveys	(919)	(859)
- Insurance premiums	(1,017)	(921)
- Legal fees	(5,338)	(4,000)
-Professional consulting fees	(4,535)	(3,603)
- Various contributions and donations	(148)	(127)
- Sundry expenses	(4,624)	(4,709)
Total	**(71,753)**	**(67,854)**

This caption includes fees payable to the Independent Auditors Deloitte & Touche S.p.A. for services provided to the Bank amounting to Euro 297 thousand (125 thousand last year) consisting of the following:

. Audit	Euro 149 thousand,
. Attestation services	Euro 29 thousand,
. Review of translation of financial reports	Euro 34 thousand,
. Financial and tax due diligence	Euro 85 thousand

Section 10 - Net provisions for risks and charges - caption 160

10.1 Net provisions for risks and charges - caption 160

Type of expense/Amounts	31.12.2013	31.12.2012
charges for legal disputes	(3,453)	(1,948)
other charges	(4,129)	11,706
Total	**(7,582)**	**9,758**

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

Other charges include provisions for other operating risks, inclusive of tax disputes.

Section 11 - Net adjustments to property, plant and equipment - caption 170

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result 31.12.2013	Net result 31.12.2012
A. Property, plant and equipment					
A.1 Owned	(5,267)			(5,267)	(5,764)
- for business purposes	(5,253)			(5,253)	(5,764)
- for investment purposes	(14)			(14)	
A.2 Held under finance leases					
- for business purposes					
- for investment purposes					
Total	**(5,267)**			**(5,267)**	**(5,764)**

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

Details, by asset category, of the impact on the income statement of adjustments to property, plant and equipment are shown in caption “C.2 Depreciation” of the table “11.5 and 11.6 Changes in the year” of Section 11, Assets.

Section 12 - Net adjustments to intangible assets - caption 180

Assets/Income items	Amortisation	Impairment adjustments	Write-backs	Net result 31.12.2013	Net result 31.12.2012
A. Intangible assets					
A.1 Owned	(615)			(615)	(529)
- Generated internally					
- Other	*(615)*			*(615)*	*(529)*
A.2 Held under finance leases					
Total	**(615)**			**(615)**	**(529)**

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

Section 13 - Other operating charges/income

13.1 Other operating charges: breakdown

	31.12.2013	31.12.2012
Amortisation of leasehold improvements	(2,157)	(2,277)
Losses on disposal of property, plant and equipment	(9)	(76)
Charges on non-banking services	(340)	(576)
Total	**(2,506)**	**(2,929)**

“Charges on non-banking services” include: insurance deductibles for robberies of Euro 38 thousand, costs pertaining to prior years of Euro 168 thousand, costs of termination of contracts relating to stock grants not granted to Bank employees of Euro 65 thousand.

13.2 Other operating income: breakdown

	31.12.2013	31.12.2012
Recovery of taxes from third parties	18,503	12,982
Recharge of costs	8,273	7,125
Rental and leasing income	24	5
Other expense recoveries	2,837	3,044
Gains on disposal of property, plant and equipment	29	27
Other	1,439	1,861
Total	**31,105**	**25,044**

“Recharge of costs of current accounts and deposits” includes recoveries for rapid preliminary investigation fees of Euro 6,421 thousand and other recoveries for various communications to customers of Euro 1,768 thousand.

“Other expense recoveries” include, in particular, recoveries of investigation costs relating to various loans of Euro 1,137 thousand, the recovery of costs of appraisals in connection with mortgage loans of Euro 506 thousand and the recovery of sundry expenses relating to lease applications of Euro 720 thousand.

As regards the caption “Other” the main component relates to income from Group companies of Euro 1,032 thousand (Euro 1,134 thousand last year). Also included are recharges of legal dispute costs of Euro 174 thousand and sundry out of period income of Euro 171 thousand.

Section 14 - Profit (loss) from equity investments - caption 210

14.1 Profit (loss) from equity investments: breakdown

Income item/Amounts	31.12.2013	31.12.2012
A. Income	17,466	6,108
From investments carried at equity (revaluations)		
2. Gains on disposal	11,776	6,108
3. Write-backs	5,690	
4. Other income		
B. Losses		(31,878)
From investments carried at equity (write-downs)		(31,878)
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result	**17,466**	**(25,770)**

Of the amount recognised as “Gains on disposal”:

- Euro 4,587 thousand relates to a gain on sale of 4,219,471 shares in the former subsidiary Chiara Assicurazioni S.p.A., classified in 2012 as non-current assets held for sale;
- Euro 7,189 thousand relates to a price adjustment in connection with the sale last year of 30% of Chiara Vita S.p.A.

The “Write-backs” relate to the subsidiary C.P.C. in liquidation, which was written down last year. In relation thereto, more details have already been provided in “Section 10 Equity investments” at point 10.3.1.b.

Section 15 - Net gains (losses) arising from the fair value measurement of property, plant and equipment and intangible assets - caption 220

Banco Desio does not have any property, plant and equipment or intangible assets measured at fair value.

Section 16 - Goodwill impairment - caption 230

The outcome from impairment testing of goodwill recognised in the financial statements did not require any impairment adjustments to be made.

As regards the method adopted for the performance of the testing, reference should be made to "Section 12 – Intangible assets”, Assets.

Section 17 - Gains (losses) on disposal of investments - caption 240

No investments were disposed of in the year.

Section 18 - Income taxes on current operations - caption 260

18.1 Income taxes on current operations: breakdown

Income item/Amounts	31.12.2013	31.12.2012
1. Current taxes (-)	(37,995)	(31,998)
2. Change in prior period income taxes (+/-)	2	6,593
3. Reduction in current taxes (+)		
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	34,611	12,289
5. Change in deferred tax liabilities (+/-)	(314)	21
6. Income taxes for the period (-)	(3,696)	(13,095)

An increase in write-downs of and losses on loans to customers, which are deductible in five equal portions in the year of the loss and in the four subsequent years (as per art. 106, paragraph 3, of the Consolidated Income Tax Act) was the main factor behind the increase in current taxes (caption 1) and in deferred tax assets (caption 4).

Caption “2. Change in prior period income taxes (+/-)”, which records an increase of Euro 2 thousand, is due to the difference between:

- Euro 40 thousand relating to a refund from the tax authorities for IRPEG, ILOR and related advances pertaining to 1985;
- Euro 38 thousand relating to additional tax due to an under provision of current taxes at 31.12.2012.

18.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	13,124		13,124	
Costs not deductible for IRAP purposes			155,684	
Revenue not taxable for IRAP purposes			(30,515)	
Sub Total	13,124		138,293	
Theoretical tax charge 27.5% IRES - 5.75% IRAP		**(3,609)**		**(7,703)**
Temporary differences taxable in subsequent years	(1,420)		(261)	
Temporary differences deductible in subsequent years	122,107		97,846	
Reversal of prior year temporary differences	(15,975)		1,182	
Differences that will not reverse in subsequent years	(20,010)		(37,905)	
Taxable income	97,826		199,155	
Current taxes for the year 27.5% IRES - 5.57% IRAP		**(26,902)**		**(11,093)**

Section 19 - Profit (loss) after tax on non-current assets held for sale - caption 280

There are no non-current assets held for sale at the year end.

Section 20 - Other information

There is no other information that requires disclosure in this section.

Section 21 – Earnings per share

21.1 Average number of ordinary shares (fully diluted)

There were no share capital transactions in the year and neither were there any issues of financial instruments that could lead to the issue of shares; accordingly, the number of profit participating shares equates to 117,000,000 ordinary shares and 13,202,000 savings shares.

21.2 Other information

Basic earnings per share

		Share category		Net profit for the year
		Ordinary	Savings	
Proposed allocation of dividends		2,504	481	
Profit not distributed		5,675	768	
		8,179	1,249	9,427
Average number of outstanding ordinary shares				
Categories:				
Ordinary shares	117,000,000			
Savings shares	13,202,000			
Basic earnings per share:		**0.0699**	**0.0946**	

PART D - COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME

	Captions	31.12.2013 Gross amount	31.12.2013 Income taxes	Net amount
10.	**Net profit (loss) for the period**			**9,427**
	Other elements of income, without reversal to income statement			
20.	Property, plant and equipment			
30.	Intangible assets			
40.	Defined-benefit pension plans	259	(71)	188
50.	Non-current assets and disposal groups			
60.	Portion of the valuation reserves of the equity investments carried at equity			
	Other elements of income, with reversal to income statement			
70.	**Foreign investment hedges:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
80.	**Exchange differences:**	**(558)**		**(558)**
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes	(558)		(558)
90.	**Cash-flow hedges:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
100.	**Financial assets available for sale:**	**404**	**(76)**	**328**
	a) changes in fair value	3,742	(1,170)	2,572
	b) reversal to income statement	(8,134)	2,680	(5,454)
	- impairment adjustments	286	(95)	191
	- gains/losses on disposal	(8,420)	2,775	(5,645)
	c) other changes	4,796	(1,586)	3,210
110.	**Non-current assets and disposal groups:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
120.	**Portion of the valuation reserves of the equity investments carried at equity:**			
	a) changes in fair value			
	b) reversal to income statement			
	- impairment adjustments			
	- gains/losses on disposal			
	c) other changes			
130.	**Total other elements of income**	**105**	**(147)**	**(42)**
140.	**Total comprehensive income (Captions 10+130)**			**9,385**

PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

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

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

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

In the course of 2013, the Board of Directors of Banco Desio Brianza approved the “Policy for risk appetite and risk management”, revamped with respect to that of the Group, which defines the risks, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. Furthermore, specific alerts are envisaged in the event of thresholds being exceeded.

SECTION 1 - CREDIT RISK

Qualitative information

1. *General aspects*

The lending activity of Banco di Desio e della Brianza has developed according to the guidelines of the Business Plan, addressed to local economies primarily in the retail, small business and small SME markets. To a lesser extent, our lending activity is directed towards the corporate market.

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

The activities aimed at medium and large companies and customers in the financial sector mainly include the following products: loans and deposits in any form; financial, banking and payment services; documentary credit; leasing and factoring.

Trade policy is pursued through the peripheral branch network, both in the geographical areas where Banco Desio has traditionally been present, in order to consolidate its position on an ongoing basis, and in new markets where branches have been opened more recently with the aim of gaining new market shares and to facilitate the growth of business volume.

Concerning the policy for risk assumption, one of the key guiding principles for the management and formulation of strategic decisions is represented by the monitoring of the quality of exposures. Each policy, however, is designed to maintain a high quality of loans, while bearing in mind business objectives.

Certain specific products (personal loans, leasing) are developed through authorised businesses.

2. Credit risk management policies

2.1. Organisational aspects

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

Banco Desio's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Board of Directors has exclusive power to lay down the guidelines that have an impact on the running of the Bank's affairs. As regards internal controls, the Board of Directors approves the strategic direction and policies for risk management, as well as the organisational structure of the Bank.

The Board also verifies that the Chief Executive Officer, aided by the General Manager, defines the internal control structure and that the control functions have autonomy within the structure, where particular importance is assumed by the system for delegated powers provided for by the Articles of Association and as set out in the Internal Regulation. This consists of an articulated system that involves various bodies and functions and, with respect to operating powers of attorney, delegates specific powers concerning the granting and recovery of loans.

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.

Under these circumstances:

- the Lending Department (for para-banking and consumer related ordinary and medium-long term credit) monitors the granting and management of credit and assists the Head Office in ensuring a careful and informed assumption of risks, in line with corporate policy on credit quality;
- Litigation and Risk Management ensures constant monitoring of credit quality for the Group's entire branch network, highlighting positions with critical factors, in compliance with corporate risk management policy. The Litigation Office manages loans classified as watchlist and non-performing, with the objective of optimising the recovery of the loan that may involve the efficient use of collaborators and external legal professionals;
- the Internal Audit Department, assesses the effectiveness and reliability of the entire internal control system, bringing to the attention of the corporate bodies and functions potential improvements, in line with the requirements of the regulations laid down by the Supervisory Authority. As regards the audit work performed on the branch network, Internal Audit checks compliance with internal and external regulations, operational regularity and the effectiveness of line controls, inclusive of those relating to lending;
- The Risk Management and Compliance Department supports corporate governance by coordinating and controlling the activities of their areas of responsibility in compliance with the risk strategies, plans and policies in place and in compliance with primary and secondary corporate regulations. In particular, the Risk Management Office has the task of developing models and methodologies for the assessment of credit risk and prepares periodic reports; the analysis performed mainly relates to the evolution of the risk profile of the total loan portfolio or of parts of the portfolio which may feature particular risks.

2.2. Systems for managing, measuring and monitoring credit risk

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

During the fact finding stages of the lending process, the Bank performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer’s financial standing from what is known of the customer and of the customer's economic environment.

During the credit granting process, the Bank operates by consulting guidance on risk diversification of various customers operating in different industries and market sectors. Furthermore, the investigation process leading up to the provision and periodic review of credit is designed with the objective of granting credit that is appropriate to the individual applicant based on the latter's creditworthiness and the technical form of the facility and the collateral provided. The appropriateness of the facility is also carefully assessed based on the financial needs of the customer and decisions are then taken on the most suitable technical form for the facility.

The analysis and monitoring of risk associated with the lending process is performed by Litigation and Risk Management, which operates with the support of specific operating procedures. The aim of a prompt monitoring system is to identify, as soon as possible, signs of deterioration of exposures in order to intervene with effective corrective measures. To this end, the customer base is categorised by class through an analysis of relationship trends and by central oversight of risk by means of dedicated procedures. This review allows the customer base to be split between customers with anomalies in the conduct of their relationship and those with a regular trend.

Based on evidence that indicates deterioration factors (primarily in connection with the conduct of the relationship, with trends in evidence found by Central risk, with a deterioration of the capital and financial position and with the emergence of detrimental events), the loan is classified as *under control* or as *recalled* and a repayment plan is executed. The management of such loans is based on guidance provided by Litigation and Risk Management.

The primary control for effective monitoring of risks assumed, however, is represented by the branch structure, constant and continuous dialogue with the customer and the use of available information sources.

As part of its corporate risk management policy, the Bank has set up a system of limits and thresholds relating to certain indicators. In the context of monitoring and control, on pre-established thresholds being exceeded, the Risk Management Office activates an internal analysis procedure for an intervention by the competent corporate functions in order to maintain a risk appetite level consistent with guidance provided by risk management policy.

For risk management purposes, the Bank uses an internal rating model (C.R.S. - Credit Rating System) designed by the Parent Company, which is capable of categorising counterparties into classes of risk with the same probability of default. This system is an analytical model for the measurement of default risk that uses methods of statistical inference based on subjective (or conditional probability) theory. This model makes it possible to assign a rating based on the sources of information used and the segment to which the borrower belongs (retail/corporate); in particular, the criteria for the segmentation of counterparties are chosen taking into account the borrower's sector, legal form and turnover (if any). There are eight rating classes for performing counterparties (from AAA to CC), while there are three for non-performing loans (past due, watchlist and doubtful loans).

For the purpose of calculating the capital requirement for credit risk, Banco Desio follows the rules laid down in the regulations for the standardised approach.

2.3 Credit risk mitigation techniques

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

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

A prudent spread is applied to the collateral based on the inherent risk of the pledged asset; the collateral is subjected to 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.

Guarantees received by Banco Desio are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions. The process of collateral management provides for monitoring and specific controls to check their eligibility, in line with the requirements of supervisory regulations.

To date, Banco Desio does not use credit derivatives to hedge or transfer credit risk and has not carried out any direct securitisations.

2.4 Impaired financial assets

Loans are classified as *doubtful* when, in the light of objective evidence collected by the relevant offices, the customer proves unable to meet its commitments and is therefore in a state of insolvency, even if this has not yet been declared by the court.

Loans are classified as *watchlist* taking into account the apparent risk, the objective impossibility of an amicable settlement, a failure to meet the agreed repayment plans and the need to request timely court interventions in order to monitor the loans effectively.

In any case, watchlist loans include exposures with specific characteristics explained in the supervisory instructions.

To be classified under restructured loans, whether for cash or "off-balance sheet items", Banco Desio complies with the supervisory requirements, analytically assessing the presence of the conditions laid down in the regulations.

As regards past due loans, these are constantly monitored by Litigation and Risk Management through the use of specific IT procedures.

As for the criteria and procedures for evaluating the appropriateness of adjustments, they are based on objectivity and prudence.

The expected loss is, in fact, the synthesis of several elements derived from various (internal and external) assessments about the principal debtor's assets and those of any guarantors. Monitoring of the expected loss is constant and organic and, in any case, compared with the development of the individual position. The time element linked to the present value of impaired loans is determined by specific assessments carried out for each type of asset, drawn up on the basis of information relating to the individual legal jurisdiction.

Quantitative information

A Credit quality

A.1 Doubtful and performing loans: amounts, adjustments, trends and economic and territorial distribution

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

Portfolio/Quality		Doubtful loans	Watchlist loans	Restructured loans	Past due loans	Other assets	Total
1. Financial assets held for trading						2,798	2,798
2. Financial assets available for sale		86				1,386,865	1,386,951
3. Financial assets held to maturity						181,568	181,568
4. Due from banks						229,698	229,698
5. Loans to customers		214,362	147,166	1,722	37,985	5,740,246	6,141,481
6. Financial assets designated at fair value through profit and loss							
7. Financial assets being sold							
8. Hedging derivatives						5,052	5,052
Total	**31/12/2013**	**214,448**	**147,166**	**1,722**	**37,985**	**7,546,227**	**7,947,548**
Total	**31/12/2012**	**164,892**	**145,524**	**5,043**	**34,190**	**7,139,235**	**7,488,884**

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

Portfolio/Quality		Non-performing loans			Performing loans			Total (net exposure)
		Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
1. Financial assets held for trading							2,798	2,798
2. Financial assets available for sale		86		86	1,386,865		1,386,865	1,386,951
3. Financial assets held to maturity					181,568		181,568	181,568
4. Due from banks					229,698		229,698	229,698
5. Loans to customers		603,834	(202,599)	401,235	5,778,798	(38,552)	5,740,246	6,141,481
6. Financial assets designated at fair value through profit and loss								
7. Financial assets being sold								
8. Hedging derivatives							5,052	5,052
Total	**31/12/2013**	**603,920**	**(202,599)**	**401,321**	**7,576,929**	**(38,552)**	**7,546,227**	**7,947,548**
Total	**31/12/2012**	**490,827**	**(141,178)**	**349,649**	**7,175,317**	**(36,082)**	**7,139,235**	**7,488,884**

A.1.2.1 Detailed information on performing loans

A.1.2.1 Distribution of renegotiated and non-renegotiated performing loan exposures by portfolio

Exposures/Geographical areas		Exposure subject to renegotiation under Collective Agreements					Other exposures					Total (net exposure)
		Past due up to 3 months	Past due between 3 to 6 months	Past due between 6 to 12 months	Past due over 1 year	Not past due	Past due up to 3 months	Past due between 3 to 6 months	Past due between 6 to 12 months	Past due over 1 year	Not past due	
1. Financial assets held for trading											2,798	2,798
2. Financial assets available for sale											1,386,865	1,386,865
3. Financial assets held to maturity											181,568	181,568
4. Due from banks											229,698	229,698
5. Loans to customers		15,935	579			170,852	245,092	10,041	4,117	35	5,293,595	5,740,246
6. Financial assets designated at fair value through profit and loss												
7. Financial assets being sold												
8. Hedging derivatives											5,052	5,052
Total	**31/12/2013**	15,935	579			170,852	245,092	10,041	4,117	35	7,099,576	7,546,227

E13

A.1.3 On- and off-balance sheet exposures to banks: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure
A. CASH EXPOSURE				
a) Doubtful loans				
b) Watchlist loans				
c) Restructured loans				
d) Past due non-performing loans				
e) Other assets	302,816			302,816
TOTAL A	**302,816**			**302,816**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing				
b) Other	39,786		1,045	38,741
TOTAL B	**39,786**		**1,045**	**38,741**
TOTAL A+B	**342,602**		**1,045**	**341,557**

"Cash exposure" includes all on-balance sheet financial assets due from banks, regardless of the portfolio they are allocated to for accounting purposes (trading, available for sale, held to maturity, etc.).

"Off-balance sheet exposures" include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transaction (trading, hedging, etc.).

A.1.4 On-balance sheet credit exposures to banks: changes in gross doubtful loans

There are no such credit exposures at the reporting date.

A.1.5 On-balance sheet credit exposures to banks: changes in total adjustments

There are no such credit exposures at the reporting date.

A.1.6 On- and off-balance sheet credit exposures to customers: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure
A. CASH EXPOSURE				
a) Doubtful loans	353,962	139,514		214,448
b) Watchlist loans	207,410	60,244		147,166
c) Restructured loans	1,995	273		1,722
d) Past due non-performing loans	40,554	2,569		37,985
e) Other assets	7,274,675		38,552	7,236,123
TOTAL A	**7,878,596**	**202,600**	**38,552**	**7,637,444**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing	2,836	95		2,741
b) Other	314,937		1,226	313,711
TOTAL B	**317,773**	**95**	**1,226**	**316,452**
TOTAL A+B	**8,196,369**	**202,695**	**39,778**	**7,953,896**

“Cash exposure” includes all on-balance sheet financial assets due from customers, regardless of the portfolio they are allocated to for accounting purposes (trading, available for sale, held to maturity, etc.).

“Off-balance sheet exposures” include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transaction (trading, hedging, etc.).

A.1.7 On-balance sheet credit exposures to customers: changes in gross doubtful loans

Description/Categories	Doubtful loans	Watchlist loans	Restructured loans	Past due loans
A. Opening gross exposure	**252,972**	**195,874**	**5,616**	**36,365**
- of which: sold but not derecognised				
B. Increases	**185,578**	**228,939**	**1,151**	**133,139**
B.1 transfers from performing positions	16,315	145,890		127,466
B.2 transfers from other categories of doubtful exposures	156,110	42,890	776	587
B.3 other increases	13,153	40,159	375	5,086
C. Decreases	**84,588**	**217,403**	**4,772**	**128,950**
C.1 transfers to performing positions		(16,801)	(56)	(61,944)
C.2 write-offs	(59,197)	(1,687)		
C.3 collections	(25,390)	(45,573)	(1,803)	(22,899)
C.4 proceeds from disposal				
C.4 bis losses on disposal				
C.5 transfers to other categories of doubtful exposures	(1)	(153,342)	(2,913)	(44,107)
C.6 other decreases				
D. Closing gross exposure	**353,962**	**207,410**	**1,995**	**40,554**
- of which: sold but not derecognised				

A.1.8 On-balance sheet credit exposures to customers: changes in total adjustments

Description/Categories	Doubtful loans	Watchlist loans	Restructured loans	Past due loans
A. Total opening adjustments	**88,080**	**50,350**	**573**	**2,175**
- of which: sold but not derecognised				
B. Increases	**122,452**	**50,268**	**162**	**2,511**
B1. Write-downs	87,278	49,321	60	2,399
B.1 bis losses on disposal	1,242			
B.2 transfers from other categories of doubtful exposures	33,932	947	102	112
B.3 other increases				
C. Decreases	**71,018**	**40,374**	**462**	**2,117**
C.1 measurement write-backs	7,922	3,476	69	620
C.2 writebacks on collection	2,644	1,779	22	207
C.2 bis gains on disposal	13			
C.3 write-offs	59,197	1,687		
C.4 transfers to other categories of doubtful exposures		33,432	371	1,290
C.5 other decreases	1,242			
D. Total closing adjustments	**139,514**	**60,244**	**273**	**2,569**
- of which: sold but not derecognised				

A.2 Classification of exposures on the basis of external rating

A.2.1 Distribution of cash and "off-balance sheet" exposures by external rating class (book values)

Based on the compilation rules laid down by the Bank of Italy, the table in question has not been completed because the amount of exposures with external ratings is not significant.

A.2.2 Distribution of cash and "off-balance sheet" exposures by internal rating class

Banco Desio does not use internal rating models for the determination of capital requirements.

As explained in the section on qualitative information (paragraph 2.2), the Parent Company uses a rating model developed for management purposes aimed at assessing retail customers (individual consumers and small businesses) and corporate customers (companies with turnover above Euro 1 million).

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

Exposures at 31.12.2013	Internal rating class			
	from AAA to A	from BBB to B	from CCC to CC	Total
Cash exposure	38.5%	43.6%	17.9%	100%
Off-balance sheet exposures	62.4%	26.8%	10.7%	100%

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed credit exposures to banks

There are no such credit exposures at the reporting date.

A.3.2 Guaranteed credit exposures to customers

	Amount of net exposures	Secured guarantees (1)				Unsecured guarantees (2)									Total (1)+(2)
						Credit derivatives					Endorsement credits				
		Property, Mortgages	Property under finance leases	Securities	Other secured guarantees	CLN	Other derivatives				Government and central banks	Other public entities	Banks	Other parties	
							Government and central banks	Other public entities	Banks	Other parties					
1. Guaranteed on-balance sheet exposures:	4,171,260	6,297,398	483,078	344,001	302,236							10	970	3,755,725	15,354,678
1.1. totally guaranteed	4,049,463	6,290,612	483,078	321,860	288,111								970	3,706,108	11,090,739
- of which: non-performing	*328,268*	*681,538*	*45,011*	*2,062*	*10,061*								*40*	*693,656*	*1,432,368*
1.2. partially guaranteed	121,797	6,786		22,141	14,125							10		49,617	92,679
- of which: non-performing	*10,607*	*1,202*		*1,682*	*1,158*									*7,488*	*11,530*
2. Guaranteed off-balance sheet exposures:	142,137	9,781		21,011	14,194								1,644	119,032	307,799
2.1. totally guaranteed	113,593	9,781		17,151	12,129								1,644	113,956	154,661
- of which: non-performing	*2,080*			*82*	*85*									*5,396*	*5,563*
2.2. partially guaranteed	28,544			3,860	2,065									5,076	11,001
- of which: non-performing	*7*				*1*									*10*	*11*

B. Distribution and concentration of credit exposures

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

p.1

Exposures/Counterparties		Governments			Other public entities			Financial companies		
		Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposure										
A.1 Doubtful loans								203	52	
A.2 Watchlist loans								427	188	
A.3 Restructured loans										
A.4 Past due loans								1		
A.5 Other exposures		1,483,714						483,780		367
Total A		**1,483,714**						**484,411**	**240**	**367**
B. Off-balance sheet exposures										
B.1 Doubtful loans										
B.2 Watchlist loans										
B.3 Other doubtful loans										
B.4 Other exposures		26,193						3,288		13
Total B		**26,193**						**3,288**		**13**
Total (A+B)	**31/12/2013**	**1,509,907**						**487,699**	**240**	**380**
Total (A+B)	**31/12/2012**	**1,051,430**						**665,153**	**222**	**334**

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

p.2

Exposures/Counterparties		Insurance companies			Non-financial companies			Other parties		
		Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposure										
A.1 Doubtful loans					161,643	115,466		52,602	23,996	
A.2 Watchlist loans					104,652	45,027		42,087	15,029	
A.3 Restructured loans					1,722	273				
A.4 Past due loans					22,335	1,589		15,649	980	
A.5 Other exposures		26,126			3,771,738		34,115	1,470,765		4,070
Total A		**26,126**			**4,062,090**	**162,355**	**34,115**	**1,581,103**	**40,005**	**4,070**
B. Off-balance sheet exposures										
B.1 Doubtful loans					276	19		1		
B.2 Watchlist loans					2,073	67		65	9	
B.3 Other doubtful loans					326					
B.4 Other exposures		969		5	263,788		1,186	17,711		22
Total B		**969**		**5**	**266,463**	**86**	**1,186**	**17,777**	**9**	**22**
Total (A+B)	**31/12/2013**	**27,095**		**5**	**4,328,553**	**162,441**	**35,301**	**1,598,880**	**40,014**	**4,092**
Total (A+B)	**31/12/2012**	**25,222**		**3**	**4,126,488**	**115,090**	**33,378**	**1,623,076**	**25,983**	**3,490**

B.2 - Territorial distribution of on- and off-balance sheet credit exposures to customers (book value)

Exposures/Geographical areas		Italy		Other European countries		America		Asia		Rest of the world	
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposure											
A.1 Doubtful loans		214,362	139,514			86					
A.2 Watchlist loans		147,166	60,244								
A.3 Restructured loans		1,722	273								
A.4 Past due loans		37,985	2,569								
A.5 Other exposures		7,174,587	38,419	60,971	133	417		148			
Total A		**7,575,822**	**241,019**	**60,971**	**133**	**503**		**148**			
B. Off-balance sheet exposures											
B.1 Doubtful loans		277	19								
B.2 Watchlist loans		2,139	76							1	
B.3 Other doubtful loans		326									
B.4 Other exposures		311,850	1,226			99					
Total B		**314,592**	**1,321**			**99**				**1**	
Total A+B	**31/12/2013**	**7,890,414**	**242,340**	**60,971**	**133**	**602**		**148**		**1**	
Total A+B	**31/12/2012**	**7,434,624**	**178,331**	**54,423**	**124**	**2,163**	**45**	**159**			

B.3 - Territorial distribution of on- and off-balance sheet credit exposures to banks (book value)

Exposures/Geographical areas		Italy		Other European countries		America		Asia		Rest of the world	
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposure											
A.1 Doubtful loans											
A.2 Watchlist loans											
A.3 Restructured loans											
A.4 Past due loans											
A.5 Other exposures		264,607		36,768		597		430		414	
Total A		**264,607**		**36,768**		**597**		**430**		**414**	
B. Off-balance sheet exposures											
B.1 Doubtful loans											
B.2 Watchlist loans											
B.3 Other doubtful loans											
B.4 Other exposures		35,221		3,851				170		544	
Total B		**35,221**		**3,851**				**170**		**544**	
Total A+B	**31/12/2013**	**299,828**		**40,619**		**597**		**600**		**958**	
Total A+B	**31/12/2012**	**368,182**		**46,392**		**624**		**162**		**1,300**	

B.4 Major risks

With reference to current supervisory regulations, two positions have been identified with a total nominal value, inclusive of guarantees and commitments given, of Euro 2,048.8 million, with a weighted value of zero.

The two positions relate to: Treasury Ministry (nominal value of Euro 1.435.0 million) and Banco Desio Group companies (nominal value of Euro 613.8 million).

C Securitisation transactions and disposal of assets

C.1 Quantitative information

C.1.1 Exposures arising from securitisation transactions broken down by quality of the underlying assets

Quality of underlying assets/Exposures	Cash exposure						Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:																		
a) Non-performing																		
b) Other																		
B. With underlying assets of third parties:																		
a) Non-performing																		
b) Other	**598**	**598**																

C.1.2 Exposures arising from principal “own” securitisations, broken down by type of securitised asset and by type of exposure

None.

C.1.3 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 exposure						Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	of which: Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back	Net exposure	Adj./write-back	Net exposure	Adj./write-back	Net exposure	Adj./write-back	Net exposure	Adj./write-back	Net exposure	Adj./write-back	Net exposure	Adj./write-back
A.1 F.I.P 26.04.25																		
- PROPERTY	***598***	***81***																
A.2 name of securitisation																		
- type of asset																		
A.3 name of securitisation ..																		
- type of asset																		

C.1.4 Exposures to securitisations broken down by portfolio and by type

Exposure/portfolio	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Financial assets held to maturity	Loans and receivables	31.12.2013	31.12.2012
1. Cash exposure			598			598	552
- Senior			598			598	552
- Mezzanine							
- Junior							
2. Off-balance sheet exposures							
- Senior							
- Mezzanine							
- Junior							

C.2 Asset disposals

C.2.1 Financial assets sold but not derecognised: book value and full value

Technical forms/Portfolio	Financial assets held for trading			Financial assets designated at fair value through profit and loss			Financial assets available for sale			Financial assets held to maturity			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31.12.2013	31.12.2012
A. Cash assets							**204,152**			**59,516**									**263,668**	**132,353**
1. Debt securities							204,152			59,516									263,668	132,353
2. Equity instruments																				
3. UCITS units																				
4. Loans																				
B. Derivatives																				
Total 31/12/2013							**204,152**			**59,516**									**263,668**	
of which: non-performing																				
Total 31/12/2012																				**132,353**
of which: non-performing																				

Key:

A = Financial assets sold and recognised in full (book value)
B = Financial assets sold and recognised in part (book value)
C = Financial assets sold and recognised in part (full value)

C.2.2 Financial liabilities pertaining to financial assets sold but not derecognised: book value

Liabilities/Portfolio assets	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Financial assets held to maturity	Due from banks	Loans to customers	Total
1. Due to customers			**261,177**	**65,030**			**326,207**
a) pertaining to assets recognised in full			261,177	65,030			326,207
b) pertaining to assets recognised in part							
2. Due to banks							
a) pertaining to assets recognised in full							
b) pertaining to assets recognised in part							
Total 31/12/2013			**261,177**	**65,030**			**326,207**
Total 31/12/2012			**116,782**	**15,304**			**132,086**

SECTION 2 – MARKET RISK

2.1 Interest rate risk and price risk - Trading portfolio reported for supervisory purposes

Qualitative information

A General aspects

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

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

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

Trading by the Finance Department is subject to operating limits as set out in the "Risk policy" and in the "Consolidated Texts"; in order to mitigate market risk, specific limits have been set for size, duration and VaR 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. The results of monitoring are provided daily to the head of the Finance Department and to General Management.

Together with the above controls, Banco Desio also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the risk management function, which operates in complete autonomy from the operational areas.

For the quantification of generic risks, Banco Desio has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum 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 model is parametric of a variance-covariance type for linear tools with the approximation of the delta-gamma type for optional instruments, and uses a confidence interval of 99% with a period of 10 days, in line with the recommendations set out by the Basel Committee. The model covers the assets, in terms of financial instruments, included in both the management and trading portfolios, as defined in the rules governing supervisory reports and subject to the capital requirements for market risks.

The model uses matrices that contain the standard deviations of each risk factor (interest rates, exchange rates and prices) and their correlations. The calculation of the volatilities and correlations is based on the modelling assuming normality in the daily logarithmic returns of the risk factors, using an exponential weighting based on a decay factor with a time interval of 250 observations.

The application used to calculate the VaR is ALMpro, while the financial information needed to determine VaR (volatility, correlations, term structure of interest rates, exchange rates, equity indices and benchmark indices) are provided by RiskSize.

To date, currency and interest rate derivatives and options on equities and indices entered into for trading purposes are excluded from the analysis; in any case, they are treated in the same way as brokerage.
The VaR of equities is measured by taking into account the relationship (so-called *"beta coefficient"*) that exists between the performance of an individual instrument to that of its benchmark index (equity index or benchmark index for mutual funds).

Stress tests are carried out through parallel shifts in the yield curve, assuming variations of +/-100 basis points only for positions that are sensitive to interest rates.

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

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: **EURO**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets		560						
1.1 Debt securities		560						
- with early redemption option								
- other		560						
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		129,621	4,184	6,747	6,982			
3.1 With underlying security		12,928	3,105	1,620	4,076			
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		2,139	3,105	1,620	3,970			
+ Short positions		10,789			106			
3.2 Without underlying security		116,693	1,079	5,127	2,906			
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		58,091	855	2,564	1,453			
+ Short positions		58,602	854	2,563	1,453			

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: **US DOLLAR**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		66,797	1,694	5,032	2,900			
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security		66,797	1,694	5,032	2,900			
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		33,574	847	2,516	1,450			
+ Short positions		33,223	847	2,516	1,450			

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: **POUND STERLING**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		38,924						
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security		38,924						
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		19,435						
+ Short positions		19,489						

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: **SWISS FRANC**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		233						
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security		233						
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		117						
+ Short positions		116						

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: **JAPANESE YEN**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		5,613						
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security		5,613						
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		2,934						
+ Short positions		2,679						

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: **CANADIAN DOLLAR**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		422						
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security		422						
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		211						
+ Short positions		211						

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: **OTHER**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		4,045						
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security		4,045						
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		2,013						
+ Short positions		2,032						

3 Trading portfolio for supervisory purposes: internal models and other methodologies for the analysis of sensitivity

The monitoring of the “trading portfolio reported for supervisory purposes” in 2013 evidenced a structure with limited market risks. Given the policy of Banco Desio of underweighting price risk, almost all of the "trading portfolio for supervisory purposes" is exposed to interest rate risk.

Related VaR at 31.12.2013 amounted to € 4 thousand, with a percentage lower than 1% of the trading portfolio.

The scenario analyses carried out in terms of parallel shifts in the yield curve, assuming variations of +/-100 basis points only for positions that are sensitive to interest rates and considering a positive change in interest rates, at 31.12.2013 show a negative impact of Euro 23 thousand.

2.2 Interest rate risk and price risk - Banking book

Qualitative information

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

The measurement of interest rate risk is performed by risk management, which is autonomous with respect to operational areas. All of the Bank's business associated with the transformation of maturities of assets and liabilities, treasury operations and the respective hedging derivatives is monitored with Asset and Liability Management (ALM) methodologies using ALMpro. Risks are measured monthly from a static perspective; the simulation form that makes it possible to monitor and manage interest rate risk from a dynamic standpoint is also active.

The static analysis currently performed allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income.

The model covers assets and liabilities exposed to interest rate risk included in the banking book and in the financial statements. In this context, the results of the banking book for financial statement purposes are also presented, excluding analysis of financial instruments in the trading portfolio for supervisory purposes.

The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of several variants of GapAnalysis in order to achieve more accurate estimates.

The changes in the economic value of assets and liabilities are analysed by applying Duration Gap and Sensitivity Analysis approaches.

The analyses are performed through parallel shifts in the yield curve and specific scenarios of changes in market interest rates.

B. Fair value hedges

The Bank's primary objective is to manage in a prudent and active manner the risks associated with operations, that is, to manage them with a specific risk profile, which permits any opportunities arising from changes in risk to be taken advantage of.

To date, the Bank has only used fair value hedges in order to protect the income statement from risks arising from adverse changes in fair value; the objective of a hedge is to offset any changes in the fair value of the hedged instrument with changes in the fair value of the hedging instrument. To date, hedged instruments relate to both assets and liabilities, the latter being only bonds, while derivative instruments consisting of unquoted securities - mainly interest rate swaps and interest rate options - are used as hedging instruments only to hedge interest rate risk.

Banco Desio has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards (IAS). The methodology used by the Bank to perform effectiveness tests is the “Dollar Offset Method” (hedge ratio) on a cumulative basis, that is, a comparison of the change in fair value of the hedging instrument with that of the hedged instrument. All hedges are specific.

Banco Desio applies the fair value option for certain types of bonds, with the aim of making the entire fair value of the financial instrument more reliable and representative.

C. Cash flow hedges

Banco Desio has not taken out any cash flow hedges.

Quantitative information

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Currency: **EURO**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**1,452,157**	**4,118,259**	**601,142**	**495,818**	**766,964**	**249,287**	**148,285**	**1,288**
1.1 Debt securities		106,838	407,715	396,424	307,789	228,256	146,517	
- with early redemption option		27,046				1,001		
- other		79,792	407,715	396,424	307,789	227,255	146,517	
1.2 Loans to banks	34,203	92,096						
1.3 Loans to customers	1,417,954	3,919,325	193,427	99,394	459,175	21,031	1,768	1,288
- current accounts	942,083	582,305	2,026	3,809	53,975	1,001		788
other loans	475,871	3,337,020	191,401	95,585	405,200	20,030	1,768	500
- with early redemption option	50,441	2,605,987	142,192	73,647	229,977	16,817	1,173	7
- other	425,430	731,033	49,209	21,938	175,223	3,213	595	493
2. Cash liabilities	**3,157,098**	**2,215,542**	**483,176**	**369,898**	**1,099,941**			
2.1 Due to customers	3,136,915	1,331,698	183,746	103,259	15,000			
- current accounts	3,087,387	1,055,514	133,705	103,256	15,000			
other payables	49,528	276,184	50,041	3				
- with early redemption option								
- other	49,528	276,184	50,041	3				
2.2 Due to banks	16,315	412,362						
- current accounts	5,813							
- other payables	10,502	412,362						
2.3 Debt securities in issue	3,868	471,482	299,430	266,639	1,084,941			
- with early redemption option								
- other	3,868	471,482	299,430	266,639	1,084,941			
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security								
Options								
+ Long positions		20,497	26,569	38,978	189,393	33,272	39,197	
+ Short positions	15,496	289,388	7,373	3,688	31,961			
Other								
+ Long positions		87,500		60,000	79,617			
+ Short positions		197,117	30,000					
4. Other off-balance sheet transactions								
+ Long positions	(79,057)							
+ Short positions	79,057							

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Currency: **US DOLLAR**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**31,088**	**55,297**	**175**					
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	30,179	34,534						
1.3 Loans to customers	909	20,763	175					
- current accounts								
other loans	909	20,763	175					
- with early redemption option								
- other	909	20,763	175					
2. Cash liabilities	**52,011**	**34,504**						
2.1 Due to customers	40,932	6,934						
- current accounts	40,932	6,934						
other payables								
- with early redemption option								
- other								
2.2 Due to banks	11,079	27,570						
- current accounts	11,079							
- other payables		27,570						
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions		(340)						
+ Short positions		340						

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Currency: **POUND STERLING**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**1,176**	**2,291**						
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	604	1,656						
1.3 Loans to customers	572	635						
- current accounts	572							
other loans		635						
- with early redemption option								
- other		635						
2. Cash liabilities	**981**	**2,375**						
2.1 Due to customers	948							
- current accounts	948							
other payables								
- with early redemption option								
- other								
2.2 Due to banks	33	2,375						
- current accounts	33							
- other payables		2,375						
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions								
+ Short positions								

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Currency: **SWISS FRANC**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**194**	**10,365**						
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	192	8,553						
1.3 Loans to customers	2	1,812						
- current accounts	2							
other loans		1,812						
- with early redemption option								
- other		1,812						
2. Cash liabilities	**10,545**							
2.1 Due to customers	2,966							
- current accounts	2,966							
other payables								
- with early redemption option								
- other								
2.2 Due to banks	7,579							
- current accounts	7,579							
- other payables								
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions		(23)						
+ Short positions		23						

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Currency: **JAPANESE YEN**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**652**	**2,899**						
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	371							
1.3 Loans to customers	281	2,899						
- current accounts	2							
other loans	279	2,899						
- with early redemption option								
- other	279	2,899						
2. Cash liabilities	**256**	**3,684**						
2.1 Due to customers	256							
- current accounts	256							
other payables								
- with early redemption option								
- other								
2.2 Due to banks		3,684						
- current accounts								
- other payables		3,684						
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions		(2)						
+ Short positions		2						

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Currency: **CANADIAN DOLLAR**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**263**	**71**						
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	263							
1.3 Loans to customers		71						
- current accounts								
other loans		71						
- with early redemption option								
- other		71						
2. Cash liabilities	**264**	**70**						
2.1 Due to customers	264							
- current accounts	264							
other payables								
- with early redemption option								
- other								
2.2 Due to banks		70						
- current accounts								
- other payables		70						
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions								
+ Short positions								

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Currency: **OTHER**

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**2,028**							
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	2,027							
1.3 Loans to customers	1							
- current accounts	1							
other loans								
- with early redemption option								
- other								
2. Cash liabilities	**1,900**	**3**						
2.1 Due to customers	1,898							
- current accounts	1,898							
other payables								
- with early redemption option								
- other								
2.2 Due to banks	2	3						
- current accounts	2							
- other payables		3						
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions								
+ Short positions								

2. Banking book: internal models and other methodologies for the analysis of sensitivity

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

The following table shows the results of the impact on the interest margin - from a static perspective and in the absence of behavioural models for demand items - of the analyses carried out at 31 December 2013, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 31.12.2013

	+100 bps	*-100 bps*
% of the expected margin	*2.47%*	*-11.78%*
% of net interest and other banking income	*1.51%*	*-7.19%*
% of shareholders' equity	*0.44%*	*-2.08%*

In terms of economic value, the results, which were estimated with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, evidenced a risk exposure for 2013 that has been maintained at levels that do not significantly impact total capital.

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

Risk ratios: parallel shifts in the yield curve at 31.12.2013

	+100 bps	*-100 bps*
% of the economic value	*-2.13%*	*2.38%*

2.3 EXCHANGE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

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

The Bank is marginally exposed to foreign exchange risk. The Operations Room of the Finance Department manages forex operations, with respect to which it:

- operates in domestic and international foreign exchange, interest rate and foreign currency deposits markets;
- executes spot and forward currency contracts on its own account and on behalf of customers;
- executes currency forwards and foreign currency deposits with resident and non resident counterparties.

