2020

Report on operations and financial statements at 31 December 2020

Banco Desio

Gruppo Banco Desio

Contents

Directors and officers

Board of directors

Chairman	Stefano Lado
Deputy Chairman	Tommaso Cartone
Chief Executive Officer and General Manager	Alessandro Maria Decio*
Directors	Graziella Bologna* Valentina Maria Carla Casella Ulrico Dragoni Cristina Finocchi Mahne Agostino Gavazzi* Egidio Gavazzi* Tito Gavazzi Giulia Pusterla Laura Tulli

** Members of the Executive Committee*

Board of Statutory Auditors

Chairman	Emiliano Barcaroli
Acting Auditors	Rodolfo Anghileri Stefania Chiaruttini
Substitute Auditors	Stefano Antonini Silvia Re Massimo Celli

General Management

Chief Executive Officer and General Manager	Alessandro Maria Decio

Financial Reporting Manager as per art. 154-bis CFA

Financial Reporting Manager	Mauro Walter Colombo

Independent Auditors

Independent Auditors	Deloitte & Touche S.p.A.

Report on Operations

1.Introduction

The figures and ratios in this Report on Operations, as well as the comments on the composition of the various captions and any changes to them, to the extent that they can be traced back, refer to the balance sheet included in the financial statements and to the reclassified income statement, which has been prepared on the basis of the financial statements.

In the first few months of 2020, the Covid-19 pandemic unleashed its negative effects on the production and aggregate demand of all economies. The deterioration in growth prospects translated into a hefty decline in stock market indices and a sharp rise in volatility and risk aversion. The monetary and fiscal authorities in all principal countries implemented strong expansionary measures to support household and business income, credit for the economy and market liquidity.

The specific disclosure dedicated to describing the healthcare emergency under which this financial report has been prepared, together with the related uncertainties and significant risks, is presented in section 3.3 "Covid-19" of the consolidated report on operations

Inevitably, the results of Banco were also heavily affected by the recurring nature of the pandemic, experienced in waves, the consequences of which for the economy in general and for economic and financial performance in future years remain uncertain, depending on how the various possible scenarios play out.

The content of the explanatory notes takes account of the instructions contained in Consob Note 8/20 dated 16 July 2020, the ESMA document entitled "European common enforcement priorities for 2020 annual financial reports" dated 28 October 2020 and the Bank of Italy Communication issued on 15 December 2020, which are discussed in "Part A – Accounting policies" and "Part E - Information on risks and related hedging policy"of the explanatory notes. A summary of the main interventions/support measures adopted or in the process of being adopted reference should be made to the consolidated report on operation at 31 December 2020.

With regard to dividend policy in the context of the Covid-19 pandemic, the resolution adopted at the Shareholders' Meeting held on 23 April 2020 - following the Recommendation dated 27 March 2020, as supplemented by the supervisory instructions issued on 28 July 2020 and 16 December 2020 - remains in force.

The Board of Directors and the Shareholders' Meeting are committed to adopting all necessary and appropriate resolutions consistent with the above recommendations, not least with reference to distribution of the savings share dividend in compliance with art. 31 of the Articles of Association.

As regards remuneration, on 25 June 2020 the Board of Directors approved a revision of the bonus system which led to a significant reduction in the variable component ("bonus pool") for 2020.

2 - Key figures and ratios

Balance sheet

Amounts in thousands of Euro	31.12.2020	31.12.2019	Change amount	Change %
Total assets	15,638,800	14,170,989	1,467,811	10.4%
Financial assets	3,543,684	3,365,908	177,776	5.3%
Due from banks [(1)]	1,034,585	619,580	415,005	67.0%
Loans to customers [(1)]	10,419,441	9,515,696	903,745	9.5%
Property, plant and equipment [(2)]	221,535	225,088	-3,553	-1.6%
Intangible assets	11,772	11,451	321	2.8%
Due to banks	2,412,244	1,603,208	809,036	50.5%
Due to customers [(3)]	10,205,567	9,447,655	757,912	8.0%
Debt securities in issue	1,608,927	1,749,103	-140,176	-8.0%
Shareholders' equity (including Net profit/loss for the period)	987,046	956,871	30,175	3.2%
Own Funds	1,055,325	1,036,652	18,673	1.8%
Total indirect deposits	16,520,360	15,562,375	957,985	6.2%
of which: Indirect deposits from ordinary customers	*10,160,527*	*9,721,680*	*438,847*	*4.5%*
of which: Indirect deposits from institutional customers	*6,359,833*	*5,840,695*	*519,138*	*8.9%*

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

[(2)] the balance of this item at 31 December 2020 includes the right of use ("RoU Assets") equal to Euro 50.7 million for operating lease contracts falling within the scope of application of IFRS 16 Leases, which came into effect on 1 January 2019

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

Income statement (4)

Amounts in thousands of Euro	31.12.2020	31.12.2019	Change amount	Change %
Operating income	391,395	384,202	7,193	1.9%
of which: Net interest income	*200,480*	*197,726*	*2,754*	*1.4%*
Operating costs	267,547	274,720	-7,173	-2.6%
Result of operations	123,848	109,482	14,366	13.1%
Profit (loss) from continuing operations after tax	34,322	46,070	-11,748	-25.5%
Non-recurring profit (loss) after tax	-10,427	-1,184	-9,243	780.7%
Net profit (loss) for the period	23,895	44,886	-20,991	-46.8%

[(4)] from the reclassified income statement

Key figures and ratios

	31.12.2020	31.12.2019	Change amount
Capital/Total assets	6.3%	6.8%	-0.5%
Capital/Loans to customers	9.5%	10.1%	-0.6%
Capital/Due to customers	9.7%	10.1%	-0.4%
Capital/Debt securities in issue	61.3%	54.7%	6.6%
Common Equity Tier 1 (CET 1)/Risk-weighted assets *(Common Equity Tier 1 ratio)* [(5)]	15.7%	14.4%	1.3%
Core Tier 1 capital (T1)/Risk-weighted assets *(Tier 1 ratio)* [(5)]	15.7%	14.4%	1.3%
Total Own Funds/Risk-weighted assets *(Total capital ratio)* [(5)]	16.1%	15.2%	0.9%
Financial assets/Total assets	22.7%	23.8%	-1.1%
Due from banks/Total assets	6.6%	4.4%	2.2%
Loans to customers/Total assets	66.6%	67.1%	-0.5%
Loans to customers/Direct customer deposits	88.2%	85.0%	3.2%
Due to banks/Total assets	15.4%	11.3%	4.1%
Due to customers/Total assets	65.3%	66.7%	-1.4%
Debt securities in issue / Total assets	10.3%	12.3%	-2.0%
Direct customer deposits/Total assets	75.5%	79.0%	-3.5%

	31.12.2020	31.12.2019	Change amount
Cost/Income ratio	68.4%	71.5%	-3.1%
Net interest income/Operating income	51.2%	51.5%	-0.3%
Result of operations/Operating income	31.6%	28.5%	3.1%
Profit (loss) from operations after tax/Capital [(6)]	3.6%	5.1%	-1.5%
Profit (loss) from operations after tax/Capital [(5)] (R.O.E.)	2.5%	4.9%	-2.4%
Profit (loss) from operations before tax/Total assets (ROA)	0.3%	0.4%	-0.1%

	31.12.2020	31.12.2019	Change amount
Net doubtful loans/Loans to customers	1.1%	1.3%	-0.2%
Net non-performing loans/Loans to customers	2.9%	3.5%	-0.6%
% Coverage of doubtful loans	61.0%	61.4%	-0.4%
% Coverage of doubtful loans, gross of cancellations	62.2%	63.1%	-0.9%
% Total coverage of non-performing loans	47.6%	45.6%	2.0%
% Coverage of non-performing loans, gross of cancellations	48.5%	46.8%	1.7%
% Coverage of performing loans	0.72%	0.49%	0.23%

Structure and productivity ratios

	31.12.2020	31.12.2019	Change amount	Change %
Number of employees	2,129	2,148	-19	-0.9%
Number of branches	249	257	-8	-3.1%
Amounts in thousands of Euro				
Loans and advances to customers per employee [(7)]	4,872	4,413	459	10.4%
Direct deposits from customers per employee [(7)]	5,525	5,192	333	6.4%

	31.12.2020	31.12.2019	Change amount	Change %
Operating income per employee [(7)]	183	178	5	2.8%
Result of operations per employee [(7)]	58	51	7	13.7%

[(5)] capital ratios at 31.12.2020 are calculated in application of the transitional arrangements introduced by EU Regulation 2017/2395; the ratios calculated without application of these arrangements are the following: Common Equity Tier1 14.9%; Tier 1 14.9%; Total capital ratio 15.3%

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

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

3 - Underlying scenario

Reference should be made to the Consolidated Report on Operations for an explanation of the macroeconomic scenario and of the capital markets and the banking system in Italy.

4 - Regional market presence and corporate issues

4.1 - The distribution network

The distribution network of the Bank at 31 December 2020 consists of 249 branches, compared with 257 at the end of the previous year.

In order to realise significant cost and revenue synergies, as well as simplify and rationalise the organisational structure, in 2020 the following branches were closed: Rome – Gregorio VII, Gualdo Cattaneo – San Terenziano, Solfignano Parlesca, Perugia Caduti del Lavoro, Fonte Nuova, Como 47, Turin Nizza and Spoleto Marconi.

Greater efficiency within the distribution network is a key element of the 2021-2023 Business Plan approved in December, which envisages territorial rationalisation and consolidation via action that will result in the consolidation/closure of 25 branches and commercial action to relaunch performance in areas that make a smaller contribution to the Group.

As a result, a further 6 branches - Rome La Storta, Collazzone Collepepe, Terni Borgo Rivo, Perugia Briganti, Foligno La Paciana and Bologna Santa Viola - will be closed during the first quarter of 2021.

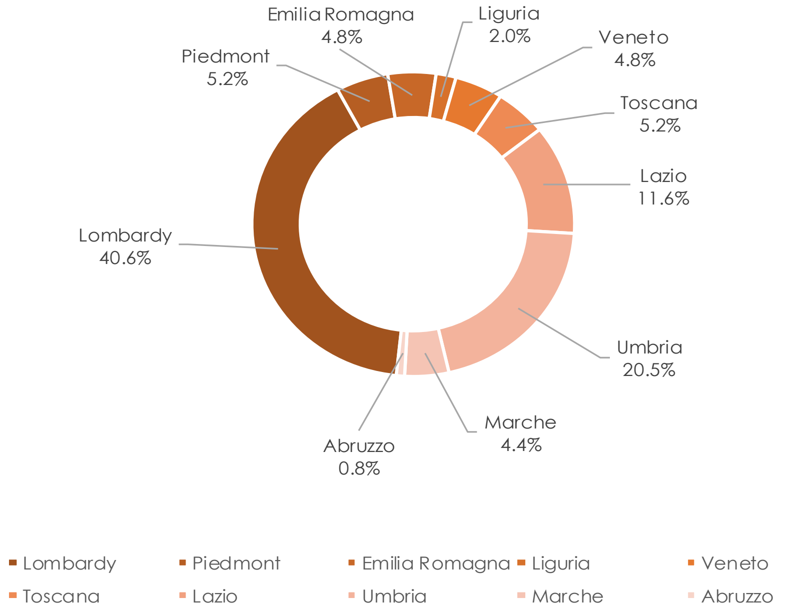
Banco Desio is present in Italy in 10 regions (Lombardy, Piedmont, Veneto, Emilia Romagna, Liguria, Umbria - as Banca Popolare di Spoleto - Lazio, Tuscany, Marche and Abruzzo).

The organisational model envisages:

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

The following chart shows the breakdown of the Company's distribution network by region at the end of 2020.

Graph no. 1 - BREAKDOWN OF THE DISTRIBUTION NETWORK BY REGION



4.2 - Significant events

Amendments to the Articles of Association of Banco Desio

Banco Desio's Extraordinary Shareholders' Meeting of 23 April 2020 approved the amendments to the Articles of Association concerning adaptation to the provisions on gender balance in the administrative and control bodies of listed companies, issued with Law 160 of 27 December 2019 which amended articles 147 ter, paragraph 1- ter, and 148, paragraph 1- bis, of Legislative Decree 58/98 increasing the share reserved for the less represented gender from one third to two fifths.

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

Banco Desio's Ordinary Shareholders' Meeting of 23 April 2020 approved the financial statements at 31 December 2019. As indicated in the press release of 1 April, in accordance with the Recommendation of the Bank of Italy of 27 March 2020 on the distribution of dividends and in line with the clarifications provided by the European Central Bank, the Board of Directors resolved to maintain the initial proposal for the distribution of dividends, but making payment conditional on the successful reconsideration of the situation connected to the current health emergency.

In particular, payment of the dividend, equal to Euro 0.1036 for each of the 122,745,289 ordinary shares and Euro 0.1244 for each of the 13,202,000 savings shares, will only take place under the condition precedent of compliance of the total distribution of the 2019 dividends with respect to: (a) the legislative/regulatory framework of reference and/or any provisions and/or recommendations of the prudential Supervisory Authority as positively assessed by the Board of Directors and subsequently by the Shareholders' Meeting which must be convened for this purpose, together with (b) the evolution of the economic and financial situation of the overall context and of the Bank, it being understood that, if these conditions do not take place by the above deadline, the Board of Directors and therefore the Shareholders' Meeting convened for this purpose will be able to assess whether to take the necessary or appropriate resolutions in line with any provisions and/or recommendations of the Supervisory Authorities, also with reference to the distribution of the dividend to savings shares in compliance with the provisions of art. 31 of the Articles of Association.

On 30 July 2020, the Board of Directors took note of the Bank of Italy's Recommendation of 28 July 2020, which urged all banks to refrain from paying dividends for 2019 and 2020 until 1 January 2021.

Making reference to the ECB press release on 15 December addressed to major banks, on 16 December 2020 the Bank of Italy in turn issued a press release to the less significant Italian banks, containing instructions applicable until 30 September 2021:

- avoid the recognition or payment of dividends, or restrict their amount to no more than 15% of their cumulative 2019-20 profits or 20 basis points of the CET 1 coefficient (whichever is the lesser amount);
- avoid the recognition or payment of advance dividends on the profits for 2021;
- apply extreme prudence in the recognition of variable remuneration.

Banks that intend to pay dividends must first check their financial strength and current and prospective ability to generate self-financing, having regard for the impact of the pandemic on the quality of assets and the income statement; they must then contact the Supervisory Authorities for an assessment of whether the level of distribution is deemed prudent.

With regard to dividends, the resolution adopted at the Shareholders' Meeting held on 23 April 2020, consistent with the recommendation dated 27 March 2020, remains applicable as described in previous disclosures to the public, except for extension of the payment suspension period to at least 1 January 2021, rather than 1 October 2020, and compliance with the additional conditions imposed in the Bank of Italy press release dated 16 December 2020.

It follows that the Board of Directors and then the Shareholders' Meeting will consider the adoption of necessary and appropriate resolutions, consistent with the recommendations of the Supervisory Authorities, after 1 January 2021, having regard for payment of the dividend due on the savings shares pursuant to art. 31 of the Articles of Association. These resolutions will be adopted on approval of the financial statements for 2020.

As regards remuneration, on 25 June 2020 the Board of Directors approved a revision of the bonus system which led to a significant reduction in the variable component (the so-called "bonus pool") for the current year.

Appointment of the Board of Directors and Board of Statutory Auditors

The Ordinary Shareholders' Meeting established that the number of Directors for the three-year period 2020-2022 should be 12 and appointed the Board of Directors and the Board of Statutory Auditors in accordance with the rules on gender balance as per Law 160 of 27 December 2019. These bodies - after appropriate resolutions adopted at the Board meeting held after the Shareholders' Meeting - are composed as follows:

Directors

Stefano LADO	Chairman
Tommaso Cartone [1]	Deputy Chairman
Alessandro DECIO	Chief Executive Officer and General Manager (E)[2]
Graziella Bologna	(E)
Valentina CASELLA	(I)[3]
Ulrico DRAGONI	(I) (M)[4]
Cristina Finocchi Mahne	(I)

[1] Tommaso Cartone left the office of member of the CCRS from 15 December 2020. Tito Gavazzi became a member of the CCRS on 19 January 2021 and since that date he is no longer a member of the Executive Committee.

[2] The names with an (E) have been identified as Executive Directors pursuant to the Code of Conduct for listed companies.

[3] The names with an (I) meet the independence requirements both of the Consolidated Finance Act (CFA) and of the Code of Conduct of listed companies.

[4] The names with an (M) are expressed by the minority list that received the highest number of votes.

Agostino Gavazzi	(E)
Egidio Gavazzi	(E)
Tito Gavazzi	(E)
Giulia Pusterla	(I)
Laura TULLI	(I)

Statutory Auditors

Emiliano BARCAROLI	Chairman (M)
Rodolfo Anghileri	Acting Statutory Auditor
Stefania CHIARUTTINI	Acting Statutory Auditor
Stefano ANTONINI	Alternate Statutory Auditor (M)
Silvia RE	Alternate Statutory Auditor
Massimo Celli	Alternate Statutory Auditor

The Board of Statutory Auditors was assigned the role of Supervisory Body pursuant to Legislative Decree 231/2001.