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

B. Hedging of exchange risk

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

Quantitative information

1. Distribution by currency of denomination of assets, liabilities and derivatives

Captions	US Dollar	Pound Sterling	Yen	Canadian Dollar	Swiss Franc	Other currencies
A. Financial assets	**86,560**	**3,466**	**3,551**		**10,560**	**2,028**
A.1 Debt securities						
A.2 Equity instruments						
A.3 Loans to banks	64,713	2,260	371		8,746	2,027
A.4 Loans to customers	21,847	1,206	3,180		1,814	1
A.5 Other financial assets						
B. Other assets	**240**	**168**	**9**		**111**	**45**
C. Financial liabilities	**86,514**	**3,357**	**3,940**		**10,545**	**1,903**
C.1 Due to banks	38,649	2,409	3,684		7,579	5
C.2 Due to customers	47,865	948	256		2,966	1,898
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities	**346**	**50**			**2**	
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other						
+ Long positions	38,387	19,435	2,934		117	2,013
+ Short positions	38,036	19,489	2,679		116	2,032
Total assets	**125,187**	**23,069**	**6,494**		**10,788**	**4,086**
Total liabilities	**124,896**	**22,896**	**6,619**		**10,663**	**3,935**
Net balance (+/-)	**291**	**173**	**(125)**		**125**	**151**

2. Internal models and other methodologies for the analysis of sensitivity

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

2.4 DERIVATIVE INSTRUMENTS

A. Financial derivatives

A.1 Regulatory trading book: notional values at the end of period and average notional values

Underlying assets/Type of derivatives	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
2. Equities and equity indices		**33**		**15**
a) Options		33		15
b) Swap				
c) Forward				
d) Futures				
e) Other				
3. Currency and gold	**115,222**		**93,798**	
a) Options				
b) Swap				
c) Forward	115,222		93,798	
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**115,222**	**33**	**93,798**	**15**
Average amounts	**8,771**	**33**	**5,293**	**15**

A.2 Banking book: period-end notional values

PARTE E - RISCHIO DI MERCATO - DERIVATI - A.2.1

A.2.1 Hedging

Underlying assets/Type of derivatives	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**189,217**		**281,637**	
a) Options				
b) Swap	189,217		281,637	
c) Forward				
d) Futures				
e) Other				
2. Equities and equity indices				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
3. Currency and gold				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**189,217**		**281,637**	
Average amounts	**189,217**		**239,970**	

A.2.2 Other derivatives

Underlying assets/Type of derivatives	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**103,700**		**103,700**	
a) Options	65,800		65,800	
b) Swap	37,900		37,900	
c) Forward				
d) Futures				
e) Other				
2. Equities and equity indices				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
3. Currency and gold				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**103,700**		**103,700**	
Average amounts	**103,700**			

A.3 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Positive fair value			
	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**497**	**33**	**309**	**15**
a) Options		33		15
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards	497		309	
f) Futures				
g) Other				
B. Banking book - hedging	**5,052**		**9,005**	
a) Options				
b) Interest rate swaps	5,052		9,005	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives	**1,541**		**2,125**	
a) Options				
b) Interest rate swaps	1,541		2,125	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**7,090**	**33**	**11,439**	**15**

A.4 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Negative fair value			
	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**480**		**300**	
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards	480		300	
f) Futures				
g) Other				
B. Banking book - hedging	**2,894**		**6,696**	
a) Options				
b) Interest rate swaps	2,894		6,696	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**3,374**		**6,996**	

A.5 OTC financial derivatives - regulatory trading book: notional values, positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
2. Equities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
3. Currency and gold							
- notional value			57,030	42,998		10,182	5,012
- positive fair value			336	26		127	9
- negative fair value			138	300		15	28
- future exposure			629	430		160	50
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

A.6 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements

Contracts that form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value			292,917				
- positive fair value			6,593				
- negative fair value			2,894				
2. Equities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
3. Currency and gold							
- notional value							
- positive fair value							
- negative fair value							
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							

A.9 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Trading portfolio for supervisory purposes	**112,322**	**2,900**		**115,222**
A.1 Financial derivatives linked to debt securities and interest rates				
A.2 Financial derivatives linked to equities and stock indices				
A.3 Financial derivatives linked to exchange rates and gold	112,322	2,900		115,222
A.4 Financial derivatives linked to other instruments				
B. Banking book	**167,500**	**125,417**		**292,917**
B.1 Financial derivatives linked to debt securities and interest rates	167,500	125,417		292,917
B.2 Financial derivatives linked to equities and stock indices				
B.3 Financial derivatives linked to exchange rates and gold				
B.4 Financial derivatives linked to other instruments				
Total 31/12/2013	**279,822**	**128,317**		**408,139**
Total 31/12/2012	**219,118**	**240,017**	**20,000**	**479,135**

B. Credit derivatives

B.1 Credit derivatives: notional values at the end of period and average notional values

Type of transaction	Trading portfolio for supervisory purposes		Banking book – other contracts	
	on a single entity	on baskets of entities	on a single entity	on baskets of entities
1. Purchases of protection				
a) Credit default products				
b) Credit spread products				
c) Total rate of return swaps				
d) Other				
Total 31/12/2013				
Average amounts				
Total 31/12/2012				
2. Sales of protection				
a) Credit default products	25,000			
b) Credit spread products				
c) Total rate of return swaps				
d) Other				
Total 31/12/2013	**25,000**			
Average amounts	**25,000**			
Total 31/12/2012	**25,000**			

B.2 OTC credit derivatives: positive gross fair value - breakdown by product

Portfolio/Type of derivatives	Positive fair value	
	31.12.2013	31.12.2012
A. Trading portfolio for supervisory purposes	164	
a) Credit default products	164	
b) Credit spread products		
c) Total rate of return swaps		
d) Other		
B. Banking book		
a) Credit default products		
b) Credit spread products		
c) Total rate of return swaps		
d) Other		
Total	**164**	

B.3 OTC credit derivatives: negative gross fair value - breakdown by product

Portfolio/Type of derivatives	Negative fair value	
	31.12.2013	31.12.2012
A. Trading portfolio for supervisory purposes		176
a) Credit default products		176
b) Credit spread products		
c) Total rate of return swaps		
d) Other		
B. Banking book		
a) Credit default products		
b) Credit spread products		
c) Total rate of return swaps		
d) Other		
Total		**176**

B.4 OTC credit derivatives: positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
Regulatory trading							
1. Purchase of protection							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
2. Sale of protection							
- notional value			25,000				
- positive fair value			164				
- negative fair value							
- future exposure			2,500				
Banking book							
1. Purchase of protection							
- notional value							
- positive fair value							
- negative fair value							
2. Sale of protection							
- notional value							
- positive fair value							
- negative fair value							

B.6 Residual life of credit derivatives: notional values

Underlying/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Trading portfolio for supervisory purposes		**25,000**		**25,000**
A.1 Credit derivatives with qualified reference obligation		25,000		25,000
A.2 Credit derivatives with unqualified reference obligation				
B. Banking book				
B.1 Credit derivatives with qualified reference obligation				
B.2 Credit derivatives with unqualified reference obligation				
Total 31/12/2013		**25,000**		**25,000**
Total 31/12/2012		**25,000**		**25,000**

- **Financial and credit derivatives**

PARTE E - RISCHIO DI MERCATO - DERIVATI - C.1

C.1 OTC Financial and credit derivatives: net fair values and future exposure by counterparty

	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Bilateral financial derivative agreements			**8,207**				
- positive fair value			5,953				
- negative fair value			2,254				
- future exposure							
- net counterparty risk							
2) Bilateral credit derivative agreements							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3) Cross product agreements							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							

SECTION 3 - LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Finance Department with the aim of meeting liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market. The monitoring of and periodic reporting on liquidity risk is carried out by the Risk Management Office in compliance with the threshold of tolerance for this kind of risk as determined by the Policy for the management of liquidity risk.

Treasury activities consist of procuring and allocating available liquidity through the interbank market, open market operations and transactions in repurchase agreements and derivatives.

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

The counterbalancing capacity model allows us to integrate the report with all of the free assets that can readily be used, both to be eligible for refinancing with the ECB and to be sold. Next to the application of haircuts determined by the ECB for eligible securities, appropriate discount factors are prepared (divided by type of security, rating and currency), also for all securities not eligible, but still considered marketable if appropriately positioned in time buckets.

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

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

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

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

- outflow from overdrafts repayable on demand considered non core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) due to unpaid instalments;
- decrease in value of the owned securities portfolio (Available for Sale – AFS);
- repurchase of Bonds issued by the Group;
- use of available facilities for revocable lines of credit (call risk);
- increase in haircuts applied to eligible owned securities that fall within ECB Category I (government bonds).

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

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

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

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

Quantitative information

1. Distribution of financial assets and liabilities by residual contractual duration - Currency: EURO

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**1,652,470**	**41,761**	**130,019**	**278,899**	**473,715**	**397,211**	**793,010**	**2,433,142**	**1,786,165**	**92,174**
A.1 Government securities					5,807	106,790	409,862	615,470	360,000	
A.2 Other debt securities	15			228	97	18,607	586	87,400	6,176	86
A.3 UCITS units	25,906									
A.4 Loans	1,626,549	41,761	130,019	278,671	467,811	271,814	382,562	1,730,272	1,419,989	92,088
- Banks	53,138									92,088
- Customers	1,573,411	41,761	130,019	278,671	467,811	271,814	382,562	1,730,272	1,419,989	
Cash liabilities	**3,765,644**	**326,946**	**75,645**	**245,626**	**478,835**	**391,824**	**418,004**	**1,664,575**		
B.1 Current accounts and deposits	3,739,945	37,549	64,551	167,652	200,232	134,892	105,201	14,828		
- Banks	16,314		6,815							
- Customers	3,723,631	37,549	57,736	167,652	200,232	134,892	105,201	14,828		
B.2 Debt securities	3,903	14,424	11,043	77,884	277,541	204,132	311,102	1,247,074		
B.3 Other liabilities	21,796	274,973	51	90	1,062	52,800	1,701	402,673		
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions		5,176	805	48,617	5,612	3,773	4,167	5,539		
- Short positions		16,386	805	48,619	3,582	854	2,563	1,558		
C.2 Financial derivatives without exchange of capital										
- Long positions				550	1,420	460	1,440			
- Short positions					201	25	134			
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions	(10)						(2,087)	(49,813)	(27,148)	
- Short positions	79,057									
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	(164)
- Short positions	

1. **Distribution of financial assets and liabilities by residual contractual duration - Currency: US DOLLAR**

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**31,104**	**8,009**	**10,354**	**33,025**	**4,319**	**2**			**11**	
A.1 Government securities										
A.2 Other debt securities									11	
A.3 UCITS units										
A.4 Loans	31,104	8,009	10,354	33,025	4,319	2				
- Banks	30,179	7,274	6,937	20,340						
- Customers	925	735	3,417	12,685	4,319	2				
Cash liabilities	**52,011**		**14,189**	**20,329**						
B.1 Current accounts and deposits	52,011		14,189	20,329						
- Banks	11,079		7,253	20,329						
- Customers	40,932		6,936							
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions										
C.1 Financial derivatives with										
- Long positions		3,580	795	26,187	3,011	847	2,516	1,450		
- Short positions		3,230	796	26,172	3,026	847	2,516	1,450		
C.2 Financial derivatives without										
- Long positions										
- Short positions										
C.3 Deposits and loans to be										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to										
- Long positions		(340)								
- Short positions		340								
C.5 Financial guarantees given										
C.6 Financial guarantees received										
C.7 Credit derivatives with										
- Long positions										
- Short positions										
C.8 Credit derivatives without										
- Long positions										
- Short positions										

1. Distribution of financial assets and liabilities by residual contractual duration - Currency: POUND STERLING

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	**1,177**		**157**	**428**	**1,710**					
A.1 Government securities										
A.2 Other debt securities										
A.3 UCITS units										
A.4 Loans	1,177		157	428	1,710					
- Banks	604				1,658					
- Customers	573		157	428	52					
Cash liabilities	**981**		**720**		**1,658**					
B.1 Current accounts and deposits	981		720		1,658					
- Banks	33		720		1,658					
- Customers	948									
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions		693		18,742						
- Short positions		747		18,742						
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions										
- Short positions										
C.5 Financial guarantees given										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

1. Distribution of financial assets and liabilities by residual contractual duration - Currency: SWISS FRANC

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	**194**		**9,354**	**677**	**345**					
A.1 Government securities										
A.2 Other debt securities										
A.3 UCITS units										
A.4 Loans	194		9,354	677	345					
- Banks	192		8,553							
- Customers	2		801	677	345					
Cash liabilities	**10,545**									
B.1 Current accounts and deposits	10,545									
- Banks	7,579									
- Customers	2,966									
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions		117								
- Short positions		116								
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions		(23)								
- Short positions		23								
C.5 Financial guarantees given										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

1. Distribution of financial assets and liabilities by residual contractual duration - Currency: CANADIAN DOLLAR

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										
A.1 Government securities										
A.2 Other debt securities										
A.3 UCITS units										
A.4 Loans										
- Banks										
- Customers										
Cash liabilities										
B.1 Current accounts and deposits										
- Banks										
- Customers										
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions										
- Short positions										
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions										
- Short positions										
C.5 Financial guarantees given										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

1. Distribution of financial assets and liabilities by residual maturity - Currency: JAPANESE YEN

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	**652**		**2,505**	**404**	**10**					
A.1 Government securities										
A.2 Other debt securities										
A.3 UCITS units										
A.4 Loans	652		2,505	404	10					
- Banks	371									
- Customers	281		2,505	404	10					
Cash liabilities	**256**		**3,684**							
B.1 Current accounts and deposits	256		3,684							
- Banks			3,684							
- Customers	256									
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions		366		2,567						
- Short positions		112		2,567						
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions		(2)								
- Short positions		2								
C.5 Financial guarantees given										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

1. Distribution of financial assets and liabilities by residual contractual duration - Currency: OTHER CURRENCIES

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**2,291**		**51**		**21**					
A.1 Government securities										
A.2 Other debt securities										
A.3 UCITS units										
A.4 Loans	2,291		51		21					
- Banks	2,290									
- Customers	1		51		21					
Cash liabilities	**2,164**		**70**	**3**						
B.1 Current accounts and deposits	2,164		70	3						
- Banks	2		70	3						
- Customers	2,162									
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions		861		833	530					
- Short positions		881		833	530					
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions										
- Short positions										
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										

2. Information on committed assets recorded in the financial statements

2. Information on committed assets recorded in the financial statements

Technical forms	Committed		Uncommitted		31.12.2013	31.12.2012
	BV	FV	BV	FV		
1. Cash and cash equivalents			24,322		24,322	
2. Debt securities	887,492	896,186	706,610	706,179	3,196,467	
3. Equity instruments			7,596	6,035	13,631	
4. Loans	26,860		6,319,298		6,346,158	
5. Other financial assets			150,671		150,671	
6. Non-financial assets			331,530		331,530	
Total 31.12.2013	**914,352**	**896,186**	**7,540,027**	**712,214**	**10,062,779**	
Total 31.12.2012						

3. Information on own committed assets not recorded in the financial statements

Technical forms	Committed	Uncommitted	31.12.2013	31.12.2012
1. Financial assets	184,466	76,673	261,139	
- Securities	184,466	76,673	261,139	
- Other				
2. Non-financial assets				
Total 31.12.2013	**184,466**	**76,673**	**261,139**	
Total 31.12.2012				

SECTION 4 - OPERATIONAL RISK

Qualitative information

A. General aspects, management and measurement of operational risk

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

Banco Desio e della Brianza uses the above definition of operational risk within the operational risk management model approved and formalised in the course of 2013.

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

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

II. Measurement: economic measurement of operational risks linked to the Bank's operations;

III. Monitoring and reporting: collection and structured organisation of the results in order to monitor the evolution of operational risk exposure;

IV. Mitigation and control: 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 (active since 2007);
- Risk Self Assessment – structured process for the measurement of operational risks designed to have complete vision of risk events in terms of the potential impact and the worst case impact.

With respect to the detrimental events gathered in the Corporate Database of Operational Losses (DBPOA), a reporting system was implemented some time ago that is capable of providing senior management with information (at aggregate level and in detail) concerning the events in question: number of events, amount of losses, gross and net of any recoveries, at predefined intervals.

In the course of 2013, the reporting was supplemented with the results from the Risk Self Assessment process and, in compliance with internal regulations, was sent to all the control functions and to the main operational functions.

For risk management of criminal offences pursuant to Legislative Decree 231/2001 “Regulation of the administrative liability of legal entities, companies and associations with or without legal personality”, the Bank has adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned, in compliance with the law and with guidance provided by relevant trade associations, to specific bodies.

In the course of 2013, this model was further updated to take account of new underlying offences (improper induction to give or promise utility, private bribery and employment of illegal workers), of changes made to the organisation chart and of new internal regulations.

As regards the management of risks impacting the Bank's business continuity, a Business continuity plan has been prepared: some time ago, measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), a Disaster Recovery website was prepared, as an alternative to that for normal business operations, to be used in the event of an emergency and for the performance of related testing. Furthermore, in the course of 2013, the measures adopted for business continuity management and for the oversight of the IT provider were updated.

As regards legal risk, the various corporate functions operate with standard contracts that have previously been vetted by the appropriate business structure. Accordingly, it should be noted that most of the ongoing legal disputes at the year end relate to disputes concerning revocatory actions, alleged usury and compound interest charges.

Banco Desio e della Brianza, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions. A summary table of legal disputes with the related provisions and a listing of the major lawsuits is shown below:

CLAW-BACK SUITS

Number	12
Claim	€ 4.619 million
Provision	€ 1.352 million

OTHER LAWSUITS

Number	154
Claim	€ 72.715 million
Provision	€ 7.948 million

SIGNIFICANT LAWSUITS (CLAIMS HIGHER THAN € 1,000,000)

- Plaintiff FAIRFIELD: claim € 2,692,000. Judicial procedure initiated by Fairfield Sentry Limited Fund brought before the United States Bankruptcy Court for the Southern District of New York against Banco di Desio e della Brianza S.p.A. in its capacity as custodian bank of a mutual fund managed by an Italian asset management company. This legal action is aimed at the recovery of payments made between 2005 and 2008 of a total amount of $3,853,221.77 by Fairfield Fund (put into liquidation as a result of the well known events involving Bernard L. Madoff) to the Bank (in its capacity as custodian bank) on behalf of the aforementioned mutual fund. The Bank acted as a mere intermediary in the relationship between Fairfield Fund and the aforementioned mutual fund;
- Claim€ 1,150,000. The counterparty opposed our injunction with a simultaneous counterclaim for a total amount of € 1,150,000.00. During the hearing, the court appointed expert witness declared that the Bank had acted correctly. The judgement of the Court of First Instance, which went in favour of the Bank, was appealed against. The decision of the Court of Appeal was to reject the counterparty's appeal and to fully accept the motives submitted in defence of the Bank. However, the Bank will continue to appear in court (next hearing October 2014). The process has commenced for the seizure of the asset associated with the mortgage loan (asset on which a lien has been granted as collateral for expenses incurred for the judgement of the Court of First Instance);
- Claim€ 45,608,320. By writ of summons, Formenti Seleco in Extraordinary Administration brought legal proceedings against Banco di Desio and 18 other banks, with which it had current accounts, seeking an order for payment, jointly and severally, of an amount of €45,608,320.00 as compensation for damages for predatory lending and for the payment of damages attributable to each defendant. The Bank appeared before the court. The court issued judgement in 2011 stating that the plaintiff lacked the capacity to sue and offset the litigation costs. By writ of summons, Formenti Seleco S.p.a. appealed against the above mentioned judgement, resubmitting substantially the same arguments as those put before the Court of First Instance. Having duly appeared before the court, the case was adjourned, with closing arguments to be presented at the hearing scheduled for 2.10.2014;
- Claim: € 2,000,000 - By writ of summons, Formenti Seleco brought legal proceedings against Banco Desio to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered the Bank to return an amount that was lower than the claim. Formenti Seleco S.p.A. lodged an appeal. Banco Desio, in order to avoid notification of a payment injunction, paid the amount fixed by the judgement made by the Court of First Instance, comprising capital, interest and legal fees, subject to restitution based on the outcome of the appeal proceedings ;
- Claim€ 1,103,000. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by the Bank and leased to Maggi Srl plus amounts paid into a current account. The receiver is of the belief that the payments were made by abnormal means (art. 65 of the Bankruptcy Law) since the cheques that were cashed were made out to Maggi Srl and not to the Bank. The Court of First Instance's

judgement went completely in favour of the Bank, but the receiver lodged an appeal, prior to the deadline, with the Milan Court of Appeal. The first hearing is scheduled for 26 April 2014;

- Claim € 2,784,809. This case was initiated with a writ of summons which contested the application of interest that was higher than legal and usury rates and which made a claim for expenses, recognition of value dates and for fees and commissions that were never agreed. The judge appointed an expert witness who will have the task of verifying the movements since the account was opened up to the current date. The next hearing, which is scheduled for 6 March 2014, will see the swearing in of the court appointed expert witness and the cross examination thereof. The expert appraisal will not take less than 12 to 18 months;
- Claim € 1,565,029.00. This case was initiated with a writ of summons which contested the application of interest that was higher than legal and usury rates and which made a claim for expenses, recognition of value dates and for fees and commissions that were never agreed. The judge appointed an expert witness who will have the task of verifying the movements since the account was opened up to the current date . The next hearing, which is scheduled for 6 March 2014, will see the swearing in of the court appointed expert witness and the cross examination thereof. The expert appraisal will not take less than 12 to 18 months.

TAX LITIGATION

We have the following to say about the Group's outstanding litigation with the Tax Authorities.

As regards the notices of assessment relating to 2006 (with respect to IRES, IRAP and VAT) and 2007 (with respect to IRAP and VAT), which were disclosed in the explanatory notes to the 2012 financial statements, on 4 December an out of court settlement was finalised between the Bank and the tax authorities, pursuant to paragraph comma 5 of art. 48 of Legislative Decree 546/1992. In particular, as far as VAT is concerned, the settlement reflects the terms and conditions of an agreement reached between the Italian Banking Association and the Tax Authorities on the taxation of fees charged by banks to asset management companies for custodian bank services, formalised by the Revenue Agency Resolution no. 97/E of 17 December 2013. The amounts agreed upon by the settlement were paid in full by the Bank on 6 December. On 9 December 2013, with reference to 2006, and on 16 December 2013, in respect of 2007, the Milan Provincial Tax Commissioners, having acknowledged the settlement reached by the parties, announced that they had dropped their case. The amounts agreed with the Tax Authorities were the following:

year	tax	additional tax	penalties	interest	total paid
2006	VAT	278		60	338
	Ires	208	97	51	356
	Irap	31	15	8	54
2007	VAT	352		67	419
Total		869	112	186	1,167

The VAT amounts paid of Euro 757 thousand were recharged to the asset management companies in accordance with the provisions of art. 60 para. 7 of Presidential Decree 633/72. The amounts relating to IRES and IRAP of Euro 411 thousand were recognised as costs debited to the provision for risks and charges that had been set up in prior years.

The tax inspection carried out by the Tax Police at Banco Desio, as disclosed in the notes to the 2011 and 2012 financial statements, was completed on 22 May 2013.

The irregularities pointed out in the official report of findings drawn up at the end of the inspection relate:

- for VAT purposes, as for the findings already reported for 2006 and 2007, to the failure to tax the commission earned in 2008, 2009 and 2010 for acting as the custodian bank for various mutual funds;
- for IRES purposes, for 2008, to the incorrect deduction of write-downs and loan losses, as they did not pertain to the period.

On 27 December 2013 the Lombardy regional tax office issued the Bank with notices of assessment relating to 2008, for IRES and VAT, based on the minutes of findings of the Tax Police of 22 May 2013. The amounts assessed by the tax office are the following:

	additional tax	penalties	interest	total
IRES (non-deductible write-downs and loan losses)	251	251	40	542
VAT (custodian bank fees)	343		57	400
Total	594	251	97	942

With reference to the notice of assessment in respect of IRES, the Bank filed a tax settlement proposal requesting the offset of the additional taxation assessed, as provided for by the Revenue Agency Circular no. 31/E of 2 August 2012, in addition to the annulment of part of the amount assessed relating to loan losses.

On 14 January 2014, the Bank complied with the assessment with respect to VAT, by accepting the findings and by paying the amounts assessed in full. Pursuant to art. 60 para. 7 of Presidential Decree 633/72, it will attempt to recover the amounts paid from the customers in question.

During the course of this inspection, the Tax Police began an audit on the foreign subsidiaries Brianfid SA in liquidation, CPC SA in liquidation and Rovere SdG.

At the end of this process, on 9 May 2013 the tax inspectors issued three separate reports of findings for allegedly claiming foreign status without justification. On July 2013, the Bank's observations on the reports of findings were presented to the relevant Revenue Agency pursuant to art. 12, paragraph 7, of Law no. 212/2000.

On 18 December 2013, the Monza and Brianza Regional Tax Office issued Mr. Broggi (General Manager of the Bank, whose employment relationship has since been terminated), in his capacity as de facto director of the foreign subsidiaries, with the following notices of assessment relating to Brianfid SA in liquidation, with reference to the 2003 tax year and relating to CPC SA in liquidation, in relation to the tax years from 2001 to 2004:

company	tax year	tax	additional tax	penalties	interest	total
Brianfid	2003	Irpeg	580	697	171	1,448
	2003	Irap	84		25	109
CPC	2001	Irpeg	571	686	212	1,469
	2001	Irap	135	161	50	346
	2002	Irpeg	336	404	108	848
	2002	Irap	130	156	42	328
	2003	Irpeg	341	442	100	883
	2003	Irap	144		42	186
	2004	Ires	396		106	502
	2004	Irap	147		39	186
Total			2,864	2,546	895	6,305

With respect to the above assessments, on 9 January 2014, applications, which were signed by Mr. Broggi, were filed for annulment in self defence and for a tax settlement proposal.

With reference to the aforementioned reports of findings relating to having allegedly claimed foreign status without justification, it cannot be excluded that additional assessments could be issued in relation to tax years not yet assessed.

In view of the aforementioned reports of findings and notices of assessment, the Bank, assisted by its tax advisors, has deemed it appropriate to increase the provision for risks and charges to cover the costs that could arise, inclusive of the related management costs.

Quantitative information

The number of detrimental events recorded by the Group in the course of 2013 comes to 465. The result of the process of collecting adverse events is summarised in the table below.

BDB Event type	No. events	% events	Gross loss	% of total	Net loss	% of total	Recoveries	% recoveries
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	62	13.33%	963	9.67%	919.39	9.90%	43	4.52%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	1	0.22%	2	0.02%	1.76	0.02%	-	0.00%
RELATIONAL ACTIVITY CONNECTED TO CUSTOMERS, PRODUCTS AND CHANNELS Losses due to inability (not intentional or negligent) to fulfil professional commitments taken with customers (including fiduciary requirements and adequate information on investments)	69	14.84%	4,148	41.65%	4,147.66	44.64%	-	0.00%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	10	2.15%	13	0.13%	4.59	0.05%	8	63.60%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	7	1.51%	39	0.39%	22.68	0.24%	16	41.27%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	316	67.96%	4,795	48.15%	4,194.96	45.15%	600	12.52%
TOTAL Banco Desio Brianza	465	100.00%	9,959	100.00%	9,291.03	100.00%	668	6.70%

PART F - INFORMATION ON SHAREHOLDERS' EQUITY

Section 1 – Shareholders' equity

A. Qualitative information

The Board of Directors has always paid a great deal of attention to the Bank's capital. It is well aware of its importance in inspiring confidence in external providers of finance, as it can be used to absorb losses, and of its importance for purely operational and business development purposes. A good level of capitalisation allows us to address the question of business development with the necessary degree of autonomy and to preserve the stability of the Bank.

The concept of book equity used by Banco Desio is given by the sum of the following liability captions: share capital, valuation reserves, reserves, share premium reserve and net profit (loss) for the period.

The policy of the Board of Directors is thus to assign a considerable priority to capital, so as to use it in the best way possible to expand the Bank's business and to maximise the return for shareholders, while maintaining a prudent risk profile. As regards this last aspect, it should be borne in mind that the main component of mandatory minimum capital requirements relates to credit risk associated with a diversified loan portfolio focused on the core sector of local businesses and households.

B. Quantitative information

B.1 Shareholders' equity: breakdown

Captions/Amounts	31/12/2013	31/12/2012
1. Share capital	67,705	67,705
2. Share premium reserve	16,145	16,145
3. Reserves	664,818	659,889
- revenue reserves	541,462	536,533
a) legal reserve	80,263	79,342
b) statutory reserve	464,233	460,784
c) reserve for treasury shares		
d) other	(3,034)	(3,593)
- other	123,356	123,356
3.bis Advance dividends		
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves	23,483	23,526
- Financial assets available for sale	2,259	1,931
- Property, plant and equipment		
- Intangible assets		
- Foreign investment hedges		
- Cash-flow hedges		
- Exchange differences	(732)	(174)
- Non-current assets and disposal groups held for sale		
- Actuarial gains (losses) on defined-benefit pension plans	(940)	(1,127)
- Portion of valuation reserves relating to investments carried at equity		
- Special revaluation laws	22,896	22,896
7. Net profit (loss)	9,427	9,205
Total	**781,578**	**776,470**

B.2 Valuation reserves for financial assets available for sale: breakdown

Assets/Amounts	12/31/2013 Positive reserve	12/31/2012 Negative reserve	Total 31/12/2012 Positive reserve	Negative reserve
1. Debt securities	4,308	(2,643)	7,340	(6,246)
2. Equity instruments	397	-	158	-
3. UCITS units	405	(208)	749	(70)
4. Loans				
Total	**5,110**	**(2,851)**	**8,247**	**(6,316)**

B.3 Valuation reserves pertaining to financial assets available for sale: changes in the year

	Debt securities	Equity instruments	UCITS units	Loans
1. Opening balance	**1,094**	**158**	**679**	
2. Positive changes	**9,268**	**239**	**278**	
2.1 Fair value increases	3,962	239	214	
2.2 Reversal to income statement of negative reserves	2,040		64	
- from impairment	190			
- from disposals	1,850		64	
2.3 Other changes	3,266			
3. Negative changes	**(8,697)**		**(760)**	
3.1 Fair value decreases	(1,640)		(203)	
3.2 Impairment adjustments				
3.3 Reversal to income statement from positive reserve: from disposals	(7,002)		(556)	
3.4 Other changes			(1)	
4. Closing balance	**1,665**	**397**	**197**	

Section 2 – Capital and capital adequacy ratios

2.1 Capital for supervisory purposes

A. Qualitative information

The Board of Directors pays a great deal of attention to the concept of capital for supervisory purposes. The determination of regulatory capital is undoubtedly important given the centrality of this aggregate for the checks carried out by the authorities to ensure the stability of the banking system. In fact, on it are based the most important instruments of control, such as the solvency ratio and minimum capital requirements for risks, the rules on risk concentration and the transformation of maturities. The applicable regulation, in compliance with EU directives, indicates the method for the calculation of capital for supervisory purposes. The latter consists of the sum of Tier 1 capital – included in the calculation without any limitation – plus Tier 2 capital, which is limited to the amount of Tier 1 capital. From this sum, a deduction is made for equity investments, hybrid capital instruments and subordinated assets held in other banks and financial companies.

At 31 December 2013 the Bank's capital for supervisory purposes consists of the following:

description	31.12.2013	31.12.2012
Tier 1 capital	741,552	728,794
Tier 2 capital	68,252	73,643
Amounts to be deducted	-	-
Capital for supervisory purposes	809,804	802,437

1. Tier 1 capital

Share capital, share premium reserve, reserves, undistributed profits of the period and innovative capital instruments are the most important elements. Negative elements, primarily consisting of intangible assets, goodwill and the deductions arising from the application of prudential filters, are subtracted from these positive elements.

Tier 1 capital represents 92% of regulatory capital.

2. Tier 2 capital

Valuation reserves, innovative capital instruments not included in Tier 1 capital, hybrid capital instruments, subordinated liabilities and net capital gains on investments are the main positive elements of Tier 2 capital. The deductions foreseen by the application of prudential filters are subtracted from these positive elements.

Tier 2 capital is equal to about 8% of regulatory capital.

3. Tier 3 capital

It is made up of the share of subordinated liabilities not calculated in Tier 2 capital because over 50% of Tier 1 capital before items to be deducted and Tier 3 subordinated liabilities. This aggregate can only be used to cover the capital requirements for market risks up to a maximum of 71.4% of such risks.

B. Quantitative information

	31/12/2013	31/12/2012
A. Core capital (Tier 1 capital before the application of prudential filters)	**746,840**	**739,683**
B. Prudential filters of Tier 1 capital:	- 1,114	- 2,871
B1 - positive IFRS prudential filters (+)	-	-
B2 - negative IFRS prudential filters (-)	1,114	2,871
C. Tier 1 capital gross of items to be deducted (A+B)	745,726	736,812
D. Items to be deducted from Tier 1 capital	4,174	8,018
E. Total Tier 1 capital (C-D)	**741,552**	**728,794**
F. Supplementary capital (Tier 2 capital before the application of prudential filters)	**73,555**	**82,627**
G. Prudential filters for Tier 2 capital:	- 1,129	- 965
G1- positive IFRS prudential filters (+)	-	-
G2- negative IFRS prudential filters (-)	1,129	965
H. Tier 2 capital gross of items to be deducted (F+G)	**72,425**	**81,662**
I. Items to be deducted from Tier 2 capital	4,174	8,018
L. Total Tier 2 capital (H-I)	**68,252**	**73,643**
M. Items to be deducted from Tier 1 and Tier 2 capital	-	-
N. Capital for supervisory purposes (E+L-M)	**809,804**	**802,437**
O. Tier 3 capital	**-**	**-**
P. Capital for supervisory purposes including Tier 3 (N+O)	**809,804**	**802,437**

2.2 Capital adequacy

A. Qualitative information

The Prudential Supervisory regulations require banks to have a minimum amount of capital for supervisory purposes that equates to 8% of total risk weighted assets (credit and counterparty, market and operational). For banks that belong to banking groups that comply with the limit of 8% at consolidation level, this requirement is reduced to 25%. The rules for the determination of the total capital requirement and the Bank's capital structure provide the following ratios at 31 December 2013:

- Tier 1 capital/risk-weighted assets (1) 17.97 %
- Capital for supervisory purposes/risk-weighted assets (1) 19.62 %

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

(1) Risk-weighted assets are determined as the product of total capital requirements times the reciprocal of the minimum mandatory coefficient for credit risks.

B. Quantitative information

Capital adequacy ratios

Description/Amounts	Unweighted amounts		Weighted amounts/Requirements	
	31/12/2013	**31/12/2012**	**31/12/2013**	**31/12/2012**
A. ASSETS AT RISK				
A.1 CREDIT AND COUNTERPARTY RISK	**8,470,693,834**	**7,809,385,737**	**4,936,711,658**	**4,786,892,712**
1. STANDARDISED METHODOLOGY	8,470,096,079	7,808,833,967	4,936,113,903	4,786,340,942
2. METHODOLOGY BASED ON INTERNAL RATINGS				
2.1 Basic				
2.2 Advanced				
3. SECURITISATIONS	597,755	551,770	597,755	551,770
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			**394,936,933**	**382,951,417**
B.2 MARKET RISKS			**120,239**	**107,545**
1. STANDARDISED METHODOLOGY			120,239	107,545
2. INTERNAL MODELS				
3. CONCENTRATION RISK				
B.3 OPERATIONAL RISK			**45,124,312**	**42,475,795**
1. BASIC APPROACH			45,124,312	42,475,795
2. STANDARDISED APPROACH				
3. ADVANCED APPROACHES				
B.4 OTHER PRECAUTIONARY REQUIREMENTS				
B.5 OTHER ITEMS			(110,045,371)	(106,383,689)
B.6 TOTAL PRECAUTIONARY REQUIREMENTS			**330,136,113**	**319,151,068**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**4,126,701,408**	**3,989,388,350**
C.2 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			17.97%	18.27%
C.3 Capital for supervisory purposes including Tier 3/Risk-weighted assets (Total capital ratio)			19.62%	20.11%

PARTE F - 2 - 2.1.B

PART H - TRANSACTIONS WITH RELATED PARTIES

1 - Information on the remuneration of directors and managers

For information on the remuneration paid to directors and managers with strategic responsibilities, please refer to the "Report on the Group's Remuneration Policies" prepared in accordance with art. 123-ter CFA, as well as to section "Equity-based payments", with reference to the Group's stock grant and stock options plans.

2 - Related party disclosures

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

Given that, pursuant to art. 5 of Consob Regulation 17221/2010 and art. 154-ter of the CFA, periodic information has to be provided:
a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation[1];
b) on other individual transactions with related parties as defined under article 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of Banco Desio;
c) on changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of Banco Desio during the period, there have been no transactions worth mentioning.

Transactions with related parties are generally adjusted at market conditions or, where an appropriate reference to the market is not feasible (as in the case of Agreements for outsourcing services provided by the Parent Company to the subsidiaries), at conditions deemed affordable and fair, whose valuation is made in accordance with the Procedure referred to above, taking account in any case that the company is interested in carrying out the transactions.

In this context, there are no transactions outstanding at 31 December 2013 that present particular risk profiles compared with those considered part of the normal course of business or that present profiles of atypical/unusual features worthy of note.

The following paragraphs summarise - in a prudential logic of unified management of potential conflicts of interest - existing relationships with the Parent Company, subsidiary companies, associates and other related parties pursuant to art. 53 CBA, as well as with other parties surveyed pursuant to art. 136 CBA, art. 2391 and art. 2391-bis of the Italian Civil Code, highlighting, in particular, the balance of current account relationships of the securities portfolio at the end of the year and, lastly, any relationships for the provision of services or of some other nature.

<u>I - Parent company</u>

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi & C. SApA at Banco Desio amounted to Euro 143.5 million, of which Euro 142.1 million, relating to the securities portfolio. There are no outstanding payables held by the same Company.

---

[1] with respect to the level of significance of the transactions with related parties, the Internal Procedure refers to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised at the date of adoption of the Procedure)

During the year, there were no other transactions entered into with this company (under art. 136 CBA by virtue of the positions held in it by certain officers referred to in paragraph IV below).

II - Subsidiaries

Set out below is a summary of significant transactions with subsidiaries approved by the Board of Directors during the year and during board meetings held prior to the date of approval of the financial statements for the year ended 31 December 2013, in compliance with the above Procedure:

Nature of Transaction	Amounts/financial conditions (Euro)	Counterparty
Revised framework agreements for the supply of operational services (2013)	Total annual fee payable to Parent Company 663,695.51	Banco Desio Lazio SpA Fides SpA Chiara Assicurazioni SpA*
Overdraft facility	Increased in total from 240,000,000 to 315,000,000	Fides SpA
Tax group	Renewed for the three years 2013-2014 - 2015 (retrocession of 10% of the tax benefits)	Banco Desio Lazio SpA
Facility for commercial bank transactions, for current account financing and for guarantees given for commercial transactions	64,500,000	Banco Desio Lazio SpA
Current account financing	Increased from 50,000,000 to 150,000,000	Banco Desio Lazio SpA
Revised framework agreements for the supply of operational services (2014)	Total annual fee payable to Parent Company 638,509.45	Banco Desio Lazio SpA Fides SpA

**Transaction prior to sale of control as per section III – Associates*

The amounts of assets/liabilities, guarantees/commitments and income/costs arising from transactions with the aforementioned companies are disclosed in Para. 9.4 of the Report on Operations under the caption “subsidiaries”.

III – Associates

At the year end, an investment was held in **Istifid SpA** of 29.94%, by virtue of which, Banco Desio is still the shareholder with a relative majority.

Banco Desio's contractual relations with Istifid SpA essentially consist of the provision of corporate services (keeping the shareholders' register, assistance at shareholders' meetings, advice on corporate compliance, etc.), charged at the usual cost for services of this kind.

With regard to banking services provided by Banco Desio to Istifid SpA, at the end of the period payables (to customers) amounted to Euro 90 million, of which Euro 46.6 million relating to securities portfolios; there are no payables held by the Company.

Please note that the payable and receivable balances also refer to relationships maintained by Istifid SpA as part of fiduciary mandates granted by third parties.

There is also an investment in **Chiara Assicurazioni SpA**, which was initially controlled by Banco Desio and has since become an associate with a 32.7% stake, following the sale of Banco Desio's controlling interest (which took place on 24 April 2013, effective 1 May 2013).

At the end of the year, payables (to customers) amounted to Euro 50.2 million, of which Euro 44 million relating to securities portfolios; there are no outstanding payables held by the company, which has been given a credit line of Euro 10,000.

The contractual relationships with Chiara Assicurazioni SpA maintained by Banco Desio essentially consist of contracts for the distribution of insurance products in the non-life sector.

The amounts of assets/liabilities and income/costs arising from transactions with the aforementioned company are disclosed in Para. 8.4 of the Report on Operations under the caption “companies subject to significant influence”.

IV - Transactions with Officers and parties related to them

As for the granting of credit lines approved in 2013 pursuant to arts. 53 and 136 of the CBA, arts. 2391 and 2391-bis of the Civil Code, these were mainly ordinary lending transactions to Officers of Banco Desio and/or parties related to them, in relation to which Officers (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries) have communicated that they are stakeholders of various kinds, by virtue of investments in subsidiaries/associates, positions held and/or other economic and family relations entertained with such parties. These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 26 positions existing at 31 December 2013 comes to some Euro 27.3 million and the related utilisations amount in total to some Euro 25.5 million.

The above computation excludes transactions with associates as per point III above.

As regards funding relationships held by Banco Desio directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2013 amounted to Euro 121.6 million in amounts due to customers (including approximately Euro 97.8 million in securities portfolios).

Note that the position of those who are Officers of subsidiaries of Banco Desio involves a sphere of activity limited to their respective companies, such as to preclude their classification as Managers of Banco Desio with strategic responsibilities in accordance with IAS 24 and/or Consob Regulation no. 17221/2010.

The above computation excludes transactions and balances with the parent company and with associates as per paragraphs II and III above.

Details on to the lending and funding relationships referred to in this paragraph are shown in the following table:

(balances at 31.12.2013 in €/million)	Related parties pursuant to art. 53 CBA (other than the parent company and subsidiaries/associates) (A)	Other subjects surveyed in accordance with art. 136 CBA, 2391 and 2391-bis of the Civil Code (B)	TOTAL (A+B)
Lending transactions:			
Amount granted	4.5	22.8	27.3
Amount drawn down	3.3	22.2	25.5
Funding transactions:			
C/c and d/r amount (a)	10.4	13.4	23.8
Amount of securities portfolios (b)	89.8	8	97.8
Total (a+b)	100.2	21.4	121.6

In accordance with Consob Resolution no. 15519 of 27 July 2006, it should be noted that the overall incidence of the balances shown in the previous paragraphs, in terms of equity, financial and economic results, is more or less insignificant.

Other transactions pursuant to art. 136 of the CFA

With respect to other significant transactions with Officers, as well as parties related to them, the following should be noted:

Nature of transaction	Board approval	Amounts/financial conditions (Euro)
Renewed conditions applicable to deposits/lending involving Associated Persons (Related Parties and Connected Persons) pursuant to Arts. 53 and 136 of the CFA	29.01.2013	Rates, conditions and costs are detailed in the resolution
Updated conditions applicable to deposits/lending involving Associated Persons (Related Parties and Connected Persons) pursuant to Arts. 53 and 136 of the CFA	30.05.2013	Rates, conditions and costs are detailed in the resolution (complete listing)

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of BANCO DI DESIO E DELLA BRIANZA S.p.A.

1. We have audited the financial statements of Banco di Desio e della Brianza S.p.A., which comprise the balance sheet as of December 31, 2013, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and the related explanatory notes. These financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree No. 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on April 4, 2013.

3. In our opinion, the financial statements give a true and fair view of the financial position of Banco di Desio e della Brianza S.p.A. as of December 31, 2013, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree No. 38/2005.

4. The Directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of the report on operations and the annual report on corporate governance, published in Banco Desio/Governo Societario section of Banco di Desio e della Brianza S.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree No. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on corporate governance, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard No. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree No. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the annual report on corporate governance are consistent with the financial statements of Banco di Desio e della Brianza S.p.A. as of December 31, 2013.

DELOITTE & TOUCHE S.p.A.

Signed by
Maurizio Ferrero
Partner

Milan, Italy
April 4, 2014

This report has been translated into the English language solely for the convenience of international readers.

Consolidated Report on Operations for

Gruppo Banco Desio

Directors and officers

Board of Directors

Chairman	Agostino Gavazzi*
Deputy Chairman	Stefano Lado*
Chief Executive Officer	Tommaso Cartone*
Directors	Egidio Gavazzi* Luigi Gavazzi Paolo Gavazzi Guido Pozzoli* Cristina Finocchi Mahne Gerolamo Pellicanò Pier Antonio Cutellé Lorenzo Rigodanza

** Members of the Executive Committee*

Board of Statutory Auditors

Chairman	Eugenio Mascheroni
Acting Auditors	Rodolfo Anghileri Marco Piazza
Substitute Auditors	Giovanni Cucchiani Clemente Domenici Carlo Mascheroni

General Management

General Manager	Luciano Colombini
Deputy General Manager	Angelo Antoniazzi

Financial Reporting Manager as per art. 154-bis CFA

Financial Reporting Manager	Piercamillo Secchi

Independent Auditors

Deloitte & Touche S.p.A.

INTRODUCTION

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

THE BANCO DESIO GROUP

The corporate structure of the Banco Desio Group as at 31 December 2013, to which this report refers, is as follows:

1 - KEY FIGURES AND RATIOS

BALANCE SHEET

Amounts in thousands of Euro	31.12.2013	31.12.2012	Change amount	Change %
Total assets	9,270,291	8,862,993	407,298	4.6%
Financial assets	1,607,785	1,165,593	442,192	37.9%
Due from banks	275,848	250,480	25,368	10.1%
Loans to customers	6,955,429	6,949,145	6,284	0.1%
of which: Loans to ordinary customers	*6,837,487*	*6,611,433*	*226,054*	*3.4%*
of which: Loans to institutional customers	*117,942*	*337,712*	*-219,770*	*-65.1%*
Property, plant and equipment	144,417	150,890	-6,473	-4.3%
Intangible assets	25,506	25,903	-397	-1.5%
Due to banks	438,026	441,677	-3,651	-0.8%
Due to customers	5,489,782	5,041,168	448,614	8.9%
Debt securities in issue and Financial liabilities designated at fair value tl	2,277,709	2,255,413	22,296	1.0%
Shareholders' equity (including Net profit/loss for the period) [(1)]	818,716	821,177	-2,461	-0.3%
Capital for supervisory purposes	823,321	827,661	-4,340	-0.5%
Indirect deposits	10,741,465	10,777,507	-36,042	-0.3%
of which: Indirect deposits from ordinary customers	*7,454,136*	*7,424,007*	*30,129*	*0.4%*
of which: Indirect deposits from institutional customers	*3,287,329*	*3,353,500*	*-66,171*	*-2.0%*

INCOME STATEMENT [(2)]

Amounts in thousands of Euro	31.12.2013	31.12.2012	Change amount	Change %
Operating income	366,786	351,078	15,708	4.5%
of which: Net interest income	*194,336*	*200,326*	*-5,990*	*-3.0%*
Operating costs	211,457	223,651	-12,194	-5.5%
Result of operations	155,329	127,427	27,902	21.9%
Profit (loss) from operations after tax	-6,534	14,902	-21,436	-143.8%
Non-recurring profit (loss) after tax	1,636	1,622	14	0.9%
Net profit (loss) for the period [(1)]	-5,000	20,201	-25,201	-124.8%

[(1)] *pertaining to the Parent Company;*
[(2)] *from the reclassified income statement*

BALANCE SHEET AND INCOME STATEMENT RATIOS

	31.12.2013	31.12.2012	Change amount
Capital/Total assets	8.8%	9.3%	-0.5%
Capital/Loans to customers	11.8%	11.8%	0.0%
Capital/Due to customers	14.9%	16.3%	-1.4%
Capital/Debt securities in issue and Financial liabilities designated at fair	35.9%	36.4%	-0.5%
Tier 1 ratio	11.8%	12.1%	-0.3%
Total capital ratio	13.0%	13.4%	-0.4%
Financial assets/Total assets	17.3%	13.2%	4.1%
Due from banks/Total assets	3.0%	2.8%	0.2%
Loans to customers/Total assets	75.0%	78.4%	-3.4%
Loans to customers/Direct customer deposits	89.5%	95.2%	-5.7%
Due to banks/Total assets	4.7%	5.0%	-0.3%
Due to customers/Total assets	59.2%	56.9%	2.3%
Debt securities in issue and Financial liabilities designated at fair value tl	24.6%	25.4%	-0.8%
Direct customer deposits/Total assets	83.8%	82.3%	1.5%
Cost/Income ratio	57.7%	63.7%	-6.0%
Net interest income/Operating income	53.0%	57.1%	-4.1%
Result of operations/Operating income	42.3%	36.3%	6.0%
Net profit (loss) from operations after tax/Shareholders' equity [3]	-0.8%	1.9%	-2.7%
ROE [3]	-0.6%	2.5%	-3.1%

STRUCTURE AND PRODUCTIVITY RATIOS

	31.12.2013	31.12.2012	Change amount	Change %
Number of employees	1,760	1,838	-78	-4.2%
Number of branches	185	185	-	-
Amounts in thousands of Euro				
Loans and advances to customers per employee [4]	3,866	3,743	123	3.3%
Direct deposits from customers per employee [4]	4,318	3,930	388	9.9%
Operating income per employee [4]	204	189	15	7.9%
Result of operations per employee [4]	86	69	17	24.6%

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

[4] *based on the number of employees calculated as a straight average*

2 - UNDERLYING SCENARIO

2.1 - THE MACROECONOMIC SCENARIO

2013 ended with an acceleration in global growth thanks to a widespread increase in industrial output, which, as from the third quarter onwards and with varying intensity, has gradually reached a level that is consistent with normal growth. The outlook for 2014 appears to be cautiously promising, considering the orientation of prevailing economic policies and a reduction in financial stress, especially in Europe.

United States

In the United States, GDP is forecast to grow by 1.7% on an annual basis, thanks to a positive contribution from domestic demand and net exports: domestic demand, however, grew at a lower rate than that recorded for 2012 due to restrictive fiscal policy and slow reversal of the imbalances in the labour market that have influenced household consumption and productive investments. In fact, after having grown by 2.2% in the first quarter, consumer spending slowed in the course of the year to 1.5% on an annual basis: the main problem continues to be the labour market. In relation thereto, the fall recorded in the unemployment rate (7.4% at the end of 2013, -1.5 basis points since the end of 2012) is attributable to the discouragement effect, rather than a real improvement in employment that continues to fall (75.4% versus 80% prior to the crisis). The jobs crisis also had an effect on the process of reducing household debt that was interrupted in the last quarter of the year after having recovered in the first half. Regarding wealth, the property market grew by 20% compared to the minimum reached in February 2012; the stock market almost returned to its pre-crisis level, having completely recovered from the low point recorded in March 2009.

Japan

In Japan, GDP is forecast to grow by 2.3% on an annual basis, thanks to the recovery in investment in plant and machinery (+1.3%) and strong export growth (+3%), despite exports not having taken advantage of the sharp depreciation of the Yen. Consumer spending remained in positive territory (+0.8%) and significant contributions were made by public sector expenditure (+0.7%) and government spending (+3%). The growth in consumer spending, together with increased expenditure by the major trading partners, had positive repercussions for the labour market: the projected unemployment rate at the end of 2013 is 4% (-0.1 basis points on an annual basis). The trade balance has remained in deficit, as was the case in the previous three quarters, mainly due to energy imports, which are needed because of the almost complete shutdown of the nuclear power sector.

Emerging countries

Again, in the second quarter of the year, the Russian economy posted a negative performance (-0.3%): in fact, the major components of domestic demand experienced negative or zero growth. Consumer spending, which had been the major driver of growth in previous quarters, stagnated, mainly due to the growing level of household debt linked to a sharp expansion in consumer credit. Weak foreign demand and stable oil prices are behind a deterioration in the trade balance and the completion of the infrastructural works needed for the Winter Olympics has led to overcapacity that will have repercussions on future production. In the Middle East (projected growth in GDP for 2013 of +2.1%), the economies will hold up thanks to hefty public spending financed by oil revenue, though this is gradually shrinking due to lower production and the stabilisation of prices. In China (projected growth in GDP for 2013 of +7.6%), over the last few months, the economy has shown signs of a slight recovery: in fact, trade indicators have recovered, thanks to the expansionary fiscal policy measures introduced in July. In India (projected growth in GDP for 2013 of +2.9%), economic growth continues to be weak, despite the significant contribution from public spending (+10%). The weak contribution from private consumption (+1.6%) has, in part, cushioned the fall in expenditure (-1.2%): consumer spending has been impacted by labour market conditions and negative prospects relating thereto, but above all, by persistently high inflation as regards food, in particular, and aggravated by increases in fuel prices. Capital investment has met with customary legislative and bureaucratic difficulties, in addition to an increase in the cost of financing linked to the complicated period that financial markets are going through. In Latin America (projected growth in GDP for 2013 of +2.5%), there have been discordant trends in the various countries: the acceleration by Brazil and Argentina was offset by the slowdown in Chile and the decline in Mexico. The dissimilarity of industrial output and inflationary pressures in the various countries have led to forecasts of modest growth for 2013 (+2.5%), with the outlook being for slow recovery in subsequent years.

Eurozone

As from the second quarter of 2013, the euro area's economy has commenced a slow recovery phase, thanks to the renewed dynamism of global demand and a gradual easing of fiscal restraints: notwithstanding the performance recorded in the last quarter of the year (+1.2%), negative growth in GDP has been projected for 2013 of 0.4%. The components thereof with annual negative growth are private consumption (-0.5%), capital investment (-3.2%) and inventories (-0.1%). Conversely, the components with annual positive growth are public consumption (+0.3%), exports (+1.1%) and, to a lesser extent, imports (+0.1%). Unemployment continues to be a cause for concern: since the start of the crisis, the unemployment rate has gradually risen and reached 12% at the end of 2013. In the course of 2013, after a sharp fall recorded in 2012, industrial output slowly advanced, albeit at a low rate (+0.3%). Inflation has gradually fallen: in October consumer prices fell by 1.8 pp on an annual basis, going from growth of 2.5% to growth of 0.7%. Producer prices fell at a much faster rate: in fact, the index went from +2.8% for 2012 to -0.9% for 2013.

Italy

In the course of 2013, the Italian economy started showing tentative signs of recovery: in fact, in the third quarter of 2013, the GDP remained virtually unchanged (-0.1%), interrupting the downward trend that started in the third quarter of 2011. This was despite projected negative growth in GDP for 2013 of 1.8% Exports are the only component of GDP that has grown on an annual basis (+0.1%). In fact, all the other components show more or less emphatic negative growth: household consumption (-2.5%), capital investment (-5.4%), industrial output (-3.1%) and imports (-2.6%). As is the case for the euro area, the Italian labour market continues to be a major cause for concern: as of October 2013, the unemployment rate rose to 12.5% (from the figure at October 2012 of 11.3%), well above the average rates for 2011 (8.4%) and 2012 (10.7%). Youth unemployment has more or less doubled since the start of the crisis (20.7% in 2007), arriving at 41.2%. Industrial output has been falling for 26 consecutive months and is projected to be -3.1% at the end of 2013; there has been a rising trend with respect to intermediate goods (+1.9%) and consumer goods (+0.5%), whereas there has been a downward trend for energy (-4.2%) and capital goods (-2.6%). The inflation rate as of October 2013 had fallen to 0.8% (versus the prior year figure of 2.8%), whereas the core inflation rate had fallen to 1.3% (versus 1.6%).

2.2 - CAPITAL MARKETS AND THE BANKING SYSTEM IN ITALY

In December 2013, the European Central Bank left unchanged the policy rate at an all-time low (0.25%), as was the case for the interest rate on marginal refinancing transactions (0.75%) and the rate on overnight deposits (0%). In substance, the ECB's monetary policy will remain accommodative for the time that is needed to ensure the stability of the financial system. Similarly to the ECB, the Federal Reserve has also kept its policy rate within a range of 0 to 0.25% and has left the discount rate (0.75%) unchanged. Three-month Euribor has remained stable at a rate that is close to its all-time low (0.22%); inflation is projected to be 1.4% the end of 2013, down on the previous quarter (1.5%). With regard to capital markets, thanks to a sharp increase in capitalisations, by the year end, international share prices and the major European stock markets had achieved brilliant performances on an annual basis: these include Standard & Poor’s 500 +28%, Nikkei 225 +64.2%, FTSE MIB +22.8%, Dax30 +26.7%, Cac40 +23.6%, Nasdaq +34.7%, FTSE Banks +45.6% and S&P 500 Banks +30.2%.

As regards the banking system, at the end of 2013 the annual growth rate in domestic funding was down slightly, while foreign funding has declined. The growth rate of Euro deposits of Italian banks was +0.7% on a trend basis.

In particular, customer deposits registered a growth rate of 5.7% on a trend basis, while the annual change in bonds came to -9.3%. The average remuneration of bank deposits was down; the average rate on funding from customers came to 1.91% in December 2013 compared to 2.08% in December 2012.

At the end of 2013, the decrease in bank loans had exceeded the prior year decrease; based on initial estimates, total loans to Italian residents have posted an annual change of -4.1% (-1.07% at the end of 2012). Loans to households and non-financial companies posted an annual change of -3.7% against the European average of -2.7%. In terms of duration, the short-term segment posted a variance of -7.5%, while the medium-long term segment declined by -2.7% on an annual basis. At the end of October loans to businesses posted a variance of -4.9%, while loans to households fell on an annual basis by -1.3%. The trend in loans has been influenced by the contraction in capital investment. Interest rates on loans have slipped and are still very low; the weighted average interest rate on total loans to households and non-financial companies comes to 3.80%, which is virtually unchanged since December 2012 (3.79%).

3 - REGIONAL MARKET PRESENCE AND CORPORATE ISSUES

3.1 - THE DISTRIBUTION NETWORK

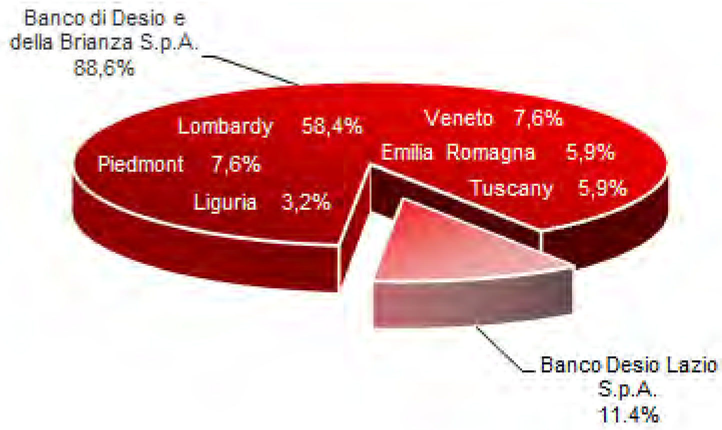
In the context of the difficult and prolonged economic and financial crisis, again in 2013 the Group has maintained the same distribution structure that consists of 185 branches, of which 164 pertain to Banco di Desio e della Brianza S.p.A. and 21 pertain to Banco Desio Lazio S.p.A.

The distribution network is characterised by the high centrality of the customer relationship. The expansion in recent years, aimed at focusing on markets where the Group has its roots, into adjacent and complementary areas, as well as on other local opportunities, has led the Group to increase its presence in Lombardy and to expand into Emilia Romagna, Piedmont, Liguria, Veneto, Tuscany and Lazio.

In the course of 2013, the Group continued strengthening its online product offering, in a logic of multi-channel customer service alongside traditional banking services, moving towards a "virtual" bank.

The following graph gives a breakdown in percentage terms of the Group's distribution network by company and by region, while that which follows shows the growth in size achieved by the Group in the three years 2011-2013, corresponding to an average compound annual growth rate of 1.9%, despite the consolidation that took place in 2012 and 2013.

Graph no. 1 - **BREAKDOWN OF THE GROUP'S DISTRIBUTION NETWORK IN 2013 BY BANK AND REGION**



Graph no. 2 - **DEVELOPMENT OF THE GROUP'S DISTRIBUTION NETWORK IN RECENT YEARS**

3.2 - SIGNIFICANT EVENTS

Approval of the Group's three-year Business Plan 2013-2015

On 20 March 2013, the Parent Company's Board of Directors approved the Group's three-year Business Plan 2013-2015, with the following key points:

- ✓ focus again on retail activity;
- ✓ revitalisation of the commercial base;
- ✓ regional planning;
- ✓ careful management of credit risk;
- ✓ strong emphasis on cost control.

and which provided for the following targets for 2015:

- ✓ customer loans and direct deposits up by more than 5% (CAGR 2013-2015);
- ✓ indirect deposits up by more than 3% (CAGR 2013-2015);

It was expected that this growth would have led to the following at the end of 2015:

- ✓ net interest and other banking income +5% (CAGR 2013-2015);
- ✓ forecast net profit of around 40 million in 2015;
- ✓ cost/income ratio expected to be 58% at the end of 2015;
- ✓ core tier 1 ratio over 11% and total capital ratio over 12.5% for all years of the plan.

In an extremely difficult economic and financial environment, the Parent Company has decided to undertake a process of commercial, organisational and structural development designed to bring together all of its activities in the service of the core business (economic support to families, individuals and small businesses in the territories in where the Group is present) in a competitive manner (i.e. giving priority to a reduction in all fixed costs).

For this reason, the following four strategic targets have been identified for the three years of the plan:

- *Commercial revitalisation* with significant investment in terms of renovation/upgrading of products and services, strong development of online services accompanied by an update of the Bank's local presence in terms of efficiency and effectiveness of customer relations; this target is expected to generate a significant increase in the customer base, in volumes and in the number of transactions, with an equally significant increase in revenues, mainly from 2014 onwards;
- *Review of credit risk management* that will allow us, on the one hand, to continue and increase the provision of loans to the economy that is reacting to the crisis and, on the other, to anticipate and prevent situations of deterioration, with an important objective to lower the cost of credit and, therefore, to reduce loan adjustments;
- *Spending review* for all administrative costs, with systematic renegotiation of supply contracts and implementation of a cost excellence centre to oversee and review the entire cost structure;
- *Resources programme* intended to pursue, on the one hand, a strong reduction in labour costs on the basis of a plan already agreed with the trade unions with the establishment of a Solidarity Fund, which in the three years 2013-2015 should be able to absorb over 100 redundancies at head office and the branches, and other specific measures to reduce costs; and, on the other, a process of generational change to bring the staff mix, over time, into line with the average for the Italian banking system.

During the year, all working groups were activated to ensure that the strategic objectives laid down in the business plan were achieved; as regards the Resources Programme in particular, the establishment of the Solidarity Fund has already been implemented, as explained in the next paragraph.

At the end of 2013, the cost/income ratio at Group level was already lower (57.7%) than that forecast for the end of 2015.

Note that, at the year end, the aforementioned targets were revised by Parent Company Management due to the evolution of the key drivers upon which the previous forecasts had been based, taking into account the events of 2013 (with particular regard to the actual trend of loans, net interest income, cost of credit and administrative costs, etc.) and new expectations for 2014 and subsequent years with respect to the most reliable scenario under which the Group should move with its configuration. These revisions were also taken into account for the purpose of impairment tests performed on equity investments and goodwill as disclosed in the explanatory notes.

Industrial relations

Activities that characterised 2013 – with regard to human resources – were strongly influenced by agreements entered into with the trade unions on 11 June 2013 and subsequently on 3 October 2013, relating to the Resources Programme foreseen by the Group's 2013-2015 Business Plan. The agreements, which are aimed at raising efficiency, supporting generational change and achieving structural savings that can bring personnel costs into line with the expected results of the Group and with market averages, will lead to:

- a reduction in the workforce of 113 people at Group level (of which 110 concern the Parent Company and 3 concern the subsidiary Banco Desio Lazio S.p.A.) through voluntary access to the Solidarity Fund;
- the lowering of costs from reduction/suspension of working hours, funded in part by benefits from the Solidarity Fund.

The estimated one-off cost of all these measures, which has been booked in the 2013 financial statements, comes to a total of Euro 16.8 million at consolidation level (of which Euro 16.2 million has been booked in the financial statements of the Parent Company and Euro 0.6 million has been booked in the financial statements of the subsidiary Banco Desio Lazio S.p.A.), while it is expected that the measures implemented will lead to (in 2016 and in subsequent years) a total reduction in labour costs of Euro 9.9 million at consolidation level (of which Euro 9.7 million relates to the Parent Company and Euro 0.2 million to the subsidiary Banco Desio Lazio S.p.A.).

Chiara Assicurazioni S.p.A.

Following authorisation by the Supervisory Authority (IVASS), the sale of 51% of the Parent Company's interest in Chiara Assicurazioni S.p.A. to Gruppo Assicurativo Helvetia was completed on 24 April 2013, effective 1 May 2013.

As a result of this sale, the Parent Company's residual interest in Chiara Assicurazioni S.p.A. is now 32.66% (having been 66.66%); consequently, on leaving the Group, this company is now an associate. On consideration of Euro 12.5 million, the capital gain realised was Euro 4.6 million.

The partnership with Helvetia foresees a wider range of non-life products, as was previously the case for the life sector, which is consistent with the objective of focusing more on product distribution by Group banks.

Definition of the selling price for 30% of Chiara Vita S.p.A.

On 10 October 2013, as foreseen in the preliminary agreement with the Helvetia Group, the Board of Directors of the Parent Company has accepted Helvetia's proposal to formalise the final purchase price adjustment for the investment in Chiara Vita S.p.A. The amount agreed has been recognised in the income statement as a final purchase price adjustment of some Euro 7.2 million.

Completion of the Bank of Italy's inspection

With regard to the Bank of Italy's inspection, details of which were provided in the report on operations in the 2012 financial statements, on 23 April 2013 the members of the Board of Directors, Board of Statutory Auditors and General Management were charged fines for a total of Euro 360,000.

Banco di Desio e della Brianza S.p.A. is involved out of forced solidarity and has exercised its right of recourse (which is also an obligation).

Tax audits

On 22 May 2013, the Italian Tax Police completed their tax audit of the Parent Company, as already detailed in the explanatory notes to the 2012 financial statements and in the subsequent consolidated financial reports, with the notification of an official report of findings.

Subsequently, on 27 December 2013, the Revenue Agency issued the Parent Company with a notice of assessment in connection with the matters cited in the report of findings.

Under these circumstances, for prudence sake, the Parent Company, based on input from its tax advisers, considered it appropriate to increase the provisions for risks and charges in the financial statements as at 31.12.2012.

Amendments to the Articles of Association

On 30 May 2013, the Parent Company's Board of Directors approved the changes designed to bring the Articles of Association into line with Law 120/2011 on gender balance on boards of directors and statutory auditors of listed companies.

Appointment of an Independent Director

On 30 May 2013, the Parent Company's Board of Directors approved the appointment (by co-option) of Cristina Finocchi Mahne to replace Marina Brogi, who resigned on 9 May 2013 due to new commitments that are incompatible with the position held in the Bank under the so-called "ban on interlocking directorships" (art. 36 of the "Save Italy" Decree 201 of 6 December 2011).

Succession of the General Manager at 31 December 2013

On 27 June 2013, the Parent Company's Board of Directors approved - as part of the succession planning concerning the General Manager, Claudio Broggi, whose contract had expired on 31 December 2013 - the hiring of Luciano Colombini in the role of Senior Deputy General Manager with effect from 22 July 2013, anticipating his appointment as General Manager, which took place on 1 January 2014, when Mr. Broggi's employment came to an end. The Board of Directors thus gave its heartfelt thanks to Mr. Broggi for his extensive and constructive cooperation with the Bank's continuous development.

Process of regulatory simplification adopted by Consob Resolution 18079 of 20 January 2012 (the so-called "opt-out")

On 29 January 2013, the Parent Company's Board of Directors agreed to join the "opt-out" scheme provided by arts. 70, paragraph 8, and 71, paragraph 1-bis of Consob Regulation 11971/99, i.e. making use of the option to derogate from the obligations to publish the information documents foreseen in Attachment 3B of the aforementioned Consob Regulation on the occasion of significant mergers, demergers, increases in capital by contribution in kind, acquisitions and disposals.

Tax step-up pursuant to Legislative Decree 185/2008 - subsidiary Banco Desio Lazio S.p.A.

With reference to Banco Desio Lazio S.p.A., taxation for the period has benefited from the step-up for tax purposes of the goodwill included in the carrying value of the investment in FIDES S.p.A. and included in the Group consolidated financial statements for Euro 5.17 million, carried out pursuant to art. 15, paragraphs 10 bis and 10-ter of Legislative Decree 185/2008.

The positive effect on net profit for the period is Euro 0.85 million, due to the difference between the flat-rate tax paid (Euro 0.83 million) plus legal interest (Euro 0.03 million) and the change in deferred tax assets (Euro 1.71 million).

"Asset Bancari III" Real Estate Fund - Asset Management Company "Polis Fondi Immobiliari di Banche Popolari Sgrpa"

On 30 May, the Parent Company's Board of Directors approved joining the "Fondo Immobiliare Polis - Asset Bancari III", a real estate fund that specialises in the management and development of properties, mostly non-commercial, resulting (for about 2/3 of the Fund) from auctions and bankruptcy procedures or used to guarantee loans of banks and/or property arising from finance leases, and (for the other 1/3 of the Fund) from non-performing loans secured by mortgages. Membership of the Fund led to the transfer, in two tranches, of 11 properties owned by the Bank as a result of finance lease receivables in default, for a total value of around Euro 6.3 million, plus Euro 0.2 million in cash, in exchange for 26 shares of Euro 0.25 million each, for a total of Euro 6.5 million, corresponding to a participation in the Fund of around 9.85%.

Compliance with EMIR (European Market Infrastructure Regulation) Regulation

In the course of 2013 the Parent Company coordinated the measures needed to be taken by intermediaries, and thus also by the subsidiary BDL, to comply with EMIR (European Market Infrastructure Regulation) Regulation 648/2012 of 4 July 2012. The aforementioned Regulation, which concerns OTC derivatives and which will gradually come into force, provides for a series of disclosure, clearing and conduct obligations, such as, for example, the reconciliation of counterparties' portfolios and the prompt handling of any disputes. In this regard, on 5 September 2013 the Parent Company signed the ISDA 2013 EMIR PORTFOLIO RECONCILIATION, DISPUTE RESOLUTION AND DISCLOSURE PROTOCOL.

Credito Privato Commerciale S.A. in liquidation

The liquidation procedure duly continued during the year in a manner which resulted in a significant acceleration of its closure and the transfer to other intermediaries of the customer relationships. The shorter term of the procedure, compared to the 5/7 years that had previously been assumed by the liquidator, led to the former revising the forecasts included in the liquidation plan prepared at the start of the procedure. Consequently, the new liquidation plan, presented at the end of 2013, essentially contemplates a significant reduction in future charges relating to technical and administrative costs. In addition to this, note that, in the course of the year, no event occurred for which the procedure would prudently have required an increase in the provisions for risks and charges in relation to alleged contingent liabilities and thus, to date, there does not exist any obligation of a legal or implicit nature. Following the agreement entered into by the US Department of Justice and the Swiss Federal Department of Finance, numerous Swiss banks, despite not having yet been accused, but with the belief that they could have been involved in dealings with American citizens guilty of tax evasion, decided to sign up for the "Program for non-prosecution agreements or non-target letter for Swiss banks"; having signed up for this programme required Credito Privato Commerciale SA in liquidation to make a specific provision for risks and charges of CHF 5.5 million, which was estimated on the basis of verification work performed by the liquidator.

The application of international accounting standards (IAS/IFRS) adopted by Banco Desio Group for the preparation of the separate financial statements of the Parent Company Banco di Desio e della Brianza S.p.A. has led to a positive impact on the income statement of some Euro 5.7 million (line item "Profit (loss) from investments"), corresponding to the partial write-back of an impairment adjustment to the investment in Credito Privato Commerciale SA in liquidation due to the combined effect of the circumstances described above. It should also be noted that, again, as a result of the application of international accounting standards (IAS/IFRS) adopted by Banco Desio Group, the Group's consolidated financial statements have been impacted by a negative contribution to the income statement by the Swiss subsidiary of some Euro 9.2 million, inclusive of the provision for the aforementioned "US Tax Program".

Brianfid-Lux S.A. in liquidation

The liquidation procedure duly proceeded and was completed in the year just ended after the liquidator had taken care of the cancellation of Brianfid-Lux S.A. in liquidation from the companies register.

Cedacri S.p.A.

On 19 December 2013, on the exercise of the pre-emption right for shareholders, the Parent Company acquired 102 shares in Cedacri S.p.A. (the Group's IT outsourcer) for a consideration of some Euro 0.8 million.

First Capital S.p.A.

During 2013, the Parent Company sold its entire holding in First Capital S.p.A., realising a gain of some Euro 0.05 million.

4 - SIGNIFICANT SUBSEQUENT EVENTS

Offer for the acquisition of control of Banca Popolare di Spoleto S.p.A.

On 5 December 2013, after having performed due diligence, the Parent Company made a binding offer for the acquisition of control of Banca Popolare di Spoleto S.p.A. in extraordinary administration. In the event that the outcome of the competitive procedure is the acceptance of the offer, it is envisaged that the acquisition would complete the redevelopment of the Group's Commercial Network, started with the 2013-2015 Business Plan, with a view to developing and enhancing the values of a bank "in defence of the territory" which are shared by Banco Desio and Banca Popolare di Spoleto S.p.A. The offer was subject to, among other things, approval by the Supervisory Authority and Consob's exemption from the requirement to make a mandatory tender offer for the shares of Banca Popolare di Spoleto S.p.A.

On 12 March 2014, the Parent Company issued a press release to communicate that, on the same date, it had been notified by the Commissioners of Banca Popolare di Spoleto in extraordinary administration that the binding offer it made on 5 December 2013 had been deemed the most suitable for the purpose of turning around Banca Popolare di Spoleto. Accordingly, the Parent Company has been invited to make contact with the Commissioners to arrive at a purchase agreement that will set out in detail the technical means of completing the transaction and the main aspects concerning the integration plan. On the execution of the purchase agreement, the process will start to obtain the necessary approvals from the relevant Supervisory Authorities.

Banco Desio Lazio S.p.A. and Credito Privato Commerciale S.A. in liquidation - Legal investigations

With reference to Criminal Proceedings 22698/08, at the hearing held on 24 January 2014, the Court of Rome upheld the application for settlement presented by the subsidiaries Banco Desio Lazio S.p.A. and Credito Privato Commerciale S.A. in liquidation, which in 2011 became involved in these proceedings in connection with the administrative liability of legal persons pursuant to Legislative Decree 231/2001 for alleged offences committed by their former officers. The payment made for the settlement (which closed the legal proceedings in question) led to a partial release in 2013 of the provision that had previously been set up.

Deputy General Manager of the Parent Company

On 23 January 2014, the Board of Directors of the Parent Company appointed Mr. Angelo Antoniazzi as Deputy General Manager (he will continue to head up the Human Resources Department) to replace Mr. Marco Sala, whose mandate was terminated on 31 December 2013.

Brianfid-Lux S.A. in liquidation

The liquidation of the subsidiary Brianfid-Lux S.A. is in fact complete and approval is awaited from the Luxembourg Financial Sector Supervisory Commission (CSSF) for the definitive cancellation of the company.

Credito Privato Commerciale S.A. in liquidation

As previously indicated, the liquidation of the Swiss subsidiary Credito Privato Commerciale S.A. is proceeding at a faster rate than the liquidators had anticipated and, accordingly, it cannot be excluded that the closure may be substantially complete much sooner than expected.

Disposal of held to maturity securities portfolio

At the end of January 2014, having taken into account new expectations concerning an improvement of the international macroeconomic scenario which could lead one to assume a gradual increase in the interest rate curve, the Parent Company decided to proceed with the disposal of all financial instruments included in the HTM portfolio as it was not considered appropriate to hold to maturity such fixed rate debt instruments with a medium to long term duration. Following the decision taken, which did not have any impact on the results for the year ended 31 December 2013, the Parent Company will not be able to utilise this category of portfolio for the next two years (so called tainting rule).

5 - LEGISLATIVE DECREE 231/2001

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

Further information on Model 231 and on the Supervisory Body pursuant to the aforementioned Legislative Decree (the role of which has been performed since 27 September 2012 by the Board of Statutory Auditors) is provided in the Annual Report on Corporate Governance (particularly in paragraph 7) which is available on the Group's website pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

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

6 - HUMAN RESOURCES

6.1 - MANAGEMENT AND BREAKDOWN OF RESOURCES

While respecting the specific nature of individual businesses, the management of resources is performed in a unitary and synergistic manner, with an emphasis on expectations and favouring professional development, as well as ensuring there are shared values within the Group. This orientation, in line with the policy of regional development, accompanies the dissemination of information and growth in the regions of origin as well as growth as an interregional reality.

At 31 December 2013, the Group had 1,760 employees, 78 fewer (-4.2%) than at the end of the previous year, primarily due to the deconsolidation of Chiara Assicurazioni S.p.A. and the liquidation of the subsidiaries Credito Privato Commerciale S.A. and Brianfid-Lux S.A.

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

Graph no. 3 - **CHANGES IN GROUP EMPLOYEE NUMBERS IN RECENT YEARS**

The following table analyses the breakdown of personnel by employee level at the end of 2013 in comparison to the prior year.

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

No. of Employees	31.12.2013	%	31.12.2012	%	Change Amount	Change %
Managers	29	1.6%	34	1.8%	-5	-14.7%
3rd and 4th level middle managers	404	23.0%	430	23.4%	-26	-6.0%
1st and 2nd level middle managers	486	27.6%	493	26.8%	-7	-1.4%
Other personnel	841	47.8%	881	48.0%	-40	-4.5%
Group employees	**1,760**	**100.0%**	**1,838**	**100.0%**	**-78**	**-4.2%** (1)

(1) the decrease is mainly attributable to the deconsolidation of Chiara Assicurazioni S.p.A. as well as the liquidation of the subsidiaries Credito Privato Commerciale S.A. and Brianfid-Lux S.A.

6.2 - TRAINING ACTIVITIES

As regards training activities, which accompany processes of growth and development of resources, in compliance with Group guidelines and procedures, 8,344 man days of training were provided during the year, inclusive of internal courses, conferences, external seminars and online training activities that correspond to an average of 4.6 days of training for each employee.

Activities for 2013 were developed by following guidelines laid down at the start of the year, aimed, in particular at:

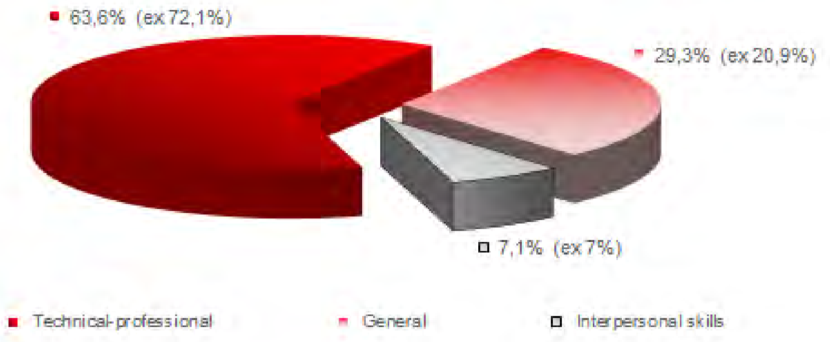
- promoting the managerial skills of those holding managerial positions and of those who are destined to take part in the generational change;
- improving the ability to select and monitor credit in order to reverse the trend of deterioration in place;
- strengthening the regional presence and the relationship of trust that ties the customer to the Group by improving the means of offering products and services and by improving sales efficiency, while paying particular attention to companies that operate in international markets;
- constantly providing regulatory updates to staff to reduce operational risks.

The type of training that is offered may be summarised as follows:

- "General": courses catering for all professional groups with the objective of developing transverse knowledge;
- "Technical-professional": comprises courses aimed at the development of technical skills of resources that have commenced the performance of specific duties and are interested in consolidating and further improving the skills required by the role;
- "Interpersonal skills": these courses are aimed at the development of behavioural skills and facilitate the spread of corporate culture as well as the internalisation of corporate values.

The following graph shows the breakdown in percentage terms of training days that were held in the year by type of course.

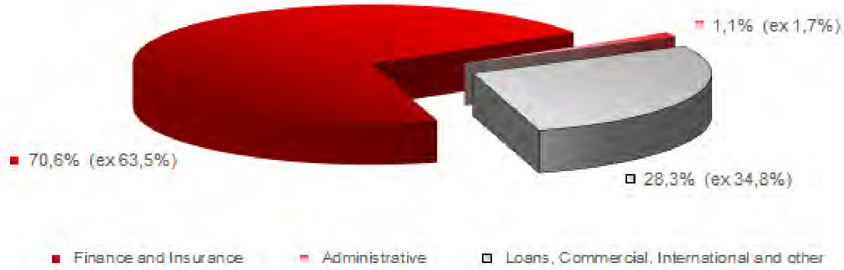
Graph no. 4 - **BREAKDOWN OF TRAINING DAYS IN 2013 BY TYPE OF TRAINING OFFERED**



With regard to "General" training held to constantly provide regulatory updates to staff, over 2,000 man days of training were provided on topics such as "Legislative Decree 231/2001" – "Anti-money laundering" – "Safety in the workplace"; in particular, training on Legislative Decree 231/2001 and on Banco Desio's Organisation and Management Model was held for the Board of Directors an all other resources.

As regards "Technical-professional" training", the breakdown in percentage terms of the topics covered by the courses held is shown below.

Graph no. 5 - **BREAKDOWN OF "TECHNICAL-PROFESSIONAL" TRAINING IN 2013 BY TOPIC**



This type of training includes, in particular, a modular course aimed at providing the skills needed for the selection and monitoring of credit risk by means of the systematic application of analysis methodologies to prevent insolvencies arising and a training plan to improve the sales performance of businesses which operate in international markets through appropriate technical-professional skills, interpersonal skills and by planning for actions to be taken and by monitoring the results. There are also training activities on assistance and on sales development for operators in the renovated call centre, courses providing updates on the topics of "inheritances, donations, trusts and family agreements" and a programme of Supervisory Authority (IVASS) professional updates for all resources authorised to provide insurance brokerage services.

As regards initiatives concerning "Interpersonal skills", new training courses have been introduced for all network and head office managers to support and develop their managerial skills, with a programme that will continue into 2014.

The attention paid by the Group to the growth and development of professional skills has again been acknowledged and supported in 2013 by the Bank and Insurance Fund (FBA), by means of the provision of funding for training activities held in the year.

7 - CONTROL ACTIVITIES

7.1 - THE LEVELS OF CONTROL IN THE MANAGEMENT CONTROL AND COORDINATION FUNCTION

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

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

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

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

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

7.2 - THE INTERNAL CONTROL SYSTEM

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

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

7.3 - RISK MEASUREMENT AND MANAGEMENT

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

8 - RESULTS OF OPERATIONS

8.1 - SAVINGS DEPOSITS: CUSTOMER ASSETS UNDER ADMINISTRATION

Total customer funds under management rose at the year end to Euro 18.5 billion, up in total by Euro 0.4 million, equating to 2.4% of the prior year figure, attributable to direct deposits (+6.5%), while indirect deposits fell slightly by 0.3%.

The composition and the balances that make up this aggregate are shown in the following table.

Table no. 2 - **CUSTOMER DEPOSITS**

Amounts in thousands of Euro	31.12.2013	%	31.12.2012	%	Change Amount	Change %
Due to customers	5,489,782	29.7%	5,041,168	27.9%	448,614	8.9%
Debt securities in issue and Financial liabilities	2,277,709	12.3%	2,255,413	12.5%	22,296	1.0%
Direct deposits	**7,767,491**	**42.0%**	**7,296,581**	**40.4%**	**470,910**	**6.5%**
Ordinary customer deposits	7,454,136	40.3%	7,424,007	41.1%	30,129	0.4%
Institutional customer deposits	3,287,329	17.7%	3,353,500	18.5%	-66,171	-2.0%
Indirect deposits	**10,741,465**	**58.0%**	**10,777,507**	**59.6%**	**-36,042**	**-0.3%**
Total customer deposits	**18,508,956**	**100.0%**	**18,074,088**	**100.0%**	**434,868**	**2.4%**

Direct deposits

The direct deposits balance at the end of 2013 reached some Euro 7.8 billion, representing a positive change of some Euro 0.5 billion (+6.5%), mainly attributable to an increase in due to customers. This caption, which represents 70.7% of the total balance, includes some Euro 4.4 billion relating to on demand deposits, that is, current accounts and savings deposits, while the remainder relates to restricted deposits, repurchase agreements and other payables.

Debt securities in issue and financial liabilities designated at fair value through profit and loss relate to bonds issued and placed by the Group of some Euro 2 billion (including Euro 0.1 billion of subordinated bonds) and certificates of deposits of some Euro 0.2 billion.

In the course of 2013 the total nominal value of bonds issued and placed by the Group amounted to some Euro 0.8 billion, whereas bonds redeemed on maturity amounted to some Euro 0.7 billion.

Indirect deposits

Indirect deposits, of a total amount of some Euro 10.7 billion, fell in the year by less than Euro 0.1 billion (-0.3%), due to institutional customer deposits that were down by 2%.

On the contrary, ordinary customer deposits came to some Euro 7.5 billion, representing an increase in the year of 0.4% that was attributable to the performance of assets under management (+4.4%), partially offset by a decrease in assets under administration (-2.9%).

The following table provides details of the items under review as well as of changes in the year.

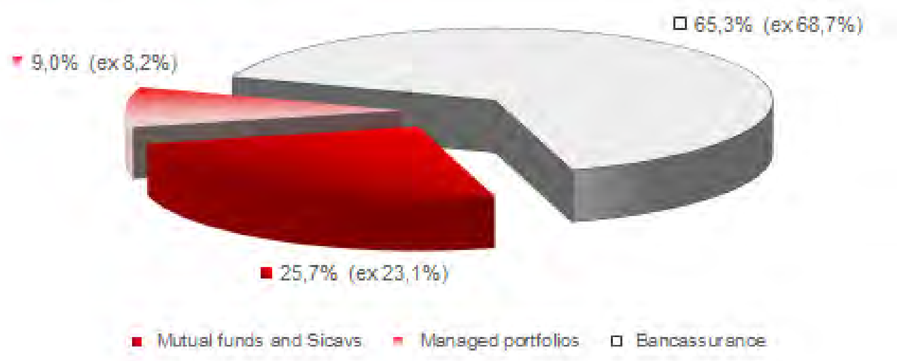
Table no. 3 - **INDIRECT DEPOSITS**

Amounts in thousands of Euro	31.12.2013	%	31.12.2012	%	Change Amount	Change %
Assets under administration	**3,965,894**	**36.9%**	**4,082,638**	**37.9%**	**-116,744**	**-2.9%**
Assets under management	**3,488,242**	**32.5%**	**3,341,369**	**31.0%**	**146,873**	**4.4%**
of which: Mutual funds and Sicavs	*895,981*	*8.4%*	*772,911*	*7.2%*	*123,070*	*15.9%*
Managed portfolios	*314,054*	*2.9%*	*272,126*	*2.5%*	*41,928*	*15.4%*
Bancassurance	*2,278,207*	*21.2%*	*2,296,332*	*21.3%*	*-18,125*	*-0.8%*
Ordinary customer deposits	**7,454,136**	**69.4%**	**7,424,007**	**68.9%**	**30,129**	**0.4%**
Institutional customer deposits	**3,287,329**	**30.6%**	**3,353,500**	**31.1%**	**-66,171**	**-2.0%**
Indirect deposits	**10,741,465**	**100.0%**	**10,777,507**	**100.0%**	**-36,042**	**-0.3%**

The following graphs show the breakdown in percentage terms of indirect customer deposits at 31 December 2013 and of the composition of assets under management.

Graph no. 5 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2013**

Graph no. 6 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2013**



With respect to the components of mutual funds and Sicavs and Managed portfolios, the performance of equity markets during the year was particularly positive, whereas, as regards bonds, positive results were achieved only by government bonds issued by peripheral countries and by corporate bonds with lower credit ratings. As regards managed bond portfolios, a preference was shown for Italian and Spanish government bonds. Overall, the Group maintained a strategy of extreme diversification, with an exposure to interest rate risk that was lower than the reference parameter. As regards managed equity portfolios, the exposure was maintained in line with the benchmark and with a high degree of diversification, whereas, with regard to stock picking, a preference was shown for companies with large capitalisation, a sound financial position, good cash generation and earnings visibility.

8.2 - CREDIT MANAGEMENT: LOANS TO CUSTOMERS

Despite a slowdown in the demand for credit at system level, the value of loans to ordinary customers at 31 December 2013 amounted to Euro 6.8 billion, over Euro 0.2 billion more than at the end of December 2012 (+3.4%).

On the other hand, loans to institutional customers, consisting solely of repurchase agreements, which at the yearend amounted to some Euro 0.1 billion, were down by 0.2 billion on the 2012 year end figure.

The Group's lending activity this resulted in a total amount of net loans to customers of some Euro 7 billion (+0.1%). The following graph shows the trend in net loans to customers in recent years, giving an average annual compound growth rate of 2.4% from 2011.

Graph no. 7 - **TREND IN CUSTOMER LOANS IN RECENT YEARS**

Changes in the amounts of the components of loans to customers by technical form are summarised in the following table.

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

Amounts in thousands of Euro	31.12.2013	%	31.12.2012	%	Change Amount	Change %
Current accounts	1,507,202	21.7%	1,612,211	23.2%	-105,009	-6.5%
Repurchase agreements	18	0.0%	0	0.0%	18	
Mortgages and other long-term loans	4,572,240	65.7%	4,249,912	61.1%	322,328	7.6%
Other	758,027	10.9%	749,310	10.8%	8,717	1.2%
Loans to ordinary customers	**6,837,487**	**98.3%**	**6,611,433**	**95.1%**	**226,054**	**3.4%**
Repurchase agreements	117,942	1.7%	337,712	4.9%	-219,770	-65.1%
Loans to institutional customers	**117,942**	**1.7%**	**337,712**	**4.9%**	**-219,770**	**-65.1%**
Loans to customers	**6,955,429**	**100.0%**	**6,949,145**	**100.0%**	**6,284**	**0.1%**

As regards the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest customers at the end of 2013 in comparison to the prior year end figures reflects a high degree of risk diversification, as shown in the following table.

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

Number of customers [1] [2]	31.12.2013	31.12.2012
First 10	1.5%	1.5%
First 20	2.5%	2.4%
First 30	3.3%	3.1%
First 50	4.6%	4.4%

[1] according to the figures of the Parent Company and the subsidiary Banco Desio Lazio S.p.A.
[2] net of repurchase agreements with institutional counterparties of Euro 117.9 million at 31.12.2013 and Euro 337.7 million at 31.12.2012

In compliance with supervisory regulations in force, at the 2013 year end two positions were identified that are classifiable as "Major risks" and which amount to a total nominal value (inclusive of guarantees given and commitments) of some Euro 1.4 billion, which, in terms of the total weighted amount, comes to zero, since it reflects the investments in Italian government bonds at Group level.

With the explosion of litigation in recent years at the level of the banking system, the Group has continued with its commitment to render the monitoring of exposures more systematic, as well as to increase the degree of analysis of investigatory functions.

The total amount of net non-performing loans at the end of the year, made up of doubtful loans, watchlist loans, past due loans (i.e. persistent breaches with continuous overruns), as well as restructured loans, came to Euro 459 million, net of adjustments of Euro 226.4 million, an increase of Euro 66.6 million compared with 2012.

In particular, net doubtful loans totalled Euro 233.2 million, net watchlist loans Euro 177.8 million, past due loans Euro 46.3 million and restructured loans Euro 1.7 million.

The following table summarises the gross and net indicators relating to credit risk, showing figures that are up compared with the previous year due to a direct correlation with the prolonged economic crisis.

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

% of gross loans	31.12.2013	31.12.2012
Gross non-performing loans to custome	9.48%	7.65%
of which:		
- gross doubtful loans	5.34%	3.80%
- gross watchlist loans	3.44%	3.08%
- gross past due loans	0.68%	0.69%
- gross restructured loans	0.03%	0.08%

% of net loans	31.12.2013	31.12.2012
Net non-performing loans to customers	6.60%	5.65%
of which:		
- net doubtful loans	3.35%	2.55%
- net watchlist loans	2.56%	2.35%
- net past due loans	0.67%	0.68%
- net restructured loans	0.02%	0.07%

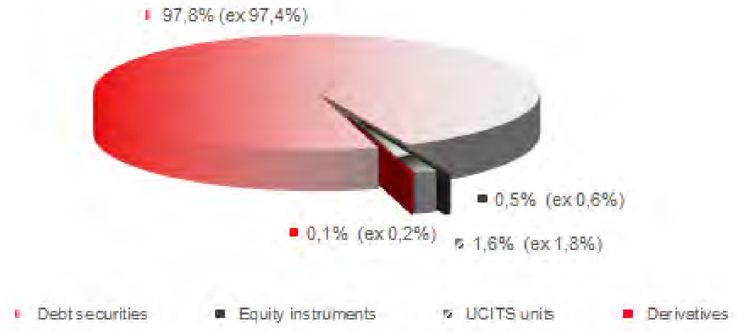
8.3 THE SECURITIES PORTFOLIO AND INTERBANK POSITION

Securities portfolio

At 31 March 2013, the total financial assets of the Group amounted to Euro 1.6 billion, an increase of Euro 0.4 billion compared with the end of 2012 (+37.9%).

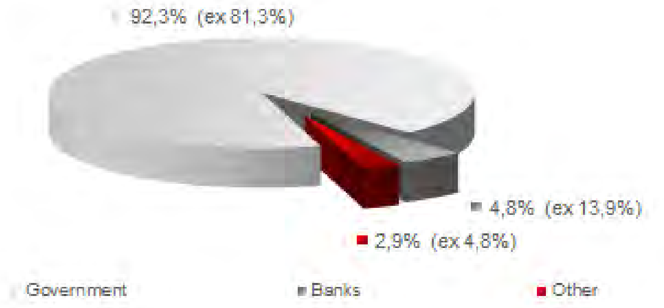
The graph below presents the breakdown in percentage terms of the portfolio by type of security, showing how it almost entirely consists of debt securities, which almost entirely relate to government bonds and securities issued by primary banks.

Graph no. 8 - **BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2013 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the year, 92.3% relates to government securities (almost entirely Italian securities), 4.8% relates to securities issued by primary banks and the remainder relates to other issuers, as represented graphically below.

Graph no. 9 - **BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2013 BY TYPE OF ISSUER**



In Italy, 2013 ended with the yield on 10-year BTPs at a level that was slightly lower than that at the beginning of the year, but the yield curve was subjected to phases of volatility and instability in the year. In fact, despite the dampening effect consequent to LTRO operations, in 2013 turbulence returned on several occasions: at the end of February due to the political stalemate following the Italian elections; in May following the announcement made by the Fed concerning tapering; in September and the first days of October due to the uncertainty caused by a renewed phase of political instability.

To take advantage of these events and with the right timing in mind, but with a prudent approach, the Group introduced strategies that allowed particularly significant results to be achieved. The activities performed during the year were characterised by significant trading in Italian government bonds. Investments were concentrated on Italian government bonds, for which the percentage share of the total portfolio at the end of 2013 had increased by more than 15% compared with the previous year end, with a significant increase in the zero coupon (CTZ and BOT) component.

Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 31.12.2013 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

Table no. 7 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO AND ISSUER**

Amounts in thousands of Euro		**Italy**	**Spain**	**31.12.2013**
Financial assets held for trading	Nominal value	470		470
	Book value	563		563
Financial assets available for sale	Nominal value	1,255,000	50,000	1,305,000
	Book value	1,261,819	49,886	1,311,705
Financial assets held to maturity	Nominal value	170,000		170,000
	Book value	171,446		171,446
Sovereign debt	**Nominal value**	**1,425,470**	**50,000**	**1,475,470**
	Book value	**1,433,828**	**49,886**	**1,483,714**

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

Amounts in thousands of Euro		Italy	Spain	31.12.2013 Nominal value	31.12.2013 Book value
Financial assets held for trading	up to 1 year				
	1 to 3 years				
	3 to 5 years	470		470	563
	over 5 years				
	Total	470		470	563
Financial assets available for sale	up to 1 year	500,000		500,000	496,154
	1 to 3 years	200,000		200,000	200,198
	3 to 5 years	365,000	50,000	415,000	417,604
	over 5 years	190,000		190,000	197,748
	Total	1,255,000	50,000	1,305,000	1,311,705
Financial assets held to maturity	up to 1 year				
	1 to 3 years				
	3 to 5 years				
	over 5 years	170,000		170,000	171,446
	Total	170,000		170,000	171,446
Sovereign debt	**up to 1 year**	**500,000**		**500,000**	**496,154**
	1 to 3 years	**200,000**		**200,000**	**200,198**
	3 to 5 years	**365,470**	**50,000**	**415,470**	**418,167**
	over 5 years	**360,000**		**360,000**	**369,194**
	Total	**1,425,470**	**50,000**	**1,475,470**	**1,483,714**

Net interbank position

The net interbank position at the yearend is a net debt amount of some Euro 0.2 billion, in line with the prior year end balance.

With reference to treasury activities, the Group's excess liquidity during the year was largely invested in the MMF market.