The Board of Directors, which met at the end of the Shareholders' Meeting, also approved the following composition of the Committees set up internally:

Executive Committee
Agostino Gavazzi (Chairman)
Graziella Bologna
Alessandro DECIO
Egidio Gavazzi
Tito Gavazzi

Risk Control and Sustainability Committee
Cristina FINOCCHI MAHNE (Chairwoman)
Tommaso Cartone
Giulia Pusterla

Nominations Committee
Cristina FINOCCHI MAHNE (Chairman)
Stefano LADO
Laura TULLI

Remuneration Committee
Valentina CASELLA (Chairman)
Laura TULLI
Ulrico DRAGONI

Committee for Transactions with Related Parties and Associated Persons
Giulia Pusterla (Chairwoman)
Valentina CASELLA
Ulrico DRAGONI

The Board of Directors resolved to assign the role of General Manager to the Chief Executive Officer and the role of Deputy General Manager to Mr. Angelo Antoniazzi. The latter subsequently resigned from all offices held in the Banco Desio Group with effect from 15 September 2020. It has been decided to postpone the appointment of a new Deputy General Manager for the time being.

Assignment of independent audit mandate for the years 2021 - 2029

The Ordinary Shareholders' Meeting resolved to confer the independent audit mandate for the period 2021-2029 to KPMG S.p.A.

Directors and officers Fides S.p.A.

Fides' Ordinary Shareholders' Meeting of 16 June 2020 renewed the Board of Directors for the two-year period 2020-2021, thereby aligning its expiration with that of the Board of Statutory Auditors. The number of Directors determined for the two-year period is 7.

The same Shareholders' Meeting also resolved to confer the independent audit mandate for the period 2021-2029 to KPMG S.p.A.

On 2 July 2020, the Board of Directors of Fides S.p.A. appointed Maurizio Fuso as General Manager to replace Sergio Vergani, who retired and was appointed as Executive Deputy Chairman.

After the resignation of Angelo Antoniazzi, Fides' Board of Directors co-opted the Chief Executive Officer of the Parent Company Alessandro Decio.

Directors and officers Desio OBG S.r.l.

On 19 June 2020, the Ordinary Shareholders' Meeting of Desio OBG S.r.l. renewed the Board of Directors for the three-year period 2020-2022. The number of Directors determined for the three-year period is 3.

Supervisory Review and Evaluation Process (SREP)

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

- CET1 ratio of 7.35%, binding for 4.85% (minimum regulatory requirement of 4.50% and additional requirements of 0.35% as a result of the SREP), while the remainder is represented by the capital conservation buffer;
- Tier 1 ratio of 8.95%, binding for 6.45% (minimum regulatory requirement of 6.00% and additional requirements of 0.45% as a result of the SREP), while the remainder is represented by the capital conservation buffer;
- Total Capital Ratio of 11.10%, binding for 8.60% (minimum regulatory requirement of 8.00% and additional requirements of 0.60% as a result of the SREP), while the remainder is represented by the capital conservation buffer.

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

Consistent with IFRIC 21, the Bank made the following entries when the "obligating event" occurred:

- standard contribution to the SRM of about Euro 3.4 million. The contribution was paid in May;

- the additional contribution requested by the Bank of Italy in May, as required by Law 208/2015, for approximately Euro 1.1 million. The contribution was paid in June;
- the contribution to the Deposit Guarantee Scheme **(**DGS) of about Euro 7.0 million of which Euro 2.1 million as additional contribution. The contribution was paid in December.

Participation in TLTRO 3

During the year, the European Central Bank stimulated bank lending by improving the conditions of TLTRO 3. Banco Desio participated in the auction last June for an amount of 1.2 billion euro (against the repayment of 800 million euro), and of December for the same amount (again against the repayment of 800 million euro), bringing the total of TLTRO loans outstanding at 2.4 billion euro.

Union agreement

On 27 November 2020, the Banco Desio Group signed an agreement with the Trade Unions on access to the "Income support solidarity fund" (the "Fund") and on the departure of personnel who reach pensionable age. This agreement envisages voluntary access to the Fund by workers who satisfy the "Mandatory General Insurance" ("AGO") pension requirement for persons eligible to retire between 1 November 2021 and 31 December 2024. the departure of the above persons will be spread between two windows, one on 1 July 2021 and the other on 1 July 2022. Measures also facilitate termination of the employment relationships of employees who satisfy the AGO pension requirement by 30 September 2021.

At 31 December 2020, applications have been accepted from 101 persons; additional identified persons have not yet accepted the above forms of termination and, accordingly, the Bank plans to carry out further negotiations with a view to terminating their employment relationships by April. the one-time charge to the payroll costs is Euro 12.0 million.

Business Plan 2021-2023

The Board of Directors of the Bank approved the Group Business Plan ("Plan") for the three-year period 2021-2023 on 17 December 2020. The Board of Directors of the Bank considered there to be a sound basis for approving the Plan, despite the uncertain macroeconomic scenario, in view of the positive response by the organisation and the customer base to the adverse external conditions encountered during 2020.

In particular, during 2020 the Bank was able to manage the difficult economic-financial challenges faced by customers and complete successfully actions to strengthen the balance sheet and income statement that will benefit future years with increasing effect. The following actions, in part already completed and in part finalised in early 2021, can be viewed as tactical measures intended to tackle and minimise the effects of the adverse macroeconomic conditions deriving from the pandemic:

- Cost Optimisation
- Review of the range of banking products available and strengthening of the multi-channel approach
- Support for businesses (in particular, "Liquidity Decree" loans)
- Optimisation of funding

and strategic initiatives, ahead of implementing the Plan:

- New service model and segmentation of territorial areas
- Restyling of banking products

- Reorganisation of the Commercial Department
- Approval of the plan for voluntary departments and the retraining of personnel
- Process efficiency and simplification
- Adoption of the highest European sustainability (ESG) standards via compliance with the Corporate Social Responsibility (CSR) Guidelines at Group level

In detail and consistent with the recent history of the Banco Desio Group, the Plan confirms the ongoing efforts being made to renew and refocus the business model adopted by the Bank. The mission of the Bank will remain customer-centric, with a view to supporting households and SMEs in their activities and in the management of their investments, with a controlled increase in lending (+ 2.4% vs market 1.7%) and assets under management (+9% vs market 5.1%). Thanks to the new Business Plan, Banco will strengthen its economic sustainability, raising the principal profitability indicators (ROE to 5.4%; cost/income ratio to 62% by the end of 2023) in line with the best market performance, while maintaining a strong focus on the quality of lending (NPL ratio of 5.5%). From a capital standpoint, the Bank will continue to maintain a CET 1 level well above the SREP requirements (CET 1 fully loaded 2023: 10.4%), despite the particularly complex and challenging economic environment.

The ambition over the next three years is to characterise even more clearly the Banco Desio Group as an independent Group capable of competing with the best medium-sized banks in terms of capital adequacy, economic resilience and the quality of the services offered to customers. The business strategy adopted is founded on three main pillars, with structural action in the areas of wealth management and business customers, increased geographical focus on the historical territories of the Bank and strong emphasis on the growth of Fides (subsidiary active in the provision of salary-backed loans and consumer credit).

For further information, please refer to the Press Release issued in accordance with the law.

Sale of the non-performing loan (NPL) portfolios

Continuing the Bank's pro-active strategy for managing non-performing loans and in line with the guidelines issued by the European Central Bank, in November and December six sales were finalised to specialist intermediaries of loan portfolios consisting of mortgage and unsecured loans classified as doubtful and unlikely to pay loans, as follows:

a) loans with a nominal value of Euro 35.6 million sold to closed-end investment funds accompanied by the investment of Euro 21.2 million in fund units;

b) loans with a nominal value of Euro 25.8 million sold for cash totalling Euro 2.7 million.

As a result of these sales, taking account of all doubtful items identified since last year, pre-tax losses of Euro 0.9 million have been realized overall.

Measurement of the investment held in Cedacri S.p.A.

In view of the strategic planning document approved by the Board of Directors of Cedacri S.p.A. during the year, the Parent Company has remeasured the fair value of the non-controlling interest held in this company using internal valuation models, identifying a prudent and conservative equity value of about Euro 600 million. Given that this investment is measured at fair value through other comprehensive income pursuant to para. 5.7.5 of IFRS 9 Financial Instruments, the Parent Company has credited the revaluation of Euro 23.2 million (gross of tax effect) to an equity reserve.

At the reference date of this financial report, the shareholders of Cedacri S.p.A. have initiated a project for the disposal of their entire equity interest in this company, which provides outsourcing services to the banking sector. For this purpose, a Shareholder Steering Committee has been formed to supervise the entire process, which should be completed during the third quarter of 2021. In this regard, at the reference date there is no basis for classifying this investment as "held for sale" pursuant to para. 6 et seq. of IFRS 5 Non-current assets held for sale and discontinued operations.

Ion Investment, a British group, presented a binding offer in January 2021 that identifies an equity value of about 1.2 billion. This information was only considered for comparative purposes with respect to the valuation recognised at 31 December 2020, as it reflects the value of an investment different to the non-controlling interest currently held i.e. expression of the potential seen in a new business reality, with its own strategic direction and operating management, investment in re-engineering, commercial policies, cost synergies and different funding profile, that the potential purchaser may choose to implement after taking control.

The price offered is therefore an element that may influence the fair value of the investment on a prospective basis, depending on the outcome of the current phase in the negotiations (subject to many conditions precedent); accordingly, this price does not represent reliable evidence of the value of the investment at 31 December 2020, when the company is still governed by the current shareholder group and operated under a different business plan in pursuit of the objectives defined in the latest strategic planning document mentioned above.

Covered bond programme

As part of the programme for issuing covered bonds (OBG in Italian) pursuant to art. 7-bis of Law no. 130/99 (the "Programme") launched in 2017, on 12 January 2021 another issue as private placement of 100 million at a level of midswap +34 b.p. (a security with 0% coupon and issue price of 98.493%), maturing in 2031.

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 Bank approved the adoption of an Organisation and Management Model for the prevention of criminal offences contemplated by Legislative Decree no. 231/2001 (hereinafter "Model 231"). This Model has been implemented over time in compliance with subsequent provisions of the law and is published on the website www.bancodesio.it.

Further information on Model 231 and on the Supervisory Body pursuant to the aforementioned Legislative Decree 231/2001, the role of which has been performed since 2012 by the Board of Statutory Auditors, is provided in the Annual Report on Corporate Governance which is available on the website pursuant to art. 123-bis CFA, to which reference should be made.

6 - Human resources

6.1 - Management and breakdown of resources

The Bank was particularly active during the year in the management of events deriving from:

- the epidemic that swept the country, with an inevitable impact on the organisation of work at the head office (with the activation of smart working) and at the branches;
- implementation of the changes required by the Board of Directors in the organisational structure of the head office and the territorial network;
- signature of the agreement dated 26 November 2020 with the trade unions representing the majority of member employees, regarding:

- staff with pension rights accrued by 30 September 2021;
- staff with pension rights accrued under the so-called "female option";
- staff with pension rights accruing by 31 December 2024, who are now able to access the Solidarity Fund

Acceptance of this agreement is voluntary and has attracted the interest of over 100 Group employees, of which 90% will be able to access the Solidarity Fund in the two "departure windows" set for 1 July 2021 and 1 July 2022.

The principal HR management activities carried out during 2020 are described below, with particular reference to the update of the organisational structure:

- afternoon closure for cash transactions at all Bank branches, in compliance with the regulations protecting the health of employees and customers following onset of the Covid-19 epidemic;
- consequent to the plans of the Bank to provide ever more enhanced services in specialist areas, a new organisational structure was activated within the Bank – partly via the identification of specialist external professionals – with establishment of the Marketing area, the Commercial Area (heading the distribution network of territorial areas and branches), the Business Area (heading the International, Factoring, Leasing and Agricultural Offices), the Planning Area and the Procurement Area;
- at the same time, the distribution network of the Bank was also reorganised, reducing the number of territorial areas from 13 to 8, with the introduction of new customer segments (regarding both personal and business customers) that will benefit from specific products and services delivered with greater focus and increased value added.

As a result of what was described previously, at 31 December 2020, the Bank had 2,129 employees, 19 fewer (-0.9%) than at the end of the previous year.

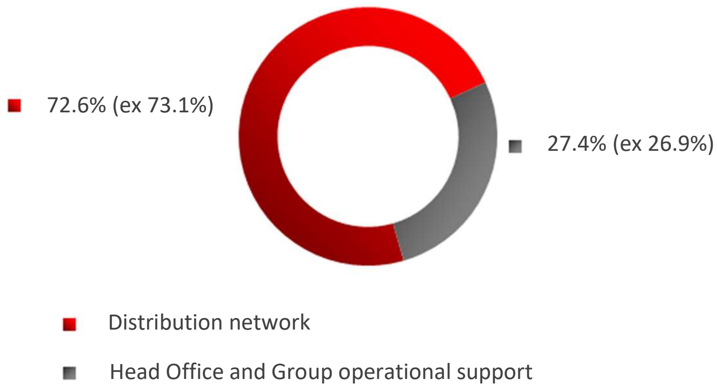
The following table provides a breakdown of employees by level at the end of 2020, compared with the previous year.

Table no. 1 - BREAKDOWN OF EMPLOYEES BY LEVEL

No. Employees	**31.12.2020**	**%**	**31.12.2019**	**%**	**Change** **Amount**	**%**
Managers	34	1.6%	32	1.5%	2	6.3%
3rd and 4th level middle managers	463	21.7%	463	21.5%	0	0.0%
1st and 2nd level middle managers	559	26.3%	572	26.6%	-13	-2.3%
Other personnel	1,073	50.4%	1,081	50.3%	-8	-0.7%
Employees	**2,129**	**100.0%**	**2,148**	**100.0%**	**-19**	**-0.9%**

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

Chart no. 2 - BREAKDOWN OF EMPLOYEES BY AREA



6.2 - Training

Training activities were also greatly affected by the healthcare emergency during 2020, requiring a review of the various training programmes, the reconfiguration of course delivery methods and the partial rescheduling of activities as well.

Naturally, the efforts made had to take account of various priorities associated with the professional development of personnel, as well as the emergence of new expertise and different skills as a result of professional evolution and, above all, social change.

As part of an established trend, reinforced by the current unexpected circumstances, the more flexible ways to "deliver training" have been promoted much more, not least to help improve the work-life balance.

The adoption of remote working has accelerated the use of "distance learning" tools, which are known for their flexibility in terms of when courses are taken and the adoption of devices characterised by the absence of logistical constraints.

The unexpected occurrence of such serious external events meant that the adoption of smart working was accompanied by training in this new and flexible approach to work, which was still in an experimental phase.

There was considerable uncertainty during 2020 about, among other matters, whether it would be possible to deliver "in person" training courses and, accordingly, the related decisions were made on an especially prudent basis.

The decisions made with regard to the professional accreditation programmes were significant, with complete conversion to distance learning after revising their content for consistency with the delivery method and, in all cases, in compliance with the criteria and time scales envisaged in the relevant regulations.

In terms of the methodologies applied during 2020, attention was dedicated to the identification of training needs in various specific areas prior to the development of course content. This process took account of the actual training requirements of staff and included assessments of their specific technical-professional knowledge, as a fundamental step in the delivery of targeted training.

The delivery of training in 2020 was particularly intensive in the second part of the year, resulting in a total of 95,208 man-hours (compared with 120,800), corresponding to an average of 5.9 days per employee (compared with 7.5). This represent an overall reduction of about 21.2% with respect to the previous year.

This outcome was partially affected by the extension allowed by IVASS, which recognised the organisational complexities associated with the lockdowns and, more generally, the impact of the Covid-19 healthcare emergency; as a consequence, it was possible to completed the 2020 professional refresher programme by 31 March 2021.

In terms of delivery method, 74% (previously 60%) of total training hours were taught in e-learning mode, which has benefited considerably from the use of bite-sized training designed, in particular, to reinforce the learning of content deemed especially important.

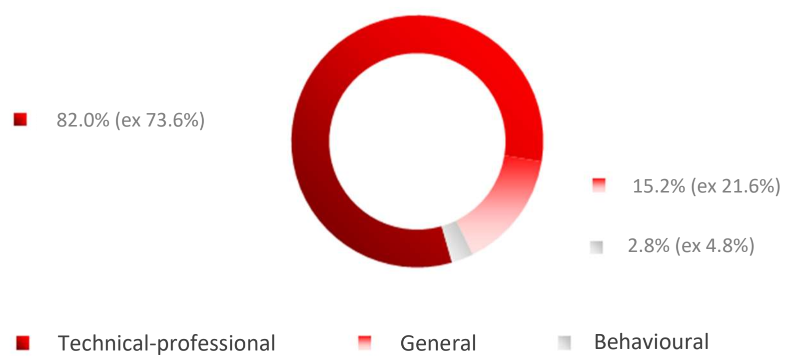
There has also been a significant rise in the recourse made to webinars (virtual classrooms), which always deliver quality communications in many cases with support from internal teachers. This ensures the provision of structured and complete courses designed to achieve predetermined objectives.

By contrast, given the external factors mentioned, the volume of in-person classroom training was reduced to an absolute minimum, representing less than 3% of the total. The following is a summary description of the types of training being offered:

- "General" training, which groups together the courses on cross-functional knowledge addressed to all professional families. The standard of professional skills required as a result of changes in the regulatory environment is guaranteed by the courses given in the field of compulsory training (which is included in this group);
- "Technical-professional" training, which includes initiatives aimed at building the technical skills needed to perform a specific role and at consolidating functional skills for the individual's professional profile;
- "Behavioural" training, aimed at developing interpersonal, managerial and organisational skills, which allow members of staff to apply their technical and professional knowledge in the best way possible.

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

Chart no. 4 - **TRAINING ACTIVITIES BY TYPE**



General training, determined with reference to the various regulatory contexts, comprises the following principal programmes.

The AML training, delivered via webinars, focused specifically on the "Adequate verification of customers": the profiling of risk, involving 280 persons, the reporting of suspicious transactions, involving about 450 persons, and operational training on adoption of the new Anti-money laundering portal. Operational alignment sessions were also held, with adaptation of the content for delivery on a distance learning basis, in order to strengthen constantly the monitoring work carried out in relation to money laundering and the financing of terrorism.

In collaboration with the Control Functions and in order to disseminate a culture of operational risk awareness, an e-learning course stressing its importance was delivered to all professional staff within the network.

In order to guide the design of content on transparency matters, a tool was adopted for the collection of training needs that obtained feedback from the majority of employees within the distribution network.

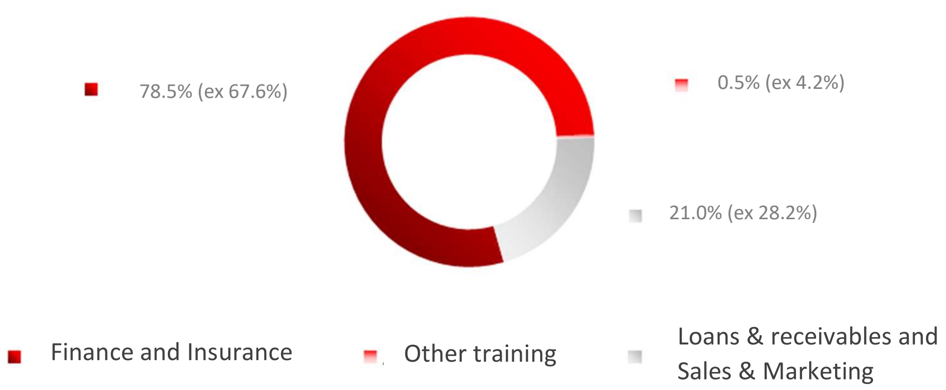
Webinar sessions were also held on the 231 Model for the managers of the various organisational units, covering in particular the "Direct and indirect administrative responsibility of banks in commitment of the specified offences". This training will be extended to all employees during 2021.

Lastly, it is worth mentioning the Qualified Intermediary Agreement (QIA) sessions, which involved more than 1,000 persons.

In the context of initiatives regarding the "Group Sustainability Plan", delivery of the CSR video lesson was completed and a multimedia training programme was created in the form of bite-sized chunks on various topics, such as: Parenting, Diversity Management and Environmental Responsibility.

The "Technical-Professional" training accounted for 82.0% of total activities (formerly 73.6%), an increase in terms of percentage compared with the total hours of the previous year. The following chart represents the distribution of training activities in the areas that belong to "Technical-Professional" training:

Chart no. 5 - **"TECHNICAL-PROFESSIONAL" TRAINING BY ISSUES**



The main initiatives grouped together by area of competence are as follows:

- Credit & Loans and Sales & Marketing

  With reference to the "Credit & Loans" Area, worth noting was the planning relating to the Factoring carried out through webinar sessions addressed to around 600 persons.

As in the prior year, training was provided on the *AIRB Rating System* for various professional roles depending on the different rating models used, as well as on *Mortgage lending to consumers* for all professionals within the network, given the importance of the matters covered (procedures for buying property, the granting of mortgages, the regulation of mortgage lending to consumers, the role of insurance policies in the mitigation of credit risk).
With reference to the "Sales & Marketing" area, training was held to support the launch of new products and to help market existing ones, in order to increase the efficiency and effectiveness of commercial development measures; these initiatives recorded a significant use of webinars.
In addition, bite-sized chunks of training associated with this area have also been developed in the context of the "Behavioural" training discussed below.

- Finance and Insurance

  In the "Finance" area, the annual professional accreditation refresher training for ESMA purposes is especially important. For the first time, this took account of the results of the assessment covering all relevant staff, comprising about 700 persons, in order to consolidate and update their skills.

  In the "Insurance" area, updating the professional qualifications of more than 1,200 members of staff for Institute for the Supervision of Insurance (IVASS) purposes was particularly important in terms of training investments. This 2020 programme - comprising content for the different subject areas envisaged in attachment 6 to IVASS Regulation 40 (contracts and products, legal, insurance and reinsurance, administrative and operational techniques, and IT) - was completed by 31 March 2021 in compliance with the extension allowed by IVASS.

  Some training modules were also used as part of the "maintenance" course for ESMA purposes, as the training process for ESMA/IVASS subjects pursued the objective of standardising the methodological approach of the two paths, optimising the delivery of the programmes, while at the same time ensuring compliance with the specific requirements of the two regulatory areas. Given the partial overlap of the maintenance courses for these two qualifications, the overall total of training hours given is lower than the sum of the hours provided for each of them.

  Various professional accreditation programmes for ESMA and IVASS purposes were organised during the year, after adapting them for delivery entirely on a distance basis in view of the healthcare emergency. This approach ensured overall consistency in the training delivered on these topics. Where possible, the above programmes were supplemented to ensure their validity for both types of accreditation.

In the area of "Behavioural" training, a number of courses were delivered in bite-sized chunks including, in particular, those regarding the management of commercial negotiations for professional staff within the network.

With regard to other "cross-functional" skills, short courses were delivered to all employees on effective communications techniques and change management awareness.

6.3 - Industrial relations

An agreement was signed on 26 November 2020, with trade unions representing the majority of member employees, covering:

- staff with pension rights accrued by 30 September 2021;
- staff with pension rights accrued under the so-called "female option";
- staff with pension rights accruing by 31 December 2024, who are now able to access the Solidarity Fund

the departure of the above persons will be spread between two windows, one on 1 July 2021 and the other on 1 July 2022. Measures also facilitate termination of the employment relationships of employees who satisfy the AGO pension requirement by 30 September 2021.

At 31 December 2020, applications have been accepted from 101 persons; additional identified persons have not yet accepted the above forms of termination and, accordingly, the Bank plans to carry out further negotiations with a view to terminating their employment relationships by April. the one-time charge to the payroll costs is Euro 12.0 million.

6.4 - Future activities

The HR Department will continue to work on the professional conversion of network personnel from administrative roles to commercial/advisory roles, in order to guarantee more targeted and personalised customer service, consistent with the new structure of the commercial network designed to create additional value in each individual segment.

In addition, new initiatives and efficiency enhancements of the service models will be put in place, both at Head Office and the Network, in line with the development lines of the sustainability issues defined by the Banco Desio Group and on the basis of the Company policies on the enhancement of gender diversity and work-life balance.

Lastly, the HR Department will implement the operational changes in the organisation of work envisaged in national collective employment contract.

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 internal 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.

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.

The above control levels are applied and implemented to an extent proportionate to the nature, mission and size of the subsidiaries currently active within the Group.

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 Bank's website www.bancodesio.it, pursuant to art. 123-bis of the CFA.

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 Bank's website www.bancodesio.it, pursuant to art. 123-bis of the CFA.

7.3 - Risk measurement and management

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

8 - Results of operations

8.1 - Savings deposits: customer assets under administration

Total customer funds under management reached Euro 28.3 billion, representing an increase with respect to the 2019 year-end balance (+5.9%), attributable to both direct deposits (+5.5%) and indirect deposits (+6.2%).

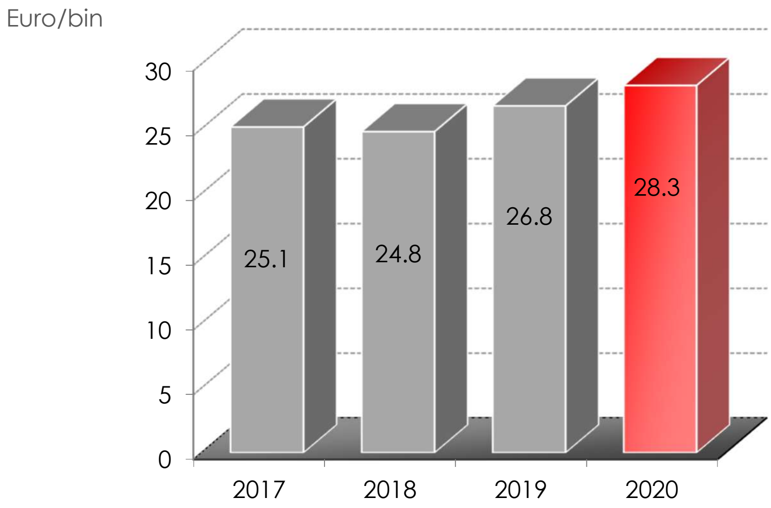
The composition and balances that make up this aggregate are shown in the following table.

Table no. 2 - **CUSTOMER DEPOSITS**

Amounts in thousands of Euro	**31.12.2020**	**%**	**31.12.2019**	**%**	**Change Amount**	**Change %**
Due to customers	10,205,567	36.0%	9,447,655	35.3%	757,912	8.0%
Debt securities in issue	1,608,927	5.7%	1,749,103	6.5%	-140,176	-8.0%
Direct deposits	**11,814,494**	**41.7%**	**11,196,758**	**41.8%**	**617,736**	**5.5%**
Ordinary customer deposits	10,160,527	35.9%	9,721,680	36.4%	438,847	4.5%
Institutional customer deposits	6,359,833	22.4%	5,840,695	21.8%	519,138	8.9%
Indirect deposits	**16,520,360**	**58.3%**	**15,562,375**	**58.2%**	**957,985**	**6.2%**
Total customer deposits	**28,334,854**	**100.0%**	**26,759,133**	**100.0%**	**1,575,721**	**5.9%**

The trend in total deposits since 2017 is shown in the following graph, which shows an average annual growth rate of 4.1%.

Chart no. 5 - ***TREND IN TOTAL DEPOSITS IN RECENT YEARS***



Direct deposits

Direct deposits amounted to Euro 11.8 billion, up 5.5% compared with 31 December 2019, due to the trend in amounts due to customers (+8.0%); debt securities in issue have decreased compared with the end of the previous year (-8.0%).

Due to customers of Euro 10.2 billion represents the most significant component as it makes up 86.4% of the total balance, of which some Euro 9.6 billion relates to demand deposits, that is, current accounts and savings deposits, while some Euro 0.5 billion relates to restricted deposits and the remainder relates to other payables.

Debt securities in issue relate to bonds issued and placed of some Euro 1.5 billion (including some Euro 0.1 billion of subordinated bonds) and certificates of deposits for the balance.

Debt securities in issue show the following breakdown by maturity based on their nominal value:

- within one year 223 million euro (of which 50 million euro subordinated securities);
- between 1 and 3 years Euro 273 million (of which Euro 80 million subordinated securities);
- between 3 and 5 years Euro 603 million;
- beyond 5 years Euro 504 million.

Indirect deposits

Indirect deposits totalled Euro 16.5 billion (+6.2%). Deposits from ordinary customers amounted to Euro 10.2 billion, up 4.5% compared with the end of the previous year, attributable to the trend in assets under management (+5.5%).

Deposits from institutional customers, equal to 38.5%, reached a total of around Euro 6.4 billion, an increase of around Euro 0.5 billion.

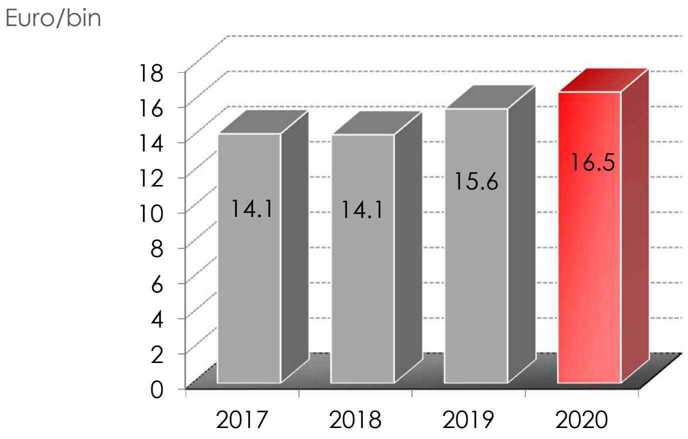
Table no. 3 - **INDIRECT DEPOSITS**

Amounts in thousands of Euro	31.12.2020	%	31.12.2019	%	Change Amount	Change %
Assets under administration	**3,150,381**	**19.1%**	**3,078,702**	**19.7%**	**71,679**	**2.3%**
Assets under management	**7,010,146**	**42.4%**	**6,642,978**	**42.7%**	**367,168**	**5.5%**
of which: Mutual funds and Sicavs	*3,444,821*	*20.8%*	*3,144,939*	*20.2%*	*299,882*	*9.5%*
Managed portfolios	*1,007,369*	*6.1%*	*966,037*	*6.2%*	*41,332*	*4.3%*
Bancassurance	*2,557,956*	*15.5%*	*2,532,002*	*16.3%*	*25,954*	*1.0%*
Ordinary customer deposits	**10,160,527**	**61.5%**	**9,721,680**	**62.5%**	**438,847**	**4.5%**
Institutional customer deposits	**6,359,833**	**38.5%**	**5,840,695**	**37.5%**	**519,138**	**8.9%**
Indirect deposits (1)	**16,520,360**	**100.0%**	**15,562,375**	**100.0%**	**957,985**	**6.2%**

(1) *institutional customer deposits include securities of the Bancassurance segment of ordinary customers for Euro 2.6 billion (Euro 2.4 billion at 31.12.2019).*

The trend in indirect deposits in recent years can be seen in the following chart, which shows them growing at an average annual rate of 5.3% from 2017.

*Chart no. 6 - **TREND IN INDIRECT DEPOSITS IN RECENT YEARS***



The following graph shows the breakdown in percentage terms of indirect ordinary customer deposits while the one below focuses on the breakdown of assets under management. Compared with the previous year's total, it highlights the increase in the majority share in favour of assets under management as opposed to assets under administration, in line with the previous year.

Chart no. 7 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2020**

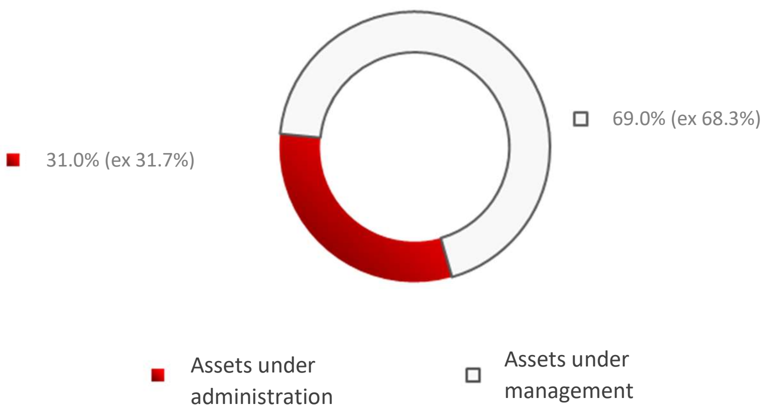
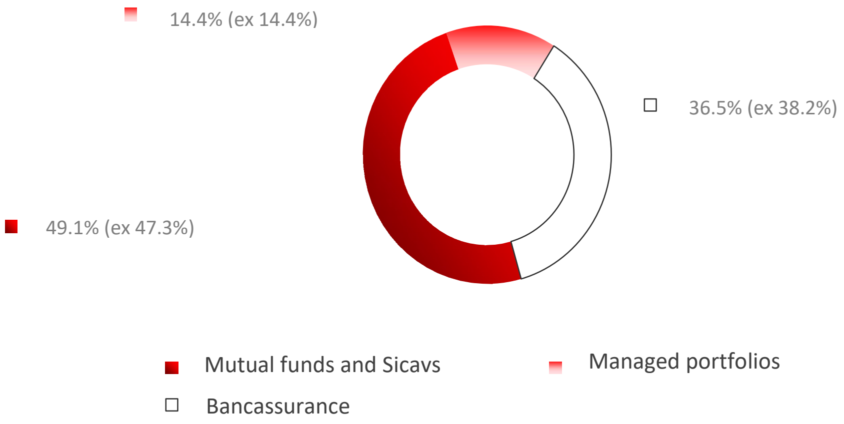


Chart no. 8 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2020**



2020 will go down in history as the year in which the Covid-19 pandemic caused a radical change in daily habits on a global scale. The monetary and fiscal policy response in this regard was timely and decisive. This approach enabled the principal risk asset classes to recover and, in some cases, exceed the losses incurred during the first part of the year. With regard to the management of equities, an initial phase marked by prudence until the autumn was followed by a more positive approach to the stockmarkets, in the belief that they will perform better than bonds. The United States was the dominant weighting in the portfolios. The overweight position on emerging markets was also maintained. At a product level, the preference went to the technology and consumer sectors, to the detriment of telephones and public utility services Bond management focused on assets capable of providing protection to the more risk-adverse portfolios (German, US, Japanese and Chinese treasuries). Yield, on the other hand, was sought among the subordinated bonds and in those issued by the emerging countries.