8.4 - SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

Shareholders' equity at 31 December 2013, inclusive of net profit for the year attributable to the Parent Company, amounted to Euro 818.7 million compared to Euro 821.2 million at the 2012 year end.

The following table shows the reconciliation of shareholders' equity and the net result for the year of the Parent Company with the corresponding consolidated figures at 31 December 2013 and for the year then ended, inclusive of details of the impact of the liquidation of the subsidiaries Credito Privato Commerciale S.A. in liquidation and Brianfid-Lux S.A. in liquidation.

Table no. 9 - **RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET RESULT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES**

Amounts in thousands of Euro	**Shareholders' equity**	***of which: Net profit (loss) for the period***
Parent Company balances at 31 December 2013	**781,578**	***9,427***
Effect of consolidation of subsidiaries	34,950	*-11,726*
- of which: attributable to the consolidation of Credito Privato Commerciale S.A. in liqui	*-4,483*	*-3,192*
- of which: attributable to the consolidation of Brianfid-Lux S.A. in liquidation	*33*	*33*
Effect of valuation of associates at net equity	2,153	*2,110*
Dividends collected during the period	-	*-4,846*
Other changes	35	*35*
Consolidated balances at 30 September 2013	**818,716**	***-5,000***

At 31 December 2013 shareholders' equity calculated in accordance with current regulatory provisions amounts to Euro 823.3 million (Euro 827.7 million at the 2012 year end) and consists of Tier 1 capital of Euro 750 million (compared with Euro 748.6 million at the end of 2012) and Tier 2 capital of Euro 73.3 million (compared with Euro 79.1 million at the end of 2012) relating to revaluation reserves and subordinated liabilities. The amounts to be deducted come to a total of Euro 7.9 million and are attributable to investments in financial and insurance institutions.

The Tier 1 ratio (Tier 1 capital/Risk-weighted assets) comes to 11.8% compared with 12.1% at the end of 2012 and coincides with Core Tier 1, whereas the Total capital ratio (Total capital for supervisory purposes/Risk-weighted assets) comes to 13% versus a comparative figure of 13.4%.

The new harmonised framework for banks and investment firms contained in EU Regulation ("CRR") and Directive ("CRD IV") of 26.6.2013 is applicable from 1 January 2014; it transposes the standards defined by the Basel Committee on Banking Supervision (the so-called "Basel 3 Framework") into the European Union. The Basel Committee has sought to improve the resilience of the banking system by pursuing - among other things - the objective to raise the quality of capital for supervisory purposes in order to increase the banks' ability to absorb losses. In particular, the new provisions enhance the importance of ordinary shares as a component of capital and extend and harmonise the list of *amounts to be deducted* and of *prudential adjustments*.

An assessment of the Group's capital adequacy in accordance with the new criteria gives a ratio of Common Equity Tier 1 to Risk Weighted Assets of 12.14%.

8.5 - RECLASSIFIED INCOME STATEMENT

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

The presentation criteria for this table are as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- the "Net profit (loss) for the period" has been split between "Profit (loss) from operations after taxes" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 220 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers and flat-rate tax on long-term loans, as well as amortisation of leasehold improvements, reclassified respectively as a reduction to caption 180b) "Other administrative expenses" and as an increase in caption 210 "Net adjustments to intangible assets" included in "Operating expenses";
- the share of profits for the period relating to investments in associated companies is reclassified from caption 240 "Profit (loss) from equity investments" to "Profit from associates";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of loans" of "Operating income" is reclassified to the appropriate caption "Gains (losses) on disposal or repurchase of loans" after "Operating profit";
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 190 "Net provisions for risks and charges" to caption 130a) "Net impairment adjustments to loans and advances", both captions coming after the "Result of operations";
- provisions of an extraordinary nature or which are "one-off" have been reclassified to the caption "Provisions for risks and charges on extraordinary transactions";
- the tax effect on "Non-recurring profit (loss)" is reclassified from caption 290 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

As shown by the following table that presents the reclassified income statement with comparatives, the 2013 financial year closed with a net loss for the year attributable to the Parent Company of Euro 5 million, which was impacted by the increasing burden of net adjustments to loans (which went from Euro 89.5 million in 2012 to Euro 136.9 million in 2013), by increases in the Solidarity Fund provision of Euro 16.8 million, resulting from the implementation of the Group's 2013-2015 Business Plan and by the negative result of Euro 9.2 million reported by the Swiss subsidiary Credito Privato Commerciale S.A. in liquidation.

Table no. 10 - **RECLASSIFIED INCOME STATEMENT**

Captions				Change	
Amounts in thousands of Euro		31.12.2013	31.12.2012	Amount	%
10+20	Net interest income	194,336	200,326	-5,990	-3.0%
70	Dividends and similar income	117	38	79	207.9%
	Profit from associates	752	58	694	1196.6%
40+50	Net commission income	113,234	105,845	7,389	7.0%
80+90+100+110	Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss	41,344	31,000	10,344	33.4%
220	Other operating income/expense	17,003	13,811	3,192	23.1%
	Operating income	**366,786**	**351,078**	**15,708**	**4.5%**
180 a	Payroll costs	-133,787	-142,921	9,134	-6.4%
180 b	Other administrative costs	-68,449	-69,895	1,446	-2.1%
200+210	Net adjustments to property, plant and equipment and intangible assets	-9,221	-10,834	1,614	-14.9%
	Operating costs	**-211,457**	**-223,651**	**12,194**	**-5.5%**
	Result of operations	**155,329**	**127,427**	**27,902**	**21.9%**
	Gains (Losses) on disposal or repurchase of loans	-1,402	-1,870	468	-25.0%
130 a	Net impairment adjustments to loans and advances	-136,932	-89,503	-47,428	53.0%
130 b	Net impairment adjustments to financial assets available for sale	-601	-277	-324	117.0%
130 d	Net impairment adjustments to other financial assets	-1,692	-713	-979	137.3%
190	Net provisions for risks and charges	-10,920	-3,503	-7,417	211.7%
	Profit (loss) from operations before tax	**3,782**	**31,560**	**-27,778**	**-88.0%**
290	Income taxes on current operations	-10,316	-16,658	6,342	-38.1%
	Profit (loss) from operations after tax	**-6,534**	**14,902**	**-21,436**	**-143.8%**
240+270+ 260	Profit (loss) from investments and disposal of investments/Write-downs of goodwill	13,134	-10,878	24,012	220.7%
	Provisions for risks and charges on extraordinary transactions	-16,810	11,855	-28,665	-241.8%
	Non-recurring profit (loss) before tax	**-3,676**	**977**	**-4,653**	**-476.4%**
	Income taxes from non-recurring items	5,312	645	4,667	723.8%
	Non-recurring profit (loss) after tax	**1,636**	**1,622**	**14**	**0.9%**
310	Profit (loss) after tax on non-current assets held for sale	-	4,532	-4,532	-100.0%
320	**Net profit (loss) for the period**	**-4,898**	**21,056**	**-25,954**	**-123.3%**
330	Minority interests	-102	-855	753	-88.1%
340	**Parent Company net profit (loss)**	**-5,000**	**20,201**	**-25,201**	**-124.8%**

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

Table no. 11 - **RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME**

Captions		As per financial statements	Reclassifications						Reclassified income statement
Amounts in thousands of Euro		31.12.2013	Recovery of taxes	Profit from associates	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Uses of/accruals to provisions for risks and charges	Income taxes	31.12.2013
10+20	Net interest income	194,305						31	194,336
70	Dividends and similar income	117							117
	Profit from associates			752					752
40+50	Net commission income	113,234							113,234
80+90+100+110	Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss	39,942				1,402			41,344
220	Other operating income/expense	34,530	-20,062		2,535				17,003
	Operating income	**382,128**	**-20,062**	**752**	**2,535**	**1,402**	**0**	**31**	**366,786**
180 a	Payroll costs	-150,597					16,810		-133,787
180 b	Other administrative costs	-88,511	20,062						-68,449
200+210	Net adjustments to property, plant and equipment and intangible as	-6,686			-2,535				-9,221
	Operating costs	**-245,794**	**20,062**	**0**	**-2,535**	**0**	**16,810**	**0**	**-211,457**
	Result of operations	**136,334**	**0**	**752**	**0**	**1,402**	**16,810**	**31**	**155,329**
	Gains (Losses) on disposal or repurchase of loans					-1,402			-1,402
130 a	Net impairment adjustments to loans and advances	-136,927					-5		-136,932
130 b	Net impairment adjustments to financial assets available for sale	-601							-601
130 d	Net impairment adjustments to other financial assets	-1,692							-1,692
190	Net provisions for risks and charges	-10,925					5		-10,920
	Profit (loss) from operations before tax	**-13,811**	**0**	**752**	**0**	**0**	**16,810**	**31**	**3,782**
290	Income taxes on current operations	-4,973						-5,343	-10,316
	Profit (loss) from operations after tax	**-18,784**	**0**	**752**	**0**	**0**	**16,810**	**-5,312**	**-6,534**
240+270+260	Profit (loss) from investments and disposal of investments/Write-downs of goodwill	13,886		-752					13,134
	Provisions for risks and charges on extraordinary transactions						-16,810		-16,810
	Non-recurring profit (loss) before tax	**13,886**	**0**	**-752**	**0**	**0**	**-16,810**	**0**	**-3,676**
	Income taxes from non-recurring items							5,312	5,312
	Non-recurring profit (loss) after tax	**13,886**	**0**	**-752**	**0**	**0**	**-16,810**	**5,312**	**1,636**
310	Profit (loss) after tax on non-current assets held for sale	0							0
320	**Net profit (loss) for the period**	**-4,898**	**0**	**0**	**0**	**0**	**0**	**0**	**-4,898**
330	Minority interests	-102							-102
340	**Parent Company net profit (loss)**	**-5,000**	**0**	**0**	**0**	**0**	**0**	**0**	**-5,000**

Table no. 12 - **RECONCILIATION OF FINANCIAL STATEMENTS AND RECLASSIFIED INCOME STATEMENT AT 31.12.2012**

Captions		As per financial statements							Reclassified income statement
Amounts in thousands of Euro		31.12.2012	Recovery of taxes	Profit from associates	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Uses of/accruals to provisions for risks and charges	Income taxes	31.12.2012
10+20	Net interest income	200,326							200,326
70	Dividends and similar income	38							38
	Profit from associates			58					58
40+50	Net commission income	105,845							105,845
80+90+100+ 110	Net income from trading, hedging and disposal/repurchase of financial assets and liabilities designated at fair value through profit and loss	29,130				1,870			31,000
220	Other operating income/expense	25,347	-14,213		2,676				13,811
	Operating income	**360,686**	**-14,213**	**58**	**2,676**	**1,870**	**0**	**0**	**351,078**
180 a	Payroll costs	-142,921							-142,921
180 b	Other administrative costs	-84,108	14,213						-69,895
200+210	Net adjustments to property, plant and equipment and intangible as	-8,158			-2,676				-10,834
	Operating costs	**-235,187**	**14,213**	**0**	**-2,676**	**0**	**0**	**0**	**-223,651**
	Result of operations	**125,499**	**0**	**58**	**0**	**1,870**	**0**	**0**	**127,427**
	Gains (Losses) on disposal or repurchase of loans					-1,870			-1,870
130 a	Net impairment adjustments to loans and advances	-89,701					198		-89,503
130 b	Net impairment adjustments to financial assets available for sale	-277							-277
130 d	Net impairment adjustments to other financial assets	-713							-713
190	Net provisions for risks and charges	8,549					-12,052		-3,503
	Profit (loss) from operations before tax	**43,357**	**0**	**58**	**0**	**0**	**-11,855**	**0**	**31,560**
290	Income taxes on current operations	-16,013						-645	-16,658
	Profit (loss) from operations after tax	**27,344**	**0**	**58**	**0**	**0**	**-11,855**	**-645**	**14,902**
240+270+ 260	Profit (loss) from investments and disposal of investments/Write-downs of goodwill	-10,820		-58					-10,878
	Provisions for risks and charges on extraordinary transactions						11,855		11,855
	Non-recurring profit (loss) before tax	**-10,820**	**0**	**-58**	**0**	**0**	**11,855**	**0**	**977**
	Income taxes from non-recurring items							645	645
	Non-recurring profit (loss) after tax	**-10,820**	**0**	**-58**	**0**	**0**	**11,855**	**645**	**1,622**
310	Profit (loss) after tax on non-current assets held for sale	4,532							4,532
320	**Net profit (loss) for the period**	**21,056**	**0**	**0**	**0**	**0**	**0**	**0**	**21,056**
330	Minority interests	-855							-855
340	**Parent Company net profit (loss)**	**20,201**	**0**	**0**	**0**	**0**	**0**	**0**	**20,201**

Based on the above, the breakdown and changes in the main reclassified income statement captions are summarised below.

Operating income

Core revenues increased by 4.5% on prior year, rising to Euro 366.8 million, being an increase of some Euro 15.7 million. Of this increase, Euro 10.3 million (+33.4%) is attributable to *net trading income, hedging and disposal/repurchase of loans and financial assets and liabilities designated at fair value through profit and loss* , Euro 7.4 million (+7.0%) relates to *net commission income* and Euro 3.2 (+23.1%) million relates to the caption *other operating income/expense*, of which Euro 1.3 million arose from a gain on sale of the property that pertained to the subsidiary Brianfid-Lux S.A. in liquidation; there were also increases in *profit from associates* of Euro 0.7 million, relating to the share of profit earned by Chiara Assicurazioni S.p.A., which became an associated company during the year, and in *dividends and similar income* of Euro 0.1 million. On the contrary, there was a drop in *net interest income* which, in coming to Euro 194.3 million, was down by some Euro 6 million, equating to 3% of the prior year figure.

From the following table that shows the breakdown of *net commission income* by type, it can be seen that the increase is mainly attributable to commissions from the distribution of insurance products and from the maintenance and management of current accounts.

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

Amounts in thousands of Euro	**31.12.2013**	**%**	**31.12.2012**	**%**	**Change Amount**	**%**
Collection and payment services	18,932	16.7%	18,243	17.2%	689	3.8%
placement of securities	5,376	4.7%	4,954	4.7%	422	8.5%
Managed portfolios and order taking	10,662	9.4%	11,753	11.1%	-1,091	-9.3%
Distribution of insurance products	9,852	8.7%	5,457	5.2%	4,395	80.5%
Maintenance and management of current acc	55,426	49.0%	51,420	48.6%	4,006	7.8%
Other commission	12,986	11.5%	14,018	13.2%	-1,032	-7.4%
Net commission income	**113,234**	**100.0%**	**105,845**	**100.0%**	**7,389**	**7.0%**

Operating costs

Operating costs, which include *payroll costs*, *other administrative expenses* and *net adjustments to property, plant and equipment and intangible assets*, show an overall balance of Euro 211.5 million, a decrease of Euro 12.2 million (-4.5%) on 2012. The recovery is mainly attributable to *Payroll costs* which, net of one-off charges for the various measures affecting human resources in implementation of the Group's 2013-2015 Business Plan (as explained in the paragraph on "Industrial relations" under "Significant events") totalling Euro 16.8 million and reclassified to Non-recurring profit (loss), have decreased by Euro 9.1 million (-6.4%); the other two captions show a decrease as well, with other *administrative expenses* down by Euro 1.4 million (-2.1%) and with *Net adjustments to property, plant and equipment and intangible assets* down by Euro 1.6 million (-14.9%).

Result of operations

The *result of operations* for the year comes to Euro 155.3 million, which, in comparison to the prior year result of Euro 127.4 million, is up by around 21.9%.

Net profit (loss) from operations after tax

Net impairment adjustments to loans and advances of Euro 136.9 million, which are Euro 47.4 million higher than in 2012, *net provisions for risks and charges* of Euro 10.9 million, representing an increase of Euro 7.4 million with respect to the prior year comparative (primarily to provide for higher charges and operating risks inclusive of those relating to the tax dispute), *losses on disposal or repurchase of loans* of Euro 1.4 million, *net impairment adjustments to financial assets available for sale* of Euro 0.6 million, *net impairment adjustments to other financial* *assets* of Euro 1.7 million, as well as taxes on income from continuing operations of Euro 10.3 million, down by Euro 6.3 million, lead to a net *loss from operations after tax* of Euro 6.5 million, compared to the prior year net profit of Euro 14.9 million (-143.9%).

Non-recurring profit after tax

Non-recurring profit after tax amounts to Euro 1.6 million and consists of the gain realised by way of price adjustment on the sale in late 2012 by the Parent Company of the residual 30% holding in the former associate Chiara Vita S.p.A. of Euro 7.2 million, of the gain realised by the Parent Company on the sale of a controlling interest in Chiara Assicurazioni S.p.A. (from 66.66% to 32.66%) of Euro 4.6 million (as explained above in the relevant paragraphs under "Significant events"), together with the positive impact on the income statement of the change in the method of consolidating this company, due to it having become an associate, of Euro 1.3 million. In addition, there is the estimated impact of one-off charges for all of the measures affecting human resources in implementation of the Group's Business Plan 2013-2015 (in accordance with the Trade Union agreements explained in "Significant events"), which total 16.8 million before tax, taxes on non-recurring income for a total of Euro 5.3 million, made up of the tax effect on these amounts, on the capital gains referred to above, as well as the step-up for tax purposes pursuant to Legislative Decree 185/2008, for the subsidiary Banco Desio Lazio S.p.A., of the goodwill included in the carrying value of the investment in FIDES S.p.A. and recorded in the Group consolidated financial statements (as explained in "Significant events"), for Euro 0.9 million.

On the contrary, the prior year figure consisted of the total negative impact at consolidation level of some Euro 15.5 million of the writedown of the investment in the subsidiary Credito Privato Commerciale S.A. in liquidation, of the release of the remaining Euro 11.9 million of the provision made at the end of 2008 for the risk of partial revision of the price to be received from the sale of 70% of Chiara Vita S.p.A. by the Parent Company, expected to be collected by the end of the period covered by the company's business plan (2012), of the net gain at consolidation level of Euro 4.5 million arising from the sale of the remaining holding of 30% in the same company and, lastly, of the positive impact of Euro 0.7 million arising from the step-up for tax purposes, pursuant to art. 15 paragraph 10 of Legislative Decree 185/2008, of the goodwill recognised by the Parent Company on the merger by absorption of Banco Desio Toscana S.p.A.

Parent Company net profit (loss)

The total of the *loss from operations after tax, non-recurring profit after tax* and the *loss pertaining to minority interests* of Euro 0.1 million determines the *loss for the 2013 financial year pertaining to the Parent Company* of Euro 5 million, which compares with a positive prior year result of Euro 20.2 million.

9 - OTHER INFORMATION

9.1 - TREASURY SHARES

At 31 December 2013, as was the case at the previous year end, the Parent Company Banco di Desio e della Brianza S.p.A. did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi & C. S.a.p.A. and neither have there been any movements in relation thereto in the course of the year.

9.2 - RATINGS

On 26 July 2013, as part of a rating survey involving several banks, Fitch Ratings confirmed the ratings of the Parent Company Banco di Desio e della Brianza S.p.A., namely:

- Long Term Issuer Default Rating: confirmed at "BBB+"
- Short Term Issuer Default Rating: confirmed at "F2"
- Viability rating: confirmed at "bbb+"
- Support Rating: confirmed at "4"
- Support Rating Floor: confirmed at "B+"
- Negative outlook

These ratings reflect the Bank's robust performance despite the persistent macroeconomic difficulties. Our prudent lending policy and diversified loan portfolio were both judged positively. During the recession, the deterioration in our asset quality was lower than that of our main competitors. In addition, there is the positive contribution of a large and stable share of customer deposits, an extremely low use of funding on the interbank market and a healthy level of capitalisation.

The IDR rating and outlook are at the same levels as the Sovereign State. Fitch has said that a downgrade of the sovereign rating could also lead to a downgrade of the rating of the Parent Company Banco di Desio e della Brianza S.p.A.

9.3 - PERSONAL DATA PROTECTION CODE (Legislative Decree no. 196/2003)

The requirement to adopt a "Policy Document on Privacy" was revoked by Legislative Decree no. 5 of 9.2.2012 regarding "Urgent provisions concerning simplification and development"; however, the requirements concerning minimum privacy measures are still fully applicable and thus Data Controllers must continue to comply therewith.

Despite the fact that the aforementioned decree permits the postponement of its specific requirements and while awaiting further indications from the Supervisory Authority, note that, regardless, an annual update has been performed of the Policy Document - that in 2012 became the "Policy Document on Privacy Measures" - in compliance with what was then required by art. 34, paragraph g), of Legislative Decree no. 196 of 30 June 2003 - Personal data protection code.

This Document includes a description of the issues laid down in the Code pursuant to rule 19 of the Technical Discipline - Appendix B - of the Code.

9.4 - TRANSACTIONS WITH RELATED PARTIES AND ASSOCIATED PERSONS

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

Details of transactions with related parties approved by the Board of directors in the course of 2013 are disclosed in Part H of the explanatory notes.

9.5 - INFORMATION ON INCENTIVE PLANS (STOCK OPTIONS)

With reference to the plan activated during the course of 2008, involving shares of the indirect subsidiary FIDES S.p.A. (shares already held by the subsidiary Banco Desio Lazio S.p.A.), in the course of the year the final date for exercising these options was again extended - for the last time - by the Board Directors of Banco Desio Lazio S.p.A. to 31 December 2013.

As regards the plan, reference should be made to Part I of the explanatory notes to the Group's consolidated financial statements.

9.6 - REPORT ON THE ADOPTION OF THE CODE OF CONDUCT FOR LISTED COMPANIES

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

9.7 - RESEARCH AND DEVELOPMENT ACTIVITIES

In its capacity as Parent Company, Banco di Desio e della Brianza S.p.A., as described in paragraph 7.1 "The levels of control in the management control and coordination function", undertakes development with a view to supporting and coordinating the companies belonging to the Group, as well as research and investment in operational solutions aimed, in particular, at continuous improvements in the customer relationship.

9.8 - OPT-OUT FROM OBLIGATION TO PUBLISH INFORMATION DOCUMENTS FOR EXTRAORDINARY OPERATIONS PURSUANT TO CONSOB REGULATIONS

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

10 - OUTLOOK FOR 2014 AND PRINCIPAL RISKS AND UNCERTAINTIES

In view of the forthcoming integration of Banca Popolare di Spoleto, which has been the subject of prompt market updates, it is envisaged that a new Group business plan will be prepared during the year in compliance with a procedure which will hopefully meet the approval of the Commissioners of Banca Popolare di Spoleto.

Regardless of the outcome of the planned business aggregation, the Parent Company, in line with the strategic profile of recent years, will continue concentrating on its core business from an operational, commercial and regional point of view, with the objective of rationalising costs and focusing on revenue and, accordingly, it is envisaged that a new Group business plan will be prepared during the year.

As regards the principal risks and uncertainties, note that this report and, more generally, the consolidated financial statements at 31 December 2013 has been prepared on a going-concern basis, as there is no plausible reason to believe the opposite in the foreseeable future. The capital and financial structure and operating performance of the Group provide absolute confirmation of the foregoing.

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

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS

Assets	31.12.2013	31.12.2012	Change amount	Change %
10. Cash and cash equivalents	29,848	81,248	(51,400)	-63.3%
20. Financial assets held for trading	2,798	4,320	(1,522)	-35.2%
40. Financial assets available for sale	1,423,419	1,009,410	414,009	41.0%
50. Financial assets held to maturity	181,568	151,863	29,705	19.6%
60. Due from banks	275,848	250,480	25,368	10.1%
70. Loans to customers	6,955,429	6,949,145	6,284	0.1%
80. Hedging derivatives	5,052	9,005	(3,953)	-43.9%
100. Equity investments	13,969	1,227	12,742	1038.5%
120. Property, plant and equipment	144,417	150,890	(6,473)	-4.3%
130. Intangible assets	25,506	25,903	(397)	-1.5%
of which:				
- goodwill	23,533	23,533	0	
140. Tax assets	93,856	51,715	42,141	81.5%
a) current	5,118	1,684	3,434	203.9%
b) deferred	88,738	50,031	38,707	77.4%
of which Law 214/2011	78,225	41,235	36,990	89.7%
150. Non-current assets and disposal groups held for sale	0	72,420	(72,420)	-100.0%
160. Other assets	118,581	105,367	13,214	12.5%
Total assets	**9,270,291**	**8,862,993**	**407,298**	**4.6%**

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities and shareholders' equity	31.12.2013	31.12.2012	Change amount	Change %
10. Due to banks	438,026	441,677	(3,651)	-0.8%
20. Due to customers	5,489,782	5,041,168	448,614	8.9%
30. Debt securities in issue	2,239,092	2,217,881	21,211	1.0%
40. Financial liabilities held for trading	480	517	(37)	-7.2%
50. Financial liabilities designated at fair value through profit and loss	38,617	37,532	1,085	2.9%
60. Hedging derivatives	2,894	6,696	(3,802)	-56.8%
80. Tax liabilities	14,832	14,320	512	3.6%
a) current	2,825	772	2,053	265.9%
b) deferred	12,007	13,548	(1,541)	-11.4%
90. Liabilities associated with assets held for sale	0	51,399	(51,399)	-100.0%
100. Other liabilities	164,639	178,269	(13,630)	-7.6%
110. Provision for termination indemnities	23,971	24,392	(421)	-1.7%
120. Provisions for risks and charges:	39,021	20,951	18,070	86.2%
a) pensions and similar commitments	27	170	(143)	-84.1%
b) other provisions	38,994	20,781	18,213	87.6%
140. Valuation reserves	29,200	28,173	1,027	3.6%
170. Reserves	710,666	688,953	21,713	3.2%
180. Share premium reserve	16,145	16,145	0	
190. Share capital	67,705	67,705	0	
210. Minority interests	221	7,014	(6,793)	-96.8%
220. Net profit (loss) for the period (+/-)	(5,000)	20,201	(25,201)	-124.8%
Total liabilities and shareholders' equity	**9,270,291**	**8,862,993**	**407,298**	**4.6%**

CONSOLIDATED INCOME STATEMENT

	31.12.2013	31.12.2012	Change amount	Change %
10. Interest and similar income	316,921	326,299	(9,378)	-2.9%
20. Interest and similar expense	(122,616)	(125,973)	3,357	-2.7%
30. Net interest income	**194,305**	**200,326**	**(6,021)**	**-3.0%**
40. Commission income	129,857	120,876	8,981	7.4%
50. Commission expense	(16,623)	(15,031)	(1,592)	10.6%
60. Net commission income	**113,234**	**105,845**	**7,389**	**7.0%**
70. Dividends and similar income	117	38	79	207.9%
80. Net trading income	1,608	3,418	(1,810)	-53.0%
90. Net hedging gains (losses)	4	(1,377)	1,381	-100.3%
100. Gains (losses) on disposal or repurchase of:	39,736	29,236	10,500	35.9%
a) loans	(1,402)	(1,870)	468	-25.0%
b) financial assets available for sale	41,686	30,357	11,329	37.3%
d) financial liabilities	(548)	749	(1,297)	-173.2%
110. Net results on financial assets and liabilities designated at fair value	(1,406)	(2,147)	741	-34.5%
120. Net interest and other banking income	**347,598**	**335,339**	**12,259**	**3.7%**
130. Net impairment adjustments to:	(139,220)	(90,691)	(48,529)	53.5%
a) loans	(136,927)	(89,701)	(47,226)	52.6%
b) financial assets available for sale	(601)	(277)	(324)	117.0%
d) other financial assets	(1,692)	(713)	(979)	137.3%
140. Net profit from financial activities	**208,378**	**244,648**	**(36,270)**	**-14.8%**
170. Net profit from financial and insurance activities	**208,378**	**244,648**	**(36,270)**	**-14.8%**
180. Administrative costs:	(239,108)	(227,029)	(12,079)	5.3%
a) payroll costs	(150,597)	(142,921)	(7,676)	5.4%
b) other administrative costs	(88,511)	(84,108)	(4,403)	5.2%
190. Net provisions for risks and charges	(10,925)	8,549	(19,474)	-227.8%
200. Net adjustments to property, plant and equipment	(5,753)	(6,836)	1,083	-15.8%
210. Net adjustments to intangible assets	(933)	(1,322)	389	-29.4%
220. Other operating charges/income	34,530	25,347	9,183	36.2%
230. Operating costs	**(222,189)**	**(201,291)**	**(20,898)**	**10.4%**
240. Profit (loss) from equity investments	13,886	4,686	9,200	196.3%
260. Adjustments to goodwill	0	(15,506)	15,506	-100.0%
280. Profit (loss) from current operations before tax	**75**	**32,537**	**(32,462)**	**-99.8%**
290. Income taxes on current operations	(4,973)	(16,013)	11,040	-68.9%
300. Profit (loss) from current operations after tax	**(4,898)**	**16,524**	**(21,422)**	**-129.6%**
310. Profit (loss) after tax on non-current assets held for sale	0	4,532	(4,532)	-100.0%
320. Net profit (loss) for the period	**(4,898)**	**21,056**	**(25,954)**	**-123.3%**
330. Net profit (loss) pertaining to minority interests	(102)	(855)	753	-88.1%
340. Parent Company net profit (loss)	**(5,000)**	**20,204**	**(25,204)**	**-124.7%**

STATEMENT OF COMPREHENSIVE INCOME

	Captions	31.12.2013	31.12.2012
10.	**Net profit (loss) for the period**	**(4,898)**	**21,056**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Property, plant and equipment		
30.	Intangible assets		
40.	Actuarial gains (losses) on defined-benefit pension plans	201	(1,236)
50.	Non-current assets and disposal groups held for sale		
60.	Portion of the valuation reserves of the equity investments carried at equity		
	Other elements of income, net of income taxes with reversal to income statement		
70.	Foreign investment hedges		
80.	Exchange differences		(138)
90.	Cash-flow hedges		
100.	Financial assets available for sale	338	40,106
110.	Non-current assets and disposal groups held for sale		
120.	Portion of the valuation reserves of the equity investments carried at equity	390	5,014
130.	**Total other elements of income (net of income taxes)**	**929**	**43,746**
140.	**Total comprehensive income (Captions 10+110)**	**(3,969)**	**64,802**
150.	Total comprehensive income pertaining to minority interests	(4)	(1,852)
160.	**Total consolidated comprehensive income pertaining to Parent Company**	**(3,973)**	**62,950**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31.12.2013

				Allocation of prior year results		Changes during the year									
							Transactions on shareholders' equity								
	Balance at 31.12.2012	Changes in opening balances	Balance at 1.01.2013	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 31.12.2013	Group shareholders' equity at 31.12.2013	Minority interests at 31.12.2013
Share capital:															
a) ordinary shares	65,078		65,078				(4,138)							60,840	100
b) other shares	6,865		6,865											6,865	
Share premium reserve	16,355		16,355				(210)							16,145	
Reserves:	-														
a) from profits	680,926		680,926	16,140		5,774	(2,355)					30		700,496	19
b) other	9,640		9,640									530		10,170	
Valuation reserves:	28,271		28,271										929	29,200	
Equity instruments															
Treasury shares															
Net profit (loss) for the period	21,056		21,056	(16,140)	(4,916)								(4,898)	(5,000)	102
Group shareholders' equity	**821,177**		**821,177**		**(4,916)**	**5,868**						**560**	**(3,973)**	**818,716**	
Minority interests	**7,014**		**7,014**			**(94)**	**(6,703)**						**4**		**221**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31.12.2012

	Balance at 31.12.2011	Changes in opening balances	Balance at 1.01.2012	Allocation of prior year results		Changes during the year								Group shareholders' equity at 31.12.2012	Minority interests at 31.12.2012
							Transactions on shareholders' equity								
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income at 31.12.2012		
Share capital:															
a) ordinary shares	64,077		64,077				1,001							60,840	4,238
b) other shares	6,865		6,865											6,865	
Share premium reserve	16,355		16,355											16,145	210
Reserves:															
a) from profits	648,361		648,361	31,654	-	911								679,313	1,613
b) other	9,292		9,292									348		9,640	
Valuation reserves:	(15,475)		(15,475)										43,746	28,173	98
Equity instruments															
Treasury shares															
Net profit (loss) for the period	45,891		45,891	(31,654)	(14,237)								21,056	20,201	855
Group shareholders' equity	**770,926**		**770,926**		**(13,949)**	**(11)**	**913**					**348**	**62,950**	**821,177**	
Minority interests	**4,440**		**4,440**		**(288)**	**922**	**88**						**1,852**		**7,014**

CONSOLIDATED CASH FLOW STATEMENT

A. OPERATING ACTIVITIES	*Amount*	
	31.12.2013	**31.12.2012**
1. Cash generated from operations	**157,900**	**132,885**
- interest received (+)	314,972	327,289
- interest paid (-)	(122,181)	(124,775)
- dividends and similar income (+)	117	38
- net commissions (+/-)	113,922	106,472
- payroll costs (-)	(150,597)	(142,921)
- net premiums received (+)	-	-
- other insurance income/expense (+/-)	-	-
- other costs (-)	(84,801)	(78,293)
- other revenues (+)	91,441	56,556
- taxation (-)	(4,973)	(16,013)
- costs/revenues for disposal groups, net of tax effect (+/-)	-	4,532
2. Cash generated (absorbed) by financial assets	**(633,281)**	**(507,944)**
- financial assets held for trading	2,827	15,953
- financial assets designated at fair value through profit and loss	-	-
- financial assets available for sale	(409,428)	(89,515)
- loans to customers	(150,500)	(463,384)
- due from banks: on demand	3,082	36,072
- due from banks: other receivables	(28,450)	(3,811)
- other assets	(50,812)	(3,259)
3. Cash generated (absorbed) by financial liabilities	**449,355**	**448,833**
- due to banks: on demand	1,000	8,231
- due to banks: other debts	(4,651)	165,448
- due to customers	448,614	693,462
- debt securities in issue	24,736	(393,084)
- financial liabilities held for trading	(644)	(3,061)
- financial liabilities designated at fair value through profit and loss	286	(54,456)
- other liabilities	(19,986)	32,293
Net cash generated/absorbed by operating activities (A)	**(26,026)**	**73,774**
B. INVESTING ACTIVITIES		
1. Cash generated by	**12,973**	**24,503**
- sale of equity investments	7,718	22,305
- dividends collected on equity investments	-	-
- sale/redemption of financial assets held to maturity	3,098	2,098
- sale of property, plant and equipment	2,157	100
- sale of intangible assets	-	-
- sale of lines of business	-	-
2. Cash absorbed by	**(32,656)**	**(34,114)**
- purchase of equity investments	(48)	-
- purchase of financial assets held to maturity	(30,635)	(29,335)
- purchase of property, plant and equipment	(1,437)	(3,862)

- purchase of intangible assets	(536)	(917)
- purchase of lines of business	-	-
Net cash generated/absorbed by investing activities (B)	**(19,683)**	**(9,611)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares	-	-
- issue/purchase of equity instruments	-	-
- dividends distributed and other allocations	(5,691)	(14,898)
Net cash generated/absorbed by financing activities (C)	**(5,691)**	**(14,898)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(51,400)**	**49,265**

RECONCILIATION

Captions	2013	2012
Cash and cash equivalents at beginning of period	81,248	31,983
Net increase (decrease) in cash and cash equivalents	(51,400)	49,265
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at end of period	29,848	81,248

CONSOLIDATED EXPLANATORY NOTES

Part A - ACCOUNTING POLICIES

A.1 - GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation 1606 of 19 July 2002, the consolidated financial statements of the Banco di Desio Group are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2013.

Section 2 - Basis of preparation

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

For the preparation of the financial statements and the content of the explanatory notes, the Group applied the Bank of Italy's Circular 262 of 22 December 2005 and subsequent updates. The additional disclosure requirements and the clarifications provided by the Supervisory Authority were also taken into account.

The consolidated financial statements have been prepared in the interests of clarity and give a true and fair view of the balance sheet, financial position and results of operations for the year of Banco di Desio e della Brianza and its subsidiaries.

The financial statements have been prepared on a going-concern basis, in accordance with the accrual principle and, in the recognition and presentation of the results of operations, the principle of substance over form has been given precedence.

The accounting policies are consistent with those used for the preparation of the consolidated financial statements at the end of the previous year as, even with the voluntary liquidation of two foreign subsidiaries (which did not result in losing control over them), the going-concern assumption is still undoubtedly valid for the Banco Desio Group as a whole. This means that in preparing consolidated financial information Group accounting principles have to be applied (in line with the going-concern assumption) also to the companies in voluntary liquidation.

The financial statements used for the preparation of the consolidated financial statements are those prepared by the Subsidiaries, as at 31 December 2013, adjusted where necessary to comply with the IAS/IFRS adopted by the Parent Company.

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

Section 3 - Area of consolidation and methodology

1. Investments in subsidiaries and companies under joint control (consolidated on a proportional basis)

Name	Head office	Type of relationship (1)	Nature of holding	
			Parent company	% held
A. Companies				
A.1 Companies consolidated line-by-line				
Banco Desio Lazio S.p.A.	Rome	1	Banco Desio	100.000
Fides S.p.A.	Rome	1	Banco Desio Lazio	100.000
Rovere S.A.	Luxembourg	1	Banco Desio	70.000
		1	Banco Desio Lazio	10.000
Brianfid-Lux S.A. in liquidation	Luxembourg	1	Banco Desio	100.000
Credito Privato Commerciale S.A. in liquidation	Lugano	1	Banco Desio	100.000

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

The change during the year concerned the exclusion of Chiara Assicurazioni S.p.A. from the Group because of the sale of 51% of it to Gruppo Assicurativo Helvetia, lowering the investment from 66.66% to 32.66%.

2. Other information

The consolidation principles are applied as follows:
- *subsidiaries:* assets, liabilities, shareholders' equity, "off-balance sheet" transactions, costs and revenues are included in the relevant items of the consolidated financial statements on a line-by-line basis in accordance with IAS 27.
  Any positive difference emerging from a comparison of the book value of each investment and the relevant portion of the subsidiary's shareholders' equity, left over after any allocation to a specific balance sheet captions, is recognised as goodwill and subjected to impairment testing;
- *associates:* investments in associates are consolidated using the equity method on the basis of IAS 28.

Section 4 - Subsequent events

Please refer to the Consolidated Report on Operations.

Section 5 - Other aspects

Use of estimates and assumptions in preparing the consolidated financial statements.

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

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

The main areas in which the use of subjective assessment is applied are:
- the valuation models used for carrying out impairment tests relating to investments and to intangible assets with an indefinite useful life (goodwill);

- quantification of the losses arising from the impairment of loans and financial assets in general;
- determination of the fair value of financial instruments for disclosure purposes;
- the use of valuation models for determining the fair value of financial instruments not quoted in active markets (Level 2 and 3);
- quantification of the provisions for employee benefits and the provisions for risks and charges;
- estimates and assumptions about the recoverability of deferred tax assets.

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

Domestic tax group election

Banco di Desio e della Brianza and the Italian companies of the Group adopted the so-called "domestic tax group", governed by arts. 117-129 of the Consolidated Income Tax Law, which was introduced into tax legislation by Legislative Decree no. 344/2003. This law provides an optional system, under which the total income or tax loss of each subsidiary in the tax consolidation - together with withholdings, deductions and tax credits - is transferred to the parent company, which then calculates a single taxable income or tax loss to be carried forward and, consequently, a single tax liability or credit.

Audit

These consolidated financial statements have been subjected to an audit by Deloitte & Touche S.p.A., pursuant to the resolution of the Shareholders' Meeting of 26 April 2012.

A.2 - MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

The accounting policies explained below, which were used in preparing the consolidated financial statements at 31 December 2012, comply with the IAS/IFRS endorsed by the European Commission and in force on the reference date, and have been applied on a going-concern basis.
For the purchase and sale of standard financial assets, i.e. contracts for which delivery is made in a period established by regulations or market conventions, reference is made to the settlement date.

Financial assets held for trading

Recognition

The initial recognition of financial assets held for trading takes place at the settlement date for debt securities and equities and at the execution date for derivatives.
Financial assets held for trading are designated on initial recognition as assets at fair value through profit and loss, corresponding to the price paid, without taking account of transaction costs or income that are recognised directly in the income statement.

Classification

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

Measurement

Equities, Italian and foreign government bonds and derivatives traded in an active market are measured at the closing price on the assessment date (*fair value level 1)*.
Italian and foreign bonds traded in an active market are measured at the bid price (*fair value level 1).*
For equities and bonds not traded in an active market, the fair value is determined using valuation techniques based on objective factors observable in the market (*fair value level 2).*
Derivative instruments that are not traded in active markets are measured using valuation techniques (*fair value Level 2 or 3* - based on the significance of unobservable inputs used in the valuation models).

Derecognition

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

Recognition of items affecting the income statement

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

Financial assets available for sale

Recognition

The initial recognition of financial assets available for sale takes place at the settlement date at fair value, including any transaction costs or income directly attributable to the instrument concerned.
If, for those cases permitted by the applicable accounting standards, the recognition takes place upon a reclassification of financial assets held to maturity, the amount recognised is represented by the fair value at the time of transfer.

Classification

“Financial assets *available for sale*” include financial assets - derivatives excluded - not classified as Loans, Assets held for trading or as Assets held to maturity.
This caption thus includes, in addition to bonds that are not held for trading and which are not classified as Assets held to maturity, equity interests not held for trading and which do not qualify as controlling interests or as a placement as well as mutual fund units.
Financial assets can be transferred from "available for sale" to "held to maturity", but only in the following circumstances:

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

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

Measurement

Subsequent to initial recognition, the price component of financial assets available for sale is measured at fair value, whereas the interest component is calculated at the actual rate of return.
For the purposes of determining fair value, the same criteria as for assets held for trading are applied.
Unquoted financial assets for which a reliable determination of fair value is not possible are carried at cost.
The fair value measurement of non-controlling interests is carried out using valuation techniques (*Level 3*). Mutual fund units (UCITS) are measured at NAV at the assessment date, or at the latest available NAV (*Level 1*).
At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated, taking into account whether the issuer is in financial difficulty or other similar factors. As required by IAS 39 para. 61, "significant" (higher than 50%) or "extended" (more than 24 months) write-downs are considered to be objective impairment indicators for equities.
The amount of the impairment is the difference between the asset's book value and its recoverable amount.

Derecognition

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

Recognition of items affecting the income statement

The effect of the assessment is recorded in shareholders' equity as a contra-entry to the valuation reserves, net of tax, until the asset is derecognised, while the amortised cost element is charged to the income statement.
On extinction, sale, transfer to another category or detection of an impairment loss, the cumulative amount in the valuation reserve is charged to the income statement.
If impairment losses recorded in the income statement no longer apply because of subsequent revaluations, the write-back, up to the amount of such losses, is recorded in the income statement for debt securities, and in an equity reserve for equities.

Financial assets held to maturity

Recognition

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

Classification

"Financial assets *Held To Maturity*" comprise debt securities that have fixed or determinable contract payments and a fixed maturity, for which there is the intention and ability to hold them to maturity.
The category of financial assets held to maturity was created on the basis of specific resolutions passed by the corporate bodies, who also approve any subsequent movements on it, in compliance with IAS 39.
For those cases permitted by the applicable accounting standards, transfers are only permitted to financial assets available for sale. The inclusion of financial assets in this category is no longer permitted in the current period and the next two years in the event of sales or transfers of a not insignificant amount, excluding investments that are close to maturity and isolated events that are beyond the Bank's control.
If the conditions that ban the use of this category come about, the assets concerned have to be reclassified to financial assets available for sale (under the so-called "tainting provision").

Measurement and recognition of items affecting the income statement

Measurements subsequent to initial recognition are recorded at amortised cost using the effective interest rate method with the contra-entry going to the income statement.
At each balance sheet date, the existence of impairment losses that might have a measurable impact on estimated future cash flows is evaluated. If they do exist, the impairment losses are recognised in the income statement.
If the reasons for making the impairment adjustment cease to apply, the related asset is written back and the amount of the write-back is recognised in the income statement. The write-back may not exceed the amortised cost that the financial instrument would have had if no adjustments had been made previously.
For equities quoted on active *markets, the fair value* corresponds to the market price (*Level 1*), while securities traded in an active market, the fair value is determined using valuation techniques based on objective factors observable in the market (*fair value of Level 2).*

Derecognition

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

Loans and receivables

Recognition

Loans and receivables are recognised at the contract date, which is usually equal to the date the loan is granted.
If the two dates do not coincide, upon the execution of the contract, a commitment is assumed to provide funds that terminates on the date the loan is granted. Loans and receivables are recognised at fair value, which normally equates to the amount granted, including any costs or income directly attributable to the loan and which are determinable at the outset of the transaction.
If the recognition in this category takes place as a result of a reclassification from financial assets available for sale or from financial assets held for trading, the fair value of the asset at the date of reclassification represents the new amortised cost of the asset.

Classification

"Loans and receivables" include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
They generally comprise transactions with customers and banks and debt securities not quoted in an active market that have similar characteristics to receivables, excluding assets held for trading and available for sale.
They also include finance lease receivables and repurchase agreements with obligation to resale.
Transfers from "Financial assets available for sale" and "Financial assets held for trading" are only allowed in particular circumstances, as specified in IAS 39.

Measurement

Subsequent to initial recognition, loans and receivables are measured on the basis of the principle of amortised cost, calculated using the effective interest method.
The amortised cost is equal to the initial value net of any principal repayments, plus or minus adjustments and write-backs and the amortisation of the difference between the amount paid and the amount repayable at maturity.
The effective interest rate is the rate that makes the present value of future cash flows equal to the amount of the loan issued, adjusted by directly attributable costs or revenues.
Loans are assessed periodically and split between "performing" and "non-performing", depending on the degree of impairment of the loan.
The amortised cost method is not used in relation to short-term loans, which are measured at historical cost; the same method is applied to loans without a defined maturity or which can be revoked at any time.
Loans are subjected to assessment to identify any objective evidence, arising from events subsequent to initial recognition, that their value may be impaired.
Non-performing loans include the various categories of impaired loans established by the Bank of Italy: doubtful loans, watchlist loans, restructured loans and past due or overrun loans.
The loan portfolio is subject to periodic review at least at every annual or interim balance sheet date to identify and determine any objective impairment. This is done taking into account the specific solvency situation of each debtor, as well as the local or national economic conditions relating to the debtor's business sector.
Performing loans have been evaluated on a general basis by dividing them into classes of risk, determining the Expected Loss (EL) by applying the Probability of Default (PD) produced by the Credit Rating System (CRS) model, and the loss that would be incurred in the event of default (*Loss Given Default* - LGD) derived from the historical-statistical analysis of doubtful and watchlist loans. The expected loss takes into account the deterioration of loans that has taken place at the reporting date, but for which the amount is not yet known at the time of the assessment, in order to shift the valuation model from the concept of "expected loss" to that of "latent loss".
Specific analyses are carried out for exposures of a significant amount.
Non-performing loans include all receivables for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted at the original effective interest rate. The evaluation is analytical, and takes account of the presumed possibility of recovery, the expected timing of collection, and outstanding guarantees.
Receivables for interest on arrears accrued on impaired assets are only recorded in the financial statements once it has been collected.
The value of loans to non-residents is adjusted on a general basis in relation to the difficulties in servicing debt by the countries of residence.
The fair value of loans is calculated solely for the purpose of disclosure in the notes of any performing loans beyond the short term. Non-performing loans already evaluated analytically and short-term positions are shown at book value, which represents a reasonable approximation of their fair value.
Fair value is based on future cash flows according to the contract, using a risk-free discount rate and taking into consideration the credit risk in terms of PD and LGD detected by the CRS model (*Level 3*).