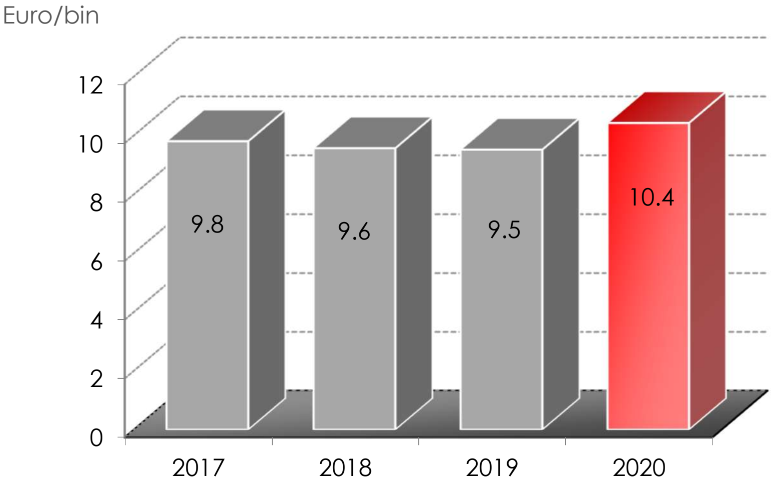
8.2 - Credit management: loans to customers

The value of loans to ordinary customers at 31 December 2020 amounted to Euro 10.4 billion, up on the previous year's balance (+9.5%), due to the derisking of the portfolio thanks to the disbursements of new liquidity (mortgages and medium/long-term loans) to companies with guarantees from Medio Credito Centrale and SACE for approximately Euro 1.8 billion.

Performing loans to customers recorded a growth on the previous year (+10.2%).

The following chart shows the trend in loans in the last four years, reflecting an average annual compound growth rate of +2.1%, due to the rise in volumes, partly offset by the reduction in non-performing loans in previous years.

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



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

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

Amounts in thousands of Euro	**31.12.2020**	**%**	**31.12.2019**	**%**	**Change Amount**	**%**
Current accounts	1,759,527	16.9%	2,160,224	22.7%	-400,697	-18.5%
Mortgages and other long-term loans	7,888,369	75.7%	6,299,027	66.2%	1,589,342	25.2%
Other	771,545	7.4%	1,056,445	11.0%	-284,900	-27.0%
Loans to customers	**10,419,441**	**100.0%**	**9,515,696**	**100.0%**	**903,745**	**9.5%**
- of which non-performing loans	*301,945*	*2.9%*	*337,251*	*3.5%*	*-35,306*	*-10.5%*
- of which performing loans	*10,117,496*	*97.1%*	*9,178,445*	*96.5%*	*939,051*	*10.2%*

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

Amounts in thousands of Euro	**31.12.2020**	**%**	**31.12.2019**	**%**	**Change Amount**	**%**
Households	3,132,680	30.1%	2,952,883	31.0%	179,797	6.1%
Non-financ. cos, artisans and other fam.	6,231,367	59.8%	5,619,863	59.1%	611,504	10.9%
Financial companies	896,511	8.6%	818,129	8.6%	78,382	9.6%
Private and other social institutions (1)	158,883	1.5%	124,822	1.3%	34,061	27.3%
Loans to customers	**10,419,441**	**100.0%**	**9,515,696**	**100.0%**	**903,745**	**9.5%**

(1) *inclusive of financial and non-financial companies in the rest of the world*

Loans to non-financial companies, artisans and other family businesses amounted to about Euro 6.2 billion, up by 10.9% on the comparative figure due to the liquidity guaranteed by the State during the year. This still represents the bulk (59.8%) of total lending to customers (59.1% in the comparative period).

The following chart shows the percentage breakdown of loans at the end of 2020, analysed by type of customer, while the subsequent chart focuses on the loans made to non-financial companies, artisans and family businesses, analysed by business sector.

Chart no. 10 - **% BREAKDOWN OF LOANS TO CUSTOMERS BY TYPE OF CUSTOMER AT 31.12.2020**

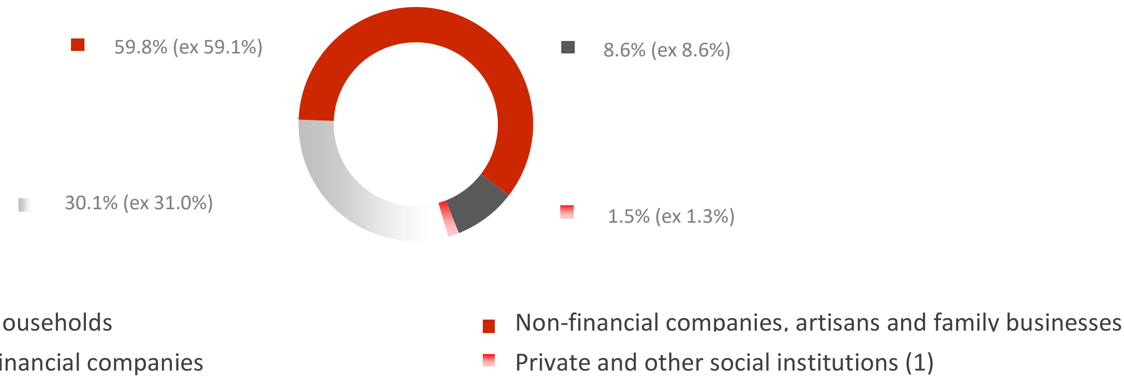
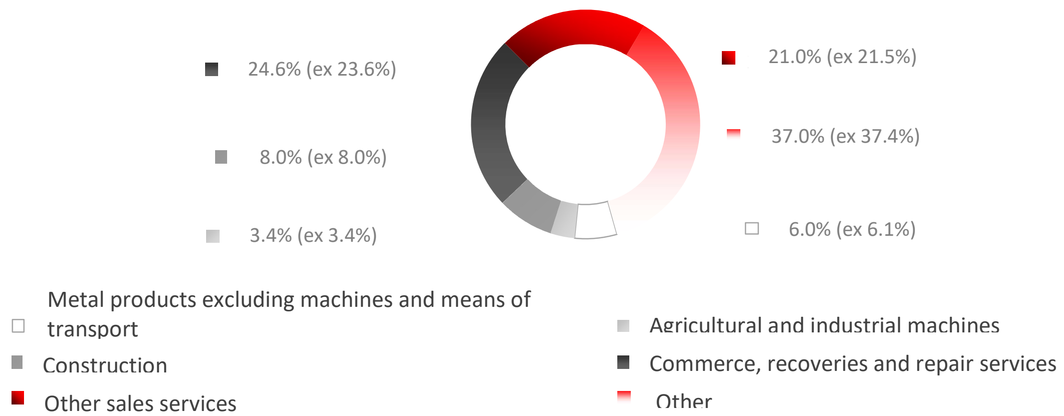


Chart no. 11 - **% BREAKDOWN OF LOANS TO CUSTOMERS AT 31.12.2020 REGARDING NON-FINANCIAL COMPANIES, ARTISANS AND OTHER FAMILY BUSINESSES**



Loans to customers in the service sector generally continue to be very important, especially those in other sales related services, wholesale and retail services, recoveries and repairs and the construction industry. Taken together, these loans represent 53.6% (53.1% last year) of the total corresponding to some Euro 3.3 billion.

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest 50 customers at the end of 2020 continues to reflect a high degree of risk diversification.

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

Number of customers [1]	**31.12.2020**	**31.12.2019**
First 10	1.26%	1.16%
First 20	2.06%	1.97%
First 30	2.76%	2.68%
First 50	3.92%	3.88%

[1] *net of loans to FIDES S.p.A.*

None of our customers is considered a "Large Exposure" for supervisory purposes at the reference date; in fact, "Large Exposures" only comprise Group companies, the Bank of Italy, the Ministry of the Treasury, the Guarantee Fund under Law no. 662 of 23.12.1996 and the SPV Two Worlds S.r.l., with a total nominal value (including guarantees given and commitments) of Euro 6.8 billion, equal to a total weighted amount of Euro 0.2 billion.

As a result of the sales of non-performing loans carried out during the year, the total amount of net non-performing loans consisting of doubtful loans, unlikely to pay loans and non-performing past due and/or overdrawn exposures came to Euro 301.9 million, net of adjustments for Euro 273.8 million, with a decrease of Euro 35.3 million compared with Euro 337.3 million at the end of 2019. In particular, net doubtful loans totalled Euro 116.6 million (formerly 119.4 million), unlikely to pay loans Euro 184.3 million (formerly 215.0 million) and non-performing past due and/or overdrawn exposures Euro 1.0 million (formerly Euro 2.8 million).

The following table summarises the gross and net indicators relating to credit risk and the related coverage level, where due to the sales of non-performing loans, and the increase in new liquidity to companies, show a further reduction in the ratio of "gross non-performing loans/gross loans" to 5.3% and "net non-performing loans/net loans" to 2.9%.

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

	31.12.2020					
Amounts in thousands of Euro	**Gross exposure**	**% of total loans and receivables**	**Write-downs**	**Coverage ratio**	**Net exposure**	**% of total loans and receivables**
Doubtful loans	298,889	2.7%	(182,257)	61.0%	116,632	1.1%
Unlikely to pay	275,668	2.6%	(91,365)	33.1%	184,303	1.8%
Past due impaired loans	1,164	0.0%	(154)	13.2%	1,010	0.0%
Total non-performing loans	**575,721**	**5.3%**	**(273,776)**	**47.6%**	**301,945**	**2.9%**
Exposures in stage 1	7,853,111	73.0%	(16,808)	0.21%	7,836,303	75.2%
Exposures in stage 2	2,337,941	21.7%	(56,748)	2.43%	2,281,193	21.9%
Performing exposures	**10,191,052**	**94.7%**	**(73,556)**	**0.72%**	**10,117,496**	**97.1%**
Total loans to customers	**10,766,773**	**100.0%**	**(347,332)**	**3.2%**	**10,419,441**	**100.0%**

Amounts in thousands of Euro	31.12.2019					
	Gross exposure	**% of total loans and receivables**	**Write-downs**	**Coverage ratio**	**Net exposure**	**% of total loans and receivables**
Doubtful loans	309,649	3.1%	(190,258)	61.4%	119,391	1.3%
Unlikely to pay	306,940	3.1%	(91,897)	29.9%	215,043	2.3%
Past due impaired loans	3,218	0.0%	(401)	12.5%	2,817	0.0%
Total non-performing loans	**619,807**	**6.3%**	**(282,556)**	**45.6%**	**337,251**	**3.5%**
Exposures in stage 1	8,202,208	83.3%	(21,699)	0.26%	8,180,509	86.0%
Exposures in stage 2	1,021,457	10.4%	(23,521)	2.30%	997,936	10.5%
Performing exposures	**9,223,665**	**93.7%**	**(45,220)**	**0.49%**	**9,178,445**	**96.5%**
Total loans to customers	**9,843,472**	**100.0%**	**(327,776)**	**3.3%**	**9,515,696**	**100.0%**

All indicators show improved coverage with respect to the prior year, except with regard to doubtful loans following the disposal in December of loans with a high average level of cover (73%).

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

Table no. 8 - **INDICATORS OF COVERAGE OF LOANS TO CUSTOMERS**

% Coverage of non-performing and performin	**31.12.2020**	**31.12.2019**
% Coverage of doubtful loans	60.98%	61.44%
% Coverage of doubtful loans, gross of cance	62.24%	63.11%
% Total coverage of non-performing loans	47.55%	45.59%
% Coverage of non-performing loans, gross of cancellations	48.45%	46.79%
% Coverage of performing loans	0.72%	0.49%

With reference to the exposures relating to the Covid-19 loans backed by public guarantees pursuant to Law 662/96 (issued by the Guarantee Fund for SMEs through Medio Credito Centrale, MCC) and by SACE guarantees, which for the entire performing loan portfolio at the reporting date express an overall EAD of approximately Euro 1,815 million, the average coverage is approximately 0.24%, of which 0.13% for exposure in stage 1 and 0.83% for exposure in stage 2. On the other hand, as regards the relationships subject to the Covid-19 moratorium (pursuant to law, ABI, internal of general scope), which at the reporting date express an overall EAD for performing exposure of approximately 2,601 million euro, the average coverage is 1.53%, which for stage 2 relationships alone (with a total EAD of approximately 1,352 million euro) rises to 2.80%.

8.3 - The securities portfolio and interbank position

Securities portfolio

Following a positive start by the equity and bond markets, the first quarter suffered a brutal inversion due to the emergence in the West, with particular intensity in Italy, of the coronavirus pandemic that, initially, was thought to be a China-only problem. GDP forecasts were revised drastically from March and massive injections of liquidity from central banks attempted to contain both the market slump and the rise in credit spreads. With regard to BTPs, the action taken by the ECB was important in slowing the rapid increase in the BTP-BUND spread.

The rest of the year was taken up by steady recovery in the markets, supported by the extremely high monetary stimulus injected into their economies by all principal central banks.

The European stockmarkets managed to recover most of their losses: the FTSEMIB index closed down 5.4%, while the EuroStoxx50 was 5.1% lower, but the DAX actually finished the year 3.5% higher. The US indices jumped sharply by contrast, with the S&P ahead by 16.2% and the Nasdaq, benefiting from the "stay at home economy", soared 47.6%.

In addition, towards year end the EU and the UK managed to find agreement for the orderly exit of the latter from the single market.

The yields on European government securities were squeezed down even further, with the Bund down from -0.19% at end 2019 to -0.57% at the end of 2020, while the yield on the equivalent 10-year BTP fell over the 12-month period from 1.41% to 0.54%. The extreme liquidity also affected swap rates, with the yield on 20-year maturities closing the year at essentially zero.

At the year-end, the securities portfolio of the Bank amounts to about Euro 3.5 billion, up slightly over the end of the previous year. Most of the portfolio, about Euro 2.8 billion, is allocated to the HTC business model.

While 75% of the portfolio comprises government supranational bonds, the remainder largely comprises corporate bonds.

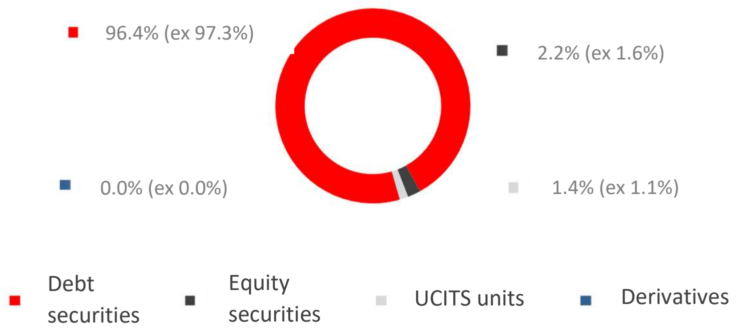
The duration of the HTC portfolio, which was only 1.63 at the end of 2019, has risen to 2.32 following reinvestment that favoured the medium/long-term end of the curve. The duration of the HTCS portfolio has also been increased, from 0.74 to 1.80. In particular with regard to the HTCS portfolio, new operational limits have been set up in order to improve efficiency and consistency with the business model.

Transactions involving the HTC and HTCS portfolios complied with the operational limits established by the Board of Directors, as discussed in "Part A – Accountg policies" of the explanatory notes.

Notably, the Bank also participated during the year in the measures put in place by the ECB, applying for Euro 1.2 billion in the June TLTRO3 auction to replace an expiring amount of Euro 800 million, for an additional Euro 1.2 billion in the December auction, with simultaneous repayment of the Euro 800 million tranche due in March 2021.

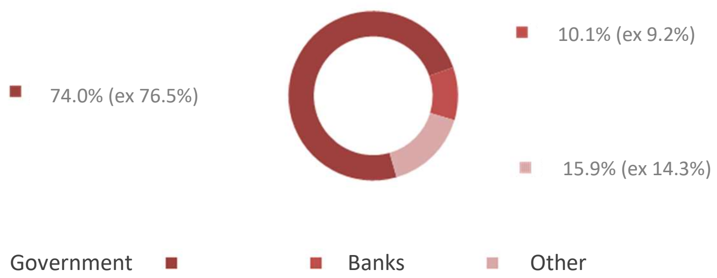
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (96.4%) of the investments still consist of debt securities.

Chart no. 12 - **% BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2020 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the year, 74.0% relates to government securities, 10.1% to securities issued by leading banks and the remainder to other issuers, as shown by the following chart.

Chart no. 13 - **% BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2020 BY TYPE OF ISSUER**



Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 31 December 2020 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

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

Amounts in thousands of Euro		31.12.2020			31.12.2019	
		Italy	**Spain**	**Total**	**Italy**	**Total**
Financial assets at fair value through other comprehensive income	Nominal value	565,000		565,000	505,000	505,000
	Book value	574,272		574,272	506,813	506,813
Financial assets at amortised cost	Nominal value	2,020,711	15,000	2,035,711	2,055,711	2,055,711
	Book value	2,031,967	16,127	2,048,094	2,069,131	2,069,131
Sovereign debt	**Nominal value**	**2,585,711**	**15,000**	**2,600,711**	**2,560,711**	**2,560,711**
	Book value	**2,606,239**	**16,127**	**2,622,366**	**2,575,944**	**2,575,944**

Table no. 10 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO, ISSUER AND MATURITY**

Amounts in thousands of Euro		**Italy**	**Spain**	**31.12.2020 Nominal value**	**31.12.2020 Book value**
Financial assets at fair value through other comprehensive income	up to 1 year	25,000	-	25,000	25,067
	1 to 3 years	500,000	-	500,000	507,212
	3 to 5 years	-	-	-	-
	over 5 years	40,000	-	40,000	41,993
	Total	565,000	-	565,000	574,272
Financial assets at amortised cost	up to 1 year	370,000	-	370,000	370,312
	1 to 3 years	743,921	-	743,921	746,311
	3 to 5 years	365,000		365,000	369,312
	over 5 years	541,790	15,000	556,790	562,159
	Total	2,020,711	15,000	2,035,711	2,048,094
Sovereign debt	**up to 1 year**	**395,000**	**-**	**395,000**	**395,379**
	1 to 3 years	**1,243,921**	**-**	**1,243,921**	**1,253,523**
	3 to 5 years	**365,000**	**-**	**365,000**	**369,312**
	over 5 years	**581,790**	**15,000**	**596,790**	**604,152**
	Total	**2,585,711**	**15,000**	**2,600,711**	**2,622,366**

Net interbank position

The net interbank position at year-end is negative for Euro 1.4 billion, compared with the position at the end of the previous year, which was also negative for Euro 1.0 billion.

8.4 - Shareholders' equity and capital adequacy

Shareholders' equity at 31 December 2020, including the result for the year, amounts to Euro 987.0 million, compared with Euro 956.9 million at the end of 2019. The positive change of Euro 30.1 million is essentially attributable to the overall profitability for the period of Euro 44.6 million, partially offset by the payment of the dividend for 2019 of Euro 14.5 million.

After a pay-out of 34.98% (based on the proposed allocation of net profit to be approved at the Shareholders' Meeting), capital for supervisory purposes, otherwise known as Own Funds, at 31 December 2020 amounts to Euro 1,055.3 million (CET 1 + AT1 Euro 1,028.8 million + T2 Euro 26.5 million). This is Euro 18.6 million higher than the amount reported at the end of the prior year, Euro 1,036.7 million.

At 31 December 2020, the Common Equity Tier 1 (CET1/Risk-weighted assets) was 15.7%. The Tier 1 ratio, consisting of total class 1 capital (T1)/Risk-weighted assets, came to 15.7%, while the Total capital ratio, consisting of total Own Funds/Risk-weighted assets, amounted to 16.1%.

The minimum capital required by law for 2020 for banks that belong to a banking group, including the capital conservation buffer of 2.5%, amounted to 7.0% for the Common Equity Tier 1 ratio, 8.5% for the Tier 1 ratio and 10.5% for the Total Capital ratio.

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

Note that, on 25 January 2018, the Board of Directors of the Bank resolved to adopt the transitional arrangements introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of the new standard on own funds and capital ratios, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time application of the standard and to the increase in expected losses on performing loans compared with the date of first-time application of the standard.

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

- an amendment to the transitional provisions of IFRS 9, which allows banks to sterilise in a declining manner the capital impacts associated with the increase in loan loss adjustments recorded in the period 2020-2024 of stage 1 and 2 portfolios compared with 1 January 2020,
- bringing forward the date of application of a) SMEs Supporting Factor, b) fairer calibration of salary- or pension-backed loans, with a weighting of 35% (the latter is not applicable to Banco Desio's portfolio),
- the replacement of the previous prudential regime of total advance deduction of investments in software, in favour of a simple approach based on prudent amortisation of software over a maximum of three years.

At the board meeting on 30 July 2020, the Board of Directors of the Company also resolved to make use of the option provided for by Regulation 2020/873 i.e. the temporary treatment of unrealised profits and losses measured at fair value recognised in other comprehensive income for Government debt securities for the period 2020-2022 (exclusion factor of 1 in 2020, 0.70 in 2021 and 0.40 in 2022). The table below therefore shows the composition of own funds and capital ratios calculated with and without application of the transitional arrangements.

Own Funds and Ratios with and without application of the transitional regime

	31.12.2020		
	Application of the transitional arrangements	Without IFRS 9 transitional provisions	Fully loaded
OWN FUNDS			
Common Equity Tier 1 - CET 1	1,028,021		
Common Equity Tier 1 - CET1 without application of the transitional arrangements		*962,087*	*963,015*
Tier 1 capital	1,028,780		
Tier 1 capital without application of the transitional arrangements		*962,846*	*963,015*
Total own funds	1,055,325		
Total own funds without application of the transitional arrangements		*989,391*	*989,560*
RISK ASSETS			
Risk-weighted assets	6,564,554		
Risk-weighted assets without application of the transitional arrangements		*6,471,161*	*6,471,161*
CAPITAL RATIOS			
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	15.660%		
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional arrangements		*14.867%*	*14.882%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	15.672%		
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional arrangements		*14.879%*	*14.882%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	16.076%		
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional arrangements		*15.289%*	*15.292%*

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, which forms the basis of the specific comments.

The criteria for the construction of the reclassified income statement are summarised as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- breakdown of profit (loss) for the period between "Current result after tax" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 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 depreciation of leasehold improvements, reclassified respectively as a reduction to caption 160b) "Other administrative expenses" and as an increase in caption 190 "Net adjustments to intangible assets" included in "Operating expenses";
- the time value components of non-performing financial assets (calculated on the basis of the original effective interest rate) and impairment losses on interest on non-performing loans are reclassified from the item "Net interest income" to "Cost of credit";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of financial assets valued at amortised cost" of "Operating income" is reclassified, net of the component of gains (losses) on debt securities at amortised cost, to "Cost of credit" (which also includes caption 130a) "Net impairment adjustments to loans and advances") after "Operating profit";
- the expected loss on securities at amortised cost included in caption 130a) "Net impairment adjustments to loans and advances", has been reclassified to caption 130b) "Net adjustments to securities owned" (which also includes the balance of net adjustments for credit risk on securities at fair value with impact on overall profitability).
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 170 "Net provisions for risks and charges - other" to caption "Cost of credit", both captions coming after the "Result of operations";
- costs for operating leases falling within the scope of IFRS 16 "Leases", booked to item "20. Interest and similar expense" and to item "210. Net adjustments to property, plant and equipment", have been reclassified to item "190 b) Other administrative costs", where the charges incurred on these contracts were recorded in the prior period";
- provisions, expenses and revenues of an extraordinary nature or which are "one-off" are reclassified to "Extraordinary provisions for risks and charges, other provisions, expenses and revenues"; in particular, Euro 12.0 million was reclassified from caption 160 “Payroll costs” following access to the “Solidarity fund for income support” under the agreement on voluntary departures signed during the year with the trade unions;
- the tax effect on "Non-recurring profit (loss)" is reclassified from caption 270 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

Net profit is around Euro 23.9 million, down by 46.8% on the prior period figure of Euro 44.9 million, which was affected by the impact on cost of credit of the changed economic scenario, as well as non-recurring charges (in particular the charge of Euro 12.0 million recognised during the year for the already mentioned staff redundancy plan).

Table no. 11 - **RECLASSIFIED INCOME STATEMENT**

Captions *Amounts in thousands of Euro*		31.12.2020	31.12.2019	Change Amount	 %
10+20	Net interest income	200,480	197,726	2,754	1.4%
70	Dividends and similar income	1,765	1,096	669	61.0%
40+50	Net commission income	171,973	171,597	376	0.2%
80+90+100 +110	Net result of financial assets and liabilities	13,861	8,055	5,806	72.1%
200	Other operating income/expense	3,316	5,728	-2,412	-42.1%
	Operating income	**391,395**	**384,202**	**7,193**	**1.9%**
160 a	Payroll costs	-165,764	-167,823	2,059	-1.2%
160 b	Other administrative costs	-92,689	-96,819	4,130	-4.3%
180+190	Net adjustments to property, plant and equipment and intangible assets	-9,094	-10,078	984	-9.8%
	Operating costs	**-267,547**	**-274,720**	**7,173**	**-2.6%**
	Result of operations	**123,848**	**109,482**	**14,366**	**13.1%**
100a+130a	Cost of credit	-76,589	-54,568	-22,021	40.4%
130 b	Net adjustments to securities owned	942	3,420	-2,478	-72.5%
140	Profit/losses from contractual changes without write-offs	267	-412	679	n.s.
170 a	Net provisions for risks and charges - commitments and guarantees given	-2,234	-368	-1,866	507.1%
170 b	Net provisions for risks and charges - other	-3,576	433	-4,009	n.s.
	Dividends from equity investments in subsidiaries	1,625	5,740	-4,115	-71.7%
	Profit (loss) from continuing operations before tax	**44,283**	**63,727**	**-19,444**	**-30.5%**
270	Income taxes on continuing operations	-9,961	-17,657	7,696	-43.6%
	Profit (loss) from continuing operations after tax	**34,322**	**46,070**	**-11,748**	**-25.5%**
240	Net result of the measurement at fair value of property, plant and equipment and intangible assets	0	-627	627	n.s.
	Provisions for risks and charges, other provisions, one-off expenses and revenue	-13,815	-1,246	-12,569	n.s.
	Non-recurring result before tax	**-13,815**	**-1,873**	**-11,942**	**n.s.**
	Income taxes from non-recurring items	3,388	689	2,699	391.7%
	Non-recurring profit (loss) after tax	**-10,427**	**-1,184**	**-9,243**	**780.7%**
300	**Net profit (loss) for the period**	**23,895**	**44,886**	**-20,991**	**-46.8%**

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.

Captions		As per financial statements	Reclassifications									Reclassified income statement
Amounts in thousands of Euro		31.12.2020	Measurement effects on non-performing loans	Tax/expense recoveries	Dividends from equity investments	Expected loss on securities at amortized cost	Depreciation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions, one-off expenses and revenue	Reclassifications IFRS16 - Leases	Income taxes	31.12.2020
10+20	Net interest income	205,500	-5,012						-1,029	1,021		200,480
70	Dividends and similar income	3,390			-1,625							1,765
40+50	Net commission income	171,973										171,973
80+90+100 +110	Net result of financial assets and liabilities	5,010						9,211	-360			13,861
200	Other operating income/expense	34,867		-33,118			1,567					3,316
	Operating income	**420,740**	**-5,012**	**-33,118**	**-1,625**	**0**	**1,567**	**9,211**	**-1,389**	**1,021**	**0**	**391,395**
160 a	Payroll costs	-177,791							12,027			-165,764
160 b	Other administrative costs	-117,754		33,118					3,177	-11,230		-92,689
180+190	Net adjustments to property, plant and equipment and intangible assets	-17,736					-1,567			10,209		-9,094
	Operating costs	**-313,281**	**0**	**33,118**			**-1,567**		**15,204**	**-1,021**	**0**	**-267,547**
	Result of operations	**107,459**	**-5,012**	**0**	**-1,625**	**0**	**0**	**9,211**	**13,815**	**0**	**0**	**123,848**
100a+130a	Cost of credit	-71,257	5,012			-751		-9,211	-382			-76,589
130 b	Net adjustments to securities owned	191				751						942
140	Profit/losses from contractual changes without write-offs	267										267
170 a	Net provisions for risks and charges - commitments and guarantees given	-2,234										-2,234
170 b	Net provisions for risks and charges - other	-3,958							382			-3,576
	Dividends from equity investments in subsidiaries				1,625							1,625
	Profit (loss) from continuing operations before tax	**30,468**	**0**	**0**	**0**	**0**	**0**	**0**	**13,815**	**0**	**0**	**44,283**
270	Income taxes on continuing operations	-6,573									-3,388	-9,961
	Profit (loss) from continuing operations after tax	**23,895**	**0**	**0**	**0**	**0**	**0**	**0**	**13,815**	**0**	**-3,388**	**34,322**
240	Net result of the measurement at fair value of property, plant and equipment and intangible assets	0										0
	Provisions for risks and charges, other provisions, one-off expenses and revenue				0				-13,815			-13,815
	Non-recurring result before tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-13,815**	**0**	**0**	**-13,815**
	Income taxes from non-recurring items										3,388	3,388
	Non-recurring profit (loss) after tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-13,815**	**0**	**3,388**	**-10,427**
300	**Net profit (loss) for the period**	**23,895**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23,895**

BANCO DESIO - RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME STATEMENT AT 31.12.2019

Captions		As per financial statements	Reclassifications								Reclassified income statement
Amounts in thousands of Euro		**31.12.2020**	Measurement effects on non-performing loans	Tax/expense recoveries	Dividends from equity investments	Expected loss on securities at amortized cost	Depreciation of leasehold improvements	Provisions for risks and charges/other provisions, one-off expenses and revenue	Reclassifications IFRS16 - Leases	Income taxes	**31.12.2020**
10+20	Net interest income	202,865	-6,359						1,220		197,726
70	Dividends and similar income	6,836			-5,740						1,096
40+50	Net commission income	171,597									171,597
80+90+100 +110	Net result of financial assets and liabilities	3,394									8,055
200	Other operating income/expense	37,201		-32,099			2,076	-1,450			5,728
	Operating income	**421,893**	**-6,359**	**-32,099**	**-5,740**	**0**	**2,076**	**-1,450**	**1,220**	**0**	**384,202**
160 a	Payroll costs	-168,515		0				692			-167,823
160 b	Other administrative costs	-119,289		32,099				2,004	-11,633		-96,819
180+190	Net adjustments to property, plant and equipment and intangible asset	-18,415	0				-2,076		10,413		-10,078
	Operating costs	**-306,219**	**0**	**32,099**			**-2,076**	**2,696**	**-1,220**	**0**	**-274,720**
	Result of operations	**115,674**	**-6,359**	**0**	**-5,740**	**0**	**0**	**1,246**	**0**	**0**	**109,482**
100a+130a	Cost of credit	-52,785	6,359			-3,321		-160			-54,568
130 b	Net adjustments to securities owned	99				3,321					3,420
140	Profit/losses from contractual changes without write-offs	-412									-412
170 a	Net provisions for risks and charges - commitments and guarantees given	-368									-368
170 b	Net provisions for risks and charges - other	273						160			433
	Dividends from equity investments in subsidiaries				5,740						5,740
	Profit (loss) from continuing operations before tax	**62,481**	**0**	**0**	**0**	**0**	**0**	**1,246**	**0**	**0**	**63,727**
270	Income taxes on continuing operations	-16,968								-689	-17,657
	Profit (loss) from continuing operations after tax	**45,513**	**0**	**0**	**0**	**0**	**0**	**1,246**	**0**	**-689**	**46,070**
240	Net result of the measurement at fair value of property, plant and equipment and intangible assets	-627									-627
	Provisions for risks and charges, other provisions, one-off expenses and revenue				0			-1,246			-1,246
	Non-recurring result before tax	**-627**	**0**	**0**	**0**	**0**	**0**	**-1,246**	**0**	**0**	**-1,873**
	Income taxes from non-recurring items									689	689
	Non-recurring profit (loss) after tax	**-627**	**0**	**0**	**0**	**0**	**0**	**-1,246**	**0**	**689**	**-1,184**
300	**Net profit (loss) for the period**	**44,886**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**44,886**

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

Operating income

Core revenues have increased by about Euro 7.2 million on the comparative period (+1.9%) to Euro 391.4 million. This is mainly due to the increase in net result of financial assets and liabilities for Euro 5.8 million (+72.1%), net interest income for Euro 2.8 million (+1.4%), dividends for Euro 0.7 million (+61.0%) and net commission income of Euro 0.4 million (-0.2%), partially offset by the decrease in other operating income/expense of Euro 2.4 million (-42.1%).

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

Table no. 14 - **BREAKDOWN OF NET COMMISSION INCOME BY TYPE OF SERVICE**

Amounts in thousands of Euro	31.12.2020	%	31.12.2019	%	Change Amount	%
Collection and payment services	23,176	13.5%	26,182	15.3%	-3,006	-11.5%
Placement of securities	2,956	1.7%	821	0.5%	2,135	260.0%
Managed portfolios and order taking	13,222	7.7%	12,750	7.4%	472	3.7%
Distribution of insurance products	22,266	12.9%	19,744	11.5%	2,522	12.8%
Maintenance and management of current accc	70,416	40.9%	73,412	42.8%	-2,996	-4.1%
Placement of mutual funds	25,691	15.0%	23,245	13.5%	2,446	10.5%
Other commission	14,246	8.3%	15,443	9.0%	-1,197	-7.8%
Net commission income	**171,973**	**100.0%**	**171,597**	**100.0%**	**376**	**0.2%**

In addition to the greater weighting of commission expense incurred on the network of promoters, "Other commission" reflects a decline in the FX commissions earned and in commissions from the distribution of third-party services in relation to other products.

Operating costs

Operating costs", which include payroll costs, other administrative expenses and net adjustments to property, plant and equipment and intangible assets amount to around Euro 267.5 million and have decreased with respect to the comparative period by Euro 7.2 million (-2.6%).

In particular, other administrative expenses have decreased by Euro 4.1 million (-4.3%) mainly due to postal, telephone and data transmission costs, professional consultancy fees and advertising costs. The balance includes Euro 8.3 million of the ex-ante gross ordinary contributions to the resolution fund ("Contribution SRM - Single Resolution Mechanism") and the fund for the protection of guaranteed deposits ("DGS contributions - Deposit Guarantee Scheme"), compared with Euro 8.6 million in the prior period.

Payroll costs have decreased on the prior period (-1.2%); the balance of net adjustments to property, plant and equipment and intangible assets came to Euro 9.1 million (-9.8%).