Derecognition

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

Even if the transfer of essentially all the risks and benefits cannot be demonstrated, loans are derecognised if no form of control over them has been retained. By contrast, the partial or total retention of such control means that the related loans are reported in the balance sheet to the extent of the residual involvement, as measured by the exposure to changes in the value of the loans sold and to changes in their cash flows.
Lastly, loans sold are derecognised if there is retention of the contractual rights to collect the related cash flows, with a parallel commitment to pay all such flows, and only these, to third parties.

Recognition of items affecting the income statement

Valuation at amortised cost generates in the income statement a deferral of the transaction costs and ancillary revenues over the life of the financial asset, rather than impacting the income statement on initial recognition.
Interest on arrears is only recorded in the income statement when collected.
The interest that accrues over time as an effect of discounting impaired loans is recognised in the income statement under write-backs.
The effects of analytical and general assessments are recognised in the income statement.
The original value of the loan is reinstated when the reasons for the write-down cease to apply, recognising the effects in the income statement.

Hedging transactions

Recognition

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

Classification

Hedging transactions are intended to offset certain risks of potential loss on financial assets or liabilities through specific financial instruments, the use of which is intended to cushion the effects on the income statement of the securities being hedged.
The type of hedge used is the fair value hedge: the objective is to hedge the risk of changes in the fair value of the hedged instrument.

Measurement and recognition of items affecting the income statement

The fair value of hedging instruments not quoted in an active market is determined using valuation models for estimating and discounting future cash flows (*fair value Level 2 or Level 3* - based on the significance of unobservable inputs used in the valuation models).
The contra-entries to changes in the fair value of hedging derivatives and of the financial instruments being hedged (to the extent attributable to the hedged risk) are recorded in the income statement.
Such offsetting is booked through the recognition in the income statement under item 90 "Net hedging gains (losses)" of changes in the value of both the hedged element (as regards the changes produced by the underlying risk factor) and the hedging instrument. Any difference determines the consequent net economic effect.
A hedging transaction is defined as effective if the changes in fair value (or cash flows) of the hedging instrument offset the changes in the financial instrument being hedged within the 80%-125% limits laid down in IAS 39.
Effectiveness tests are performed at each annual or interim balance sheet date, both in retrospective terms, to measure the actual results, and in prospective terms, to demonstrate the expected efficacy for future periods.
If the tests do not confirm the effectiveness of the hedge and, depending on corporate policy, hedge accounting is interrupted from that moment, the hedging derivative is reclassified under trading instruments and the hedged instrument reacquires the method of valuation corresponding to its classification in the financial statements.

Derecognition

The recognition of hedging transactions is interrupted when it no longer meets the criteria of effectiveness, when they are revoked, when the hedging instrument or the hedged instrument expire, or when they are cancelled or sold.
If the instrument being hedged is subject to valuation at amortised cost, the difference between the fair value determined at the date of "discontinuing" (interruption of the hedging relationship) and the amortised cost is spread over its residual life.

Equity investments

Recognition

Equity investments are recognised on the settlement date. Initial recognition is at cost, including directly attributable ancillary costs.

Classification

This item includes investments in associates, as defined in IAS 28. Other equity investments are booked in accordance with IAS 39. They are classified as financial assets available for sale and follow the measurement criteria provided for that class of financial assets.

Measurement

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 annual or interim 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).
Any *impairment* write-downs are charged to the income statement.
If the reasons for making the impairment adjustment cease to apply due to an event occurring after recognition of an impairment, the related asset is written back and the amount of the write-back is recognised in the income statement.

Derecognition

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

Recognition of items affecting the income statement

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

Property, plant and equipment

Recognition

Property, plant and equipment are initially recorded at purchase price, including all attributable costs of purchasing and bringing the asset to working condition.
On first-time adoption of IAS/IFRS, we made use of the exemption provided by art. 16 of IFRS 1, opting to assess property at fair value as the deemed cost at 1 January 2004. After that date, buildings have been valued at cost.
Extraordinary maintenance costs are attributed to the assets to which they relate. Routine maintenance costs are charged directly to the income statement.
In application of IAS 17, financial leases are recognised in the financial statements in accordance with the financial method. Assets leased to others are therefore shown under receivables. Conversely, assets held under finance lease contracts are included in this caption, even though the lessor retains legal title.

Classification

Property, plant and equipment include land. buildings, equipment, furniture and fittings and other office equipment
This consists of property, plant and equipment held for use in the provision of services and for rental to third parties and for which it is deemed that they will be used for more than one financial year.

Measurement

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

relate.
Impairment tests are performed on an annual basis. If it is ascertained that the carrying amount of an asset is higher than its recoverable value, the carrying amount is adjusted as appropriate in the income statement.
If the reasons for recognising an impairment loss cease to apply, the asset is written back but without exceeding the carrying amount that the asset would have had (net of depreciation) if no impairment losses had been recognised in prior years.
Solely for disclosure purposes, the fair value of investment property is measured at cost less accumulated depreciation. Fair value is determined by the use of direct or market comparables for similar assets (*Level 3*).

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

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

Intangible assets

Recognition

Goodwill is the positive difference between the purchase cost and the fair value of assets and liabilities acquired in business combinations. It is booked to intangible assets when it is actually representative of future economic benefits generated by the assets acquired.
Other intangible assets are stated at cost and are only recognised if they meet the requirements of independent identifiability and separation from goodwill, probable realisation of future economic benefits and reliable measurability of cost.

Classification

Intangible assets include goodwill, compensation for abandonment of leasehold premises and software purchase costs.
Leasehold improvements are booked to other assets.

Measurement

Intangible assets are recognised in the balance sheet at purchase cost, including ancillary charges, less the amount of accumulated amortisation and impairment losses, if any.
Amortisation is calculated on a straight-line basis at rates that reflect the residual useful life of the asset in question.
Goodwill is not amortised as it is considered to have an indefinite useful life; instead, it is subjected annually to an impairment test). The cash-generating unit to which the goodwill was allocated is identified for this purpose. The amount of any impairment loss is determined as the amount by which the goodwill's carrying value exceeds its recoverable amount.

The recoverable amount is the higher of the cash-generating unit's fair value, net of any selling costs, or its related value in use.
Any *impairment* write-downs are charged to the income statement, with no possibility of a subsequent write-back.

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

Derecognition

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

Recognition of items affecting the income statement

Amortisation and impairment losses, if any, are recognised in the income statement as net adjustments to intangible assets.
Adjustments to leasehold improvements are recognised in the income statement under other operating charges.

Non-current assets and disposal groups held for sale

Recognition

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

Classification

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

Measurement and recognition of items affecting the income statement

Subsequent to initial recognition, non-current assets and disposal groups held for sale are valued at the lower of book value and fair value less costs to sell. The related income and expenses (net of tax) are shown in a separate item in the income statement when they relate to discontinued operations.
When assets are classified as non-current assets held for sale, the depreciation process, if still underway, is interrupted.

Derecognition

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

Current and deferred taxation

Income taxes for the year are calculated by estimating the amount of tax due on an accrual basis, in a consistent manner with the recognition in the financial statements of the costs and revenue that generated the taxation in question. In addition to current taxes, calculated according to current tax rules, deferred taxation, arising as a result of timing differences between the amounts recorded in the financial statements and the corresponding tax bases, is also recognised. Taxes therefore reflect the balance of current and deferred taxation on income for the period.
Deferred tax assets are recognised when their recovery is probable, i.e. when it is expected that there will be sufficient future taxable income to recoup the asset. They are shown in the balance sheet under caption 130 "Deferred tax assets". Conversely, deferred tax liabilities are shown on the liabilities side of the balance sheet under caption 80 "Deferred tax liabilities".
In the same way, current taxes not yet paid at the balance sheet date are recognized under caption 80 "Current tax liabilities". In the event of the payment of advances that exceed the final amount due, the recoverable amount is accounted for under caption 130 "Current tax assets”.
If deferred tax assets and liabilities relate to transactions that were recognised directly in equity without passing through the income statement, these are recorded with a contra-entry to the appropriate equity reserve (e.g. valuation reserve).
Lastly, it should be noted that Banco Desio, along with the other Italian Group companies, has elected to form part of a domestic tax group. In administrative terms, the tax affairs of the Bank and those of the other Group companies are managed separately.

Provision for termination indemnities

Measurement

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

Recognition of items affecting the income statement

The provision for termination indemnities arising from the actuarial valuation, as allowed by IAS 19, is recorded as a contra-entry to the valuation reserves for the component of actuarial gains (losses) and in the income statement under provisions for other components such as accrued interest due to the passage of time (discounting) and the adjustment of values at 31.12.2006 as a result of the pension reform introduced by the 2007 Finance Law.

Provisions for risks and charges - Other provisions

Classification

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

Provisions represent the best estimate of the future cash flows needed to settle the obligation at the balance sheet date.
.

Measurement

In cases where the effect of time is a significant factor, the amounts provided are discounted, taking into account when the obligation is likely to fall due. The discount rate reflects the current value of money, taking into consideration the risks specific to the liability.
The evaluation of long-service bonuses to employees is made by independent external actuaries and follows the same logic as described above for calculating the provision for termination indemnities.

Recognition of items affecting the income statement

Provisions are charged to the income statement. An exception is made for the amounts set aside for bonuses to employees, which are booked as a contra-entry to valuation reserves.
The effects arising from the passage of time for the discounting of future cash flows are recorded in the income statement under provisions.

Debts and debt securities in issue

Recognition

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

Classification

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

Measurement and recognition of items affecting the income statement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, with the contra-entry going to the income statement.
Financial liabilities not measured at amortised cost are measured at the amount paid to transfer the liability.
Financial liabilities subject to fair value hedges follow the same measurement criteria as the hedging instrument, being limited to changes in the fair value since designation of the hedge, with the contra-entry going to the income statement.
If the hedging relationship is interrupted, the difference between the fair value determined at the discontinuing date and the amortised cost is recognised in the income statement over the residual life of the financial instrument.
Securities issued are shown net of any repurchases.
Solely for disclosure purposes, the fair value is determined of debt and securities issued; for debt, the fair value substantially equates to book value, which represents a reasonable approximation thereof, while the fair value of issued securities is determined using valuation models for estimating and discounting future cash flows (*fair value Level 2 or Level 3* - based on the significance of unobservable inputs used in the valuation models).

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.
The repurchase of previously issued bonds results in their derecognition; the difference between the carrying amount of the liability and the amount paid for its repurchase is recognised in the income statement.
The re-placement of own securities previously repurchased is considered as a new issue measured at the new sale value.

Financial liabilities held for trading

Recognition

Liabilities held for trading are recorded at fair value.

Classification

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

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

Measurement and recognition of items affecting the income statement

Financial liabilities held for trading are measured at fair value, booking the effects to the income statement.
Derivative instruments traded in active markets are valued at the closing price on the valuation date (*Level 1*).
Derivative instruments that are not traded in active markets are priced by using valuation techniques (*fair value Level 2 or Level 3* - based on the significance of unobservable inputs used in the valuation models).

Derecognition

Financial liabilities are derecognised on disposal, expiration or termination.

Financial liabilities designated at fair value through profit and loss

Recognition criteria

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

Classification

This caption includes financial liabilities designated at fair value through profit and loss.
In particular, this caption refers to the application of the fair value option for financial liabilities subject to "natural hedging", designed to achieve a better balance of the effects of measuring financial assets and liabilities on the income statement.
Financial liabilities may be designated at fair value through the income statement in the following cases:
- elimination or reduction of valuation inconsistencies
- evaluation of instruments containing embedded derivatives
- evaluation of groups of financial assets or liabilities on the basis of a documented risk management or investment strategy.

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

Measurement and recognition of items affecting the income statement

These are recorded at fair value, with the effects charged to the income statement.
The fair value is determined through valuation techniques using observable elements in active markets (*Level 2*). The methodology is that of discounting cash flows using a zero coupon curve based on elements available in the market, and applying a credit spread calculated using the euro swap curve and the yield curve for bonds issued by European banks with ratings equal to that of Banco Desio (*Level 2*). For subordinated bonds, a specific adjustment factor is also considered.

Derecognition

Financial liabilities measured at fair value are derecognised on disposal, expiration or termination.
Repurchases of own issues substantially lead to the termination of the part subject to repurchase. The re-placement of own securities previously repurchased is considered as a new issue at the sale value.

Currency transactions

Recognition

Currency transactions are recorded at the time of settlement by converting them into euro at the exchange rate ruling on the transaction date.

Measurement

At each annual or interim balance sheet date, caption in foreign currency are valued as follows:
- monetary items: conversion at the exchange rate ruling at the balance sheet date;
- non-monetary items measured at cost: converted at the exchange rate ruling at the transaction date;
- non-monetary items measured at fair value: conversion at the exchange rate ruling at the balance sheet date.

Recognition of items affecting the income statement

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

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

Other information

Valuation reserves

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

Recognition of costs and revenues

Revenues are recognised when they are earned or, in any case, when it is probable that benefits will be received and these benefits can be reliably measured. In particular:
- interest expense is recognised on a pro-rata basis at the contractual interest rate or, in the case of application of amortised cost, at the effective interest rate. Interest income (expense) also includes positive (negative) differentials or margins on financial derivatives accrued at the date of the financial statements:
  a) hedging assets and liabilities that generate interest;
  b) classified in the balance sheet in the trading book, but operationally linked to assets and/or liabilities measured at fair value (fair value option);
  c) operationally linked to assets and liabilities classified as held for trading and providing for the settlement of differentials or margins on several maturities;
- default interest, which may be provided by contract, is recognised in the income statement only when actually collected;
- dividends are recognised in the income statement when distribution has been approved;
- commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;
- revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (level 1 and level 2). If these values cannot easily be determined or have a reduced level of liquidity, the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;
- gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
- revenues from the sale of non-financial assets are recognised on completion of the sale, unless most of the risks and benefits associated with the asset have been retained.

Expenses are recognised in the income statement in the periods when the related revenues are booked. If costs and revenues can be associated in a generic and indirect way, costs are allocated systematically to several periods with rational procedures.
Costs that cannot be associated with income are booked immediately to the income statement.

Finance leases

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

A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

There have not been any portfolio transfers in 2013 nor in prior years.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

In May 2011 the IASB published a new accounting standard, IFRS 13 "Fair Value Measurement" that has to be applied for annual periods beginning on or after 1 January 2013. With the publication of IFRS 13, a single accounting standard provides fair value definitions that had previously been included in various IFRSs and defines a single framework for fair value measurement.

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

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

With the introduction of IFSR13, the techniques used for the determination of fair value must maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

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

A significant aspect of IFRS 13 relates to the fair value measurement of OTC derivatives, for which the counterparty risk needs to be considered.

The application of the new standard has had a marginal impact on the Bank's results and financial position.

A.4.1 Levels of fair value 2 and 3: valuation techniques and inputs used

The fair value of financial assets and liabilities is measured by using valuation techniques that take into account the characteristics of the financial instrument being measured. For Level 2 of the fair value hierarchy, the fair value is determined by using a valuation price from an external information provider or a price calculated using internal valuation techniques that use directly observable inputs (entry prices, exit prices, volumes) and indirectly observable inputs (analysis of historical correlations of observable market information for comparable instruments) together with inputs other than prices (volatility, credit spreads, interest rates).

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

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

A.4.2 Process and sensitivity of valuations

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

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

– for each asset class, market inputs are identified as well as the manner in which they have to be incorporated and used;

– the market inputs used are checked to ensure they are worthy of use in the valuation techniques employed;

– the valuation techniques used are compared with market practices to identify any critical issues and to determine if any changes need to be made to the valuation.

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

A.4.3 Fair value hierarchy

For financial assets and liabilities measured at fair value on a recurring basis, their categorisation within the aforementioned fair value hierarchy levels reflects the significance of the inputs used for the valuation. In particular, Level 1 is assigned when there are prices quoted in an active market, and Level 2 and 3 in the case of an active market in which one is unable to carry out a transaction at the price of that market on the valuation date or with no active market. Categorisation as Level 2 and 3 takes place on the basis of the nature and significance of the inputs used: Level 2 when there are inputs that are observable for the asset or liability, either directly or indirectly; Level 3 when inputs are unobservable and are significant for the valuation model.

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

A.4.4 Other information

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

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities designated at fair value	31.12.2013			31.12.2012		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	596	1,705	497	1,877	2,443	
2. Financial assets designated at fair value through profit and loss						
3. Financial assets available for sale	1,287,725	125,046	7,682	876,162	126,621	6,627
4. Hedging derivatives		5,052			9,005	
5. Property, plant and equipment						
6. Intangible assets						
Total	**1,288,320**	**134,670**	**8,279**	**878,039**	**138,069**	**6,627**
1. Financial liabilities held for trading			480	34	483	
2. Financial liabilities designated at fair value through profit and loss		38,617			37,532	
3. Hedging derivatives		2,894			6,696	
Total		**41,511**	**480**	**34**	**44,711**	

	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Hedging derivatives	Property, plant and equipment	Intangible assets
A. Opening balance			**6,627**			
2. Increases	**497**		**1,357**			
2.1 Purchases	497		971			
2.2 Profits posted to:						
2.2.1 Income statement			129			
Capital gains			27			
2.2.2 Shareholders' equity			257			
2.3 Transfers from other levels						
2.4 Other increases						
3. Decreases			**202**			
3.1 Sales			87			
3.2 Redemptions			115			
3.3 Losses posted to:						
3.3.1 Income statement						
of which capital losses						
3.3.2 Shareholders' equity						
3.4 Transfers to other levels						
3.5 Other decreases						
4. Closing balance	**497**		**7,782**			

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (Level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit and loss	Hedging derivatives
1. Opening balance			
2. Increases	**480**		
2.1. Issues	480		
2.2 Losses posted to:			
2.2.1 Income statement			
- of which: Capital losses			
2.2.2 Shareholders' equity			
2.3 Transfers from other levels			
2.4 Other increases			
3. Decreases			
3.1 Redemptions			
3.2. Repurchases			
3.3 Profits posted to:			
3.3.1 Income statement			
- of which: Capital gains			
3.3.2 Shareholders' equity			
3.4. Transfers to other levels			
3.5 Other decreases			
4. Closing balance	**480**		

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2013				31.12.2012			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	181,568	181,066	10,434		151,863	153,539		
2. Due from banks	275,848			275,848	250,480			250,480
3. Loans to customers	6,955,429			7,377,054	6,949,145			7,349,817
4. Investment property	1,111			972	6			10
5. Non-current assets and disposal groups held for sale					72,420			
Total	**7,413,956**	**181,066**	**10,434**	**7,653,874**	**7,423,914**	**153,539**		**7,600,307**
1. Due to banks	438,026			438,026	441,677			441,677
2. Due to customers	5,489,782			5,489,665	5,041,168			5,041,168
3. Debt securities in issue	2,239,092		2,001,090	237,986	2,217,881		2,192,039	
4. Liabilities associated with groups of assets held for sale					51,399			
Total	**8,166,900**		**2,001,090**	**6,165,677**	**7,752,125**		**2,192,039**	**5,482,845**

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

In relation to the Group's operations and on the basis of internal methodologies for assessment currently in use, any differences between the transaction price and the initial value of the financial assets and liabilities recorded (the so-called "day one profit/loss") have not been recognised.

PART B - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents

1.1 Cash and cash equivalents: breakdown

	31.12.2013	31.12.2012
a) Cash	29,848	38,374
b) Demand deposits with central banks		42,874
Total	**29,848**	**81,248**

Section 2 - Financial assets held for trading - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31.12.2013			31.12.2012		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	563			1,834		
1.1 Structured securities						
1.2 Other debt securities	*563*			*1,834*		
2. Equity instruments						
3. UCITS units						
4. Loans						
4.1 Repurchase agreements						
4.2 Other						
Total A	**563**			**1,834**		
B. Derivatives:						
1. Financial derivatives:	33	1,541	497	43	2,443	
1.1 for trading	*33*		*497*	*43*	*317*	
1.2 connected with the fair value		*1,541*			*2,126*	
1.3 Other						
2. Credit derivatives		164				
2.1 For trading		*164*				
2.2 Connected with the fair value						
2.3 other						
Total B	**33**	**1,705**	**497**	**43**	**2,443**	
Total (A+B)	**596**	**1,705**	**497**	**1,877**	**2,443**	

Caption 20 “Financial assets held for trading” comprises:

a) cash assets held for trading,

b) derivatives held for trading and those linked to the fair value option.

The derivatives linked to the fair value option consist of derivatives operationally linked to bond issues for which the Bank exercised the fair value option

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

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

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

Captions/Amounts	31.12.2013	31.12.2012
A. Cash assets		
1. Debt securities	**563**	**1,834**
a) Government and central banks	*563*	*1,834*
b) Other public entities		
c) Banks		
d) Other issuers		
2. Equity instruments		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies		
- other		
3. UCITS units		
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total A	**563**	**1,834**
B. Derivatives		
a) Banks		
- Fair value	*2,041*	*2,317*
b) Customers		
- Fair value	*194*	*169*
Total B	**2,235**	**2,486**
Total (A+B)	**2,798**	**4,320**

2.3 Financial assets held for trading: changes in the year

	Debt securities	Equity instruments	UCITS units	Loans	Total
A. Opening balance	**1,834**				**1,834**
B. Increases	**199,346**	**25**			**199,371**
B.1 Purchases	199,098	25			199,123
B.2 Positive changes in fair value	12				12
B.3 Other changes	236				236
C. Decreases	**200,617**	**25**			**200,642**
C.1 Sales	197,124	25			197,149
C.2 Redemptions	3,440				3,440
C.3 Negative changes in fair value					
C.4 Transfers to other portfolios					
C.5 Other changes	53				53
D. Closing balance	563				563

The caption “B 3 Other changes” includes trading profits of Euro 233 thousand, as well as accrued coupon interest and accrued issue spread of Euro 3 thousand.

Conversely, the caption “C 5 Other changes” includes trading losses and losses on redemption of Euro 34 thousand; it also includes the reversal of accruals made for coupon interest and issue spread at the prior year end of Euro 19 thousand.

The result of the fair value measurement of financial assets held for trading, included in caption “B 2 Positive changes in fair value” is recognised in the income statement in caption 80 “Net trading income”.

Section 3 - Financial assets designated at fair value through profit and loss - caption 30

There are nil balances at both year ends.

Section 4 - Financial assets available for sale - caption 40

4.1 Financial assets available for sale: breakdown

Captions/Amounts	31.12.2013			31.12.2012		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,261,819	127,913	170	854,643	126,621	99
1.1 Structured securities		*1,950*			*1,910*	
1.2 Other debt securities	*1,261,819*	*125,963*	*170*	*854,643*	*124,711*	*99*
2. Equity instruments			7,611	410		6,528
2.1 Valued at fair value			*6,034*	*410*		*4,951*
2.2 Valued at cost			*1,577*			*1,577*
3. UCITS units	25,906			21,109		
4. Loans						
Total	**1,287,725**	**127,913**	**7,781**	**876,162**	**126,621**	**6,627**

Caption 40 “Financial assets available for sale” comprises:

- the bond portfolio and UCITS units not held for trading,
- portions of equity investments in companies with voting rights of less than 20% of the share capital of companies that are not strategic investments for the Bank.

Debt securities include securities associated with repurchase agreements.

UCITS units: breakdown by main category

The following table provides a breakdown of “UCITS units" by type of fund.

	31.12.2013	31.12.2012
Equity funds		5,236
Bond funds	17,138	13,690
Flexible funds	2,197	2,083
Hedge funds	100	100
Closed-ended real estate funds	6,471	
Total	**25,906**	**21,109**

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

Captions/Amounts	31.12.2013	31.12.2012
1. Debt securities	**1,389,901**	**981,363**
a) Government and central banks	1,311,704	805,054
b) Other public entities		
c) Banks	65,947	149,693
d) Other issuers	12,250	26,616
2. Equity instruments	**7,611**	**6,938**
a) Banks		
b) Other issuers:	7,611	6,938
- insurance companies		
- financial companies	*1,534*	*1,534*
- non-financial companies	*6,077*	*5,404*
- other		
3. UCITS units	**25,906**	**21,109**
4. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	**1,423,419**	**1,009,410**

4.3 Financial assets available for sale with specific hedge

Captions/Amounts	31.12.2013	31.12.2012
1. Financial assets with specific fair value hedges	**19,636**	**73,121**
a) interest rate risk	19,636	73,121
b) exchange rate risk		
c) credit risk		
d) other risks		
2. Financial assets with specific cash flow hedges		
a) interest rate risk		
b) exchange rate risk		
c) other		
Total	**19,636**	**73,121**

The table provides details of assets available for sale that are hedged.

4.4. Financial assets available for sale: changes in the year

	Debt securities	Equity instruments	UCITS units	Loans	Total
A. Opening balance	**981,363**	**6,938**	**21,109**		**1,009,410**
B. Increases	**4,507,705**	**1,133**	**19,360**		**4,528,198**
B.1 Purchases	4,451,187	826	18,519		4,470,532
B.2 Positive changes in fair value	10,958	257	318		11,533
B.3 Write-backs	27				27
- recognised in income statement	*27*				*27*
- recognised in equity					
B4. Transfers from other portfolios					
B.5 Other changes	45,533	50	523		46,106
C. Decreases	**4,099,167**	**459**	**14,563**		**4,114,189**
C.1 Sales	3,942,162	458	14,259		3,956,879
C.2 Redemptions	144,226				144,226
C.3 Negative changes in fair value	2,533		304		2,837
C.4 Impairment writedowns	574				574
- recognised in income statement	*574*				*574*
- recognised in equity					
C.5 Transfers to other portfolios					
C.6 Other changes	9,672	1			9,673
D. Closing balance	**1,389,901**	**7,612**	**25,906**		**1,423,419**

The captions “B2 Positive changes in fair value” and “C3 Negative changes in fair value” relate to gains and losses, gross of the tax effect, recognised in equity in the caption “130 Valuation reserves”.

As regards “Debt securities”, the caption “B5 Other changes” relates to:

. gains from trading and from redemption of Euro 33,791 thousand, recognised in the income statement in the caption “100 Gains/losses on disposal or repurchase of financial assets available for sale”;

. accrued interest, including that for issue spread, and the positive change in amortised cost of Euro 11,407 thousand, recognised in the income statement in the caption “10 interest income on securities;

conversely, caption “C6 Other changes” includes:

- prior year accrued interest and the negative change in amortised cost of Euro 7,526 thousand, recognised in the income statement in the caption “10 interest income on securities”,
- losses from hedge accounting adjustment of Euro 964 thousand, recognised in the income statement in caption “90 Net hedging gains (losses”;
- losses from trading and from redemption of Euro 1,182 thousand, recognised in the income statement in caption “100 Gains/losses on disposal or repurchase of financial assets available for sale”.

With respect to the “Equity instruments” column, the caption “B5 Other changes” relates to the gain on sale of the non-controlling interest in First Capital S.p.A.

Lastly, as regards the “UCITS units” column, the amount indicated by the caption “B5 Other changes” relates to trading profits recognised in the income statement in the caption “100 Gains/losses on disposal or repurchase of financial assets available for sale”.

Impairment tests of financial assets available for sale

As required by applicable accounting standards (IFRS), at the year end, financial assets available for sale are tested for impairment to verify the potential existence of negative events that might indicate that the carrying amount of the assets may not be fully recoverable.
The policy for the performance of impairment testing of financial assets available for sale is described in the specific section of “Part A - Accounting policies” of these explanatory notes.

Section 5 - Financial assets held to maturity - caption 50

5.1 Financial assets held to maturity: breakdown

	31.12.2013				31.12.2012			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	181,568	181,066	10,434		151,863	153,539		
- *structured*								
- *other*	*181,568*	*181,066*	*10,434*		*151,863*	*153,539*		
2. Loans								

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

Type of transaction/Amounts	31.12.2013	31.12.2012
1. Debt securities	**181,568**	**151,863**
a) Government and central banks	171,446	140,485
b) Other public entities		
c) Banks	10,122	10,119
d) Other issuers		1,259
2. Loans		
a) Government and central banks		
b) Other public entities		
c) Banks		
d) Other parties		
Total	**181,568**	**151,863**
Total FV	**191,500**	**153,539**

5.3 Financial assets held to maturity: with specific hedge

At the reference date there are no financial assets held to maturity with specific hedge.

5.4. Financial assets held to maturity: change of the year

	Debt securities	Loans	Total
A. Opening balance	**151,863**		**151,863**
B. Increases	**32,878**		**32,878**
B.1 Purchases	30,635		30,635
B.2 Write-backs			
B.3 Transfers from other portfolios			
B.4 Other changes	2,243		2,243
C. Decreases	**3,173**		**3,173**
C.1 Sales			
C.2 Redemptions	1,219		1,219
C.3 Write-downs			
C.4 Transfers from other portfolios			
C.5 Other changes	1,954		1,954
D. Closing balance	**181,568**		**181,568**

B4 Other changes" include interest and issue spread accrued at the year end of Euro 2,178 thousand and amortised cost for the year of Euro 65 thousand, all of which has been recognised in the income statement in "10 interest and similar income".

"C5 Other changes" include prior year end accruals and the negative change in amortised cost in the year; both components are recognised in the income statement as offsetting entries to the caption "10 interest and similar income".

Section 6 - Due from banks - caption 60

6.1 Due from banks: breakdown

Type of transaction/Amounts	31.12.2013				31.12.2012			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from central banks	**92,096**			92,096	**11,766**			11,766
1. Restricted deposits								
2. Reserve requirement	92,096				11,766			
3. Repurchase agreements								
4. Other								
B. Due from banks	**183,752**				**238,714**			
1. Loans	158,733			158,733	213,257			213,257
1.1 Current accounts and demand deposits	113,951				117,033			
1.2 Restricted deposits	44,735				96,151			
1.2.1 Mandatory reserve requirement met indirectly								
1.2.2 Other	44,735				96,151			
1.3. Other loans:	47				73			
- Repurchase agreements								
- Finance leases								
- Other	47				73			
2. Debt securities	25,019			25,019	25,457			25,457
2.1 Structured securities	25,019				25,457			
2.2 Other debt securities								
Total	**275,848**			**275,848**	**250,480**			**250,480**

Amounts due from central banks include the amount of the reserve requirement at the Bank of Italy. For the purpose of maintaining the average level of the reserve in line with the requirement, the amount thereof may fluctuate, even significantly, in relation to the contingent liquidity needs of the Bank.
At the year end, Banco Desio Brianza's commitment to maintain the reserve requirement, inclusive of the commitment on behalf of the subsidiary Banco Desio Lazio, amounts to Euro 50.1 million (Euro 47.4 million at the prior year end).

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

6.2 Due from banks with specific hedge

At the reference dates, Banco Desio did not have amounts due to banks with specific hedge.

6.3 Due from banks: - finance leases

At the reference date, Banco Desio has no amounts due from banks linked to finance leases.

Section 7 - Loans to customers - caption 70

7.1 Loans to customers: breakdown

Type of transaction/Amounts	31.12.2013						31.12.2012					
	Book value			Fair value			Book value			Fair value		
	Performing loans	Non-performing loans: Purchased	Non-performing loans: Other	L1	L2	L3	Performing loans	Non-performing loans: Purchased	Non-performing loans: Other	L1	L2	L3
Loans	6,496,466		458,963			7,377,054	6,534,339		392,406			7,327,417
1. Current accounts	1,369,479		137,723				1,491,262		120,949			
2. Repurchase agreements	117,960						337,712					
3. Mortgage loans	3,361,423		282,507				3,118,075		230,154			
4. Credit cards, personal loans and assignments of one-fifth of salary	431,121		5,389				351,287		6,714			
5. Finance leases	464,042		27,758				514,553		29,129			
6. Factoring	17,698		478				14,207		316			
7. Other loans	734,743		5,108				707,243		5,144			
Debt securities							22,400					22,400
8. Structured securities												
9. Other debt securities							22,400					
Total	**6,496,466**		**458,963**			**7,377,054**	**6,556,739**		**392,406**			**7,349,817**

Gross loans amount to Euro 7,225,866 thousand (Euro 7,144,794 thousand at the prior year end), while total writedowns amount to Euro 270,439 thousand (Euro 195,649 thousand at the prior year end).

"Repurchase agreements" are exclusively for investing surplus liquidity with institutional counterparties.

“7. Other loans” include capitalisation contracts entered into with insurers of Euro 23,087 thousand, whereas, at the prior year end, they were included in the caption “9.2 Other debt securities”.

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

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amounts	31.12.2013			31.12.2012		
	Performing loans	Non-performing loans		Performing loans	Non-performing loans	
		Purchased	Other		Purchased	Other
1. Debt securities				**22,400**		
a) Governments						
b) Other public entities						
c) Other issuers				22,400		
- non-financial companies						
- financial companies						
- insurance companies				*22,400*		
- other						
2. Loans to:	**6,496,466**		**458,963**	**6,534,339**		**392,406**
a) Governments						
b) Other public entities						
c) Other parties	6,496,466		458,963	6,534,339		392,406
- non-financial companies	*4,222,128*		*331,103*	*4,101,343*		*280,555*
- financial companies	*203,350*		*1,265*	*435,475*		*404*
- insurance companies	*27,602*			*2,779*		
- other	*2,043,386*		*126,595*	*1,994,742*		*111,447*
Total	**6,496,466**		**458,963**	**6,556,739**		**392,406**

7.3 Loans to customers: with specific hedge

At the date of the financial statements there are no loans to customers with specific hedge.

7.4. Finance leases

Reconciliation between gross investment in leases and present value of minimum lease payments and unsecured residual value payable to lessor.

	31/12/2013				31/12/2012			
Type of transaction	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)
Finance lease	591,359	(110,444)	480,915	70,796	652,785	(124,716)	528,069	77,890
- of which leaseback agreements	37,231	(7,350)	29,881	5,629	40,032	(7,726)	32,306	5,815
Total	**591,359**	**(110,444)**	**480,915**	**70,796**	**652,785**	**(124,716)**	**528,069**	**77,890**

	31/12/2013			31/12/2012		
Falling due	Gross investment	Deferred profit	Net investment	Gross investment	Deferred profit	Net investment
- Within one year	10,189	(183)	10,006	15,598	(321)	15,277
- Between one and five years	187,804	(14,255)	173,549	200,947	(15,182)	185,765
- Beyond five years	393,366	(96,006)	297,360	436,240	(109,213)	327,027
Total	**591,359**	**(110,444)**	**480,915**	**652,785**	**(124,716)**	**528,069**

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

Section 8 - Hedging derivatives - caption 80

8.1 Hedging derivatives: breakdown by type and level

	31.12.2013				31.12.2012			
	FV			NV	FV			NV
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives		5,052		174,217		9,005		216,637
1) Fair value		5,052		174,217		9,005		216,637
2) Cash flows								
3) Foreign investments								
B) Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**5,052**		**174,217**		**9,005**		**216,637**

Key:
NV = - notional value

The table shows the positive book value of hedging derivative contracts.

Securities subject to hedging are those issued by the Bank, for which the decision to hedge was made subsequent to the issue and for which there is no intention to maintain the hedge for the contractual duration of the issue.

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

Type of transaction/Amounts	Fair value						Cash flows		Foreign investments
	Specific hedge					Generic hedge	Specific hedge	Generic hedge	
	interest rate risk	exchange rate risk	credit risk	price risk	other risks				
1. Financial assets available for sale									
2. Loans and receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets									
1. Financial liabilities	5,052								
2. Portfolio									
Total liabilities	**5,052**								
1. Expected transactions									
2. Financial assets and liabilities portfolio									

The specific fair value hedge in connection with financial liabilities relates to hedges in place for bonds issued by Banco Desio.

Retrospective and prospective assessments performed during the year in compliance with the requirements of IAS 39 have confirmed the effectiveness of the hedging relationship.

Section 9 - Adjustment to financial assets with generic hedge - caption 90

At the balance sheet date there are no financial assets with generic hedge.

Section 10 - Equity investments - caption 100

10.1 Investments in subsidiaries, companies subject to joint control (carried at equity) and companies subject to significant influence: details of holdings

Name	Head office	Nature of holding	
		Parent company	% held
Associates (subject to significant influence)			
Chiara Assicurazioni S.p.A.	Desio	Banco Desio	32.665
Istifid S.p.A.	Milan	Banco Desio	29.943

10.2 Investments in subsidiaries, companies subject to joint control and companies subject to significant influence: accounting information.

Name	Total assets	Total revenues	Net profit (loss)	Shareholders' equity	Book value
Associates (subject to significant influence)					
Chiara Assicurazioni S.p.A.	69,632	28,038	3,593	19,098	12,652
Istifid S.p.A.	7,270	5,113	212	3,875	1,317
Total	**76,902**	**33,151**	**3,805**	**22,973**	**13,969**

Note: *with the exception of book value, other figures refer to the 2012 financial statements, the last financial statements approved*

10.3 Investments: changes in the year

	31.12.2013	31.12.2012
A. Opening balance	**1,227**	**13,838**
B. Increases	**25,422**	**13,471**
B.1 Purchases	48	
B.2 Write-backs		
B.3 Revaluations	5,588	58
B.4 Other changes	19,786	13,413
C. Decreases	**12,680**	**26,082**
C.1 Sales	12,554	22,547
C.2 Write-downs		
C.3 Other changes	126	3,535
D. Closing balance	**13,969**	**1,227**
E. Total revaluations	**1,043**	**327**
F. Total write-downs		

Impairment testing

In compliance with the requirements of IAS 36 and taking account of the guidance laid down in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, details are provided below of impairment testing of equity investments held at 31 December 2013.

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

The recoverable amount of equity investments was determined, where there was no fair value arising from transactions concerning the target of the impairment test (as was the case for the associate Istifid Spa) or from market transactions involving similar targets, by reference to the value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived therefrom, using an appropriate discount rate for the time period in which the cash flows will be generated.

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

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

a) <u>Criterion to estimate the recoverable amount (impairment)</u>

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

<u>“Explicit” time period for the determination of future cash flows</u>
The time horizon for impairment testing of the associate Chiara Assicurazioni Spa is the period covered by the 2013-2019 business development plan backed by contractual arrangements for the period 2013-2022 executed with Helvetia Group.

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

<u>Discount rate</u>
For the valuation of banks and financial intermediaries, reference is made to Ke, the so-called cost of capital (cost of equity).

<u>Growth rate of cash flows beyond the “explicit” time period for the determination of future cash flows</u>
For impairment testing of the associate Chiara Assicurazioni Spa, a long term growth rate was not used due to the "finite" time horizon taken for the measurement period.

<u>Terminal Value</u>
For Chiara Assicurazioni Spa the determination of the terminal value was based on a "finite" time horizon, consistent with the aforementioned contractual agreements.

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

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

Legal entity	Model	Input used	CAGR RWA / Assets under management / Gross premiums	Ke	g	Currency	Plan flows	Capital ratio
Chiara Assicurazioni Spa	DDM	2013-2022 Development plan backed by contractual agreements	11.52%	9.17%	2%	€	Net results	(*)
Istifid Spa	-	MKT transaction price	-	-	-	€	-	-

(*) Complies with the requirements of the respective industry specific or local regulatory authorities in the countries where the entity is located.

As a result of the impairment testing performed, no writedown was needed of the aforementioned equity investments.

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

c) Sensitivity analysis

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

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the equity investments match their carrying amounts.

Equity investments	SCR multiplier (1)	Increase in p.p. of discount rate used for future cash flows (FCFE)	Decrease in p.p. of growth rate in projections used to calculate the terminal value	Decrease in net future results (RN)	MKT transaction price difference
Chiara Assicurazioni Spa	120%	645	-	22.8%	-
	150%	566	-	20.3%	-
Istifid Spa		-	-	-	11%

(1) Sensitivity measured on the basis of two different scenarios for capital allocation: of 120% and of 150% of the SCR Solvency Capital Requirement – Solvency II – IVASS

Section 11 Reserves carried by reinsurers - caption 110

There are nil balances at both yearends.

Section 12 - Property, plant and equipment - caption 120

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

Assets/Amounts	31.12.2013	31.12.2012
1.1. Freehold land and property	**143,306**	**150,884**
a) land	41,184	42,932
b) property	86,993	90,299
c) furniture	6,125	7,392
d) electronic systems	1,858	2,307
e) other	7,146	7,954
1.2 Assets purchased under finance leases		
a) land		
b) property		
c) furniture		
d) electronic systems		
e) other		
Total	**143,306**	**150,884**

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

Land and buildings are measured at the amount revalued on 1 January 2004 on the first-time application of IAS. Otherwise, all the other tangible fixed assets are measured at cost.

The expected useful lives of the main asset categories are as follows:
- buildings: 50 years
- office furniture, fittings, miscellaneous plant and equipment, office machines, armoured counters and compasses and alarm systems: 10 years,
- vehicles used for business purposes: 8 years;
- terminals and PCs, mixed use vehicles: 4 years.

Within each asset category, where necessary, certain types of assets may be attributed different useful lives.

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

12.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	31.12.2013				31.12.2012			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Freehold land and property	**1,111**			**972**	**6**			**10**
a) land	448			395	6			10
b) property	663			577				
2. Land and property under finance lease								
a) land								
b) property								
Total	1,111			972	6			10

The fact that the book value exceeds the fair value is due to property purchased in recent years, for which the market value does not include fitting out and renovation costs, as well as taxes paid.

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

As at the respective balance sheet dates, the Bank did not have any revalued property, plant and equipment for business purposes.

12.4 Investment property: breakdown of assets carried at fair value

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

12.5 Property, plant and equipment for business purposes: change of the year

Assets/Amounts	Land	Property	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**42,932**	**105,932**	**33,103**	**20,536**	**39,595**	**242,098**
A.1 Total net writedowns		15,633	25,711	18,229	31,641	91,214
A.2 Net opening balance	**42,932**	**90,299**	**7,392**	**2,307**	**7,954**	**150,884**
B. Increases		**1,718**	**241**	**644**	**1,835**	**4,438**
B.1 Purchases		155	139	342	868	1,504
B.2 Capitalised improvement costs						
B.3 Write-backs		83				83
B.4 Increase in fair value booked to:						
- a) shareholders' equity						
- b) income statement						
B.5 Exchange gains						
B.6 Transfer from investment property						
B.7 Other changes		1,480	102	302	967	2,851
C. Decreases	**1,748**	**5,024**	**1,508**	**1,093**	**2,643**	**12,016**
C.1 Sales	1,288	2,198	108	302	1,024	4,920
C.2 Depreciation		2,017	1,399	791	1,614	5,821
C.3 3. Impairment write-downs booked to:						
- a) shareholders' equity						
- b) income statement						
C.4 Decreases in fair value booked to:						
- a) shareholders' equity						
- b) income statement						
C.5 Exchange losses	18	39				57
C.6 Transfers to:	442	769				1,211
- a) investment property, plant and equipment	442	769				1,211
- b) assets held for sale						
C.7 Other changes		1	1		5	7
D. Net closing balance	**41,184**	**86,993**	**6,125**	**1,858**	**7,146**	**143,306**
D.1 Net total write-downs		17,108	26,883	18,557	32,188	94,736
D.2 Gross closing balance	**41,184**	**104,101**	**33,008**	**20,415**	**39,334**	**238,042**
E. Measurement at cost						

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

From the sale of property, plant and equipment, as indicated by the sub-caption "C.1 Sales", realised gains of Euro 1,417 thousand and realised losses of Euro 40 thousand arose on disposal and have been recognised in the income statement in the caption 190 "Other operating charges/income".

12.6 Investment property: changes in the year

	Total	
	Land	Property
A. Opening balance	**6**	
B. Increases	**442**	**769**
B.1 Purchases		
B.2 Capitalised improvement costs		
B.3 Positive changes in fair value		
B.4 Write-backs		
B.5 Foreign exchange gains		
B.6 Transfers from assets used in business	442	769
B.7 Other changes		
C. Decreases		**(106)**
C.1 Sales		
C.2 Depreciation		(14)
C.3 Negative changes in fair value		
C.4 Impairment write-downs		
C.5 Foreign exchange losses		
C.6 Transfers to other asset categories		
a) assets used in business		
b) non-current assets and disposal groups held for sale		
C.7 Other changes		(92)
D. Closing balance	**448**	**663**
E. Measurement at fair value		

12.7 Commitments to purchase property, plant and equipment

Capital commitments at the year end amount to Euro 7,700 thousand and relate to an option for the purchase of property for business purposes.

Section 13 - Intangible assets - caption 130

13.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2013		31.12.2012	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		23,533		23,533
A.1.1 Pertaining to the Group		23,533		23,533
A.1.2 Pertaining to minority interests				
A.2 Other intangible assets	1,973		2,370	
A.2.1 Carried at cost:	1,973		2,370	
a) Intangible assets generated internally				
b) Other assets	1,973		2,370	
A.2.2 Carried at fair value:				
a) Other intangible assets generated internally				
b) Other assets				
Total	1,973	23,533	2,370	23,533

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

Other intangible assets are amortised on a straight line basis over their useful lives. For compensation for abandonment of leasehold premises, the useful life is the length of the lease agreement, while for computer software it is 4 years and for application software it is 5 years.

13.1.1 Impairment testing of goodwill

According to the provisions of IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, we report below information on the impairment test on cash generating units (CGU) carried out at 31 December 2013.

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

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

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

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

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

a) <u>Criterion to estimate the recoverable amount (impairment)</u>

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

<u>“Explicit” time period for the determination of future cash flows</u>
The time horizon for impairment testing is the five year period 2014-2018 for which forecasts have been prepared by Management and approved by the Board of Directors. These forecasts take account of the changes that took place in the year preceding the underlying economic scenario, after having:

- replaced the 2014 forecast included in the 2013-2015 Business Plan with the 2014 budget approved by the Board of Directors on 19 December 2013;
- revised the 2015 forecast included in the 2013-2015 Business Plan and prepared forecasts for 2016 – 2017;
- prepared projections for 2018.

A five year time horizon for the projections is considered to be appropriate, considering the current financial and economic crisis, to minimise the distortions that could result from the use of a shorter time horizon, which would be impacted by the ongoing effects of the crisis (which, for the banking system have been, in particular, the credit crunch and a high cost of credit) or by extraordinary events that would need to be adjusted in order to normalise the results to correctly focus on the medium to long term potential of the entity subjected to testing

<u>Cash flows</u>
For the valuation of banks and financial intermediaries, an equity side approach to DDM methodology is used for the determination of equity value, as, due to the characteristic activities undertaken by a financial intermediary (deposit taking and lending), it is particularly difficult to distinguish between financial payables and operating payables;

furthermore, for the Excess Capital approach, cash flows available to shareholders are cash flows from which a shareholder could potentially benefit in excess of operating capital requirements and, thus, they take due account of regulatory capital absorption.

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

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows
A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value
This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity in the future within a finite time horizon.

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

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

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco Desio Lazio Spa	DDM	2014 Budget 2013-2015 plan updated and extended to 2018	3.77%	9.89%	2%	Net results	CET 1 8.5% (*)
Fides Spa	DDM	2014 Budget 2013-2015 plan updated and extended to 2018	8.22%	11.39%	2%	Net results	CET 1 8.5% (*)
Banco di Desio e della Brianza Spa	DDM	2014 Budget 2013-2015 plan updated and extended to 2018	2.49%	9.89%	2%	Net results	CET 1 8.5% (*)

(*) The ratio of *Common* Equity Tier 1 to Risk Weighted Assets (RWA), which is compliant with the requirements of the Bank of Italy Circular no. 285/2013 and the so-called *supporting factor*, being the discount factor to be applied to the capital requirement (that is, the capital absorption reduction coefficient for exposures to SMEs – *small medium enterprises* – below Euro 1.5 million).