Result of operations

The result of operations at 31 December 2020 therefore amounts to Euro 123.8 million, up by Euro 14.4 million compared with the prior year (+13.1%).

Net profit (loss) from operations after tax

The result of operations of Euro 123.8 million leads to a *net profit (loss) from operations after tax* of Euro 34.3 million, 25.5% down on Euro 46.1 million in the comparative period, mainly because of:

- higher cost of credit (*net impairment adjustments to loans and advances from customers and gains (losses) on disposal or repurchase of loans*) of Euro 76.6 million, compared with Euro 54.6 million in the prior period;
- positive net adjustments to proprietary securities of Euro 0.9 million (positive for Euro 3.4 million in the comparative period);
- net provisions for risks and charges of Euro 5.8 million euro (zero balance in the comparative period);
- income taxes on current operations of Euro 10.0 million (formerly Euro 17.7 million).

Result of non-recurring items after tax

At 31 December 2020 the *result of non-recurring items after tax* was a loss of Euro 10.4 million. This item basically consists of:

- the revenue component of Euro 0.4 million relating to the substantial change in a financial instrument subscribed by the bank as part of the interventions made to support the banking system,
- the Euro 3.2 million charge for the extraordinary contributions to the Single Resolution Mechanism (SRM) and the Deposit Guarantee Scheme (DGS),
- the charge of 12.0 million recognised for access to the "Income Support Solidarity Fund" as a result of the Agreement signed during the year with the trade unions regarding the voluntary redundancy plan,
- interest income of Euro 1.0 million on the tax credit relating to the reimbursement requested by Banco Desio in 2012 regarding the deductibility for corporation tax (Ires) purposes of the Irap due on the payroll costs of employees and similar personnel, which was reimbursed in December 2020,

net of the tax effect (which was positive for Euro 3.4 million). Note that this tax effect includes Euro 1.2 million, relating to the tax benefit introduced by the so-called "Patent Box", which envisages an optional regime for the reduced taxation of income deriving from the use of intangible assets, including trademarks.

In the comparison period, we point out a non-recurring loss after tax of Euro 1.2 million. This item basically consists of:

- the revenue component of Euro 1.4 million relating to an insurance refund received,
- the Euro 2.0 million charge for the extraordinary contributions to the Single Resolution Mechanism (SRM) and the Deposit Guarantee Scheme (DGS),
- the Euro 0.7 million charge for incentives to staff with accrued pension requirements,
- the net result of the measurement of the works of art at fair value (negative for Euro 0.6 million,

net of the tax effect (which was positive for Euro 0.7 million).

Profit for the period

The total of the *profit from operations* and the *non-recurring profit*, leads to a net profit at 31 December 2020 of Euro 23.9 million (formerly Euro 44.9 million).

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 31.12.2019	%	Savings shares at 31.12.2019	%	Ordinary shares purchased	Savings shares purchased	Ordinary shares sold	Savings shares sold	Ordinary shares at 31.12.2020	%	Savings shares at 31.12.2020	%
Stefano Lado *	Chairman	Owned	2,180,111	1.776	196,000	1.485	0	0	0	0	2,180,111	1.776	196,000	1.485
		Registered to spouse	6,500	0.005	0	0.000	0	0	0	0	6,500	0.005	0	0.000
		Owned via Vega Finanziaria SpA *	6,885,730	5.610	571,522	4.329	0	0	0	0	6,885,730	5.610	571,522	4.329
Tommaso Cartone	Deputy Chairman		27,500	0.022	0	0.000	0	0	0	0	27,500	0.022	0	0.000
Alessandro Decio	Chief Executive Officer and General Manager		0	0	0	0	0	0	0	0	0	0	0	0
Graziella Bologna	Director		0	0	0	0	0	0	0	0	0	0	0	0
Valentina Casella	Director		0	0	0	0	0	0	0	0	0	0	0	0
Ulrico Dragoni	Director		0	0	0	0	0	0	0	0	0	0	0	0
Cristina Finocchi Mahne	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Agostino Gavazzi	Director	Owned	78,244	0.064	0	0.000	0	0	0	0	78,244	0.064	0	0.000
		Bare ownership**	5,500	0.004	0	0.000	0	0	0	0	5,500	0.004	0	0.000
		Registered to spouse	2,900	0.002	0	0.000	0	0	0	0	2,900	0.002	0	0.000
Egidio Gavazzi	Director	Owned	15,000	0.012	0	0.000	0	0	15,000	0	0	0.000	0	0.000
Tito Gavazzi	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Giulia Pusterla	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Laura Tulli	Director		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Emiliano BARCAROLI	Chairman of the Board of Statutory Auditors		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Rodolfo Anghileri	Acting Statutory Auditor		0	0.000	16,000	0.121	0	0	0	0	0	0.000	16,000	0.121
Stefania Chiaruttini	Acting Statutory Auditor		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Stefano ANTONINI	Alternate Statutory Auditor		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Massimo Celli	Alternate Statutory Auditor		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000
Silvia RE	Alternate Statutory Auditor		0	0.000	0	0.000	0	0	0	0	0	0.000	0	0.000

* *Giulia and Pietro Lado have granted general power of attorney to their father Mr. Stefano Lado by which he holds a stake of 0.1379% of the ordinary shares (169,270) of the Bank as well as control of Vega Finanziaria S.p.A.; He also holds a stake of 0.1230% of the savings shares (16,250) of the Bank.*

** Owned from 15 February 2020

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 2020, as was the case throughout the year, no equity investments were held in subsidiaries by members of the Boards of Directors and Statutory Auditors, by the General Manager or by the Deputy General Managers currently in office.

9.3 - Treasury shares and shares of the Parent Company

At 31 December 2020, 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 it did not trade in treasury share or shares of its parent company, directly or through a trustee or other person.

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. 15 - **TRANSACTIONS WITH THE PARENT COMPANY AND WITH SUBSIDIARIES OR COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE IN THE YEAR ENDED 31.12.2020**

Amounts in thousands of Euro	Assets	Liabilities	Guarantees/ commitments	Income	Expenses
Parent Company					
Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A.	4,999	1,288	0	49	2
Subsidiaries					
FIDES S.p.A.	811,757	5,154	47	20,154	9
Desio OBG	0	0	0	6	0
Transactions by company	**816,756**	**6,442**	**47**	**20,209**	**11**
Breakdown of transactions by type					
Financial	816,606	6,442	0	17,506	11
Trade	4	0	47	2,533	0
Lease / management of assets	0	0	0	0	0
Supply of services	0	0	0	149	0
Other	146	0	0	21	0
Transactions by type	**816,756**	**6,442**	**47**	**20,209**	**11**

Note that, to the extent that it is possible to make a comparison, all of the above transactions were entered into by applying market conditions and rates, and in any case, they are justified by being in the Bank's interest.

In compliance with art. 16 paragraph 4 of Consob's Market Regulations (adopted by Resolution 20249 of 28 December 2017 and subsequent amendments and additions), note that Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A. the Bank's parent company, as laid down by its articles of association, does not exercise any management control and coordination activities over the Bank and its subsidiaries, neither 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 Bank's website pursuant to art. 123-bis of the CFA.

9.5 - Ratings

On 19 May 2020, after its annual rating review, Fitch Ratings lowered the ratings previously assigned to the Bank by one notch. The judgement reflects the considerations behind the recent downgrade in the sovereign rating linked to the expected deterioration in Italy's growth forecasts as a result of the Covid-19 health emergency and the probable repercussions on the banking sector in terms of profitability and asset quality.

In this scenario, Fitch maintained the Bank's "Stable" outlook, recognising that it had adequate liquidity and a capitalisation capable of withstanding any pressure, even significant pressure, in terms of asset quality. The Bank points out that the coverage level is higher than the average of the Less Significant Institution (LSI), taking into account the composition of non-performing loans, and that the resilient territorial bank model is confirmed by the significant solidity of its capital and liquidity.

The updated ratings are the following:

Long term IDR: changed to “BB+” Outlook Stable

Viability rating: changed to “bb+”

Short term IDR: changed to “B”

Support Rating: confirmed at "5"

Support Rating Floor: confirmed at "No Floor"

9.6 - 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 Italian Civil Code) and/or 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 website www.bancodesio.it, pursuant to art. 123-bis of the CFA.

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

9.7 – Information on incentive plans

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

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

Information about the adoption of the Code of Conduct for listed companies is provided in the Annual Report on Corporate Governance in compliance with art. 123-bis of the CFA, which is available on the Bank's website www.bancodesio.it.

9.9 – Research and development activities

Banco Desio undertakes development with a view to continuous improvement in the customer relationship. Work on the development of "multi-channel" distribution continues in order to make banking services more easily accessible, in a simple and flexible way, also through strategic partnerships with leading operators that specialise in products and services dedicated to market/target segments (areas like consumer credit, bancassurance, payment services, with a view to pursuing widespread connectivity, mobility and advanced payment services).

The Covid-19 emergency resulted in a need to provide the customers of Banco Desio with tools for accessing the loan moratoria and payments in support of the economy. In this context, multiple applications were developed, supplemented by new third-party suppliers and advanced AI solutions, in order to manage effectively the large volume of cases on an automated basis.

Projects were activated during the year with a view to revising and strengthening the technological infrastructure at head office and branch level. As a consequence, by the end of the first half of 2021, the Bank will have enhanced the data transmission capacity available to cope with the needs of new projects and achieve considerable cost savings.

The Group has worked on the operational and IT processes associated with compliance activities, ensuring the security of an IT application and adding functions and levels of automation that enhance the overall security of the process, thereby reducing the effort required at branch level.

The printers available to the commercial network and central offices were also upgraded, adopting modern devices with low energy consumption and introducing technical/organisational solutions that lower the consumption of paper.

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

The Bank has adhered to the opt-out provided by arts. 70, paragraph 8 and by art. 71, paragraph 1-bis of Consob Issuers' Regulation (adopted by Resolution 11971 of 14 May 1999 and subsequent amendments and additions), exercising its right to opt out of the obligation to publish the documents required by Attachment 3B of the Regulation for significant mergers, demergers, increases in capital by contribution in kind, acquisitions and disposals.

No special transactions were carried out during 2020.

9.11 - Non-financial statement

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

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

10 - Outlook for the rest of 2020 and principal risks and uncertainties

In view of the financial strength and the careful approach taken to derisking, the containment of the NPL ratio which continues to decline, and the additional actions taken to minimise the effects of the macroeconomic conditions deriving from the pandemic (all elements underpinning approval of the 2021-2023 business plan in December 2020), the financial statements at 31 December 2020 have been prepared on a going concern. The capital and financial structure and operating performance of the business provide absolute confirmation of the foregoing.

In the paragraph on the macroeconomic scenario of the Consolidated Report on Operations in the consolidated financial statements, a description has been given of trends in the world economy and financial markets with the principal risks that they entail, while the controls over the Bank's operations and the various types of risk are explained in detail in Part E of the Notes – Information on risks and related hedging policy.

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

The ongoing economic crisis caused by the Covid-19 pandemic still presents risks that may influence the forecasts made for future years. Management of the risks inherent in the positions taken will be a fundamental element in driving the performance of the Bank, representing a principal activity that will involve all control structures during 2021.

In this context and having regard for the commercial and operational strategies adopted, on 17 December 2020 the Board of Directors of the Bank approved the 2021-2023 business plan, despite the uncertain macroeconomic scenario, in view of the very positive response by the organisation and the customer base to the adverse external conditions encountered during 2020. Consistent with the recent history of the Banco Desio Group, this Plan confirms the ongoing efforts being made to renew and refocus the business model adopted by the Bank.

The mission of the Group will remain customer-centric, with a view to supporting households and SMEs in their activities and in the management of their investments, with a controlled increase in lending and assets under management.

The ambition over the next three years is to characterise even more clearly the Banco Desio Group as an independent Group capable of competing with the best medium-sized banks in terms of capital adequacy, economic resilience and the quality of the services offered to customers. The business strategy adopted is founded on three main pillars, with structural action in the areas of wealth management and business customers, increased geographical focus on the historical territories of the Bank and strong emphasis on the growth of Fides (subsidiary active in the provision of salary-backed loans and consumer credit).

Through this refocusing of the model, the Bank wants to pursue a path of organic and diversified growth of the sources of revenue, also through the use of technology to increase the efficiency of the operating structure, with joint benefits on overall profitability and the cost/income ratio.

11 - Motion for approval of financial statements and allocation of net profit and dividend payment

Dear Shareholders,

we hereby submit for your approval the financial statements for the year ended 31 December 2020, which report a net profit for the year of Euro 23,895,085.43 as shown by the income statement.

Considering:

- the provisions of art. 31 of the Articles of Association;
- the press release of 16 December 2020 with which the Bank of Italy recommended to the less significant Italian banks to avoid, until 30 September 2021, the recognition or payment of dividends, or restrict their amount to no more than 15% of their cumulative 2019-20 profits or 20 basis points of the CET 1 coefficient (whichever is the lesser amount) as well as the consequent discussions with the Supervisory Authorities;
- the dividend distribution policies approved by the Board of Directors on 13 May 2014;

we propose the following allocation of the net profit:

- 10% to be allocated to the legal reserve	Euro 2,389,509.00
- 10% to be allocated to the statutory reserve	Euro 2,389,509.00
- to the shareholders:	
Euro 0.0603 for each of the 122,745,289 ordinary shares	Euro 7,401,540.93
Euro 0.0724 for each of the 13,202,000 savings shares	Euro 955,824.80
- to the charity reserve	Euro 50,000.00
- further allocation to the statutory reserve	Euro 10,708,701.70
Total net profit	**Euro 23,895,085.43**

In accordance with the Recommendation of the Bank of Italy dated 16 December 2020, the intention is to propose to the Ordinary Shareholders' Meeting to resolve the payment to shareholders of the dividends subject to limitation, including on savings shares, in compliance with the provisions of art. 31 of the Articles of Association and with the limit of 15% of the retained earnings of 2019-20 (lower than the amounts deriving from the application of the two limits set by the Recommendation) as follows:

Payment of dividends

<u>2019</u>
It should be recalled that the Shareholders' Meeting of 23 April 2020 resolved to distribute a dividend of Euro 14,358,740.74 (Euro 0.1036 for each of the 122,745,289 ordinary shares and Euro 0.1244 for each of the 13,202,000 savings shares).

The payment of dividend, which was conditional on the successful reconsideration of the situation connected to the current health emergency as described in section 4.2 - "Significant events" will be made in compliance with the above limits as follows:

- Euro 9,410,368.12 (Euro 0.0679 for each of the 122,745,289 ordinary shares and Euro 0.0815 for each of the 13,202,000 savings shares) on the first possible date after the Ordinary Shareholders' Meeting called to approve the 2020 financial statements;
- Euro 4,948,372.62 (Euro 0.0357 for each of the 122,745,289 ordinary shares and Euro 0.0429 for each of the 13,202,000 savings shares) after 30 September 2021.

2020

The payment of dividends referred to in this proposal of profit allocation will be made after 30 September 2021, as the limit of 15% of retained earnings for 2019-20 is already saturated.

In any case, we can confirm that the dividends in question will only be paid out with methods and timing that comply with the legislative/regulatory framework of reference and/or any recommendations of the Supervisory Authority, as accepted by the Board of Directors and subsequently by the Shareholders' Meeting, and in any case in compliance with the indications contained in the Recommendations issued from time to time.

Desio, 11 February 2021 The Board of Directors

Financial statements

BALANCE SHEET

ASSETS

Assets	31.12.2020	31.12.2019	change Amount	%
10. Cash and cash equivalents	56,523,664	60,815,214	(4,291,550)	-7.1%
20. Financial assets at fair value through profit or loss	56,702,908	44,062,263	12,640,645	28.7%
a) Financial assets held for trading	6,239,488	5,806,212	433,276	7.5%
c) Other financial assets mandatorily at fair value	50,463,420	38,256,051	12,207,369	31.9%
30. Financial assets at fair value through other comprehensive income	662,632,565	559,621,284	103,011,281	18.4%
40. Financial assets at amortised cost	14,278,374,529	12,897,500,706	1,380,873,823	10.7%
a) Due from banks	1,365,575,522	914,804,742	450,770,780	49.3%
b) Loans to customers	12,912,799,007	11,982,695,964	930,103,043	7.8%
60. Adjustment to financial assets with generic hedge (+/-)	562,706	623,670	(60,964)	-9.8%
70. Equity investments	42,199,729	42,199,729	-	0.0%
80. Property, plant and equipment	221,535,447	225,087,315	(3,551,868)	-1.6%
90. Intangible assets	11,772,173	11,451,140	321,033	2.8%
of which:				
- goodwill	9,796,226	9,796,226	-	0.0%
100. Tax assets	201,112,558	199,850,674	1,261,884	0.6%
a) current	16,899,717	7,497,316	9,402,401	125.4%
b) deferred	184,212,841	192,353,358	(8,140,517)	-4.2%
120. Other assets	107,384,025	129,777,026	(22,393,001)	-17.3%
Total assets	**15,638,800,304**	**14,170,989,021**	**1,467,811,283**	**10.4%**

LIABILITIES

Liabilities and shareholders' equity	31.12.2020	31.12.2019	change Amount	%
10. Financial liabilities at amortised cost	14,278,176,478	12,851,164,800	1,427,011,678	11.1%
a) Due to banks	2,412,243,797	1,603,208,032	809,035,765	50.5%
b) Due to customers	10,257,005,182	9,498,853,577	758,151,605	8.0%
c) Debt securities in issue	1,608,927,499	1,749,103,191	(140,175,692)	-8.0%
20. Financial liabilities held for trading	7,526,992	8,138,454	(611,462)	-7.5%
40. Hedging derivatives	1,539,513	2,156,682	(617,169)	-28.6%
60. Tax liabilities	13,490,215	15,814,574	(2,324,359)	-14.7%
b) deferred	13,490,215	15,814,574	(2,324,359)	-14.7%
80. Other liabilities	286,646,376	282,977,588	3,668,788	1.3%
90. Provision for termination indemnities	24,481,704	25,240,366	(758,662)	-3.0%
100. Provisions for risks and charges	39,893,366	28,625,628	11,267,738	39.4%
a) commitments and guarantees given	4,947,013	2,733,503	2,213,510	81.0%
c) other provisions for risks and charges	34,946,353	25,892,125	9,054,228	35.0%
110. Valuation reserves	66,113,301	45,384,125	20,729,176	45.7%
140. Reserves	810,199,596	779,762,662	30,436,934	3.9%
150. Share premium reserve	16,145,088	16,145,088	-	0.0%
160. Share capital	70,692,590	70,692,590	-	0.0%
180. Net profit (loss) for the period (+/-)	23,895,085	44,886,464	(20,991,379)	-46.8%
Total liabilities and shareholders' equity	**15,638,800,304**	**14,170,989,021**	**1,467,811,283**	**10.4%**

INCOME STATEMENT

Captions		31.12.2020	31.12.2019	change Amount	%
10.	Interest and similar income	231,881,582	238,822,122	(6,940,540)	-2.9%
	of which: interest income calculated using the effective interest method	155,992,596	153,983,144	2,009,452	1.3%
20.	Interest and similar expense	(26,381,752)	(35,956,801)	9,575,049	-26.6%
30.	**Net interest income**	**205,499,830**	**202,865,321**	**2,634,509**	**1.3%**
40.	Commission income	180,104,187	180,965,497	(861,310)	-0.5%
50.	Commission expense	(8,131,246)	(9,368,055)	1,236,809	-13.2%
60.	**Net commission income**	**171,972,941**	**171,597,442**	**375,499**	**0.2%**
70.	Dividends and similar income	3,389,953	6,835,540	(3,445,587)	-50.4%
80.	Net trading income	2,290,042	2,813,855	(523,813)	-18.6%
90.	Net hedging gains (losses)	-	(550,526)	550,526	-100.0%
100.	Gains (losses) on disposal or repurchase of:	6,453,417	901,953	5,551,464	615.5%
	a) financial assets measured at amortised cost	(1,747,023)	(706,465)	(1,040,558)	147.3%
	b) financial assets designated at fair value through other comprehensive income	8,217,910	1,764,909	6,453,001	365.6%
	c) financial liabilities	(17,470)	(156,491)	139,021	-88.8%
110.	Net result of other financial assets and liabilities designated at fair value through profit or loss	(3,733,862)	228,545	(3,962,407)	n.s.
	a) financial assets and liabilities designated at fair value	-	-		n.s.
	b) other financial assets that have to be measured at fair value	(3,733,862)	228,545	(3,962,407)	n.s.
120.	**Net interest and other banking income**	**385,872,321**	**384,692,130**	**1,180,191**	**0.3%**
130.	Net value adjustments/write-backs for credit risk relating to:	(71,066,199)	(52,685,927)	(18,380,272)	34.9%
	a) financial assets measured at amortised cost	(71,256,861)	(52,785,277)	(18,471,584)	35.0%
	b) financial assets designated at fair value through other comprehensive income	190,662	99,350	91,312	91.9%
140.	Profit/losses from contractual changes without write-offs	267,295	(412,016)	679,311	n.s.
150.	**Net profit from financial activities**	**315,073,417**	**331,594,187**	**(16,520,770)**	**-5.0%**
160.	Administrative costs:	(295,545,304)	(287,804,465)	(7,740,839)	2.7%
	a) payroll costs	(177,791,017)	(168,515,350)	(9,275,667)	5.5%
	b) other administrative costs	(117,754,287)	(119,289,115)	1,534,828	-1.3%
170.	Net provisions for risks and charges	(6,191,946)	(94,851)	(6,097,095)	n.s.
	a) commitments for guarantees given	(2,233,758)	(368,219)	(1,865,539)	506.6%
	b) other net provisions	(3,958,188)	273,368	(4,231,556)	n.s.
180.	Net adjustments to property, plant and equipment	(16,809,347)	(17,631,760)	822,413	-4.7%
190.	Net adjustments to intangible assets	(926,621)	(783,348)	(143,273)	18.3%
200.	Other operating charges/income	34,867,570	37,201,509	(2,333,939)	-6.3%
210.	**Operating costs**	**(284,605,648)**	**(269,112,915)**	**(15,492,733)**	**5.8%**
230.	Net result of the measurement at fair value of property, plant and equipment and intangible assets		(627,002)	627,002	-100.0%
260.	**Profit (loss) from current operations before tax**	**30,467,769**	**61,854,270**	**(31,386,501)**	**-50.7%**
270.	Income taxes on current operations	(6,572,684)	(16,967,806)	10,395,122	-61.3%
280.	**Profit (loss) from current operations after tax**	**23,895,085**	**44,886,464**	**(20,991,379)**	**-46.8%**
300.	**Net profit (loss) for the period**	**23,895,085**	**44,886,464**	**(20,991,379)**	**-46.8%**

STATEMENT OF COMPREHENSIVE INCOME

	Captions	31.12.2020	31.12.2019
10.	**Net profit (loss) for the period**	**23,895,085**	**44,886,464**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Equity instruments designated at fair value through other comprehensive income	21,370,198	(272,541)
50.	Property, plant and equipment	-	160,835
70.	Defined-benefit pension plans	(319,110)	(483,580)
	Other elements of income, net of income taxes with reversal to income statement	-	-
120.	Cash-flow hedges	422,463	(56,964)
140.	Financial assets (other than equities) designated at fair value through other comprehensive income	(744,375)	940,060
170.	**Total other elements of income (net of income taxes)**	**20,729,176**	**287,810**
180.	**Total comprehensive income (Captions 10+170)**	**44,624,261**	**45,174,274**

Note. Caption 20 "Equity instruments designated at fair value through other comprehensive income" includes the change in the value of the investment held in Cedacri S.p.A. of Euro 21.6 million (Euro 23.2 million gross of tax effect) with matching entry among the equity reserves, as discussed in section "4.2 - Significant events" of the Report on Operations.

STATEMENT OF SHAREHOLDERS' EQUITY AT 31 DECEMBER 2020

	Balance at 31.12.2019	Changes in opening balances	Balance at 01.01.2020	Allocation of prior year results		Changes during the year								Shareholders' equity at 31.12.2020
							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 31.12.2020	
Share capital:														
a) ordinary shares	63,827,550		63,827,550				-							63,827,550
b) other shares	6,865,040		6,865,040											6,865,040
Share premium reserve	16,145,088		16,145,088											16,145,088
Reserves:														
a) from profits	768,080,625	-	768,080,625	44,886,464		(14,449,530)								798,517,559
b) other	11,682,037		11,682,037			-								11,682,037
Valuation reserves	45,384,125	-	45,384,125			-							20,729,176	66,113,301
Equity instruments	-		-											-
Treasury shares	-		-											-
Net profit (loss) for the period	44,886,464		44,886,464	(44,886,464)	-								23,895,085	23,895,085
Shareholders' equity	**956,870,929**	**-**	**956,870,929**	**-**	**-**	**(14,449,530)**	**-**	**-**	**-**	**-**	**-**	**-**	**44,624,261**	**987,045,660**

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

STATEMENT OF SHAREHOLDERS' EQUITY AT 31 DECEMBER 2019

	Balance at 31.12.2018	Changes in opening balances	Balance at 01.01.2019	Allocation of prior year results		Changes during the year								Shareholders' equity at 31.12.2019
							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 31.12.2019	
Share capital:														
a) ordinary shares	60,840,000		60,840,000				2,987,550							63,827,550
b) other shares	6,865,040		6,865,040											6,865,040
Share premium reserve	16,145,088		16,145,088											16,145,088
Reserves:														
a) from profits	748,002,924	-	748,002,924	19,809,740		267,961								768,080,625
b) other	12,270,398		12,270,398			(588,361)								11,682,037
Valuation reserves	39,435,419	-	39,435,419			5,660,896							287,810	45,384,125
Equity instruments	-		-											-
Treasury shares	-		-											-
Net profit (loss) for the period	30,955,481		30,955,481	(19,809,740)	(11,145,741)								44,886,464	44,886,464
Shareholders' equity	**914,514,350**	**-**	**914,514,350**	**-**	**(11,145,741)**	**5,340,496**	**2,987,550**	**-**	**-**	**-**	**-**	**-**	**45,174,274**	**956,870,929**

Note: "Changes in reserves" and "Issue of new shares" highlight the changes that occurred during the year as a result of the absorption of BPS by Banco Desio with legal and fiscal effect from 1 January 2019.

CASH FLOW STATEMENT

	31.12.2020	31.12.2019
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**144,666,581**	**134,715,628**
- interest received (+)	225,705,451	230,788,367
- interest paid (-)	(25,585,963)	(34,694,999)
- dividends and similar income (+)	1,764,833	1,095,588
- net commission income (+/-)	165,969,658	171,597,441
- payroll costs (-)	(165,790,788)	(168,515,349)
- other costs (-)	(94,082,995)	(88,369,394)
- other revenues (+)	43,259,069	39,781,780
- taxation (-)	(6,572,684)	(16,967,806)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(1,534,622,388)**	**(102,646,744)**
- financial assets held for trading	(1,031,936)	2,533,593
- financial assets designated at fair value through profit and loss		
- other financial assets that are necessarily measured at fair value	(16,817,803)	12,135,351
- financial assets at fair value through other comprehensive income	(79,482,896)	(261,218,945)
- financial assets at amortised cost	(1,459,833,135)	116,086,107
- other assets	22,543,382	27,817,150
3. Cash generated (absorbed) by financial liabilities	**1,385,262,516**	**1,442,359**
- financial liabilities at amortised cost	1,427,002,670	(28,177,044)
- financial liabilities held for trading	(611,464)	1,821,563
- financial liabilities designated at fair value through profit and loss		
- other liabilities	(41,128,690)	27,797,840
Net cash generated/absorbed by operating activities (A)	**(4,693,291)**	**33,511,243**
B. INVESTING ACTIVITIES		
1. Cash generated by	**1,637,497**	**5,763,380**
- sale of equity investments		
- dividends collected on equity investments	1,625,120	5,739,951
- sale of property, plant and equipment	12,377	23,429
- sale of intangible assets		
- sale of businesses		
2. Cash absorbed by	**(4,447,171)**	**(5,019,678)**
- purchase of equity investments		
- purchase of property, plant and equipment	(3,199,517)	(3,903,250)
- purchase of intangible assets	(1,247,654)	(1,116,428)
- purchase of businesses		
Net cash generated/absorbed by investing activities (B)	**(2,809,674)**	**743,702**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		2,987,550
- issue/purchase of equity instruments		
- dividends distributed and other allocations		(11,145,741)
Net cash generated/absorbed by financing activities (C)		**(8,158,191)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(7,502,965)**	**26,096,754**

Key
(+)generated
(-) absorbed

RECONCILIATION

	31.12.2020	31.12.2019
Cash and cash equivalents at beginning of period	**60,815,214**	**31,528,825**
Net increase (decrease) in cash and cash equivalents	(7,502,965)	26,096,754
Cash and cash equivalents: effect of changes in exchange rates	3,211,415	3,189,635
Cash and cash equivalents at end of period	**56,523,664**	**60,815,214**

Explanatory notes

PART A – ACCOUNTING POLICIES

A.1 GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation 1606 of 19 July 2002, the financial statements of Banco di Desio e della Brianza S.p.A. are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2020 and endorsed by the European Commission.

Section 2 - Basis of preparation

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

For the preparation of the financial statements, reference was made to the Bank of Italy Circular 262 "Bank financial statements: schedules and rules for preparation" of 22 December 2005 as subsequently updated.

Reference was also made, as applicable, to interpretations and documents supporting the application of accounting standards in the context of Covid-19 issued by the European supervisory and regulatory bodies and the standard setters (European Banking Authority, European Securities and Markets Authority, European Central Bank, Bank of Italy, Consob, IFRS Foundation), which provide recommendations on matters of great importance, on the accounting treatment of certain transactions and on financial disclosures, as discussed in the note on "Risks, uncertainties and impacts of the Covid-19 pandemic".

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

The accounting standards applied in preparing the financial statements for the classification, recognition, measurement and derecognition of financial assets and liabilities, as well as the methods for recognising revenue and costs, are different from those applied in preparing the financial statements of the previous year.

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

Section 3 – Subsequent events

These financial statements have been approved on 11 February 2021 by the Board of Directors of Banco di Desio e della Brianza S.p.A., which authorised publication at the same time.

With regard to the events that have taken place subsequent to the reporting date, please refer to the "Measurement of the investment held in Cedacri S.p.A." information included in section "Significant events" of 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. Given their nature, it is therefore possible that the assumptions made, however reasonable, might not find confirmation in the future scenarios within which the Bank will actually operate. Future results may well differ from the estimates made to prepare the economic and financial position at the reporting date and, accordingly, adjustments to the reported carrying amounts of assets and liabilities may be needed that, at this time, cannot be foreseen or estimated.

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

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

The 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.

Risks, uncertainties and impacts of the Covid-19 pandemic

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

The description provided below details the estimation processes that required the exercise of significant judgement when selecting the underlying hypotheses and assumptions, much affected by the adverse impact of the Covid-19 pandemic, and the corresponding practical solutions adopted by the Bank, which plays an important role by providing necessary support to stakeholders, individuals and businesses at this time of great uncertainty and volatility.

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

Determination of expected losses on credit exposures recognized in balance sheet assets

As regards the assessment, it should be remembered that IFRS 9 Financial Instruments expressly requires that an entity estimate the expected losses on receivables taking into consideration all information, available currently and in the future, that is deemed reasonable and demonstrable.

The European supervisory and regulatory bodies and standard setters (the Authorities) that have expressed opinions on this matter concur in suggesting extreme caution when changing the scenarios considered, at least during the phase of acute uncertainty. At the same time, the ECB's suggestion to use a reference scenario anchored to its indications seemed to indicate the intention of the Authorities to want to centrally direct the banks in this particular situation, providing a homogeneous set of parameters for forecasts of future economic trends.

On 10 December 2020, the projections for the Eurozone were announced by the ECB, which published the document "Eurosystem staff macroeconomic projections for the Euro Area", which was followed by the "Macroeconomic projections for the Italian economy" for the three-year period 2020-23 published by the Bank of Italy on 11 December 2020.

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

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

The economic effects of these interventions have been quantified in management terms in Euro 33.7 million (pre-tax) as described below in "Impacts of the Covid-19 epidemic on the income statement at 31 December 2020" and in the notes, Part E - Information on risks and related hedging policy to which reference is made.

The determination of expected losses on non-performing loans (stage 3) also implies significant elements of assessment, with particular reference to estimating the flows deemed recoverable and the related timing of recovery. During the period, there was a deterioration in the quality of part of the customer loan portfolio (substantially due to the slowdown in collections) for which the appropriate interventions were promptly activated in order to manage the contingency of the Covid-19 epidemic and, in any case, to ensure the correct classification and assessment of recoverability of exposures classified as NPL with consequent impact on the cost of non-performing credit for the period and on the increase in the levels of coverage of NPLs compared with 31 December 2019, also taking into account the sales made in the period..

As discussed further in “Part E – Information on risks and related hedging policies”, on 1 October 2020 the Board approved changes to the lending policy in the following main areas:

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

Given all of the above, it could be that the use of different methodologies, parameters and assumptions for determining the recoverable value of credit exposures (partly influenced by possible alternative recovery strategies approved by the competent corporate bodies, as well as by changes in the relevant economic-financial and regulatory background) might result in different assessments to those made when preparing these financial statements.

The changes made to the measurement of expected losses on performing loans are described in the note on the "Model for measuring expected losses on performing loans" in "Section 1 - Credit risk" of "Part E — Information on risks and related hedging policy" in these explanatory notes.

Measurement of financial instruments at fair value

For the purposes of this financial report, the measurement of financial instruments at fair value has been updated on the basis of current market conditions, in line with the provisions of IFRS 13 (measurement of fair value) and the Fair Value Policy adopted by the Group.

In particular, for investments at fair value that derive their value directly, in the case of listed securities, or, in the case of investments that are convertible or closely related to instruments that are listed/valued with market multiples, indirectly from market prices (so valued with methods ascribable to fair value levels 1 and 2), the valuations were updated on the basis of stock market prices.

The use of significant judgements in the valuation of the financial instruments in portfolio is to be considered fairly marginal, given that the bank continues to maintain a very prudent allocation. The use of valuation models for the recognition of the fair value of the financial instruments not listed on active markets (Level 3), substantially attributable to units of UCITS of closed-end funds, therefore relates to a minimal portion of the investments held. With particular reference to closed-end investment funds classified under financial instruments mandatorily measured at fair value through profit or loss, the negative effects on the income statement (approximately Euro 5.5 million) caused by updating their valuation on the basis of the latest available information (purchase price or available NAVs) and applicable to liquidity haircuts envisaged in the Bank's Value Policy.