As a result of the impairment testing performed, no writedown was needed of the aforementioned goodwill of the above CGU.

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

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

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

CGU	Increase in p.p. of discount rate used for future cash flows (FCFE)	Decrease in p.p. of growth rate over the plan (g) for the calculation of the terminal value (*)
Banco Desio Lazio	357	536
Fides Spa	over 1,000	over 1,000
Banco di Desio e della Brianza	120	323

(*) The specific stress test replaces the “flat earnings over the time horizon” test used previously, as the impairment testing was conducted on the value in use of the legal entity, after having deducted the book value of shareholders’ equity, rather than just on value in use of the legal entity.

13.1.2 Second level impairment tests

In consideration of the fact that the market capitalisation of Banco Desio's shares (ordinary shares plus savings shares) in 2013 was less than consolidated shareholders' equity, impairment testing of Banco Desio Group (2nd level impairment) was done on the Group as a whole, which, for a better understanding of the result, indicates the recoverable amount of consolidated shareholders’ equity as an amount per share.

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

a) Criterion to estimate the recoverable amount (impairment)

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

“Explicit” time period for the determination of future cash flows
The time horizon for impairment testing is the five year period 2014-2018 for which forecasts have been prepared by Management and approved by the Board of Directors. These forecasts take account of the changes that took place in the year preceding the underlying economic scenario, after having:
- replaced the 2014 forecast included in the 2013-2015 Business Plan with the 2014 budget approved by the Board of Directors on 19 December 2013;
- revised the 2015 forecast included in the 2013-2015 Business Plan and prepared forecasts for 2016 – 2017;
- prepared projections for 2018.

A five year time horizon for the projections is considered to be appropriate, considering the current financial and economic crisis, to minimise the distortions that could result from the use of a shorter time horizon, which would be impacted by the ongoing effects of the crisis (which, for the banking system have been, in particular, the credit crunch and a high cost of credit) or by extraordinary events that would need to be adjusted in order to normalise the results to correctly focus on the medium to long term potential of the entity subjected to testing.

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

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

Growth rate of cash flows beyond the “explicit” time period for the determination of future cash flows
A long term growth rate is used in line with the projected long term inflation rate.

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

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

b) Parameters used for impairment testing

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

	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco Desio Group	DDM	2014 Budget 2013-2015 plan updated and extended to 2018	2.35%	9.89%	2%	Net results	CET 1 8.5% (*)

(*) The ratio of *Common* Equity Tier 1 to Risk Weighted Assets (RWA), which is compliant with the requirements of the Bank of Italy Circular no. 285/2013 and the so-called *supporting factor*, being the discount factor to be applied to the capital requirement (that is, the capital absorption reduction coefficient for exposures to SMEs – *small medium enterprises* – below Euro 1.5 million).

An amount arose from impairment testing that was higher than the average capitalisation in 2013 of Banco Desio's shares (ordinary shares plus savings shares). Since the latter was higher than the carrying amount of consolidated shareholders' equity at the measurement date, there was no need to write down any of the Group's assets.

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

c) Sensitivity analysis

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

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

	Increase in p.p. of discount rate used for future cash flows (FCFE)	Decrease in p.p. of growth rate in projections used to calculate the terminal value
Banco Desio Group	71	247

13.2 Intangible assets: changes of the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets:		Total
		Limited duration	Unlimited duration	Limited duration	Unlimited duration	
A. Gross opening balance	**44,174**			**9,072**		**53,246**
A.1 Total net writedowns	20,641			6,702		27,343
A.2 Net opening balance	**23,533**			**2,370**		**25,903**
B. Increases				**536**		**536**
B.1 Purchases				536		536
B.2 Increases in internally generated intangible						
B.3 Write-backs						
B.4 Positive changes in fair value						
- recognised in equity						
- recognised in income statement						
B.5 Foreign exchange gains						
B.6 Other changes						
C. Decreases				**933**		**933**
C.1 Sales						
C.2 Write-downs				933		933
- amortisation				933		933
- Write-downs						
+ shareholders' equity						
+ income statement						
C.3 Negative changes in fair value						
- recognised in equity						
- recognised in income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Foreign exchange losses						
C.6 Other changes						
D. Net closing balance	**23,533**			**1,973**		**25,506**
D.1 Total net writedowns	20,641			7,635		28,276
E. Gross closing balance	**44,174**			**9,608**		**53,782**
F. Measurement at cost						

13.3 Other information

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

Section 14 - Tax assets and liabilities - Asset caption 140 and Liability caption 80

14.1 Deferred tax assets: breakdown

	Ires	Irap	31.12.2013	31.12.2012
a) against profit & loss:				
Tax losses				
Tax deductible goodwill	2,479	502	2,981	1,412
Write-down of loans to customers deductible on a straight-line basis	69,131	6,113	75,244	39,825
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994	9		9	9
Provision for implicit risks on loans				
Write-downs of shares classified under securities FVPL				
Statutory depreciation of buildings				
Statutory depreciation of property, plant and equipment	73		73	148
Provision for guarantees and commitments and country risk	497		497	470
Provisions for personnel costs	4,046		4,046	1,488
Provision for lawsuits	2,277		2,277	1,498
Provision for claw-backs	369		369	617
Provision for sundry charges	286		286	136
Tax provision for termination indemnities	305		305	304
Entertainment expenses, one third of which is deductible over four subsequent years				
Other general expenses deductible in the following year	358		358	113
Other	27	32	59	1
Total a)	**80,162**	**6,647**	**86,809**	**46,326**
b) against equity:				
Tax provision for termination indemnities	536		536	597
Write-down of securities classified as AFS	1,148	245	1,393	3,108
Writedown of equity investments				
Total b)	**1,684**	**245**	**1,929**	**3,705**
Total a)+b)	**81,846**	**6,892**	**88,738**	**50,031**

14.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2013	31.12.2012
a) with contra-entry to the income statement:				
Tax depreciation of buildings	7,057	940	7,997	8,083
Tax depreciation of property, plant and equipment		16	16	22
Tax amortisation of goodwill	907	183	1,090	949
Tax amortisation of deferred charges (software)	2	5	7	8
Tax provision as per art. 106, paragraph 3	20		20	279
Other	319		319	
Total a)	**8,305**	**1,144**	**9,449**	**9,342**
b) with contra-entry to shareholders' equity				
Revaluation of AFS securities	1,937	392	2,329	3,996
Revaluation of equity investments	6	24	30	11
Tax provision for termination indemnities	199		199	199
Total b)	**2,142**	**416**	**2,558**	**4,206**
Total a) + b)	**10,447**	**1,560**	**12,007**	**13,548**

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

	31.12.2013	31.12.2012
1. Opening balance	**46,326**	**32,084**
2. Increases	**45,278**	**19,521**
2.1 Deferred tax assets recognised during the year	45,138	19,068
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	45,138	19,068
2.2 New taxes or increases in tax rates		
2.3 Other increases	140	453
3. Decreases	**4,795**	**5,279**
3.1 Deferred tax assets cancelled in the year	4,789	5,278
a) reversals	4,789	5,278
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases	6	1
3.2 Conversion to tax credits as per L. 214/2011		
b) Other	6	1
4. Closing balance	**86,809**	**46,326**

The table shows the deferred tax assets that will be absorbed in future years with an opposite entry to the income statement.

The changes in “2.1 d) Deferred tax assets arising in the year - other” mainly refer to:

. Euro 37,933 thousand relating to write-downs and loan losses in connection with customer loans, deductible over four subsequent years (Law no. 17 of 27 December 2013);
. Euro 5,030 thousand relating to non deductible provisions for risks and charges and employee related provisions;
. Euro 1,709 thousand relating to the step-up for tax purposes, carried out pursuant to art. 15, paragraphs 10 bis and 10-ter of Legislative Decree 185/2008, of the goodwill included in the carrying value of the investment held by Banco Desio Lazio S.p.A. in Fides S.p.A. and recognised in the Group consolidated financial statements at an amount of Euro 5,169 thousand.

The sub-caption “2.3 Other increases” relates to the recognition of a deferred tax asset as a result of the recomputation, made for the purpose of the tax return, of the deferred tax asset at 31.12.2012 pertaining to the writedown of loans and on costs recognised for invoices to be received, which were not received, and were thus treated as non-deductible on the presentation of the tax return for 2012.

The main components of deferred tax assets cancelled in the year are:

. Euro 2,530 thousand relating to the recovery in equal portions of write-downs of loans in prior years,
. Euro 1,788 thousand relating to the use of taxed provisions,
. Euro 181 thousand relating to expenses which became deductible during the year,
. Euro 141 thousand relating to an adjustment to the deferred tax asset on the step-up for tax purposes of goodwill in 2012.

The caption “3.3 Other decreases” relates to the cancellation of deferred tax assets as a result of the recomputation, made for the purpose of the tax return, of the deferred tax asset at 31.12.2012 pertaining to the amortisation of intangible assets.

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

	31.12.2013	31.12.2012
1. Opening balance	**41,235**	**25,295**
2. Increases	**(39,661)**	**17,592**
3. Decreases	**2,671**	**1,652**
3.1 Reversals	2,671	1,652
3.2 Conversion to tax credits		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other decreases		
4. Closing balance	**(78,225)**	**(41,235)**

The sub-caption “2. Increases” relates to the recognition of a deferred tax assets of:

. Euro 37,933 thousand relating to write-downs and loan losses in connection with customer loans, deductible over four subsequent years,
. Euro 1,709 thousand relating to the impact of the step-up for tax purposes, carried out pursuant to art. 15, paragraphs 1 bis and 10-ter of Legislative Decree 185/2008;
. Euro 19 thousand to the recomputation, made for the purpose of the tax return, of the deferred tax asset at 31.12.2012 pertaining to the writedown of loans.

“3.1 Reversals” refers to:

. Euro 2,530 thousand relating to the recovery in equal portions of write-downs of loans in prior years,
. Euro 141 thousand relating to an adjustment to the deferred tax asset on the step-up for tax purposes of goodwill in 2012.

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

	31.12.2013	31.12.2012
1. Opening balance	**9,342**	**9,411**
2. Increases	**460**	**141**
2.1 Deferred tax liabilities recognised during the year	460	141
a) relating to prior years	2	
b) due to changes in accounting policies		
c) other (temporary differences arisen during the year	458	141
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**353**	**210**
3.1 Deferred tax liabilities cancelled during the year	353	169
a) reversals	353	169
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		41
4. Closing balance	**9,449**	**9,342**

The table shows the deferred tax liability that will be reabsorbed in future years with an opposite entry to the income statement.

The caption “2.1 Deferred tax liabilities recognised during the year: other” relates to the recognition of deferred tax liabilities of:

. Euro 319 thousand, related to capital gains on financial assets that, in accordance with art. 86, para. 4, of the Consolidated Income Tax Act, are taxable in five equal portions in the year of the gain and in the four subsequent years,

. Euro 139 thousand, related to depreciation and amortisation.

The caption “2.3 Other increases” relates to the increase in the provision for deferred tax as a result of the recomputation, made for the purpose of the tax return, of deferred tax at 31.12.2012 on loan losses covered by off-balance sheet provisions.

The main deferred tax liabilities cancelled during the year are attributable to:

. Euro 262 thousand relating to the reversal of deferred tax on off-balance sheet deductions of loan provisions,

. Euro 91 thousand, the difference between the depreciation of tangible fixed assets for tax purposes.

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

	31.12.2013	31.12.2012
1. Opening balance	**3,705**	**20,153**
2. Increases	**942**	**121**
2.1 Deferred tax assets recognised during the year	942	121
a) relating to prior years		
b) due to changes in accounting policies		
c) other	942	121
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**2,718**	**16,569**
3.1 Deferred tax assets cancelled in the year	2,718	15,074
a) reversals	2,718	15,074
b) written down as no longer recoverable		
c) due to changes in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		1,495
4. Closing balance	**1,929**	**3,705**

Deferred tax assets recognised during the year of Euro 942 thousand are attributable to the measurement of securities classified as Financial assets available for sale.

Deferred tax assets cancelled in the year of Euro 2,718 thousand also relate to the measurement of securities classified as Financial assets available for sale.

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

	31.12.2013	31.12.2012
1. Opening balance	**4,206**	**1,093**
2. Increases	**2,081**	**3,993**
2.1 Deferred tax liabilities recognised during the year	2,081	3,993
a) relating to prior years		
b) due to changes in accounting policies		
c) other	2,081	3,993
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**3,729**	**880**
3.1 Deferred tax liabilities cancelled during the year	3,729	674
a) reversals	3,729	674
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		206
4. Closing balance	**2,558**	**4,206**

Deferred tax liabilities recognised during the year of Euro 2,081 thousand are attributable to the measurement of securities and investments classified as financial assets available for sale.

Deferred tax liabilities cancelled during the year of Euro 3,729 thousand relate to securities classified as financial assets available for sale.

Probability test on deferred taxes

An analysis has been performed to verify whether the Group's future earnings will be capable of absorbing the deferred tax assets recognised in the financial statements.

In particular, the check was carried out by:

- excluding from the computation the deferred tax assets relating to writedowns of loans and goodwill, for which Legislative Decree 225/2010 has established that such assets may be converted to tax credits on the event of a loss for the year being reported in the separate financial statements or on the event of a tax loss arising, whereby the deferred tax assets have attributed to the losses in question;
- identifying the deferred tax assets by nature and according to the timing of their reabsorption;
- determining, on the basis of the Group's future earnings, the related taxable income.

The results of the analysis were that future taxable income will be sufficient to allow the recovery of the deferred tax assets recorded in the financial statements at 31 December 2013.

Section 15 - Non-current assets and disposal groups held for sale associated liabilities – Asset caption 150 and Liability caption 90

At the end of the year these captions showed a zero balance; the prior year end balances related to the subsidiary Chiara Assicurazioni S.p.A.

Section 16 - Other assets – caption 160

16.1 Other assets: breakdown

	31.12.2013	31.12.2012
- Consolidation adjustments		
- capital portion	7,532	7,715
Amounts recoverable from the tax authorities for advances paid	19,362	7,649
Withholding tax credits	4	5
Cheques negotiated to be cleared	24,163	26,352
Guarantee deposits	2	2
Invoices issued to be collected	1,251	399
Debtors for securities and coupons to be collected by third parties		106
Items being processed and in transit with branches	28,112	28,009
Currency spreads on portfolio transactions	261	294
Investments of the supplementary fund for termination indemnities	549	610
Leasehold improvement expenditure	19,361	21,735
Accrued income and prepaid expenses	577	813
Other items	17,407	11,678
Total	**118,581**	**105,367**

By far the largest component of this caption, of some Euro 115 million, pertains to the Group's banking sector.

The change in “Tax credits: capital portion” relates to a decrease in the VAT receivable pertaining to leasing activities.

“Amounts recoverable from the tax authorities for advances paid” relate to payments of tax advances that exceed the tax liability as per the applicable tax return; the main captions refer to:

. a receivable for virtual stamp duty of Euro 13,695 thousand;
. a receivable for a substitute tax due on an administered portfolio of capital gains of Euro 3,874 thousand;
. a receivable for withholding tax on interest on deposits and current accounts of Euro 1,449 thousand;

"Items being processed and in transit with branches" include transactions that are usually settled in the first days of the year.

The amount of “Currency spreads on portfolio transactions” results from the offset of illiquid liability positions against illiquid asset positions relating to remittances pertaining to customers' and the bank's portfolios.

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

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

The most significant component of “Other items” relates to receivables still to be collected and invoices to be issued totalling Euro 11 thousand.

LIABILITIES AND SHAREHOLDERS' EQUITY

Section 1 - Due to banks - caption 10

1.1 Due to banks: breakdown

Type of transaction/Amounts	31.12.2013	31.12.2012
1. Due to central banks	**405,546**	**403,298**
2. Due to banks	**32,480**	**38,379**
2.1 Current accounts and demand deposits	20,458	19,458
2.2 Restricted deposits	11,730	18,546
2.3 Loans		
2.3.1 Repurchase agreements		
2.3.2 Other		
2.4 Payables for commitments to repurchase own equity instruments		
2.5 Other payables	292	375
Total	**438,026**	**441,677**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**438,026**	**441,677**
Total fair value	**438,026**	**441,677**

1.2 Details of caption 10 “Due to banks”: subordinated loans

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

1.3 Details of “Due to banks”: structured loans

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

1.4 Due to banks with specific hedge

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

1.5 Finance lease payables

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

Section 2 - Due to customers - caption 20

2.1 Due to customers: breakdown

Type of transaction/Amounts	31.12.2013	31.12.2012
1. Current accounts and demand deposits	4,364,310	4,187,598
2. Restricted deposits	768,388	685,402
3. Loans	333,292	146,050
3.1 Repurchase agreements	326,207	132,087
3.2 Other	7,085	13,963
4. Payables for commitments to repurchase own equity instruments		
5. Other payables	23,792	22,118
Total	**5,489,782**	**5,041,168**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**5,489,665**	**5,041,168**
Fair value	**5,489,665**	**5,041,168**

2.2 Details of caption 20 “Due to customers”: subordinated loans”

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

2.3 Details of caption 20 “Due to customers”: structured loans”

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

2.4 Due to customers with specific hedge

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

2.5 Finance lease payables

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

Section 3 - Debt securities in issue - caption 30

3.1 Debt securities in issue: breakdown

	31.12.13				31.12.12			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	2,001,106		2,001,090		1,965,860		1,940,018	
1.1 structured	*51,327*		*51,688*		*51,976*		*51,006*	
1.2 other	*1,949,779*		*1,949,402*		*1,913,884*		*1,889,012*	
2. Other securities	237,986			237,986	252,021		252,021	
2.1 structured								
2.2 other	*237,986*			*237,986*	*252,021*		*252,021*	
Total	**2,239,092**		**2,001,090**	**237,986**	**2,217,881**		**2,192,039**	

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

During the year, new debt securities were issued of Euro 765,559 thousand, while debt securities redeemed on maturity amounted to Euro 698,126 thousand. Again, during the year, repurchases were made of securities for Euro 112,064 thousand and which were subsequently reissued for Euro 82,311 thousand.

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, of which Euro 220,528 thousand were issued with a short term maturity and Euro 17,542 thousand were issued with a longer than short term maturity. The remainder consists of certificates of Euro 6 thousand that have reached maturity and which are due to be redeemed.

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

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

Bonds	31/12/2013	31/12/2012
maturity 3.6.2013		12,994
maturity 4.5.2014	30,015	29,991
maturity 15.12.2014	29,984	29,970
maturity 1.12.2015	12,993	12,991
maturity 29.12.2016	13,001	13,001
maturity 15.6.2017	13,009	13,015
maturity 3.6.2018	13,029	
Total	**112,031**	**111,962**

During the year, the Bank issued a subordinated bond denominated “Banco di Desio e della Brianza 3/6/2013-3/6/2018 floating rate subordinated lower tier II”, the main features of which are summarised below:

- total nominal value: Euro 13,000,000, split into 13,000 bonds with nominal value of Euro 1000 each;
- issue price of bonds: equal to 100% of their nominal value, i.e. Euro 1,000;
- duration: 5 years, expiry date 03/06/2018;
- index parameter and quotation date: 360 basis against 6-month Euribor, quoted on the fifth last working day prior to the date that coupon interest entitlement commences;
- spread: the index parameter shall be increased by a 2.50% spread;

- frequency of payment of coupons: coupon interest will be paid in arrears every six months on 3/6 and 3/12 of each year;
- reimbursement payment and method: redemption will be made in full at par value in one instalment on the maturity date;
- subordination: the subordination clauses envisage that, in the event of the liquidation of the Bank, the capital element of the bonds and the interest relating thereto will be redeemed only once all non-subordinated creditors have been satisfied.

The subordinated bonds issued in prior years have similar features to those issued in the year just ended.

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

	31.12.13	31.12.12
1. Securities with specific fair value hedge:	176,323	224,858
a) interest rate risk	176,323	224,858
b) exchange rate risk		
c) other risks		
2. Securities with specific cash flow hedge:		
a) interest rate risk		
b) exchange rate risk		
c) other		

Section 4 - Financial liabilities held for trading - caption 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	31.12.2013					31.12.2012				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured										
3.1.2 Other bonds										
3.2 Other securities										
3.2.1 Structured										
3.2.2 Other										
Total A										
B. Derivatives										
1. Financial derivatives				480			34	307		
1.1 For trading				480			34	307		
1.2 Connected with the fair value option										
1.3 Other										
2. Credit derivatives								176		
2.1 For trading								176		
2.2 Connected with the fair value option										
2.3 Other										
Total B				**480**			**34**	**483**		
Total A+B				**480**			**34**	**483**		

Key:
NV = Nominal or notional value
FV* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

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

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

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

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

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

At the reference dates, the Group did not have cash financial assets.

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

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

Type of transaction/Amounts	31.12.13					31.12.12				
	nominal value	*fair value*			FV*	nominal value	*fair value*			FV*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Due to banks										
1.1 Structured										
1.2 Other										
2. Due to customers										
2.1 Structured										
2.2 Other										
3. Debt securities	**37,800**		**38,617**		**39,731**	**37,800**		**37,532**		**40,403**
3.1 Structured	37,800		38,617			37,800		37,532		
3.2 Other										
Total	**37,800**		**38,617**		**39,731**	**37,800**		**37,532**		**40,403**

The table shows financial liabilities consisting of bonds, issued by Banco Desio, which have been measured at fair value and which have been hedged by the use of derivatives.

5.2. Financial liabilities designated at fair value through profit and loss: subordinated liabilities

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

5.3. Financial liabilities designated at fair value through profit and loss: changes in the year

	Due to banks	Due to customers	Debt securities in issue	Total
A. Opening balance			**37,532**	**37,532**
B. Increases			**3,605**	**3,605**
B1. Issues				
B2. Sales			1,909	1,909
B3. Positive change in fair value			808	808
B4. Other changes			888	888
C. Decreases			**2,520**	**2,520**
C1. Purchases			1,900	1,900
C.2 Redemptions				
C.3 Negative changes in fair value			9	9
C4. Other changes			611	611
D. Closing balance			**38,617**	**38,617**

The caption “B.2 Sales” includes amounts relating to the reissue of bonds that had previously been repurchased.

The captions “B.3 Positive changes in fair value” and “C3 Negative changes in fair value” relate to gains and losses arising from changes in fair value measurements, which are recognised in the income statement under the caption “110 Net results from financial assets and liabilities designated at fair value”.

The caption “B.4 Other changes” includes interest and issue spread accrued at the year end of Euro 878 thousand and trading losses of Euro 10 thousand.

The caption “C.4 Other changes” includes the reversal of prior year end accruals of Euro 599 thousand and trading profits of Euro 12 thousand.

Section 10 - Hedging derivatives - caption 60

6.1 Hedging derivatives: breakdown by type and level

	31.12.2013				31.12.2012			
	Fair value			NV	*Fair value*			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives		**2,894**		**15,000**		**6,696**		**65,000**
1) Fair value		2,894		15,000		6,696		65,000
2) Cash flows								
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**2,894**		**15,000**		**6,696**		**65,000**

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

Operation/Type of hedge	Fair value						Cash flows		Foreign investments
	Specific					Generic	Specific	Generic	
	Interest rate risk	Exchange rate risk	Credit risk	Price risk	Other risks				
1. Financial assets available for sale	2,894								
2. Loans and receivables									
3. Financial assets held to maturity									
4. Portfolio									
5. Other transactions									
Total assets	**2,894**								
1. Financial liabilities									
2. Portfolio									
Total liabilities									
1. Expected transactions									
2. Financial assets and liabilities portfolio									

Section 7 - Adjustment to financial liabilities with generic hedge - caption 70

At the reference dates, the Group did not have financial liabilities with generic hedge.

Section 8 - Tax liabilities - caption 80

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

Section 9 - Liabilities associated with assets held for sale - caption 90

At the end of the year these captions showed a zero balance; the prior year end balances related to the subsidiary Chiara Assicurazioni S.p.A.

Section 10 - Other liabilities - caption 100

10.1 Other liabilities: breakdown

	31.12.2013	31.12.2012
Due to tax authorities	345	765
Amounts payable to tax authorities on behalf of third parties	15,466	13,028
Social security contributions to be paid	5,186	5,132
Dividends due to shareholders	9	13
Suppliers	11,646	12,632
Amounts available to customers	15,006	12,906
Interest and dues to be credited	222	543
Payments against bill instructions	425	858
Early payments on loans not yet due	97	260
Items being processed and in transit with branches	36,903	14,380
Currency differences on portfolio transactions	52,130	53,049
Due to personnel	5,168	2,664
Sundry creditors	17,414	58,282
Provisions for guarantees given and commitments	2,875	1,712
Accrued expenses and deferred income	1,747	2,045
Total	**164,639**	**178,269**

The components pertaining to the banking business included in the above caption amount to Euro 161 million.

"Items being processed and in transit with branches" are generally settled in the early days of the new year. The main component thereof relates to bank transfers being processed of Euro 28,539 thousand;

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

“Due to personnel” includes the payable relating to early retirement incentives of Euro 3,694 thousand and the year end balance of the amount due for holiday pay of Euro 1,361 thousand.

The main items included under caption “Sundry creditors” refer to: bank transfers being processed of Euro 3,143 thousand, sundry creditors arising from currency trading of Euro 4,789 thousand and creditors for bills paid of Euro 3,398 thousand.

Section 11 - Provision for termination indemnities - caption 110

11.1 Provision for termination indemnities: changes in the year

	31.12.13	31.12.12
A. Opening balance	**24,392**	**23,720**
B. Increases	**842**	**2,600**
B.1 Provision for the year	835	1,014
B.2 Other changes	7	1,586
C. Decreases	**1,263**	**1,928**
C.1 Payments made	1,204	1,793
C.2 Other changes	59	135
D. Closing balance	23,971	24,392

The caption “B.2 Other changes” relates to the discounting effect determined for IAS purposes and recognised as a contra-entry to the caption "Valuation reserves”.

11.2 Other information

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

Demographic assumptions

. for the probability of death, those determined by gender by the State General Accounting Department, denominated RG 48;

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

Economic-financial assumptions

Technical measurement was performed on the basis of the following assumptions:
. technical discounting rate 3.15%
. annual inflation rate 2.00%
. total annual income growth rate 3%
. termination indemnity annual growth rate 3%.

As regards the discount rate, the actuary took as a reference point for this parameter the iBoxx Eurozone Corporates AA 10+ index*, while last year the actuary had used the iBoxx Eurozone Corporates A 10+ index+*. The reason for the change in the parameter adopted by the actuary at the end of 2012 (which up to 31.12.2011 had, however, taken as a reference a basket of securities with an AA rating), is due to interpretative uncertainty relating to the concept of high quality corporate bonds for which, as a result of the crisis in financial markets, the National Institute of Actuaries had advised, for measurements carried out at 31.12.2012, the use of interest rates on European bonds with at least an A rating, since the number of those with an AA rating had fallen significantly. Following further discussions that were held in the course of 2013, it was deemed preferable to identify a discount rate for termination indemnities by taking as a reference point a basket of securities with an AA rating, as this was considered to be the most appropriate way to meet the requirements of the applicable accounting standard. The impact of the change has led to a total increase in the provisions for termination indemnities and long-service bonuses, and a consequence a reduction in valuation reserves, of Euro 500 thousand.

Section 12 - Provisions for risks and charges - caption 120

12.1 Provisions for risks and charges: breakdown

Items/Components	31.12.13	31.12.12
1. Pensions and similar commitments	27	170
2. Other provisions for risks and charges	38,994	20,781
2.1 Legal disputes	*15,137*	*10,626*
2.2 Personnel expenses	*17,837*	*8,197*
2.3 Other	*6,020*	*1,958*
Total	**39,021**	**20,951**

Charges for legal disputes include provisions made in the year for expected losses of Euro 13,796 thousand, arising from legal disputes and of Euro 1,341 thousand from bankruptcy clawback actions

As regards "Personnel expenses", the main components relate to: provision for solidarity fund of Euro 13,116 thousand, provision for bonuses of Euro 2,034 thousand and provisions for long-service bonuses and additional holidays of Euro 1,957 thousand.

The caption "other" includes provisions for charges pertaining to other operating risks, including those relating to tax disputes.

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

12.2 Provisions for risks and charges: changes in the year

Items/Components	Pensions and similar commitments	Other provisions	Total
A. Opening balance	**170**	**20,781**	**20,951**
B. Increases		**28,487**	**28,487**
B.1 Provision for the year		27,317	27,317
B.2 Changes due to the passage of time		224	224
B.3 Changes due to changes in the discount rate			
B.4 Other changes		946	946
C. Decreases	**143**	**10,274**	**10,417**
C.1 Utilisations during the year	140	8,045	8,185
C.2 Changes due to changes in the discount rate			
C.3 Other changes	3	2,229	2,232
D. Closing balance	**27**	**38,994**	**39,021**

12.3 Pensions and similar commitments - defined benefits

The amount recognised in the financial statements, as shown in Table 12.1 above, relates to the Swiss subsidiary Crediti Privato Commerciale in liquidation.

12.4 Provisions for risks and charges: other provisions

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

Section 13 - Technical reserves - caption 130

None.

Section 14 - Redeemable shares - caption 150

None.

Section 15 - Group Shareholders' equity (captions 140.160, 170, 180, 190, 200 and 220

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

	31.12.2013	31.12.2012
A. Share capital		
A.1 - Ordinary shares	60,840	60,840
A.2 Savings shares	6,865	6,865
A.3 Preference shares		
B. Treasury shares		
B.1 - Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		

The share capital of Banco Desio Brianza, fully subscribed and paid, consists of:
.117,000,000 ordinary shares with nominal value of Euro 0.52 each,
. 13,202,000 savings shares with nominal value of Euro 0.52 each

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

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

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

15.3 Other information

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

15.4 Revenue reserves: other information

Captions	31.12.13	31.12.12
Legal reserve	80,263	79,342
Statutory reserves	464,233	460,784
Retained earnings (losses)	23,571	23,571
Other FTA reserves	99,785	99,785
Other reserves	42,814	25,471
Total	**710,666**	**688,953**

Section 16 - Minority interests - caption 210

Shareholders' equity of minority interests

	Banking Group	Insurance company	Other	31/12/2013	31/12/2012
1. Share capital of minority interests	100			100	4,238
2. Share premium reserve of minority interests					210
3. Reserves	19			19	1,613
4. Treasury shares					
5. Valuation reserves					98
6. Equity instruments of minority interests					
7. Net profit/loss of the year of minority interests	102			102	855
Total	221			221	7,014

16.1 Equity instruments: breakdown and changes of the year

None.

OTHER INFORMATION

1. Guarantees given and commitments

Transactions	31.12.13	31.12.12
1) Financial guarantees:	21,508	28,301
a) Banks	17,570	23,893
b) Customers	3,938	4,408
2) Commercial guarantees:	218,427	217,311
a) Banks	3,745	3,962
b) Customers	214,682	213,349
3) Irrevocable commitments to disburse loans	117,937	196,948
a) Banks	4,523	82,223
i) certain to be called on	1,190	81,819
ii) not certain to be called on	3,333	404
b) Customers	113,414	114,725
i) certain to be called on	20,582	11,235
ii) not certain to be called on	92,832	103,490
4) Commitments underlying credit derivatives: sale of protection	25,000	25,000
5) Assets pledged to guarantee third-party commitments	1,529	1,541
6) Other commitments		
Total	**384,401**	**469,101**

2. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31.12.13	31.12.12
1. Financial assets held for trading		
2. Financial assets designated at fair value through profit and loss		
3. Financial assets available for sale	757,347	555,355
4. Financial assets held to maturity	130,145	85,757
5. Due from banks		
6. Loans to customers		
7. Property, plant and equipment		

3. Information on operating leases

Not foreseen in Banco Desio Group.

5. Administration and trading on behalf of third parties

Type of services	31.12.2013
1. Execution of orders on behalf of customers	**128,311**
a) purchases	50,253
1. Settled	43,267
2. Unsettled	6,986
b) sales	78,058
1. Settled	70,490
1. Unsettled	7,568
2. Portfolio management	**884,253**
a) Individual	315,935
b) Collective	568,318
3. Custody and administration of securities	**18,799,763**
a) Third-party securities on deposit as custodian bank (excluding portfolio management schemes)	
1. securities issued by the reporting bank	
2. other securities	
b) third-party securities held on deposit (excluding portfolio management schemes): other	8,701,586
1. securities issued by the reporting bank	2,233,502
2. other securities	6,468,084
c) Third-party securities deposited with third parties	8,478,891
d) Portfolio securities deposited with third parties	1,619,286
4. Other transactions	

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

None.

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

None.

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2013	31.12.2012
1. Financial assets held for trading	246		831	1,077	1,442
2. Financial assets designated at fair value through profit					
3. Financial assets available for sale	25,731			25,731	28,556
4. Financial assets held to maturity	7,084			7,084	5,352
5. Due from banks	526	986		1,512	2,814
6. Loans to customers		277,361		277,361	284,813
7. Hedging derivatives			4,150	4,150	3,246
8. Other assets			6	6	76
Total	**33,587**	**278,347**	**4,987**	**316,921**	**326,299**

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

Interest on "Loans to customers" is recognised net of default interest accrued in the year on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question amounts to Euro 8,684 thousand.

Conversely, the caption includes default interest collected in the year of Euro 547 thousand, of which Euro 499 thousand relates to prior years.

1.2 Interest and similar income: differentials on hedging transactions

Captions	31.12.2013	31.12.2012
A. Positive differentials on hedging transactions	6,222	7,517
B. Negative differentials on hedging transactions	(2,072)	(4,271)
C. Balance (A-B)	**4,150**	**3,246**

1.3.1 Interest income on financial assets in foreign currency

Captions	31.12.2013	31.12.2012
Interest income on financial assets in foreign currency	1,011	1,287

1.3.2 Interest income from finance leases

Total interest recognised as income in the year is included in the caption “Loans to customers – loans” and amounts to Euro 13,686 thousand; of this, Euro 12,713 thousand relates to index-linked contracts, of which Euro 630 thousand relates to leaseback agreements.

Financial income pertaining to subsequent years amounts to Euro 110,444 thousand, of which Euro 7,350 thousand relates to leaseback agreements.

1.4 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2013	31.12.2012
1. Due to central banks	(2,250)			(2,250)	(3,247)
2. Due to banks	(184)			(184)	(651)
3. Due to customers	(60,972)			(60,972)	(60,165)
4. Debt securities in issue		(58,014)		(58,014)	(60,214)
5. Financial liabilities held for trading					
6. Financial liabilities designated at fair value through		(1,162)		(1,162)	(1,696)
7. Other liabilities and provisions			(34)	(34)	
8. Hedging derivatives					
Total	**(63,406)**	**(59,176)**	**(34)**	**(122,616)**	**(125,973)**

1.5 Interest and similar expense: differentials on hedging transactions

In the year just ended, as was the case in the prior year, differentials on hedging transactions were positive and, accordingly, are shown in Table 1.2 above.

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

Captions	31.12.2013	31.12.2012
Interest expense on foreign currency financial liabilities	(193)	(305)

1.6.2 Interest expense on finance leases

Banco Desio Group was not party to any such transactions.

Section 2 – Commission - Captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2013	31.12.2012
a) guarantees given	2,335	2,257
b) credit derivatives		
c) management, brokerage and consulting services:	29,360	27,356
1. trading in financial instruments	128	1,222
2. trading in foreign exchange	1,171	1,081
3. asset management	2,448	3,273
3.1. individual	1,875	2,557
3.2. collective	573	716
4. custody and administration of securities	1,692	2,316
5. custodian bank		
6. placement of securities	5,381	4,954
7. order taking	8,214	8,480
8. advisory services		
8.1 regarding investments		
8.2 regarding financial structuring		
9. distribution of third-party services	10,326	6,030
9.1 asset management	425	463
9.1.1. individual	425	463
9.1.2. collective		
9.2 insurance products	9,852	5,457
9.3 other products	49	110
d) collection and payment services	21,792	20,963
e) servicing related to securitisation		
f) services for factoring transactions	157	116
g) tax collection services		
h) management of multilateral trading systems		
i) maintenance and management of current accounts	55,426	51,420
j) other services	20,787	18,764
Total	**129,857**	**120,876**

2.2 Commission expense: breakdown

Services/Amounts	31.12.2013	31.12.2012
a) guarantees received	(27)	(37)
b) credit derivatives		
c) management and brokerage services	(1,390)	(1,469)
1. trading in financial instruments	(180)	(253)
2. trading in foreign exchange		
3. asset management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities	(1,205)	(1,216)
5. placement of financial instruments	(5)	
6. offer of securities, financial products and services through financial promoters		
d) collection and payment services	(2,860)	(2,720)
e) other services	(12,346)	(10,805)
Total	(16,623)	(15,031)

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.13		31.12.12	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading				
B. Financial assets available for sale	117		38	
C. Financial assets designated at fair value through profit and loss				
D. Equity investments				
Total	**117**		**38**	

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

Section 4 - Net trading income - caption 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains	Trading profits	Capital losses	Trading losses	Net result 31.12.2013	Net result 31.12.2012
1. Financial assets held for trading	**12**	**349**		**(36)**	**325**	**658**
1.1 Debt securities	12	232		(34)	210	655
1.2 Equity instruments				(1)	(1)	(124)
1.3 UCITS units						
1.4 Loans						
1.5 Other		117		(1)	116	127
2. Financial liabilities held for trading						
2.1 Debt securities						
2.2 Payables						
2.3 Other						
3. Other financial assets and liabilities: exchange differences					**911**	**1,037**
4. Derivatives	**402**		**(30)**		**372**	**1,723**
4.1 Financial derivatives:	402		(30)		372	1,723
- On debt securities and interest rates	375		(30)		345	1,725
- On equities and equity indices	17				17	1
- On currency and gold					10	(3)
- Other						
4.2 Credit derivatives						
Total	**414**	**349**	**(30)**	**(36)**	**1,608**	**3,418**

The captions "1. Financial assets held for trading" and "4. Derivatives" include income from financial assets held for trading, with the exception of derivatives hedging financial instruments for which the fair value option was adopted and for which the measurement results are shown in Section 7.

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

Section 5 - Net hedging gains (losses) - caption 90

5.1 Net hedging gains (losses): breakdown

Income item/Amounts	31.12.13	31.12.12
A. Income relating to:		
A.1 Fair value hedges	4,196	4,580
A.2 Hedged financial assets (fair value)	48	743
A.3 Hedged financial liabilities (fair value)	3,959	61
A.4 Cash flow hedges		
A.5 Foreign currency assets and liabilities		
Total income from hedging activity (A)	**8,203**	**5,384**
B. Charges relating to:		
B.1 Fair value hedges	(7,235)	(4,331)
B.2 Hedged financial assets (fair value)	(964)	(48)
B.3 Hedged financial liabilities (fair value)		(2,382)
B.4 Cash flow hedges		
B.5 Foreign currency assets and liabilities		
Total charges from hedging activity (B)	**(8,199)**	**(6,761)**
C. Net hedging gains (losses) (A-B)	**4**	**(1,377)**

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

Section 6 - Gains (Losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	31.12.13			31.12.12		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks						
2. Loans to customers	13	(1,415)	(1,402)	47	(1,917)	(1,870)
3. Financial assets available for sale	45,648	(3,962)	41,686	46,734	(16,377)	30,357
3.1 Debt securities	44,244	(3,865)	40,379	45,413	(15,457)	29,956
3.2 Equity instruments	49	(1)	48	11		11
3.3 UCITS units	1,355	(96)	1,259	1,310	(920)	390
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**45,661**	**(5,377)**	**40,284**	**46,781**	**(18,294)**	**28,487**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities in issue	148	(696)	(548)	820	(71)	749
Total liabilities	**148**	**(696)**	**(548)**	**820**	**(71)**	**749**

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

The caption "2. Loans to customers" includes the net gain (loss) on disposal of non-performing loans.

The caption "3. Financial assets available for sale" includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect. The gains from the sale of UCITS units include the related tax credit.

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

Section 7 - Net results on financial assets and liabilities designated at fair value - caption 110

7.1 Net change in value of financial assets and liabilities designated at fair value: breakdown

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) − (C+D)] 31.12.2013	Net result [(A+B) − (C+D)] 31.12.2012
1. Financial assets						
1.1 Debt securities						
1.2 Equity instruments						
1.3 UCITS units						
1.4 Loans						
2. Financial liabilities	**9**	**11**	**(808)**	**(10)**	**(798)**	**(2,911)**
2.1 Debt securities	9	11	(808)	(10)	(798)	(2,911)
2.2 Due to banks						
2.3 Due to customers						
3. Other financial assets and liabilities: exchange differences						
4. Derivatives	**39**		**(647)**		**(608)**	**764**
Total	**48**	**11**	**(1,455)**	**(10)**	**(1,406)**	**(2,147)**

The net gains (losses) on financial assets and liabilities designated at fair value result from the difference between the fair value measurement of bonds, subject to "natural hedging" on having applied the fair value option and the corresponding financial derivatives.

They also include the net gains (losses) from trading in our bonds.

Section 8 - Net impairment write-downs/write-backs - caption 130

8.1 Net impairment adjustments to loans and advances: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)					
	Specific		Portfolio	Specific		Portfolio		31.12.2013	31.12.2012
	Write-offs	Other		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Loans to customers									
Impaired loans acquired									
- Loans									
- Debt securities									
Other receivables									
- Loans	(34,536)	(120,566)	(2,955)	9,136	11,721		273	(136,927)	(89,701)
- Debt securities									
C. Total	**(34,536)**	**(120,566)**	**(2,955)**	**9,136**	**11,721**		**273**	**(136,927)**	**(89,701)**

Key:
A = interest
B = other

This caption includes impairment write-downs and write-backs recognised in connection with loans to customers.
As regards "Write-downs" the figure in the "Write-offs" column relates to losses from the write-off of non-performing loans.

"Write-downs – Other", determined by the analytical assessment of the probability of recovery of doubtful loans and by discounting cash flows expected to be generated thereby, particularly from non-performing loans, mainly relate to: non-performing loans of Euro 61,891 thousand, watchlist loans of Euro 56,031 thousand, restructured loans of Euro 60 thousand and persistent breaches of Euro 2,583 thousand.

"Portfolio" write-downs relate to the performing loans portfolio.

The specific "interest" write-backs relate to the write-back of interest at the assumed discount rates on the capital element which is deemed to be recoverable relating to non-performing loans and watchlist loans.

8.2 Net impairment write-downs / write-backs of financial assets available for sale: breakdown

Transactions/Income components	Write-downs (1)		Write-backs (2)		31.12.2013	31.12.2012
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities		(601)			(601)	
B. Equity instruments						(277)
C. UCITS units						
D. Loans to banks						
E. Loans to customers						
F. Total		**(601)**			**(601)**	**(277)**

8.3 Net impairment write-downs/write-backs of financial assets held to maturity

There were no net impairment adjustments to financial assets held to maturity in the years ended 31 December 2013 and 2012.

8.4 Net impairment adjustments to other financial assets: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)				31.12.2013	31.12.2012
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		A	B	A	B		
A. Guarantees given	(530)	(1,212)	(234)		229		55	(1,692)	(713)
B. Credit derivatives									
C. Commitments to disburse funds									
D. Other transactions									
E. Total	**(530)**	**(1,212)**	**(234)**		**229**		**55**	**(1,692)**	**(713)**

The caption includes a charge arising from the intervention, already approved and ratified, by the Interbank Deposit Protection Fund regarding Banca Tercas in extraordinary administration, of Euro 1,596 thousand, of which Euro 530 thousand, included in the "Write-offs" column, is certain and is not subject to any condition and the remainder of Euro

1,066 thousand, included in the "Write-downs – specific: other" column, relates to a further portion, the amount of which is not yet certain as it is subject to the occurrence of events that have not yet been completely defined.

Section 9 - Net premiums - caption 150

None.

Section 10 - Net other insurance income/expense - caption 160

As a result of the sale of the controlling interest in Chiara Assicurazioni S.p.A., there are no longer any insurance companies in the Banco Desio Group and thus no amounts are shown for the above two captions.

Section 11 - Administrative costs - caption 180

11.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2013	31.12.2012
1) Employees	(146,034)	(135,749)
a) Wages and salaries	(91,112)	(94,973)
b) Social security charges	(22,969)	(23,548)
c) Termination indemnities		
d) Pension expenses		
e) Provision for termination indemnities	(839)	(970)
f) Provision for post-retirement benefits and similar commitments:		
- defined contribution		
- defined benefit		
g) Payments to external supplementary pension funds:	(8,768)	(9,180)
- defined contribution	(8,768)	(9,180)
- defined benefit		
h) Equity-based payments	(372)	(161)
i) Other personnel benefits	(21,974)	(6,917)
2) Other active employees	(987)	(1,957)
3) Directors and auditors	(3,576)	(5,215)
4) Retired personnel		
Total	**(150,597)**	**(142,921)**

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

Details of caption "1.i) – other employee benefits" are provided in table 9.4 below.

11.2 Average number of employees by level

	31.12.2013	31.12.2012
1) Employees	**1,769**	**1,806**
a) managers	28	32
b) middle managers	899	919
c) other employees	842	855
2) Other personnel	**18**	**33**

11.3 Defined post-employment benefit obligations: total costs

There were no such costs in the years ended 31 December 2013 and 2012.

11.4 Other personnel benefits

	Total	31.12.2012
Provision for sundry charges	(1,047)	(2,926)
Contributions to healthcare fund	(1,374)	(1,371)
Training and instruction costs	(160)	(199)
Rent expense of property used by employees	(184)	(179)
Redundancy incentives	(16,810)	-
Other	(2,359)	(2,242)
Total	**(21,934)**	**(6,917)**

The main components of the "Other" caption include company canteen costs of 1,613 thousand and costs relating to insurance premiums of Euro 309 thousand.

11.5 Other administrative costs: breakdown

	31.12.2013	31.12.2012
Indirect taxes and duties:		
- Stamp duty	(18,005)	(13,118)
- Other	(4,692)	(3,941)
Other costs:		
- IT expenses	(10,903)	(11,222)
- Lease of property and other assets	(11,721)	(12,224)
- Maintenance of buildings, furniture and equipment	(3,625)	(3,802)
- Post office and telegraph	(1,946)	(2,004)
- Telephone and data transmission	(3,916)	(4,979)
- Electricity, heating, water	(3,866)	(3,837)
- Cleaning services	(1,152)	(1,261)
- Printed matter, stationery and consumables	(688)	(1,788)
- Transport costs	(733)	(935)
- Surveillance and security	(1,394)	(1,534)
- Advertising	(1,028)	(1,221)
- Information and surveys	(1,343)	(1,463)
- Insurance premiums	(1,184)	(1,115)
- Legal fees	(6,381)	(4,664)
-Professional consulting fees	(9,649)	(8,442)
- Various contributions and donations	(152)	(153)
- Sundry expenses	(6,133)	(5,803)
Total	**(88,511)**	**(84,108)**

Fees payable to the Independent Auditors and other companies pertaining to their network for various types of services rendered to Banco Desio Group.

Type of services	Party which provided the service	Recipient	Fees
Audit	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza S.p.A.	149
	Deloitte & Touche S.p.A.	Banco Desio Lazio S.p.A.	38
	Deloitte & Touche S.p.A.	Fides S.p.A.	27
	Deloitte Audit Sàrl	Brianfid Lux S.A. in liquidation	25
	Deloitte Audit Sàrl	Rovere Société de Gestion S.A.	16
Attestation services	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza S.p.A.	29
Other services			
review of translation of financial reports	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza S.p.A.	34
due diligence	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza S.p.A.	85
preparation of tax returns	Deloitte Tax & Consulting Sàrl	Brianfid Lux S.A. in liquidation	20
			423

Section 12 - Net provisions for risks and charges - caption 190

12.1 Net provisions for risks and charges: breakdown

	Provision	Utilisations	31/12/2013	31/12/2012
charges for legal disputes	(8,167)	1,931	(6,236)	(2,322)
other charges	(5,351)	833	(4,507)	10,871
other	(182)		(182)	
Total	**(13,700)**	**2,764**	**(10,925)**	**8,549**

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

Other charges include provisions for other operating risks, inclusive of tax disputes.

Section 13 - Net adjustments to property, plant and equipment - caption 200

13.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 31.12.2013	Net result (a + b + c) 31.12.2012
A. Property, plant and equipment					
A.1 Owned	(5,835)		82	(5,753)	(6,836)
- for business purposes	(5,821)		82	(5,739)	(6,836)
- for investment purposes	(14)			(14)	
A.2 Held under finance leases					
- for business purposes					
- for investment purposes					
Total	**(5,835)**		**82**	**(5,753)**	**(6,836)**

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

Details, by asset category, of the impact on the income statement of adjustments to property, plant and equipment are shown in caption "C.2 Depreciation" of the tables 12.5 and 12.6 of Section 12, Assets.

Section 14 - Net adjustments to intangible assets - caption 210

14.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c) 31.12.2013	Net result (a + b + c) 31.12.2012
A. Intangible assets					
A.1 Owned	(933)			(933)	(1,322)
- Generated internally					
- Other	*(933)*			*(933)*	*(1,322)*
A.2 Held under finance leases					
Total	**(933)**			**(933)**	**(1,322)**

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

Section 15 - Other operating charges/income - caption 220

15.1 Other operating charges: breakdown

	31.12.2013	31.12.2012
Amortisation of leasehold improvements	(2,557)	(2,756)
Losses on disposal of property, plant and equipment	(40)	(77)
Charges on non-banking services	(875)	(964)
Total	**(3,472)**	**(3,797)**

"Charges on non-banking services" include costs relating to insurance deductibles and fraudulent withdrawals of Euro 60 thousand, costs pertaining to prior years of Euro 188 thousand and costs of termination of contracts relating to stock grants of Euro 65 thousand.

15.2 Other operating income: breakdown

	31.12.2013	31.12.2012
Recovery of taxes from third parties	20,399	14,286
Recharge of costs	9,858	8,314
Rental and leasing income	24	19
Other expense recoveries	5,794	5,434
Gains on disposal of property, plant and equipment	1,417	36
Other	510	1,055
Total	**38,002**	**29,144**

"Recharge of costs" includes recoveries for rapid preliminary investigation fees of Euro 7,743 thousand and other recoveries for various communications to customers of Euro 2,031 thousand.

"Other expense recoveries" include, in particular, recoveries of investigation costs relating to various loans of Euro 3,994 thousand, the recovery of costs of appraisals in connection with mortgage loans of Euro 574 thousand and the recovery of sundry expenses relating to lease applications of Euro 720 thousand.

"Other" also include recharges of legal dispute costs of Euro 174 thousand and sundry out of period income of Euro 171 thousand.

Section 16 - Profit (loss) from equity investments - caption 240

16.1 Profit (loss) from equity investments: breakdown

Income items/Segments	31.12.2013	31.12.2012
1) Companies subject to joint control		
A. Income		
From investments carried at equity (revaluations)		
2. Gains on disposal		
3. Write-backs		
4. Other income		
B. Losses		
From investments carried at equity (write-downs)		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result		
2) Associates (subject to significant influence)		
A. Income	13,886	4,686
From investments carried at equity (revaluations)	2,110	58
2. Gains on disposal	11,776	4,628
3. Write-backs		
4. Other income		
B. Losses		
From investments carried at equity (write-downs)		
2. Impairment write-downs		
3. Losses on disposal		
4. Other charges		
Net result	13,886	4,686
Total	13,886	4,686

Section 17 - Net gains (losses) arising from the fair value measurement of property, plant and equipment and intangible assets - caption 250

The Banco Desio Group does not have any property, plant and equipment or intangible assets measured at fair value.

Section 18 - Goodwill impairment - caption 260

The results of the testing of the recoverability of goodwill recognised in the consolidated financial statements did not indicate the need for any write-downs.

Section 19 - Gains (losses) on disposal of investments - caption 270

No investments were disposed of in the year.

Section 20 - Income taxes on current operations - caption 290

20.1 Income taxes on current operations: breakdown

Income items/Segments	31.12.2013	31.12.2012
1. Current taxes (-)	(45,212)	(37,035)
2. Change in prior period income taxes (+/-)	(1)	7,203
3. Reduction in current taxes (+)		
3. bis Reduction in current taxes for tax credits under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	40,349	13,790
5. Change in deferred tax liabilities (+/-)	(109)	29
6. Income taxes for the period (-)	(4,973)	(16,013)

An increase in write-downs of and losses on loans to customers, which are deductible in five equal portions in the year of the loss and in the four subsequent years (as per art. 106, paragraph 3, of the Consolidated Income Tax Act) was the main factor behind the increase in current taxes (caption 1) and in deferred tax assets (caption 4).

Taxation for the year benefited from the step-up for tax purposes, carried out pursuant to art. 15, paragraphs 10 bis and 10-ter of Legislative Decree 185/2008, of the goodwill included in the carrying value of the investment held by Banco Desio Lazio in Fides S.p.A. and included in the Group consolidated financial statements at an amount of Euro 5,169 thousand. The positive effect on net profit for the year is Euro 851 thousand, due to the difference between the substitute tax paid of Euro 827 thousand (included in caption 1) plus legal interest of Euro 31 thousand (included in interest expense in caption 7 "Other liabilities") and the change in deferred tax assets (included in caption 4).

Legislative Decree no. 133 of 30 November 2013 introduced, for the 2013 tax year only, an IRES surcharge of 8.5% to be computed on taxable income resulting from a company's tax return for IRES purposes, without taking account of add backs arising from the application of art. 106, para. 3 of the Consolidated Income Tax Act concerning loan adjustments. For the Parent Company and the subsidiary Banco Desio Lazio, no IRES surcharge is due, as a tax loss was incurred. For the subsidiary Fides, the IRES surcharge amounts to Euro 463 thousand (included in caption 1).

Caption "2. Change in prior period income taxes (+/-)", which records a decrease of Euro 1 thousand, is due to the difference between:

- Euro 40 thousand arising from a refund paid by the tax authorities to the Parent Company concerning IRPEG, ILOR and related advances pertaining to 1985;
- Euro 8 thousand arising from a tax refund that the subsidiary Fides received from the tax authorities in relation to a claim made in 2009 concerning the partial deductibility of IRAP from taxable income for IRES purposes (Legislative Decree no. 185/2008),
- Euro 49 thousand relating to additional tax payable due to an under provision of current taxes at 31.12.2012.

20.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	17,626		17,626	
Costs not deductible for IRAP purposes			170,914	
Revenue not taxable for IRAP purposes			(35,307)	
Sub-total	17,626		153,233	
Theoretical tax charge 27.5% IRES - 5.57% IRAP		**(4,847)**		**(8,535)**
Temporary differences taxable in subsequent years	(1,585)		(428)	
Temporary differences deductible in subsequent years	135,580		110,315	
Reversal of prior year temporary differences	(16,373)		1,182	
Differences that will not reverse in subsequent years	(21,374)		(41,628)	
Taxable income	113,874		222,674	
Current taxes for the year 27.5% IRES - 5.57% IRAP		**(31,286)**		**(12,404)**

The total actual tax charge of Euro 43,690 thousand, together with the substitute tax charge of the subsidiary Banco Desio Lazio of Euro 827 thousand relating to the step-up for tax purposes as per art. 15, paras. 10-bis and 10-ter of Legislative Decree no. 185/2008, plus the IRES surcharge pertaining to the subsidiary Fides of Euro 453 thousand and the taxation of foreign companies, is the amount shown in caption "1. Current taxes" in Table 20.1 above.

The reconciliation has been prepared only for Group companies resident in Italy, since, for the foreign companies there are no significant differences between the theoretical tax charge and the actual tax charge shown in the financial statements.

Section 21 - Profit (loss) after tax on non-current assets held for sale - caption 310

21.1 Profit (loss) after tax on non-current assets/liabilities held for sale: breakdown

Income items/Segments	31.12.2013	31.12.2012
1. Income		27,926
2. Expenses		(21,849)
3. Result from measurement of non-current assets and associated liabilities		
4. Gains (losses) on disposal		
5. Taxation		(1,545)
Net profit (loss)		**4,532**

21.2 Details of income taxes relating to non-current assets/liabilities held for sale

	31.12.2013	31.12.2012
1. Current taxation (-)		(1,545)
2. Change in deferred tax assets (+/-)		
3. Change in deferred tax liabilities (-/+)		
4. Income taxes for the year (-1+/-2+/-3)		**(1,545)**

Section 22 - Minority interests - caption 330

22.1 Details of caption 330 "Minority interests"

The net profit for the year attributable to minority interests relates to Rovere Société de Gestion S.A.

Section 24 – Earnings per share

24.1 Average number of ordinary shares (fully diluted)

There were no share capital transactions in the year and neither were there any issues of financial instruments that could lead to the issue of shares and, accordingly, the share capital consists of 117,000,000 ordinary shares and 13,202,000 savings shares.

24.2 Other information

There is no other information to be disclosed.

PART D - CONSOLIDATED COMPREHENSIVE INCOME

Statement of consolidated comprehensive income

Captions		Gross amount	Income taxes	Net amount
10.	**Net profit (loss) for the period**	X	X	**(4,898)**
	Other elements of income, without reversal to income statement			
20.	Property, plant and equipment			
30.	Intangible assets			
40.	Defined-benefit pension plans	279	(78)	201
50.	Non-current assets and disposal groups			
60.	Portion of the valuation reserves of the equity investments carried at equity			
	Other elements of income, with reversal to income statement			
70.	**Foreign investment hedges:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
80.	**Exchange differences:**	**0**	**0**	**0**
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			0
90.	**Cash-flow hedges:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
100.	**Financial assets available for sale:**	**468**	**(130)**	**338**
	a) changes in value	3,900	(1,223)	2,677
	b) reversal to income statement	(8,133)	2,679	(5,454)
	- impairment adjustments	286	(95)	191
	- gains/losses on disposal	(8,419)	2,774	(5,645)
	c) other changes	4,701	(1,586)	3,115
110.	**Non-current assets and disposal groups:**			
	a) changes in fair value			
	b) reversal to income statement			
	c) other changes			
120.	**Portion of the valuation reserves of the equity investments carried at equity:**	390	0	390
	a) changes in fair value			0
	b) reversal to income statement	390		390
	- impairment adjustments			0
	- gains/losses on disposal	390		390
	c) other changes			
130.	**Total other elements of income**	**1,137**	**(208)**	**929**
140.	**Total comprehensive income (Captions 10+130)**			**(3,969)**
150.	**Total comprehensive income pertaining to minority interests**			**(4)**
160.	**Total consolidated comprehensive income pertaining to Parent Company**			**(3,973)**

PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

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

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

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

In the course of 2013, the Board of Directors of the Parent Company approved the "Policy for risk appetite and risk management", which defines the risks, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. Furthermore, specific alerts are envisaged in the event of thresholds being exceeded. The internal control process over capital adequacy (ICAAP) also forms part of the risk management system.

SECTION 1 - RISKS FACED BY THE BANKING GROUP

1.1 Credit risk

<u>Qualitative information</u>

1. General aspects

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

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

Trade policy is pursued through the peripheral branch network, both in the geographical areas where the Group has traditionally been present, in order to consolidate its position on an ongoing basis, and in new markets where branches have been opened more recently with the aim of gaining new market shares and to facilitate the growth of business volume.

Certain specific products (personal loans, leasing) are developed through authorised businesses.

2. Credit risk management policies

2.1. Organisational aspects

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

The Group's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions.

The Parent Company's Board of Directors has exclusive power to lay down the guidelines that have an impact on the running of the Group's affairs. As regards internal controls and risks, the Board of Directors approves, at Group level, the strategic direction and policies for risk management, as well as the organisational structure.

The Parent Company's Board of Directors lays down the ways in which each subsidiary has to implement the various levels of control, taking into account the nature and size of the subsidiary's activity and its location; the Board of Directors also identifies the functions of the Parent Company that are responsible for specific control mechanisms, establishing suitable information flows.

2.2 Systems for managing, measuring and monitoring credit risk

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

These risk management, measurement and monitoring systems are performed by a specialist department at the Parent Company, where certain functions outsourced by subsidiaries have been centralised. The analysis and monitoring of risk associated with the lending process is performed with the support of specific operating procedures. The aim of a prompt monitoring system is to identify, as soon as possible, signs of deterioration of exposures in order to intervene with effective corrective measures. To this end, credit exposures are monitored by means of an analysis of relationship trends and by central oversight of risk by means of dedicated procedures. This review facilitates the identification of customers with anomalies in the conduct of their relationship as opposed to those with a regular trend. As part of its corporate risk management policy, the Group has set up a system of limits and thresholds relating to certain indicators. In the context of monitoring and control, on pre-established thresholds being exceeded, the Parent Company's Risk Management Office activates an internal analysis procedure for an intervention by the competent corporate functions in order to maintain a risk appetite level consistent with guidance provided by risk management policy.

For risk management purposes, the Banco Desio Group uses an internal rating model (C.R.S. - Credit Rating System) designed by the Parent Company, which is capable of categorising counterparties into classes of risk with the same probability of default. This system is an analytical model for the measurement of default risk that uses methods of statistical inference based on subjective (or conditional probability) theory. 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 (retail/corporate); in particular, the criteria for the segmentation of counterparties are chosen taking into account the borrower's sector, legal form and turnover (if any). There are eight rating classes for performing counterparties (from AAA to CC), while there are three for non-performing loans (past due, watchlist and doubtful loans).

For the purpose of calculating the capital requirement for credit risk, the Group follows the rules laid down in the regulations for the standardised approach.

2.3 Credit risk mitigation techniques

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

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

Guarantees received by the Group are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions. The process of collateral management provides for monitoring and specific controls to check their eligibility, in line with the requirements of the new regulations.

To date, the Group does not use credit derivatives to hedge or transfer credit risk and has not carried out any direct securitisations.

2.4. Impaired financial assets

Loans are classified as *doubtful* when, in the light of objective evidence collected by the relevant offices, the customer proves unable to meet its commitments and is therefore in a state of insolvency, even if this has not yet been declared by the court.

Loans are classified as *watchlist* taking into account the apparent risk, the objective impossibility of an amicable settlement, a failure to meet the agreed repayment plans and the need to request timely court interventions in order to monitor the loans effectively.

In any case, watchlist loans include exposures with specific characteristics explained in the supervisory instructions.

To be classified under restructured loans, whether for cash or "off-balance sheet items", the Group complies with the supervisory requirements, analytically assessing the presence of the conditions laid down in the regulations.

As regards past due loans, these are constantly monitored by the competent functions through the use of specific IT procedures.

As for the criteria and procedures for evaluating the appropriateness of adjustments, they are based on objectivity and prudence.

The expected loss is, in fact, the synthesis of several elements derived from various (internal and external) assessments about the principal debtor's assets and those of any guarantors. Monitoring of the expected loss is constant and organic and, in any case, compared with the development of the individual position. The time element linked to the present value of impaired loans is determined by specific assessments carried out for each type of asset, drawn up on the basis of information relating to the individual legal jurisdiction.

Quantitative information

Credit quality

A.1 Doubtful and performing loans: amounts, adjustments, trends and economic and territorial distribution

A.1.1 Distribution of credit exposure by portfolio and quality of lending (book values)

Portfolio/Quality	Banking Group						Other businesses		Total
	Doubtful loans	Watchlist loans	Restructured loans	Past due non-performing loans	Past due non-performing loans	Other assets	Non-performing	Other assets	
1. Financial assets held for trading						2,798			2,798
2. Financial assets available for sale	170					1,389,731			1,389,901
3. Financial assets held to maturity						181,568			181,568
4. Due from banks					2	275,846			275,846
5. Loans to customers	233,213	177,754	1,722	46,272	375,852	6,120,616			6,955,429
6. Financial assets designated at fair value through profit and loss									
7. Financial assets being sold									
8. Hedging derivatives						5,052			5,052
Total 31/12/2013	**233,383**	**177,754**	**1,722**	**46,272**	**375,854**	**7,975,611**			**8,810,596**
Total 31/12/2012	**177,127**	**163,294**	**5,043**	**47,043**	**362,937**	**7,590,733**		**45,190**	**8,391,366**

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

Portfolio/Quality	Non-performing loans			Performing loans			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	General portfolio adjustments	Net exposure	
A. Banking group							
1. Financial assets held for trading						2,798	2,798
2. Financial assets available for sale	170		170	1,389,731		1,389,731	1,389,901
3. Financial assets held to maturity				181,568		181,568	181,568
4. Due from banks				275,848		275,848	275,848
5. Loans to customers	685,328	(226,365)	458,963	6,540,540	(44,074)	6,496,466	6,955,429
6. Financial assets designated at fair value through profit and loss							
7. Financial assets being sold							
8. Hedging derivatives						5,052	5,052
Total A	**685,498**	**(226,365)**	**459,133**	**8,387,687**	**(44,074)**	**8,351,463**	**8,810,596**
B. Other companies included in consolidation							
1. Financial assets held for trading							
2. Financial assets available for sale							
3. Financial assets held to maturity							
4. Due from banks							
5. Loans to customers							
6. Financial assets designated at fair value through profit and loss							
7. Financial assets being sold							
8. Hedging derivatives							
Total B							
Total 31.12.2013	**685,498**	**(226,365)**	**459,133**	**8,387,687**	**(44,074)**	**8,351,463**	**8,810,596**
Total 31.12.2012	**546,569**	**(154,063)**	**392,506**	**8,040,446**	**(41,586)**	**7,998,860**	**8,391,366**

A.1.2.1 Distribution of renegotiated and non-renegotiated performing loan exposures by portfolio

Exposures/Geographical areas	Exposure subject to renegotiation under Collective Agreements					Other exposures					Total (net exposure)
	Past due up to 3 months	Past due between 3 to 6 months	Past due between 6 to 12 months	Past due over 1 year	Not past due	Past due up to 3 months	Past due between 3 to 6 months	Past due between 6 to 12 months	Past due over 1 year	Not past due	
1. Financial assets held for trading										2,798	2,798
2. Financial assets available for sale										1,389,731	1,389,731
3. Financial assets held to maturity										181,568	181,568
4. Due from banks										275,848	275,848
5. Loans to customers	19,968	579			193,469	307,403	17,319	12,098	18,486	5,927,144	6,496,466
6. Financial assets designated at fair value through profit and loss											
7. Financial assets being sold											
8. Hedging derivatives										5,052	5,052
Total 31/12/2013	19,968	579			193,469	307,403	17,319	12,098	18,486	7,782,141	8,351,463

A.1.3 Banking Group - On- and off-balance sheet exposures to banks: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure
A. CASH EXPOSURE				
a) Doubtful loans	84			84
b) Watchlist loans				
c) Restructured loans				
d) Past due non-performing loans				
e) Other assets	351,833			351,833
TOTAL A	**351,917**			**351,917**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing				
b) Other	23,107		1,141	21,966
TOTAL B	**23,107**		**1,141**	**21,966**
TOTAL A+B	**375,024**		**1,141**	**373,883**

A.1.4 Banking Group - On-balance sheet credit exposures to banks: changes in gross doubtful loans

Description/Categories	Doubtful loans	Watchlist loans	Restructured loans	Past due loans
A. Opening gross exposure				
- of which: sold but not derecognised				
B. Increases	**84**			
B.1 transfers from performing positions				
B.2 transfers from other categories of doubtful exposures				
B.3 other increases	84			
C. Decreases				
C.1 transfers to performing positions				
C.2 write-offs				
C.3 collections				
C.4 proceeds from disposal				
C.4 bis losses on disposal				
C.5 transfers to other categories of doubtful exposures				
C.6 other decreases				
D. Closing gross exposure	**84**			
- of which: sold but not derecognised				

A.1.5 Banking Group - On-balance sheet credit exposures to banks: changes in total adjustments

There are no such credit exposures at the reporting date.

A.1.6 Banking Group - On- and off-balance sheet credit exposures to customers: gross and net amounts

Types of exposure/amounts	Gross exposure	Specific adjustments	Portfolio adjustments	Net exposure
A. CASH EXPOSURE				
a) Doubtful loans	385,696	152,393		233,303
b) Watchlist loans	248,641	70,889		177,752
c) Restructured loans	1,995	273		1,722
d) Past due non-performing loans	49,083	2,810		46,273
e) Other assets	8,036,417		44,074	7,992,343
TOTAL A	**8,721,832**	**226,365**	**44,074**	**8,451,393**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing	5,182	322		4,860
b) Other	364,580		1,486	363,094
TOTAL B	**369,762**	**322**	**1,486**	**367,954**
TOTAL A+B	**9,091,594**	**226,687**	**45,560**	**8,819,347**

A.1.7 Banking Group - On-balance sheet credit exposures to customers: changes in gross doubtful loans

Description/Categories	Doubtful loans	Watchlist loans	Restructured loans	Past due loans
A. Opening gross exposure	**271,432**	**219,883**	**5,616**	**49,638**
- of which: sold but not derecognised				
B. Increases	**204,772**	**272,002**	**1,151**	**167,598**
B.1 transfers from performing positions	19,299	172,747		159,009
B.2 transfers from other categories of doubtful exposures	171,480	52,162	776	1,006
B.3 other increases	13,993	47,093	375	7,583
C. Decreases	**90,508**	**243,244**	**4,772**	**168,153**
C.1 transfers to performing positions (including non-impaired overdue positions)	(12)	(19,287)	(56)	(82,870)
C.2 write-offs	(62,892)	(2,556)		
C.3 collections	(27,041)	(52,143)	(1,803)	(31,772)
C.4 proceeds from disposal	(101)			
C.4 bis losses on disposal				
C.5 transfers to other categories of doubtful exposures	(1)	(169,131)	(2,913)	(53,379)
C.6 other decreases	(461)	(127)		(132)
D. Closing gross exposure	**385,696**	**248,641**	**1,995**	**49,083**
- of which: sold but not derecognised				

A.1.8 Banking Group - On-balance sheet credit exposures to customers: changes in total adjustments

Description/Categories	Doubtful loans	Watchlist loans	Restructured loans	Past due non-performing loans
A. Total opening adjustments	**94,305**	**56,589**	**573**	**2,596**
- of which: sold but not derecognised				
B. Increases	**133,877**	**59,861**	**162**	**2,716**
B1. Write-downs	95,117	58,733	60	2,601
B.1 bis losses on disposal	1,415			
B.2 transfers from other categories of doubtful exposures	37,345	1,128	102	115
B.3 other increases				
C. Decreases	**75,789**	**45,561**	**462**	**2,502**
C.1 measurement write-backs	8,607	4,111	69	731
C.2 writebacks on collection	2,862	2,093	22	253
C.2 bis gains on disposal	13			
C.3 write-offs	62,892	2,556		
C.4 transfers to other categories of doubtful exposures		36,801	371	1,518
C.5 other decreases	1,415			
D. Total closing adjustments	**152,393**	**70,889**	**273**	**2,810**
- of which: sold but not derecognised				

A.2 Classification of exposures on the basis of external rating

A.2.1 Banking Group - Distribution of cash and "off-balance sheet" exposures by external rating class (book values)

Based on the compilation rules laid down by the Bank of Italy, the table in question has not been completed because the amount of exposures with external ratings is not significant.

A.2.2 Banking Group - Distribution of cash and "off-balance sheet" exposures by internal rating class

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

As explained in the section on qualitative information (paragraph 2.2), the Parent Company has designed a rating model for management purposes aimed at assessing retail customers (individual consumers and small businesses) and corporate customers (companies with turnover above Euro 1 million).

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

Exposures at 31.12.2013	Internal rating class			
	from AAA to A	from BBB to B	from CCC to CC	Total
Cash exposure	38.04%	43.09%	Total	100%
Off-balance sheet exposures	60.78%	28.36%	10.86%	100%

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Banking Group - Guaranteed credit exposures to banks

There are no such credit exposures at the reporting date.

A.3.2 Banking Group - Guaranteed credit exposures to customers

		Secured guarantees (1)				Unsecured guarantees (2)									
						Credit derivatives					Endorsement credits				
							Other derivatives								
	Amount of net exposures	Property, Mortgages	Property under finance leases	Securities	Other secured guarantees	CLN	Government and central banks	Other public entities	Banks	Other parties	Government and central banks	Other public entities	Banks	Other parties	Total (1)+(2)
1. Guaranteed on-balance sheet exposures:	4,810,822	7,505,261	483,078	383,135	316,898							10	970	4,589,330	18,089,504
1.1. totally guaranteed	4,669,326	7,494,195	483,078	351,702	302,457								970	4,533,851	13,166,253
- of which: non-performing	*375,673*	*784,533*	*45,011*	*2,174*	*10,729*								*40*	*801,360*	*1,643,847*
1.2. partially guaranteed	141,496	11,066		31,433	14,441							10		55,479	112,429
- of which: non-performing	*11,871*	*1,282*		*1,793*	*1,295*									*8,827*	*13,197*
2. Guaranteed off-balance sheet exposures:	170,807	11,508		24,988	17,322								1,644	152,316	378,585
2.1. totally guaranteed	140,558	11,508		20,654	15,089								1,644	147,140	196,035
- of which: non-performing	*2,636*			*164*	*161*									*6,334*	*6,659*
2.2. partially guaranteed	30,249			4,334	2,233									5,176	11,743
- of which: non-performing	*7*				*1*									*10*	*11*

B. Distribution and concentration of credit exposures

B.1 Banking Group - Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

Exposures/Counterparties	Governments			Other public entities			Financial companies		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposure									
A.1 Doubtful loans							203	(52)	
A.2 Watchlist loans							1,147	(321)	
A.3 Restructured loans									
A.4 Past due loans							1		
A.5 Other exposures	1,483,714						208,998		(392)
Total A	**1,483,714**						**210,349**	**(373)**	**(392)**
B. Off-balance sheet exposures									
B.1 Doubtful loans									
B.2 Watchlist loans									
B.3 Other doubtful loans									
B.4 Other exposures	26,193						3,350		(13)
Total B	**26,193**						**3,350**		**(13)**
Total (A+B) 31.12.2013	**1,509,907**						**213,699**	**(373)**	**(405)**
Total (A+B) 31.12.2012	**1,054,355**						**448,049**	**(223)**	**(529)**

B.1 Banking Group - Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

p.2

Exposures/Counterparties	Insurance companies			Non-financial companies			Other parties		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. Cash exposure									
A.1 Doubtful loans				174,966	(125,582)		58,134	(26,759)	
A.2 Watchlist loans				127,201	(53,180)		49,404	(17,388)	
A.3 Restructured loans				1,722	(273)				
A.4 Past due loans				27,215	(1,743)		19,057	(1,067)	
A.5 Other exposures	27,602		(4)	4,228,645		(38,615)	2,043,383		(5,064)
Total A	**27,602**		**(4)**	**4,559,749**	**(180,778)**	**(38,615)**	**2,169,978**	**(45,214)**	**(5,064)**
B. Off-balance sheet exposures									
B.1 Doubtful loans				287	(19)		52	(49)	
B.2 Watchlist loans				3,113	(141)		568	(111)	
B.3 Other doubtful loans				680			160	(2)	
B.4 Other exposures	969		(5)	302,241		(1,431)	28,579		(37)
Total B	**969**		**(5)**	**306,321**	**(160)**	**(1,431)**	**29,359**	**(162)**	**(37)**
Total (A+B) 31.12.2013	**28,571**		**(9)**	**4,866,070**	**(180,938)**	**(40,046)**	**2,199,337**	**(45,376)**	**(5,101)**
Total (A+B) 31.12.2012	**26,647**		**(44)**	**4,700,745**	**(124,728)**	**(38,031)**	**2,148,372**	**(29,519)**	**(4,289)**

B.2 Banking Group - Territorial distribution of on- and off-balance sheet credit exposures to customers (book value)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposure										
A.1 Doubtful loans	233,217	(152,393)			86					
A.2 Watchlist loans	177,752	(70,889)								
A.3 Restructured loans	1,722	(273)								
A.4 Past due loans	46,272	(2,810)							1	
A.5 Other exposures	7,928,908	(43,937)	62,859	(137)	427		148			(1)
Total A	**8,387,871**	**(270,302)**	**62,859**	**(137)**	**513**		**148**		**1**	**(1)**
B. Off-balance sheet exposures										
B.1 Doubtful loans	339	(68)								
B.2 Watchlist loans	3,682	(252)							(1)	
B.3 Other doubtful loans	840	(2)								
B.4 Other exposures	361,172	(1,486)	60		99				1	
Total B	**366,033**	**(1,808)**	**60**		**99**					
Total A+B 31.12.2013	**8,753,904**	**(272,110)**	**62,919**	**(137)**	**612**		**148**		**1**	**(1)**
Total A+B 31.12.2012	**8,316,549**	**(196,912)**	**59,271**	**(403)**	**2,179**	**(46)**	**159**		**10**	

B.3 Banking Group - Territorial distribution of on- and off-balance sheet credit exposures to banks (book value)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposure										
A.1 Doubtful loans					84					
A.2 Watchlist loans										
A.3 Restructured loans										
A.4 Past due loans										
A.5 Other exposures	258,655		91,710		624		430		414	
Total A	**258,655**		**91,710**		**708**		**430**		**414**	
B. Off-balance sheet exposures										
B.1 Doubtful loans										
B.2 Watchlist loans										
B.3 Other doubtful loans										
B.4 Other exposures	18,229		4,068				170		544	
Total B	**18,229**		**4,068**				**170**		**544**	
Total A+B 31.12.13	**276,884**		**95,778**		**708**		**600**		**958**	
Total A+B 31.12.12	**335,513**		**97,233**		**707**		**162**		**1,300**	

B.4 Major risks

With reference to current supervisory regulations, the situation at 31 December 2013 is reported below:

Description	*Nominal Amount*	*Weighted amount*	*Number of positions*
Major risks	1,435,021	0	1

The position with zero weighting relates to exposures to the Italian Government for securities held in portfolio.

C. Securitisation transactions and disposal of assets

C.1 Securitisation transactions

C.1.1 Banking Group - Exposures arising from securitisation transactions broken down by quality of the underlying assets

Quality of underlying assets/Exposures	Cash exposure						Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With own underlying assets:																		
a) Non-performing																		
b) Other																		
B. With underlying assets of third parties:																		
a) Non-performing																		
b) Other	598	598																

C.1.2 Banking Group - Exposures arising from principal “own” securitisations, broken down by type of securitised asset and by type of exposure

There are no such credit exposures at the reporting date.

C.1.3 Banking Group - 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 exposure						Guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	of which: Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back	Net exposure	Adj./write-back	Net exposure	Adj./write-back	Net exposure	Adj./write-back	Net exposure	Adj./write-back	Net exposure	Adj./write-back	Net exposure	Adj./write-back
A.1 F.I.P 26.04.25																		
- PROPERTY	598	81																
A.2 name of securitisation																		
- type of asset																		
A.3 name of securitisation ..																		
- type of asset																		

C.1.4 Banking Group - Exposures to securitisations broken down by portfolio and by type

Exposure/portfolio	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Financial assets held to maturity	Loans and receivables	31.12.2013	31.12.2012
1. Cash exposure			598			598	552
- Senior			598			598	552
- Mezzanine							
- Junior							
2. Off-balance sheet exposures							
- Senior							
- Mezzanine							
- Junior							

C.2 Asset disposals

C.2.1 Banking Group - Financial assets sold but not derecognised: book value and full value

Technical forms/Portfolio	Financial assets held for trading			Financial assets designated at fair value through profit and loss			Financial assets available for sale			Financial assets held to maturity			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31.12.2013	31.12.2012
A. Cash assets							**204,152**			**59,516**									**263,668**	**132,353**
1. Debt securities							204,152			59,516									263,668	132,353
2. Equity instruments																				
3. UCITS units																				
4. Loans																				
B. Derivatives																				
Total 31/12/2013							**204,152**			**59,516**									**263,668**	
of which: non-performing																				
Total 31/12/2012							**117.191**			**15.162**										**132,353**
of which: non-performing																				

Key:
A = Financial assets sold and recognised in full (book value)
B = Financial assets sold and recognised in part (book value)
C = Financial assets sold and recognised in part (full value)

C.2.2 Banking Group - Financial liabilities pertaining to financial assets sold but not derecognised: book value

Liabilities/Portfolio assets	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Financial assets held to maturity	Due from banks	Loans to customers	Total
1. Due to customers			**261,177**	**65,030**			**326,207**
a) pertaining to assets recognised in full			261,177	65,030			326,207
b) pertaining to assets recognised in part							
2. Due to banks							
a) pertaining to assets recognised in full							
b) pertaining to assets recognised in part							
3. Debt securities in issue							
a) pertaining to assets recognised in full							
b) pertaining to assets recognised in part							
Total 31.12.2013			**261,177**	**65,030**			**326,207**
Total 31.12.2012			**116,782**	**15,304**			**132,086**

D. Banking Group - Credit risk measurement models

1.2 Banking Group - Market risk

1.2.1 Interest rate risk and price risk - Trading portfolio reported for supervisory purposes

Qualitative information

A. General aspects

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

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

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

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

In carrying out its responsibilities for management and coordination, the Board of Directors of Banco Desio e della Brianza S.p.A., as the Parent Company, issued specific rules on the various levels of controls to all companies in the Banking Group.

Trading by the Parent Company's Finance Department is undertaken only for the Italian Group banks and is subject to operating limits as set out in the “Risk policy” and in the “Consolidated Texts”; in order to mitigate market risk, specific limits have been set for size, duration and 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. The results of monitoring are provided daily to the head of the Finance Department and to General Management.

Together with the above controls, the Group also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the Parent Company's risk management function, which operates in complete autonomy from both the operational areas and the subsidiaries.

For the quantification of generic risks, the Group has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum probable loss of a static portfolio with reference to a specific time horizon and at a specific confidence level under normal market conditions. This method has the advantage of allowing the aggregation of positions involving heterogeneous risk factors; it also provides a summary number which, being a monetary expression, is easily used by the organisational structure involved. The model is parametric of a variance-covariance type for linear tools with the approximation of the delta-gamma type for optional instruments, and uses a confidence interval of 99% with a period of 10 days, in line with the recommendations set out by the Basel Committee. The model covers the assets, in terms of financial instruments, included in both the management and trading portfolios, as defined in the rules governing supervisory reports and subject to the capital requirements for market risks.

The model uses matrices that contain the standard deviations of each risk factor (interest rates, exchange rates and prices) and their correlations. The calculation of the volatilities and correlations is based on the modelling assuming normality in the daily logarithmic returns of the risk factors, using an exponential weighting based on a decay factor with a time interval of 250 observations. The application used to calculate the VaR is ALMpro, while the financial information needed to determine VaR (volatility, correlations, term structure of interest rates, exchange rates, equity indices and benchmark indices) are provided by RiskSize.

To date, currency and interest rate derivatives and options on equities and indices entered into for trading purposes are excluded from the analysis; in any case, they are treated in the same way as brokerage. The VaR of equities is measured by taking into account the relationship (so-called "beta coefficient") that exists between the performance of an individual instrument to that of its benchmark index (equity index or benchmark index for mutual funds).

Stress tests are carried out through parallel shifts in the yield curve, assuming variations of +/-100 basis points only for positions that are sensitive to interest rates.

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

Quantitative information

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives. Currency: EURO

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets		560						
1.1 Debt securities		560						
- with early redemption option								
- other		560						
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		118,321	2,948	5,137	3,256			
3.1 With underlying security		1,636	1,239	10	350			
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		124	1,239	10	244			
+ Short positions		1,512			106			
3.2 Without underlying security		116,685	1,709	5,127	2,906			
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		58,083	855	2,564	1,453			
+ Short positions		58,602	854	2,563	1,453			

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives. Currency: US DOLLAR

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		66,792	1,694	5,032	2,900			
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security		66,792	1,694	5,032	2,900			
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		33,574	847	2,516	1,450			
+ Short positions		33,218	847	2,516	1,450			

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives. Currency: POUND STERLING

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		38,924						
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security		38,924						
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		19,435						
+ Short positions		19,489						

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives. Currency: SWISS FRANC

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		231						
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security		231						
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		117						
+ Short positions		114						

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives. Currency: JAPANESE YEN

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		5,613						
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security		5,613						
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		2,934						
+ Short positions		2,679						

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives. Currency: OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets								
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Other assets								
2. Cash liabilities								
2.1 Repurchase agreements								
2.2 Other liabilities								
3. Financial derivatives		4,045						
3.1 With underlying security								
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security		4,045						
- Options								
+ Long positions								
+ Short positions								
- Other								
+ Long positions		2,013						
+ Short positions		2,032						

2. Regulatory trading book: distribution of exposures concerning equities and equity indices by the main countries where they are listed

There are no such credit exposures at the reporting date.

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

The monitoring carried out in 2013 on the "trading portfolio for supervisory purposes" of the Parent Company and the Italian banking system shows a structure with limited market risks. Given the Group's policy of underweighting price risk, almost all of the "trading portfolio for supervisory purposes" is exposed to interest rate risk. The Parent Company takes almost all of the interest rate and price risk, whereas amount apportioned to the Italian banking subsidiary is marginal.

Related VaR at 31.12.2013 amounted to Euro 4 thousand, with a percentage lower than 1% of the trading portfolio.

The scenario analyses carried out in terms of parallel shifts in the yield curve, assuming variations of +/-100 basis points only for positions that are sensitive to interest rates and considering a positive change in interest rates, at 31.12.2013 show a negative impact of Euro 23 thousand.

1.2.2 Interest rate risk and price risk - Banking book

<u>Qualitative information</u>

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

The measurement of interest rate risk is performed by the Parent Company's risk management function. This activity is carried out for the Group's Italian banks, which cover almost all of the banking book. The whole of the Group's business associated with the transformation of maturities of assets and liabilities, portfolio securities, treasury operations and the respective hedging derivatives are monitored with *Asset and Liability Management (ALM)* methods using *ALMpro*. Risks are measured monthly from a static perspective; the simulation form that makes it possible to monitor and manage interest rate risk from a dynamic standpoint is also active.

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

The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of several variants of GapAnalysis in order to achieve more accurate estimates.

The changes in the economic value of assets and liabilities are analysed by applying *Duration* Gap and *Sensitivity Analysis approaches.*

The analyses are performed through parallel shifts in the yield curve and specific scenarios of changes in market interest rates.

Assets in the bank book with price risk consist entirely of shares and units in mutual funds. The latter are a marginal portion of the whole and are measured using the VaR techniques.

B. Fair value hedges

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

To date, hedged instruments relate to both assets and liabilities, the latter being only bonds, while derivative instruments consisting of unquoted securities - mainly interest rate swaps and interest rate options - are used as hedging instruments only to hedge interest rate risk.

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

The Group applies the fair value option for certain types of bonds, with the aim of making the entire fair value of the financial instrument more reliable and representative.

C. Cash flow hedges

The Group has not taken out any cash flow hedges.

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities. Currency: EURO

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**1,312,084**	**4,643,990**	**626,922**	**529,725**	**991,481**	**399,077**	**148,539**	**1,288**
1.1 Debt securities	84	109,705	407,715	396,424	307,789	228,256	146,517	
- with early redemption option		29,913				1,001		
- other	84	79,792	407,715	396,424	307,789	227,255	146,517	
1.2 Loans to banks	37,298	92,096						
1.3 Loans to customers	1,274,702	4,442,189	219,207	133,301	683,692	170,821	2,022	1,288
- current accounts	747,635	687,586	2,050	4,473	63,016	1,001		788
other loans	527,067	3,754,603	217,157	128,828	620,676	169,820	2,022	500
- with early redemption option	57,770	3,003,324	155,912	84,336	253,344	21,108	1,223	7
- other	469,297	751,279	61,245	44,492	367,332	148,712	799	493
2. Cash liabilities	**3,636,393**	**2,344,336**	**515,068**	**396,482**	**1,187,043**			
2.1 Due to customers	3,611,776	1,440,302	196,877	115,417	15,000			
- current accounts	3,557,969	1,164,118	146,836	115,414	15,000			
other payables	53,807	276,184	50,041	3				
- with early redemption option								
- other	53,807	276,184	50,041	3				
2.2 Due to banks	20,749	405,547						
- current accounts	20,173							
- other payables	576	405,547						
2.3 Debt securities in issue	3,868	498,487	318,191	281,065	1,172,043			
- with early redemption option								
- other	3,868	498,487	318,191	281,065	1,172,043			
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives	**17,211**	**635,052**	**67,495**	**107,358**	**320,644**	**38,724**	**44,431**	
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security	17,211	635,052	67,495	107,358	320,644	38,724	44,431	
Options								
+ Long positions		22,873	29,577	43,670	209,066	38,724	44,431	
+ Short positions	17,211	327,562	7,918	3,688	31,961			
Other								
+ Long positions		87,500		60,000	79,617			
+ Short positions		197,117	30,000					
4. Other off-balance sheet transactions								
+ Long positions	(91,468)							
+ Short positions	91,468							

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities
Currency: US DOLLAR

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**31,713**	**55,297**	**175**					
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	30,799	34,527						
1.3 Loans to customers	914	20,770	175					
- current accounts	5							
other loans	909	20,770	175					
- with early redemption option								
- other	909	20,770	175					
2. Cash liabilities	**72,974**	**14,186**						
2.1 Due to customers	72,974	6,934						
- current accounts	72,974	6,934						
other payables								
- with early redemption option								
- other								
2.2 Due to banks		7,252						
- current accounts								
- other payables		7,252						
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions		(340)						
+ Short positions		340						

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities
Currency: POUND STERLING

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**1,177**	**2,291**						
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	605	1,656						
1.3 Loans to customers	572	635						
- current accounts	572							
other loans		635						
- with early redemption option								
- other		635						
2. Cash liabilities	**966**	**2,390**						
2.1 Due to customers	966	1,670						
- current accounts	966	1,670						
other payables								
- with early redemption option								
- other								
2.2 Due to banks		720						
- current accounts								
- other payables		720						
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions								
+ Short positions								

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities
Currency: SWISS FRANC

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**42,507**	**10,365**						
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	42,433	8,553						
1.3 Loans to customers	74	1,812						
- current accounts	74							
other loans		1,812						
- with early redemption option								
- other		1,812						
2. Cash liabilities	**3,597**							
2.1 Due to customers	3,597							
- current accounts	3,597							
other payables								
- with early redemption option								
- other								
2.2 Due to banks								
- current accounts								
- other payables								
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions		(23)						
+ Short positions		23						

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities
Currency: AUSTRALIAN DOLLAR

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**73**							
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	73							
1.3 Loans to customers								
- current accounts								
other loans								
- with early redemption option								
- other								
2. Cash liabilities	**73**							
2.1 Due to customers	73							
- current accounts	73							
other payables								
- with early redemption option								
- other								
2.2 Due to banks								
- current accounts								
- other payables								
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions								
+ Short positions								

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities
Currency: JAPANESE YEN

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**652**	**2,899**						
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	371							
1.3 Loans to customers	281	2,899						
- current accounts	2							
other loans	279	2,899						
- with early redemption option								
- other	279	2,899						
2. Cash liabilities	**256**	**3,684**						
2.1 Due to customers	256							
- current accounts	256							
other payables								
- with early redemption option								
- other								
2.2 Due to banks		3,684						
- current accounts								
- other payables		3,684						
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions		(2)						
+ Short positions		2						

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities

Currency: OTHER CURRENCIES

Type/Residual duration	On demand	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**2,154**							
1.1 Debt securities								
- with early redemption option								
- other								
1.2 Loans to banks	2,153							
1.3 Loans to customers	1							
- current accounts	1							
other loans								
- with early redemption option								
- other								
2. Cash liabilities	**2,024**	**3**						
2.1 Due to customers	2,024							
- current accounts	2,024							
other payables								
- with early redemption option								
- other								
2.2 Due to banks		3						
- current accounts								
- other payables		3						
2.3 Debt securities in issue								
- with early redemption option								
- other								
2.4 Other liabilities								
- with early redemption option								
- other								
3. Financial derivatives								
3.1 With underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
3.2 Without underlying security								
Options								
+ Long positions								
+ Short positions								
Other								
+ Long positions								
+ Short positions								
4. Other off-balance sheet transactions								
+ Long positions								
+ Short positions								

2. Banking book: internal models and other methodologies for the analysis of sensitivity

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

The following table shows the results of the impact on the interest margin - from a static perspective and in the absence of behavioural models for demand items - of the analyses carried out at 31 December 2013, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios at 31 December 2013: parallel shifts in the yield curve

	+100 bps	*-100 bps*
% of the expected margin	*2.65%*	*-11.79%*
% of net interest and other banking income	*1.64%*	*-7.28%*
% of shareholders' equity	*0.70%*	*-3.09%*

With regard to the economic value, the estimated impact of the change with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, showed a risk exposure for 2013 that has been maintained at levels that do not result in significant impacts on total capital.

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

Risk ratios: parallel shifts in the yield curve at 31.12.2013

	+100 bps	*-100 bps*
% of the economic value	*-1.96%*	*2.22%*

1.2.3. EXCHANGE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

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

The Group is marginally exposed to foreign exchange risk. As regards only the Italian banks, forex operations are managed by the Operations Room of the Parent Company's Finance Department.

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

B. Hedging of exchange risk

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

Quantitative information

1. Distribution by currency of denomination of assets, liabilities and derivatives

Captions	US Dollar	Pound Sterling	Yen	Canadian Dollar	Swiss Franc	Other currencies
A. Financial assets	**87,185**	**3,467**	**3,551**		**52,838**	**2,264**
A.1 Debt securities						
A.2 Equity instruments						
A.3 Loans to banks	65,326	2,261	371		50,952	2,263
A.4 Loans to customers	21,859	1,206	3,180		1,886	1
A.5 Other financial assets						
B. Other assets	**269**	**231**	**9**		**646**	**47**
C. Financial liabilities	**87,159**	**3,356**	**3,940**		**3,563**	**2,135**
C.1 Due to banks	7,252	720	3,684			3
C.2 Due to customers	79,907	2,636	256		3,563	2,132
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities	**362**	**52**			**962**	
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other						
+ Long positions	38,387	19,435	2,934		117	2,013
+ Short positions	38,031	19,489	2,679		114	2,032
Total assets	**(125,841)**	**(23,133)**	**(6,494)**		**(53,601)**	**(4,324)**
Total liabilities	**125,552**	**22,897**	**6,619**		**4,639**	**4,167**
Net balance (+/-)	**(289)**	**(236)**	**125**		**(48,962)**	**(157)**

2. Internal models and other methodologies for the analysis of sensitivity

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

1.2.4 Financial instruments

A. Financial derivatives

A.1 Regulatory trading book: notional values at the end of period and average notional values

Underlying assets/Type of derivatives	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
2. Equities and equity indices		**33**		**15**
a) Options		33		15
b) Swap				
c) Forward				
d) Futures				
e) Other				
3. Currency and gold	**115,222**		**93,798**	
a) Options				
b) Swap				
c) Forward	115,222		93,798	
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**115,222**	**33**	**93,798**	**15**
Average amounts	**8,774**	**33**	**5,293**	**15**

A.2 Banking book: period-end notional values

A.2.1 Hedging

Underlying assets/Type of derivatives	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**189,217**		**281,637**	
a) Options				
b) Swap	189,217		281,637	
c) Forward				
d) Futures				
e) Other				
2. Equities and equity indices				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
3. Currency and gold				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**189,217**		**281,637**	
Average amounts	**189,217**		**239,970**	

A.2.2 Other derivatives

Underlying assets/Type of derivatives	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**103,700**		**103,700**	
a) Options	65,800		65,800	
b) Swap	37,900		37,900	
c) Forward				
d) Futures				
e) Other				
2. Equities and equity indices				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
3. Currency and gold				
a) Options				
b) Swap				
c) Forward				
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total	**103,700**		**103,700**	
Average amounts	**103,700**		**103,700**	

A.3 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Positive fair value			
	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**497**	**33**	**309**	**15**
a) Options		33		15
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards	497		309	
f) Futures				
g) Other				
B. Banking book - hedging	**5,052**		**9,005**	
a) Options				
b) Interest rate swaps	5,052		9,005	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives	**1,541**		**2,125**	
a) Options				
b) Interest rate swaps	1,541		2,125	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**7,090**	**33**	**11,439**	**15**

A.4 Financial derivatives: positive gross fair value – breakdown by product

Portfolio/Type of derivatives	Negative fair value			
	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Trading portfolio for supervisory purposes	**480**		**300**	
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards	480		300	
f) Futures				
g) Other				
B. Banking book - hedging	**2,894**		**6,696**	
a) Options				
b) Interest rate swaps	2,894		6,696	
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book - other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity Swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**3,374**		**6,996**	

A.5 OTC financial derivatives - regulatory trading book: notional values, positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
2. Equities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
3. Currency and gold							
- notional value			56,973	42,998		10,239	5,012
- positive fair value			336	26		127	9
- negative fair value			138	300		15	28
- future exposure			628	430		161	50
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							

A.6 OTC financial derivatives - trading portfolio for supervisory purposes: notional values, positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements

There are no such credit exposures at the reporting date.

A.7 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements

There are no such credit exposures at the reporting date.

A.8 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements

Contracts that form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1. Debt securities and interest rates							
- notional value			292,917				
- positive fair value			6,593				
- negative fair value			2,894				
2. Equities and equity indices							
- notional value							
- positive fair value							
- negative fair value							
3. Currency and gold							
- notional value							
- positive fair value							
- negative fair value							
4. Other instruments							
- notional value							
- positive fair value							
- negative fair value							

A.9 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Trading portfolio for supervisory purposes	**112,322**	**2,900**		**115,222**
A.1 Financial derivatives linked to debt securities and interest rates				
A.2 Financial derivatives linked to equities and stock indices				
A.3 Financial derivatives linked to exchange rates and gold	112,322	2,900		115,222
A.4 Financial derivatives linked to other instruments				
B. Banking book	**167,500**	**125,417**		**292,917**
B.1 Financial derivatives linked to debt securities and interest rates	167,500	125,417		292,917
B.2 Financial derivatives linked to equities and stock indices				
B.3 Financial derivatives linked to exchange rates and gold				
B.4 Financial derivatives linked to other instruments				
Total 31.12.2013	**279,822**	**128,317**		**408,139**
Total 31.12.2012	**219,118**	**240,017**	**20,000**	**479,135**

B. Credit derivatives

B.1 Credit derivatives: notional values at the end of period and average notional values

Type of transaction	Trading portfolio for supervisory purposes		Banking book – other contracts	
	on a single entity	on baskets of entities	on a single entity	on baskets of entities
1. Purchases of protection				
a) Credit default products				
b) Credit spread products				
c) Total rate of return swaps				
d) Other				
Total 31.12.2013				
Average amounts				
Total 31.12.2012				
2. Sales of protection				
a) Credit default products	25,000			
b) Credit spread products				
c) Total rate of return swaps				
d) Other				
Total 31.12.2013	**25,000**			
Average amounts	**25,000**			
Total 31.12.2012	**25,000**			

B.2 OTC credit derivatives: positive gross fair value - breakdown by product

Portfolio/Type of derivatives	Positive fair value	
	31.12.2013	31.12.2012
A. Trading portfolio for supervisory purposes	164	
a) Credit default products	164	
b) Credit spread products		
c) Total rate of return swaps		
d) Other		
B. Banking book		
a) Credit default products		
b) Credit spread products		
c) Total rate of return swaps		
d) Other		
Total	**164**	

B.3 OTC credit derivatives: negative gross fair value - breakdown by product

Portfolio/Type of derivatives	Negative fair value	
	31.12.2013	31.12.2012
A. Trading portfolio for supervisory purposes		176
a) Credit default products		176
b) Credit spread products		
c) Total rate of return swaps		
d) Other		
B. Banking book		
a) Credit default products		
b) Credit spread products		
c) Total rate of return swaps		
d) Other		
Total		**176**

B.4 OTC credit derivatives: positive and negative gross fair values by counterparty - contracts that do not form part of compensation arrangements

Contracts that do not form part of compensation arrangements	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
Regulatory trading							
1. Purchase of protection							
- notional value							
- positive fair value							
- negative fair value							
- future exposure							
2. Sale of protection							
- notional value			25,000				
- positive fair value			164				
- negative fair value							
- future exposure			2,500				
Banking book							
1. Purchase of protection							
- notional value							
- positive fair value							
- negative fair value							
2. Sale of protection							
- notional value							
- positive fair value							
- negative fair value							

B.5 OTC credit derivatives: positive and negative gross fair values by counterparty - contracts that form part of compensation arrangements

There are no such contractual arrangements at the reporting date.

B.6 Residual life of credit derivatives: notional values

Underlying/Residual life		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Trading portfolio for supervisory purposes			**25,000**		**25,000**
A.1 Credit derivatives with qualified reference obligation			25,000		25,000
A.2 Credit derivatives with unqualified reference obligation					
B. Banking book					
B.1 Credit derivatives with qualified reference obligation					
B.2 Credit derivatives with unqualified reference obligation					
Total	**31.12.2013**		**25,000**		**25,000**
Total	**31.12.2012**		**25,000**		**25,000**

C. Financial and credit derivatives

C.1 OTC Financial and credit derivatives: net fair values and future exposure by counterparty

	Government and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other parties
1) Bilateral financial derivative			**8,207**				
- positive fair value			5,953				
- negative fair value			2,254				
- future exposure							
- net counterparty risk							
2) Bilateral credit derivative							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							
3) Cross product agreements							
- positive fair value							
- negative fair value							
- future exposure							
- net counterparty risk							

1.3. Banking Group - Liquidity risk

Qualitative information

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Parent Company's Finance Department with the aim of verifying the Group's ability to meet liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market. The Group's governance model is based on the Parent Company's system of centralised liquidity management on behalf of the Italian commercial banks, for which the Parent Company is also responsible for funding.

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

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

The *counterbalancing capacity* model allows us to integrate the report with all of the free assets that can readily be used, both to be eligible for refinancing with the ECB and to be sold. Next to the application of haircuts determined by the ECB for eligible securities, appropriate discount factors are prepared (divided by type of security, rating and currency), also for all securities not eligible, but still considered marketable if appropriately positioned in time buckets.

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

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

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

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

- outflow from overdrafts repayable on demand considered non core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) due to unpaid instalments;
- decrease in value of the owned securities portfolio (Available for Sale – AFS);
- repurchase of Bonds issued by the Group;
- use of available facilities for revocable lines of credit (call risk);
- increase in haircuts applied to eligible owned securities that fall within ECB Category I (government bonds).

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

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

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

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

Quantitative information

1. Distribution of financial assets and liabilities by residual contractual duration - Currency: EURO

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**1,557,148**	**42,958**	**130,285**	**314,310**	**517,736**	**429,054**	**851,755**	**2,846,422**	**2,144,021**	**92,174**
A.1 Government securities					5,807	106,790	409,862	615,470	360,000	
A.2 Other debt securities	99			228	107	18,607	586	90,400	6,176	86
A.3 UCITS units	25,906									
A.4 Loans	1,531,143	42,958	130,285	314,082	511,822	303,657	441,307	2,140,552	1,777,845	92,088
- Banks	60,035									92,088
- Customers	1,471,108	42,958	130,285	314,082	511,822	303,657	441,307	2,140,552	1,777,845	
Cash liabilities	**4,330,612**	**327,619**	**73,219**	**265,541**	**500,609**	**420,422**	**445,327**	**1,755,232**	**2,000**	
B.1 Current accounts and deposits	4,304,627	38,173	62,125	173,778	210,103	148,154	117,636	14,828		
- Banks	20,458									
- Customers	4,284,169	38,173	62,125	173,778	210,103	148,154	117,636	14,828		
B.2 Debt securities	3,903	14,473	11,043	91,673	289,444	219,468	325,990	1,337,731	2,000	
B.3 Other liabilities	22,082	274,973	51	90	1,062	52,800	1,701	402,673		
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions		5,168	805	48,617	3,604	2,094	2,574	1,711		
- Short positions		7,109	805	48,619	3,582	854	2,563	1,558		
C.2 Financial derivatives without exchange of capital										
- Long positions				550	1,420	460	1,440			
- Short positions					201	25	134			
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions	(485)				(500)		(2,387)	(54,774)	(33,323)	
- Short positions	91,468									
C.5 Financial guarantees given	108			11	27	43	155	7,815		
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	(164)									
- Short positions										

1. Distribution of financial assets and liabilities by residual contractual duration - Currency: US DOLLAR

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**31,729**	**8,009**	**10,354**	**33,039**	**4,319**	**2**			**11**	
A.1 Government securities										
A.2 Other debt securities									11	
A.3 UCITS units										
A.4 Loans	31,729	8,009	10,354	33,039	4,319	2				
- Banks	30,799	7,274	6,937	20,347						
- Customers	930	735	3,417	12,692	4,319	2				
Cash liabilities	**72,974**		**14,189**							
B.1 Current accounts and deposits	72,974		14,189							
- Banks			7,253							
- Customers	72,974		6,936							
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital		6,804	1,591	52,359	6,037	1,694	5,032	2,900		
- Long positions		3,580	795	26,187	3,011	847	2,516	1,450		
- Short positions		3,224	796	26,172	3,026	847	2,516	1,450		
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions		(340)								
- Short positions		340								
C.5 Financial guarantees given										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

1. Distribution of financial assets and liabilities by residual contractual duration - Currency: SWISS FRANC

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	**42,507**		**9,354**	**677**	**345**					
A.1 Government securities										
A.2 Other debt securities										
A.3 UCITS units										
A.4 Loans	42,507		9,354	677	345					
- Banks	42,433		8,553							
- Customers	74		801	677	345					
Cash liabilities	**3,597**									
B.1 Current accounts and deposits	3,597									
- Banks										
- Customers	3,597									
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital		231								
- Long positions		117								
- Short positions		114								
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions		(23)								
- Short positions		23								
C.5 Financial guarantees given	217									
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

1. Distribution of financial assets and liabilities by residual contractual duration - Currency: AUSTRALIAN DOLLAR

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	**73**									
A.1 Government securities										
A.2 Other debt securities										
A.3 UCITS units										
A.4 Loans	73									
- Banks	73									
- Customers										
Cash liabilities	**73**									
B.1 Current accounts and deposits	73									
- Banks										
- Customers	73									
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions										
- Short positions										
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions										
- Short positions										
C.5 Financial guarantees given										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

1. Distribution of financial assets and liabilities by residual maturity - Currency: JAPANESE YEN

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	**652**		**2,505**	**404**	**10**					
A.1 Government securities										
A.2 Other debt securities										
A.3 UCITS units										
A.4 Loans	652		2,505	404	10					
- Banks	371									
- Customers	281		2,505	404	10					
Cash liabilities	**256**		**3,684**							
B.1 Current accounts and deposits	256		3,684							
- Banks			3,684							
- Customers	256									
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions		**478**		**5,134**						
C.1 Financial derivatives with exchange of capital		478		5,134						
- Long positions		366		2,567						
- Short positions		112		2,567						
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions		(2)								
- Short positions		2								
C.5 Financial guarantees given										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

1. Distribution of financial assets and liabilities by residual contractual duration - Currency: OTHER CURRENCIES

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**2,154**									
A.1 Government securities										
A.2 Other debt securities										
A.3 UCITS units										
A.4 Loans	2,154									
- Banks	2,153									
- Customers	1									
Cash liabilities	**2,024**			**3**						
B.1 Current accounts and deposits	2,024			3						
- Banks				3						
- Customers	2,024									
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions		**1,320**		**1,666**	**1,060**					
C.1 Financial derivatives with exchange of capital		1,320		1,666	1,060					
- Long positions		650		833	530					
- Short positions		670		833	530					
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions										
- Short positions										
C.5 Financial guarantees given										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

1. Distribution of financial assets and liabilities by residual contractual duration - Currency: POUND STERLING

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	**1,178**		**157**	**428**	**1,710**					
A.1 Government securities										
A.2 Other debt securities										
A.3 UCITS units										
A.4 Loans	1,178		157	428	1,710					
- Banks	605				1,658					
- Customers	573		157	428	52					
Cash liabilities	**966**		**720**		**1,672**					
B.1 Current accounts and deposits	966		720		1,672					
- Banks			720							
- Customers	966				1,672					
B.2 Debt securities										
B.3 Other liabilities										
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions		693		18,742						
- Short positions		747		18,742						
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Irrevocable commitments to grant finance										
- Long positions										
- Short positions										
C.5 Financial guarantees given										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

1.4 Banking Group – Operational risk

Qualitative information

A. General aspects, management and measurement of operational risk

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

The Banco Desio e della Brianza Group uses the above definition of operational risk within the operational risk management model approved and formalised in the course of 2013.

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

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

II. Measurement: economic measurement of operational risks linked to the Bank's operations;

III. Monitoring and reporting: collection and structured organisation of the results in order to monitor the evolution of operational risk exposure;

IV. Mitigation and control: 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 (active since 2007);
- Risk Self Assessment – structured process for the measurement of operational risks designed to have complete vision of risk events in terms of the potential impact and the worst case impact.

With respect to the detrimental events gathered in the Corporate Database of Operational Losses (DBPOA), a reporting system was implemented some time ago that is capable of providing senior management with information (at aggregate level and in detail) concerning the events in question: number of events, amount of losses, gross and net of any recoveries, at predefined intervals.

In the course of 2013, the reporting was supplemented with the results from the Risk Self Assessment process and, in compliance with internal regulations, was sent to all the control functions and to the main operational functions.

For risk management of criminal offences pursuant to Legislative Decree 231/2001 “Regulation of the administrative liability of legal entities, companies and associations with or without legal personality”, the Group has adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned, in compliance with the law and with guidance provided by relevant trade associations, to specific bodies.

In the course of 2013, this model was further updated to take account of new underlying offences (improper induction to give or promise utility, private bribery and employment of illegal workers), of changes made to the organisation chart and of new internal regulations.

As regards the management of risks impacting the Group's business continuity, a Business continuity plan has been prepared: some time ago, measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), a Disaster Recovery website was prepared, as an alternative to that for normal business operations, to be used in the event of an emergency and for the performance of related testing. Furthermore, in the course of 2013, the measures adopted for business continuity management and for the oversight of the IT provider were updated.

The Banco Desio e della Brianza Group, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions. A summary table of legal disputes with the related provisions and a listing of the major lawsuits is shown below:

<u>CLAW-BACK SUITS</u>

Number	12
Claim	Euro 4.619 million
Provision	Euro 1.352 million

OTHER LAWSUITS

Number	174
Claim	Euro 84.983 million
Provision	Euro 8.284 million

SIGNIFICANT LAWSUITS (CLAIMS HIGHER THAN EURO 1 MILLION)

- Plaintiff FAIRFIELD: claim Euro 2.692 million. Judicial procedure initiated by Fairfield Sentry Limited Fund brought before the United States Bankruptcy Court for the Southern District of New York against Banco di Desio e della Brianza S.p.A. in its capacity as custodian bank of a mutual fund managed by an Italian asset management company. This legal action is aimed at the recovery of payments made between 2005 and 2008 of a total amount of $3,853,221.77 by Fairfield Fund (put into liquidation as a result of the well known events involving Bernard L. Madoff) to Banco di Desio e della Brianza S.p.A. (in its capacity as custodian bank) on behalf of the aforementioned mutual fund. Banco di Desio e della Brianza S.p.A. acted as a mere intermediary in the relationship between Fairfield Fund and the aforementioned mutual fund;
- Claim Euro 1.150 million. The counterparty opposed our injunction with a simultaneous counterclaim for a total amount of Euro 1.150 million. During the hearing, the court appointed expert witness declared that Banco di Desio e della Brianza S.p.A. had acted correctly. The judgement of the Court of First Instance, which went in favour of Banco di Desio e della Brianza S.p.A., was appealed against. The decision of the Court of Appeal was to reject the counterparty's appeal and to fully accept the motives submitted in defence of Banco di Desio e della Brianza S.p.A. However, Banco di Desio e della Brianza S.p.A. will continue to appear in court (next hearing October 2014). The process has commenced for the seizure of the asset associated with the mortgage loan (asset on which a lien has been granted as collateral for expenses incurred for the judgement of the Court of First Instance);
- Claim Euro 45.608 million. By writ of summons, the counterparty in Extraordinary Administration brought legal proceedings against Banco di Desio e della Brianza S.p.A. and 18 other banks, with which it had current accounts, seeking an order for payment, jointly and severally, of an amount of Euro 45.608 million as compensation for damages for predatory lending and for the payment of damages attributable to each defendant. Banco di Desio e della Brianza S.p.A. appeared before the court. The court issued judgement in 2011 stating that the plaintiff lacked the capacity to sue and offset the litigation costs. By writ of summons, the counterparty appealed against the above mentioned judgement, resubmitting substantially the same arguments as those put before the Court of First Instance. Having duly appeared before the court, the case was adjourned, with closing arguments to be presented at the hearing scheduled for 2.10.2014;
- Claim: Euro 2.000 million. By writ of summons, the counterparty brought legal proceedings against Banco di Desio e della Brianza S.p.A. to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered Banco di Desio e della Brianza S.p.A. to return an amount that was lower than the claim. The counterparty lodged an appeal. Banco di Desio e della Brianza S.p.A., in order to avoid notification of a payment injunction, paid the amount fixed by the judgement made by the Court of First Instance, comprising capital, interest and legal fees, subject to restitution based on the outcome of the appeal proceedings. The case was adjourned, with closing arguments to be presented at the hearing scheduled for 6.11.2014;
- Claim Euro 1.103 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by Banco di Desio e della Brianza S.p.A. and leased to the counterparty plus amounts paid into a current account. The receiver is of the belief that the payments were made by abnormal means (art. 65 of the Bankruptcy Law) since the cheques that were cashed were made out to the counterparty and not to Banco di Desio e della Brianza S.p.A. The Court of First Instance's judgement went completely in

favour of Banco di Desio e della Brianza S.p.A., but the receiver lodged an appeal, prior to the deadline, with the Milan Court of Appeal. The first hearing is scheduled for 26 April 2014;

- Claim Euro 2.784 million. This case was initiated with a writ of summons which contested the application of interest that was higher than legal and usury rates and which made a claim for expenses, recognition of value dates and for fees and commissions that were never agreed. The judge appointed an expert witness who will have the task of verifying the movements since the account was opened up to the current date. The next hearing, which is scheduled for 6 March 2014, will see the swearing in of the court appointed expert witness and the cross examination thereof. The expert appraisal will not take less than 12 to 18 months;
- Claim Euro 1.565 million. This case was initiated with a writ of summons which contested the application of interest that was higher than legal and usury rates and which made a claim for expenses, recognition of value dates and for fees and commissions that were never agreed. The judge appointed an expert witness who will have the task of verifying the movements since the account was opened up to the current date. The next hearing, which is scheduled for 6 March 2014, will see the swearing in of the court appointed expert witness and the cross examination thereof. The expert appraisal will not take less than 12 to 18 months.
- Claim Euro 10.000 million. Banco Desio Lazio S.p.A. has obtained an injunction for the payment of an overdraft. The company opposed the aforementioned injunction by asking, in addition to the withdrawal of the injunction, for the payment by Banco Desio Lazio S.p.a. of an amount of Euro 10 million for damages sustained by way of capital reduction and for damage to the company's reputation. The claim for damages was justified by the counterparty as a consequence of an illegitimate withdrawal of banking facilities and for having been consequently reported to Central Risks. Subsequent to its opposition, the company was declared bankrupt, but the case was taken up by the receiver for the continuation of the proceedings. The preliminary proceedings ended with the testimony of the witnesses called by Banco Desio Lazio S.p.A. The counterparty decided not to hear the testimony of its witnesses. The case was adjourned, with closing arguments to be presented at the hearing scheduled for 21.1.2016.

*** * ***

Lastly, it should be noted that the criminal proceedings (case no. 22698/08 RGNR - Public Prosecutor at the Court of Rome) against, among others, former officers of Credito Privato Commerciale S.A. (CPC) and Banco Desio Lazio, with reference to which, at the hearing held on 24 January 2014, the Court of Rome upheld the application for settlement presented by the aforementioned companies, which are involved in these proceedings in connection with the administrative liability of legal persons pursuant to Legislative Decree 231/2001. The payment made for the settlement had no impact on the income statement as the amount had been fully provided for.

TAX LITIGATION

We have the following to say about the Group's outstanding litigation with the Tax Authorities.

As regards the notices of assessment relating to 2006 (with respect to IRES, IRAP and VAT) and 2007 (with respect to IRAP and VAT), which were disclosed in the explanatory notes to the 2012 financial statements, on 4 December an out of court settlement was finalised between Banco di Desio e della Brianza S.p.A. and the tax authorities, pursuant to paragraph comma 5 of art. 48 of Legislative Decree 546/1992. In particular, as far as VAT is concerned, the settlement reflects the terms and conditions of an agreement reached between the Italian Banking Association and the Tax Authorities on the taxation of fees charged by banks to asset management companies for custodian bank services, formalised by the Revenue Agency Resolution no. 97/E of 17 December 2013. The amounts agreed upon by the settlement were paid in full by the Bank on 6 December. On 9 December 2013, with reference to 2006, and on 16 December 2013, in respect of 2007, the Milan Provincial Tax Commissioners, having acknowledged the settlement reached by the parties, announced that they had dropped their case. The amounts agreed with the Tax Authorities were the following:

Year	Tax	Additional tax	Penalties	Interest	Total paid
2006	VAT	278		60	338
	Ires	208	97	51	356
	Irap	31	15	8	54
2007	VAT	352		67	419
Total		869	112	186	1,167

The VAT amounts paid of Euro 757 thousand were recharged to the asset management companies in accordance with the provisions of art. 60 para. 7 of Presidential Decree 633/72. The amounts relating to IRES and IRAP of Euro 411 thousand were recognised as costs debited to the provision for risks and charges that had been set up in prior years.

The tax inspection carried out by the Tax Police at the Parent Company, as disclosed in the notes to the 2011 and 2012 financial statements, was completed on 22 May 2013.

The irregularities pointed out in the official report of findings drawn up at the end of the inspection relate:

- for VAT purposes, as for the findings already reported for 2006 and 2007, to the failure to tax the commission earned in 2008, 2009 and 2010 for acting as the custodian bank for various mutual funds;
- for IRES purposes, for 2008, to the incorrect deduction of write-downs and loan losses, as they did not pertain to the period.

On 27 December 2013 the Lombardy regional tax office issued the Parent Company with notices of assessment relating to 2008, for IRES and VAT, based on the minutes of findings of the Tax Police of 22 May 2013. The amounts assessed by the tax office are the following:

	Additional tax	Penalties	Interest	Total
IRES (non-deductible write-downs and loan losses)	251	251	40	542
VAT (custodian bank fees)	343		57	400
Total	594	251	97	942

With reference to the notice of assessment in respect of IRES, the Bank filed a tax settlement proposal requesting the offset of the additional taxation assessed, as provided for by the Revenue Agency Circular no. 31/E of 2 August 2012, in addition to the annulment of part of the amount assessed relating to loan losses.

On 14 January 2014, Banco di Desio e della Brianza S.p.A. complied with the assessment with respect to VAT, by accepting the findings and by paying the amounts assessed in full. Pursuant to art. 60 para. 7 of Presidential Decree 633/72, it will attempt to recover the amounts paid from the customers in question.

During the course of this inspection, the Tax Police began an audit on the foreign subsidiaries Brianfid SA in liquidation, CPC SA in liquidation and Rovere SdG.

At the end of this process, on 9 May 2013 the tax inspectors issued three separate reports of findings for allegedly claiming foreign status without justification. On July 2013, the Bank's observations on the reports of findings were presented to the relevant Revenue Agency pursuant to art. 12, paragraph 7, of Law no. 212/2000.

On 18 December 2013, the Monza and Brianza Regional Tax Office issued Mr. Broggi (General Manager of the Bank, whose employment relationship has since been terminated), in his capacity as de facto director of the foreign subsidiaries, with the following notices of assessment relating to Brianfid SA in liquidation, with reference to the 2003 tax year and relating to CPC SA in liquidation, in relation to the tax years from 2001 to 2004 (amounts in Euro/1000):

Company	Tax year	Tax	Additional tax	Penalties	Interest	Total
Brianfid	2003	Irpeg	580	697	171	1,448
	2003	Irap	84		25	109
CPC	2001	Irpeg	571	686	212	1,469
	2001	Irap	135	161	50	346
	2002	Irpeg	336	404	108	848
	2002	Irap	130	156	42	328
	2003	Irpeg	341	442	100	883
	2003	Irap	144		42	186
	2004	Ires	396		106	502
	2004	Irap	147		39	186
Total			2,864	2,546	895	6,305

With respect to the above assessments, on 9 January 2014, applications, which were signed by Mr. Broggi, were filed for annulment in self defence and for a tax settlement proposal.

With reference to the aforementioned reports of findings relating to having allegedly claimed foreign status without justification, it cannot be excluded that additional assessments could be issued in relation to tax years not yet assessed.

In view of the aforementioned reports of findings and notices of assessment, the Parent Company, assisted by its tax advisors, has deemed it appropriate to increase the provision for risks and charges to cover the costs that could arise, inclusive of the related management costs.

Quantitative information

The number of detrimental events recorded by the Group in the course of 2013 comes to 518. The result of the process of collecting adverse events is summarised in the table below:

Event type	No. events	% events	Gross loss	% of total	Net loss	% of total	Recoveries	% recoveries
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	73	14.09%	993	9.74%	948	22.14%	45	95.48%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	1	0.19%	2	0.02%	2	0.04%	-	100.00%
RELATIONAL ACTIVITY CONNECTED TO CUSTOMERS, PRODUCTS AND CHANNELS Losses due to inability (not intentional or negligent) to fulfil professional commitments taken with customers (including fiduciary requirements and adequate information on investments)	73	14.09%	4,263	41.80%	4,263	99.49%	-	100.00%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	10	1.93%	13	0.12%	5	0.11%	8	36.40%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	10	1.93%	40	0.39%	24	0.55%	16	59.76%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	351	67.76%	4,887	47.93%	4,285	100.00%	602	87.68%
TOTAL	**518**	**100.00%**	**10,197**	**100.00%**	**9,526**	**222.32%**	**671**	**6.58%**

The gross operating loss comes to Euro 10.18 million, for which prudent provisions were made during the year of Euro 7.9 million. Of the total gross loss, an amount was recovered of Euro 0.67 million, resulting in a net loss of Euro 9.53 million.

Part F - INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY

A. Qualitative information

The Banco Desio Group pays a great deal of attention to its own capital, being well aware both of its function as a factor in defence of the trust of external funders, as it can be used to absorb losses, and of its importance for purely operational and business development purposes.

A good level of capitalisation allows us to address the question of business development with the necessary degree of autonomy and to preserve the stability of the Group.

The policy of the Parent Company, Banco Desio, is therefore to assign a considerable priority to capital to use it in the best way possible in expanding the business.

The concept of book equity used by the Group is given by the sum of the following liability captions: share capital, valuation reserves, reserves, share premium reserve and net profit (loss) for the period.

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by business type

	Banking Group	Insurance companies	Other businesses	Consolidation adjustments and eliminations	31.12.13
1. Share capital	67,805	(4,054)		4,054	67,805
2. Share premium reserve	16,145	29		(29)	16,145
3. Reserves	711,880	4,025		(5,220)	710,685
4. Equity instruments					
5. (Treasury shares)					
6. Valuation reserves	28,810			390	29,200
- Financial assets available for sale	2,174				2,174
- Property, plant and equipment					
- Intangible assets					
- Foreign investment hedges					
- Cash-flow hedges					
- Exchange differences	4,703				4,703
- Non-current assets and disposal groups held for sale					
- Actuarial gains (losses) on defined-benefit pension plans	(963)				(963)
- Portion of valuation reserves relating to investments carried at equity				390	390
- Special revaluation laws	22,896				22,896
7. Net profit (loss)	(4,972)			74	(4,898)
Total	**819,668**			**(731)**	**818,937**

B.2 Valuation reserves for financial assets available for sale: breakdown

Assets/Amounts		Banking Group		Insurance companies		Other businesses		Consolidation adjustments and eliminations		Total	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		4,308	(2,728)							4,308	(2,728)
2. Equity instruments		397								397	
3. UCITS units		405	(208)							405	(208)
4. Loans											
Total	**31.12.13**	**5,110**	**(2,936)**							**5,110**	**(2,936)**
Total	**31.12.12**	**8,248**	**(6,508)**	**97**						**8,345**	**(6,508)**

B.3 Valuation reserves pertaining to financial assets available for sale: changes in the year

	Debt securities	Equity instruments	UCITS units	Loans
1. Opening balance	**1,000**	**158**	**679**	
2. Positive changes	**9,375**	**239**	**278**	
2.1 Fair value increases	4,069	239	214	
2.2 Reversal to income statement of negative reserves	2,040		64	
- from impairment	190			
- from disposals	1,850		64	
2.3 Other changes	3,266			
3. Negative changes	**(8,601)**		**(760)**	
3.1 Fair value decreases	(1,640)		(203)	
3.2 Impairment adjustments				
3.3 Reversal to income statement from positive reserve: from disposals	(7,002)		(556)	
3.4 Other changes	41		(1)	
4. Closing balance	**1,774**	**397**	**197**	

SECTION 2 – CAPITAL AND CAPITAL ADEQUACY RATIOS

2.1 Scope of application and regulations

The scope of consolidation, defined in accordance with prudential regulations (Circulars 263 and 155 of the Bank of Italy), includes companies that have the following characteristics:

- banking, financial and product/service companies, directly or indirectly controlled by the Parent Company and consolidated on a line-by-line basis;
- companies, other than banking, financial and product/service companies, controlled directly or indirectly by the Parent Company exclusively or jointly, or subject to significant influence; the equity method is applied to these companies.

The banking and financial companies carried at equity and other qualifying companies, owned directly or indirectly by the Parent Company in excess of 10%, are deducted from regulatory capital: 50% from Tier 1 capital and the other 50% from Tier 2 capital; the difference at the date of first-time application of the equity method between the carrying amount of the investment and the corresponding share of the company's equity is all deducted from Tier 1 capital. The book value of companies other than those in banking and finance, and of banking companies with an interest equal to or less than 10%, is included in risk-weighted assets.

Within the Banking Group, there are no restrictions or impediments to the transfer of capital resources between Group companies.

2.2 Capital for supervisory purposes

A. Qualitative information

The Banco Desio Group pays a great deal of attention to the concept of capital for supervisory purposes. The determination of regulatory capital is undoubtedly important given the centrality of this aggregate for the checks carried out by the authorities to ensure the stability of the banking system. In fact, on it are based the most important instruments of control, such as the solvency ratio and minimum capital requirements for risks, the rules on risk concentration and the transformation of maturities.

At 31 December 2013, the consolidated regulatory capital of the Banco Desio Group is as follows:

description	31.12.2013	31.12.2012
Tier 1 capital	€ 750,002	€ 748,582
Tier 2 capital	€ 73,319	€ 79,079
Amounts to be deducted	€ -	€ -
Capital for supervisory purposes	€ 823,321	€ 827,661

1. Tier 1 capital

Share capital, share premium reserve, reserves, undistributed profits of the period and innovative capital instruments are the most important elements. Negative elements, primarily consisting of intangible assets, goodwill and the deductions arising from the application of prudential filters, are subtracted from these positive elements.

Tier 1 capital represents 91% of regulatory capital.

2. Tier 2 capital

Valuation reserves, innovative capital instruments not included in Tier 1 capital, hybrid capital instruments, subordinated liabilities and net capital gains on investments are the main positive elements of Tier 2 capital. The deductions foreseen by the application of prudential filters are subtracted from these positive elements.

Tier 2 capital is equal to about 9% of regulatory capital.

3. Tier 3 capital

It is made up of the share of subordinated liabilities not calculated in Tier 2 capital because over 50% of Tier 1 capital before items to be deducted and Tier 3 subordinated liabilities. This aggregate can only be used to cover the capital requirements for market risks up to a maximum of 71.4% of such risks.

B. Quantitative information

	31/12/2013	31/12/2012
A. Core capital (Tier 1 capital before the application of prudential filters)	755,057	758,643
B. Prudential filters of Tier 1 capital:	- 1,114	- 2,871
B1 - positive IFRS prudential filters (+)	-	-
B2 - negative IFRS prudential filters (-)	1,114	2,871
C. Tier 1 capital gross of items to be deducted (A+B)	753,943	755,772
D. Items to be deducted from Tier 1 capital	3,941	7,190
E. Total Tier 1 capital (C-D)	750,002	748,582
F. Supplementary capital (Tier 2 capital before the application of prudential filters)	78,347	87,139
G. Prudential filters for Tier 2 capital:	- 1,087	- 870
G1- positive IFRS prudential filters (+)	-	-
G2- negative IFRS prudential filters (-)	1,087	870
H. Tier 2 capital gross of items to be deducted (F+G)	77,260	86,269
I. Items to be deducted from Tier 2 capital	3,941	7,190
L. Total Tier 2 capital (H-I)	73,319	79,079
M. Items to be deducted from Tier 1 and Tier 2 capital	-	-
N. Capital for supervisory purposes (E+L-M)	823,321	827,661
O. Tier 3 capital	-	-
P. Capital for supervisory purposes including Tier 3 (N+O)	823,321	827,661

2.3 Capital adequacy

A. Qualitative information

This capital structure results in the following ratios:

- Tier 1 capital/risk-weighted assets 11.82%
- capital for supervisory purposes/risk-weighted assets 12.97%

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

The new harmonised framework for banks and investment firms contained in EU Regulation ("CRR") and Directive ("CRD IV") of 26.6.2013 is applicable from 1 January 2014; it transposes the standards defined by the Basel Committee on Banking Supervision (the so-called "Basel 3 Framework") into the European Union. The Basel Committee has sought to improve the resilience of the banking system by pursuing - among other things - the objective to raise the quality of capital for supervisory purposes in order to increase the banks' ability to absorb losses. In particular, the new provisions enhance the importance of *ordinary* shares as a component of capital and extend and harmonise the list of *amounts to be deducted* and of *prudential adjustments.*

An assessment of the Group's capital adequacy in accordance with the new criteria gives a ratio of Common Equity Tier 1 to Risk Weighted Assets of 12.14%.

B. Quantitative information

Description/Amounts	Unweighted amounts		Weighted amounts/Requirements	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
A. ASSETS AT RISK				
A.1 CREDIT AND COUNTERPARTY RISK	**9,287,849**	**8,673,677**	**5,688,831**	**5,535,372**
1. STANDARDISED METHODOLOGY	9,287,251	8,673,125	5,688,233	5,534,820
2. METHODOLOGY BASED ON INTERNAL RATINGS				
2.1 Basic				
2.2 Advanced				
3. SECURITISATIONS	598	552	598	552
B. CAPITAL ADEQUACY REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			**455,106**	**442,830**
B.2 MARKET RISKS			**1,705**	**1,872**
1. STANDARDISED METHODOLOGY			1,705	1,872
2. INTERNAL MODELS				
3. CONCENTRATION RISK				
B.3 OPERATIONAL RISK			**51,004**	**49,841**
1. BASIC APPROACH			51,004	49,841
2. STANDARDISED APPROACH				
3. ADVANCED APPROACHES				
B.4 OTHER REQUIREMENTS			0	0
B.5 TOTAL PRECAUTIONARY REQUIREMENTS			**507,815**	**494,543**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**6,347,694**	**6,181,785**
C.2 Tier 1 capital/Risk-weighted assets			11.82%	12.11%
(Tier 1 capital ratio)				
C.3 Capital for supervisory purposes including Tier 3/Risk-weighted assets			12.97%	13.39%
(Total capital ratio)				

Part H - TRANSACTIONS WITH RELATED PARTIES

1 - Information on the remuneration of directors and managers

For information on the remuneration paid to directors and managers with strategic responsibilities, please refer to the "Report on the Group's Remuneration Policies" prepared in accordance with art. 123-ter CFA, as well as to section "Equity-based payments", with reference to the Group's stock grant and stock options plans.

2 - Related party disclosures

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

Given that, pursuant to art. 5 of Consob Regulation 17221/2010 and art. 154-ter of the CFA, periodic information has to be provided:
a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation[1];
b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Group;
c) on changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Group during the period,

there have been no transactions worth mentioning.

Transactions with related parties are generally adjusted at market conditions or, where an appropriate reference to the market is not feasible (as in the case of Agreements for outsourcing services provided by the Parent Company to the subsidiaries), at conditions deemed affordable and fair, whose valuation is made in accordance with the Procedure referred to above, taking account in any case that the company is interested in carrying out the transactions.

In this context, there are no transactions outstanding at 31 December 2013 that present particular risk profiles compared with those considered part of the normal course of business or that present profiles of atypical/unusual features worthy of note.

The following paragraphs summarise - in a prudential logic of unified management of potential conflicts of interest - existing relationships with the Parent Company, subsidiary companies, associates and other related parties pursuant to art. 53 CBA, as well as with other parties surveyed pursuant to art. 136 CBA, art. 2391 and art. 2391-bis of the Italian Civil Code, highlighting, in particular, the balance of current account relationships and of the securities portfolio at the end of the year and, lastly, any relationships for the provision of services or of some other nature.

<u>I - Parent company</u>

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi & C. SApA at Banco Desio amounted to Euro 143.5 million, of which Euro 142.1 million, relating to the securities portfolio. There are no outstanding payables held by the Company.

During the year, there were no other transactions entered into with this company (under art. 136 CBA by virtue of the positions held in it by certain officers referred to in paragraph III) below

<u>II – Associates</u>

[1] with respect to the level of significance of the transactions with related parties, the Internal Procedure refers to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised at the date of adoption of the Procedure)

At the year end, an investment was held in **Istifid SpA** of 29.94%, by virtue of which, Banco Desio is still the shareholder with a relative majority.

Banco Desio's contractual relations with Istifid SpA essentially consist of the provision of corporate services (keeping the shareholders' register, assistance at shareholders' meetings, advice on corporate compliance, etc.), charged at the usual cost for services of this kind.

With regard to banking services provided by Banco Desio to Istifid SpA, at the end of the period payables (to customers) amounted to Euro 90 million, of which Euro 46.6 million relating to securities portfolios; there are no payables held by the Company.

Please note that the payable and receivable balances also refer to relationships maintained by Istifid SpA as part of fiduciary mandates granted by third parties

There is also an investment in **Chiara Assicurazioni SpA**, which was initially controlled by Banco Desio and has since become an associate with a 32.7% stake, following the sale of Banco Desio's controlling interest (which took place on 24 April 2013, effective 1 May 2013).

At the end of the year, payables (to customers) amounted to Euro 50.2 million, of which Euro 44 million relating to securities portfolios; there are no outstanding payables held by the company, which has been given a credit line of Euro 10,000.

The contractual relationships with Chiara Assicurazioni SpA maintained by Banco Desio and its subsidiary Banco Desio Lazio SpA essentially consist of contracts for the distribution of insurance products in the non-life sector.

The amounts of assets/liabilities and income/costs arising from Banco Desio's transactions with the aforementioned company are disclosed in Para. 9.4 of the Report on Operations under the caption “companies subject to significant influence”.

III - Transactions with Officers and parties related to them

As for the granting of credit lines approved in 2013 pursuant to arts. 53 and 136 of the CBA, arts. 2391 and 2391-bis of the Civil Code, these were mainly ordinary lending transactions to Officers of Banco Desio and/or parties related to them, in relation to which Officers (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries) have communicated that they are stakeholders of various kinds, by virtue of investments in subsidiaries/associates, positions held and/or other economic and family relations entertained with such parties. These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted by Group banks on 28 outstanding positions at 31 December 2013 amounted to approximately Euro 27.7 million. The related drawdowns amounted to a total of about Euro 25.9 million in loans to customers.

The above computation excludes transactions with associates as per point II above

As regards funding relationships held by Group banks directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2013 amounted to Euro 123 million in amounts due to customers (including approximately Euro 99 million in securities portfolios).

Details on to the lending and funding relationships referred to in this paragraph are shown in the following table:

(balances at 31.12.2013 in €/million)	Related parties pursuant to art. 53 CBA (other than the parent company and subsidiaries/associates) (A)	Other subjects surveyed in accordance with art. 136 CBA, 2391 and 2391-bis of the Civil Code (B)	TOTAL (A+B)
Lending transactions:			
Amount granted	4.9	22.8	27.7
Amount drawn down	3.7	22.2	25.9
Funding transactions:			
C/c and d/r amount (a)	10.6	13.4	24
Amount of securities portfolios (b)	91	8	99
Total (a+b)	101.6	21.4	123

* * *

In accordance with Consob Resolution no. 15519 of 27 July 2006, it should be noted that the overall incidence of the balances shown in the previous paragraphs, in terms of equity, financial and economic results, is more or less insignificant.

Part I - Equity-based payments

Stock grant plan for shares of the Parent Company

With reference to the Stock Grant Plan for the three-year period 2011-2013 involving the free allocation of ordinary shares of the Company in favour of Management of the Banco Desio Group, approved by the Ordinary Shareholders' Meeting of 29 November 2011, note that the bonus system in which this Plan operated was revised by Board resolution on 19 December 2013; please refer to the "Report on the Group's Remuneration Policies" prepared in accordance with art. 123-ter CFA.

Stock Option Plan for shares of the subsidiary Fides SpA held by Banco Desio Lazio SpA

Detailed information on the "Fides" Plan was provided in the 2008 financial statements (the year in which the Plan was activated), with suitable updates in subsequent annual financial statements and interim reports. The final date for exercising these options was again extended to 31 December 2013 by the Board of Directors of Banco Desio Lazio with a resolution adopted on 22 April 2013. None of the beneficiaries exercised the options

PART L – SEGMENT REPORTING

This information has as its point of reference the organisational and management structure of the Group and the internal reporting system, on the basis of which management monitors the trend in results and makes the operational decisions about the resources to be allocated.

The Group operates by carrying out traditional banking activities, providing asset management services and selling life and non-life bancassurance products. In this context, the segment information reflects the fact that the operational structure of the commercial banks is not split into segments or divisions.

This chapter summarises the results of the Group's segments described below:

- *commercial bank*: this includes the activities geared to customers relating to the traditional banking operations and activities on the securities portfolio and the market. It also includes services, which are transversal activities carried out to support operations to ensure production efficiency and organisational consistency.
- *asset management*: this includes the activities carried out by the subsidiary Rovere SA;
- *assets held for sale /liquidation*: this includes the results of Brianfid in liquidation and Banca Credito Privato Commerciale in liquidation; in 2012 this also included Chiara Assicurazioni Compagnia di Assicurazioni sui Danni S.p.A. excluded from the Group in April 2013.

The income statement and balance sheet figures by sector agree with the respective captions in the financial statements. Moreover, for each segment, we also provide the main balance sheet aggregates and figures for indirect deposits (under administration and management).

Income statement	31/12/2013	COMMERCIAL BANK	ASSET MNG	Assets held for sale/liquidation
Net profit from financial and insurance activities (1)	382,128	376,451	3,445	2,232
Fixed costs (2)	-245,794	-237,073	-679	-8,042
Provisions and adjustments (3)	-150,145	-146,874	0	-3,271
Profit (loss) from equity investments carried at equity	13,886	13,886	0	0
Gains (losses) on disposal of investments	0	0	0	0
Profit (loss) from current operations before tax	**75**	**6,390**	**2,766**	**-9,081**

(1) including other operating charges/income
(2) administrative costs, net adjustments to property, plant and equipment and intangible assets
(3) Net impairment adjustments to loans and financial assets, provisions for risks and charges, goodwill

Balance sheet	31/12/2013	COMMERCIAL BANK	ASSET MNG	Assets held for sale/liquidation
Financial assets	1,607,785	1,607,701	0	84
Due from banks	275,848	220,879	1,845	53,124
Loans to customers	6,955,429	6,955,321	0	108
Due to banks	438,026	438,026	0	0
Due to customers	5,489,782	5,484,522	0	5,260
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	2,277,709	2,277,709	0	0

INDIRECT DEPOSITS: UNDER ADMINISTRATION AND MANAGEMENT	**10,741,465**	**10,669,469**	**71,996**	**0**

Income statement	31/12/2012	COMMERCIAL BANK	ASSET MNG	Assets held for sale/liquidation
Net profit from financial and insurance activities (1)	360,686	342,085	3,404	15,197
Fixed costs (2)	-235,187	-216,736	-631	-17,820
Provisions and adjustments (3)	-97,648	-96,500	0	-1,148
Profit (loss) from equity investments carried at equity	4,686	4,686	0	0
Gains (losses) on disposal of investments	0	0	0	0
Profit (loss) from current operations before tax	**32,537**	**33,535**	**2,773**	**-3,771**

(1) including other operating charges/income
(2) administrative costs, net adjustments to property, plant and equipment and intangible assets
(3) Net impairment adjustments to loans and financial assets, provisions for risks and charges, goodwill

Balance sheet	31/12/2012	COMMERCIAL BANK	ASSET MNG	Assets held for sale/liquidation
Financial assets	1,165,593	1,117,998	0	47,595
Due from banks	250,480	199,961	2,034	48,486
Loans to customers	6,949,145	6,947,575	0	1,569
Due to banks	441,677	441,661	0	16
Due to customers	5,041,168	5,007,467	0	33,701
Debt securities in issue and Financial liabilities designated at fair value through profit and loss	2,255,413	2,255,413	0	0
INDIRECT DEPOSITS: UNDER ADMINISTRATION AND MANAGEMENT	**10,777,508**	**10,651,849**	**73,634**	**52,024**

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
BANCO DI DESIO E DELLA BRIANZA S.p.A.

1. We have audited the consolidated financial statements of Banco di Desio e della Brianza S.p.A. and its subsidiaries (the "Banco Desio Group"), which comprise the balance sheet as of December 31, 2013, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and the related explanatory notes. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree No. 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on April 4, 2013.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of Banco Desio Group as of December 31, 2013, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree No. 38/2005.

4. The Directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of the report on operations and the annual report on corporate governance, published in Banco Desio/Governo Societario section of Banco di Desio e della Brianza S.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree No. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on corporate governance, with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree No. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the annual report on corporate governance are consistent with the consolidated financial statements of Banco Desio Group as of December 31, 2013.

DELOITTE & TOUCHE S.p.A.

Signed by
Maurizio Ferrero
Partner

Milan, Italy
April 4, 2014

This report has been translated into the English language solely for the convenience of international readers.