For qualitative and quantitative information on how to determine the fair value of instruments measured at fair value in the financial statements, please read "Part A.4 – Information on fair value" of these Explanatory notes.

Impairment test of intangible assets with indefinite life (goodwill) and equity investments

Pursuant to IAS 36 "Impairment of assets", all intangible assets with an indefinite useful life and equity investments must be tested for impairment at least once a year, in order to verify their value recoverability. In addition, the standard establishes that the results of the annual test may be considered valid for subsequent assessments, on condition that the likelihood of the recoverable value of the intangible asset being lower than its net carrying amount is considered remote. This assessment may be based on an analysis of the facts and circumstances arising subsequent to the most recent annual impairment test carried out.

Here too, the Authorities that have expressed opinions on the matter concur in suggesting extreme caution when changing the scenarios considered, at least during the phase of acute uncertainty.

Based on the instructions contained in the above standard, as well as the policy adopted on the impairment of intangible assets with an indefinite useful life (goodwill) and equity investments, the Bank decided to check the impairment of intangible assets with an indefinite useful life at 30 June 2020 as, due to the spread of the Covid-19 pandemic, market evidence suggested a need for early performance of this test of the recoverability of the above intangible assets with an indefinite useful life. As a result, in order to take account of the new operating conditions, changes were made to the performance projections made when carrying out the impairment test at the end of 2019.

The results of the impairment tests confirmed the recoverability of goodwill by highlighting positive margins between the value in use of the CGUs and their book values.

Subsequently, on 17 December 2020, the Board of Directors of Banco di Desio e della Brianza S.p.A. (the "Bank") approved the Group Business Plan for the three-year period 2021-2023 (the "Plan"), considering this justified despite the uncertain macroeconomic scenario, in view of the positive response by the organisation and the customer base to the adverse external conditions encountered during 2020.

In particular, during the year Banco was able to manage the difficult economic-financial challenges faced by customers and complete successfully actions to strengthen the balance sheet and profitability that will benefit future years with increasing effect.

As a result, the impairment tests at 31 December 2020 were not carried out and evaluated using a multi-scenario approach, as the Plan forecasts approved recently were based on reasonable assumptions linked to the latest and most updated macroeconomic and sector assumptions, in turn influenced by the effects of the global spread of Covid-19 contagion and the government measures adopted in support of households and businesses.

The principal parameters and assumptions used for the impairment test at the reporting date are listed below, in comparison with those used at 30 June 2020 and at the end of the prior year:

	31.12.2020	30.06.2020	31.12.2019
Model	DDM		
Flows	Net results		
Input used	2021-23 Business Plan extended to 2025	2020 Budget (*) extended to 2024	2020 Budget extended to 2024
CAGR RWA	-1.3%	1.37%	0.71%
Ke	8.09% (**)	7.50%	8.33%
g	1.50%	1.00%	1.50%
Capital ratio (***)	8.95%	8.95%	8.85%

(*) Considering the most recent forecasts for 2020 and 2021 available at the time

(**) Determination of the cost of equity (Ke) at 31 December 2020 took account of a specific risk premium of 1.5%, reflecting an increase in the "Italy" risk to take account of the pandemic situation

(***) Overall Capital Requirement Tier 1 ratio assigned with SREP procedure from time to time

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the CGU match the carrying amount of goodwill, after having deducted the shareholders' equity allocated to it at the reporting date, at 30 June 2020 and at the end of the previous year:

	31.12.2020	30.06.2020	31.12.2019
CGU	Banco di Desio e della Brianza S.p.A.	Banco di Desio e della Brianza S.p.A.	Banco di Desio e della Brianza S.p.A.
% decrease in net future results (RN)	22.60%	29.47%	17.42%
Increase in p.p. of discount rate used for future cash flows (FCFE)	391	435	265

In this regard, verification of the recoverability of these intangible assets is a complex exercise, whose results depend on the measurement methods adopted and on underlying parameters and assumptions that, in future, might need to be changed as a result of new information or developments that cannot be foreseen at the time of preparing these financial statements.

Qualitative and quantitative information about how the impairment test was carried out is provided in the section on "Equity investments - caption 70" and "Intangible assets – caption 90" contained in "Part B – Information on the balance sheet" of these explanatory notes.

Estimate of the recoverability of deferred tax assets

The balance sheet includes significant deferred tax assets (DTA), principally deriving from temporary differences between the date on which business costs are charged to the income statement and the date on which they become tax deductible, as well as from the carry-forward of tax losses.

The recognition and subsequent retention of these assets presupposes that they will be recoverable, having regard for the tax regulations in force at the reporting date.

Specifically, deferred tax assets that satisfy the requirements of Law 214/2011 are automatically transformable into tax credit in the event of a "reported loss", a "tax loss" for IRES purposes or "negative net value of production" for IRAP purposes; their recovery is therefore certain, regardless of any ability to generate future profits.

With regard to the other DTA not transformable into tax credits, assessment of the probability of their recovery must be founded on reasonable forecasts of future profitability, incorporated in approved strategic and forward-looking plans, bearing in mind that, for IRES purposes, the tax regulations envisage that tax losses can be carried forward indefinitely. Making this assessment can be challenging, especially with regard to the DTA recognised in relation to carried-forward tax losses, whose existence might well indicate that future taxable income will not be sufficient for their recovery. As envisaged in IAS 12 Income taxes, the above probability test requires careful examination of all the evidence supporting the likelihood that future taxable income will be sufficient.

In order to take account of the uncertainties in the macroeconomic scenario conditioned by Covid-19 and the possible repercussions on the estimate of taxable cash flows, the probability test was carried out using the methodology adopted when preparing the half-year financial statements at 30 June 2020 and the 2019 annual financial statements, considering the forecast taxable income reflected in the business plan used when performing the *impairment* test on intangible assets with an indefinite useful life (goodwill) and equity investments.

Qualitative information on how the recoverability of deferred tax assets was checked is provided in the section on "Tax assets – Caption 100", contained in "Part B – Information on the balance sheet" of these explanatory notes.

Estimate of the provisions for risks and charges

The complexity of the situations and corporate transactions that underlie outstanding disputes, together with problems in interpreting the applicable legislation, mean that considerable judgement is required when estimating the liabilities that may emerge on settlement of the litigation concerned. These difficulties encompass both the existence and amount of any liability, as well as the timing of crystallisation, and are particularly evident at the start and/or investigative phases of the proceedings.

The special nature of the dispute and consequent absence of relevant jurisprudence on similar matters, as well as the different approaches taken by the judicial bodies at each level of judgement, as well as at the same level following the passage of time, make it difficult to measure the amount of the contingent liability even when provisional rulings at the initial levels of judgement are available. Historical experience shows, in various cases, that decisions made at the initial levels of judgement can be overturned completely on appeal or by the Court of Cassation, both in favour and against the defendants.

Under these circumstances, the classification of contingent liabilities and consequent assessment of the provisions required are based on subjective judgements that require often highly complex estimates to be made. As a consequence, when the final rulings are handed down, the provisions for risks and charges recorded in relation to contingent liabilities linked to legal or tax disputes may turn out to be inadequate or excessive.

Information about the principal risks relating to legal disputes (amounts reclaimed by bankruptcy administrators and cases brought against the Bank) is provided in the note of "Provisions for risks and charges – Caption 100" in "Part B – Information on the balance sheet" of these explanatory notes.

Estimate of obligations relating to employee benefits

Determination of the liability associated with employee benefits, especially those relating to defined benefit plans and long-term benefits, involves a certain degree of complexity; the results of the assessment depend, in large measure, on the actuarial assumptions made with regard to demographics (mortality rates and employee turnover) and certain financial aspects (discount and inflation rates).

The judgement of management is therefore fundamental when selecting the most appropriate techniques for making this assessment, which is influenced by the socio-economic context in which Banco operates, as well as by the performance of the financial markets.

The principal actuarial assumptions used at the reporting date are listed below, in comparison with those used at 30 June 2020 and at the end of the prior year:

Demographic assumptions	**31.12.2020**	**30.06.2020**	**31.12.2019**
Death rate of employees	determined by the State General Accounting Department, denominated RG48 divided by gender		
Frequencies and amount of termination indemnity advances	4.00%		
Frequencies of turnover	2.50%		
Financial assumptions	**31.12.2020**	**30.06.2020**	**31.12.2019**
Discount rate Iboxx Euro Corporate AA index 7-10 years (*)	-0.01%	0.30%	0.88%
Inflation rate	1.00%	1.00%	1.50%

(*) iBoxx EUR Corporate AA Index with time frame corresponding to the average duration of the defined benefit plans

Note that the list of assessment processes indicated above is only provided in order to give readers a better understanding of the principal areas of uncertainty. It must not be understood to suggest that alternative assumptions, made today, might be more appropriate.

For more information please read "Provision for termination indemnities - Caption 90" contained in "Part B - Information on the balance sheet" of these Explanatory notes.

Impacts produced by the Covid-19 epidemic on the income statement as at 31 December 2020

With reference to the impact on the income statement related to the Covid-19 pandemic as at 31 December 2020, totalling € 33.7 million, it should be noted that:

- a cost of credit linked to the performing portfolio (stage 1 and stage 2) of loans to customers, endorsement loans and commitments to disburse funds in 2020 of Euro 30.7 million, due to the effect of updating the models for implementing the macroeconomic forecasts impacted by Covid-19 and to the management overlay interventions after the model, described in Part E– Information on risks and related hedging policy;
- the recognition of higher operating costs of 3.0 million euro incurred to deal with the emergency.

Going concern

These financial statements have been prepared on a going concern basis. In view of the financial strength and the careful approach taken to derisking, the containment of the NPL ratio which continues to decline, and the additional actions taken to minimise the effects of the macroeconomic conditions deriving from the pandemic (all elements underpinning approval of the 2021-2023 business plan in December 2020), the Directors have reasonable expectations that the Bank will continue to operate and therefore the financial statements at 31 December 2020 have been prepared on a going concern. The Directors therefore believe that the risks and uncertainties that the Bank may encounter in carrying out its management, also considering the effects of Covid-19 reflected in the 2021-23 Business Plan, are not such as to generate doubts about the business continuity.

Information about risks and the related countermeasures is provided in "Part E - Information on risks and related hedging policy" of these explanatory notes, and in the Report on Operations.

Contractual changes resulting from Covid-19

1) Contractual amendments and accounting derecognition (IFRS 9)

Regarding the classification, taking into account the indications of the various regulators that have expressed themselves on the subject, as well as the initiatives undertaken by the Bank, the performing positions affected by the moratorium measures based on legislation or decided independently by the Bank in response to the Covid-19 emergency are treated as follows:

- they are not normally considered forborne according to prudential regulations nor are they subject to stage 2 classification, also taking into account that there is substantially no change in the present value of the cash flows subsequent to the contractual modification. For positions with companies that had a higher level of risk before the health emergency, specific assessments are carried out in the case of a moratorium decided independently by the Bank to verify whether or not to consider renegotiation as a forbearance measure, with consequent transfer to stage 2;
- they are not classified as NPLs (stage 3). In particular, under these circumstances performing loans subject to a moratorium are not classified in the same risk class of past due or overdrawn loans because, in compliance with the requirements of EBA's guidelines, the moratorium interrupts the counting of the days that they are past due. Furthermore, adhering to a moratorium because of Covid-19 is not automatically considered as a trigger event for an unlikely-to-pay loan.

The moratoriums granted to customers already classified among non-performing loans are subject to specific assessment and considered as additional forbearance measures.

2) Amendment to the accounting standard IFRS 16

With reference to leasing contracts, the practical expedient envisaged in Regulation (EU) 1434/2020 has not been applied. This measure, linked to Covid-19, provides optional, temporary operational support to lessees that benefit from concessions with regard to their instalment payments. The renegotiations carried out during the reference period do not fall within the scope of application of this amendment.

TLTRO III Transactions – "Targeted Longer Term Refinancing Operations"

At 31 December 2020, ECB funding transactions comprise solely TLTRO III loans totalling 2.4 billion euro, which were obtained by Banco Desio at the quarterly auctions held in June 2020, 1.2 billion euro, and in December 2020, 1.2 billion euro. Each operation has a duration of three years.

In view of the Covid-19 emergency, the Executive Board of the ECB met on 12 March and 30 April 2020 to improve the parameters for the above loans, with particular reference to the maximum available amount and the interest rate.

Following these changes, the interest rate is fixed at the average for the principal Eurosystem refinancing operations (MRO), currently 0%, except for the period from 24 June 2020 to 23 June 2021 ("special interest-rate period"), during which the rate will be 50 basis points lower.

An incentive mechanism is also envisaged, that grants access to more favourable rates on the achievement of specified benchmarks. In particular, for counterparties whose net eligible lending between 1 March 2020 and 31 March 2021 ("special reference period") totals at least the respective benchmark net lending, the rate applied will the average rate on the deposit facility, currently -0.5%, for the entire duration of the operation, with a further reduction of 50 basis points during the special interest-rate period. For counterparties whose net eligible loans recorded an increase in the twelve months prior to 31 March 2019, the "net lending benchmark" is set at zero; otherwise, that benchmark is set at the reduction in net eligible loans in the twelve months prior to 31 March 2019.

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

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

When determining the variable rate to be applied when calculating the first-year interest at 31 December 2020, reference was made to the average rate for the principal refinancing operations, currently 0.0%, and the further reduction of 50 bps during the special interest-rate period.

Although the benchmark net lending of Banco Desio is negative by 0.1 billion euro and net eligible lending has risen since 1 March 2020 (by 0.8 billion euro), the achievement of benchmark net lending by 31 March 2021 is not yet certain, considering the average repayments identified every month, and so, prudently, it is considered that the conditions are not yet satisfied for recognising variable interest at the minimum deposit rate, currently -0.5%, or the further reduction of 50 bps in the special interest-rate period.

Accordingly, the interest accrued but not yet paid, recognised in income statement caption "10. Interest and similar income", amounts to 3.3 million euro.

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

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

- Directive 2014/59/EU (the so-called "Bank Recovery and Resolution Directive" or BRRD) adopted by the national law with Legislative Decree 180 of 16 November 2015, defines the resolution rules and includes the activation of resolution mechanisms through the establishment of funds financed by ex ante contributions; the target level of these funds, which is to be achieved by 31 December 2024, is 1% of the total amount of protected deposits of the banking system;
- Directive 2014/49/EU (the so-called "*Deposit Guarantee Schemes* Directive" or DGSD) adopted by the national law with Legislative Decree 30 of 15 February 2016, provides that national deposit protection funds (in Italy, the Interbank Deposit Protection Fund or FITD) should raise funds as a proportion of the guaranteed deposits, to be established by a system of ex-ante- funding to reach the target level of 0.8% of guaranteed deposits by 2024.

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

Disposals related to the "Held to collect" business model

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

In particular, the Bank completed 4 security sales during the year with a total nominal value of 150 million euro. These sales resulted in a net gain of 2.4 million euro which was recognised in caption "100. Profit (losses) from sales or repurchases of: a) financial assets at amortised cost".

Since these exposures were classified among the "Financial assets at amortised cost", being the portfolio held in order to collection contractual cash flows ("Hold to Collect" business model), IFRS 9 requires their disposal to comply with certain materiality or frequency thresholds, close to their maturity dates, at a time of increased credit risk or exceptional circumstances. In this regard, the disposals made by the Bank during 2020 complied with the materiality and frequency thresholds documented in the accounting policies adopted by the Group. During 2020 and up to the date of preparing this report, no changes were made to the criteria allowing the sale of financial assets managed using the HTC business model.

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

Reform of the reference indices for determining interest rates

Regulation 34 dated 15 January 2020 endorsed the "Reform of the reference indices for the determination of interest rates", which changed certain hedge accounting requirements to allow entities to provide useful information in the period of uncertainty deriving from the gradual elimination of reference interest rates during 2021 ("*Interbank Offered Rates*" - *IBOR Transition*). In this document, the IASB focused on the accounting effects of uncertainty in the pre-reform period. Banco Desio choose the early application of the amendment of 1 January 2019.

In this regard, it should be noted that the nominal value of the 3 derivative contracts designated as hedges at 31 December 2020 whose parameters are subject to the reform ("IBOR") is equal to 130 million (with maturity between October 2021 and May 2022). They are Interest Rate Swaps designated to hedge the cash flows of floating-rate bonds; the index used as a point of reference for all existing contracts is the 3-mth Euribor. With reference to the Euribor, please note that only a partial modification of the calculation method is envisaged, so there are no particular elements of uncertainty in the prospective measurement of hedging relationships.

Domestic tax group election

The Italian companies of the Banco Desio Group (except for Desio OBG Srl, given its status as an SPV) have chosen to be a "domestic tax group" for the years 2018-2020, governed by arts. 117-129 of the Consolidated Income Tax Law, which was introduced into tax legislation by Legislative Decree no. 344/2003. This law provides an optional system, under which the total income or tax loss of each subsidiary in the tax consolidation - together with withholdings, deductions and tax credits - are transferred to the parent company, which then calculates a single taxable income or tax loss to be carried forward (as resulting from the sum of its own taxable income or tax losses and those of the participating subsidiaries) and, consequently, a single tax liability or tax credit.

Comparability of financial statements

For each account in the financial statements, the previous year's balance is also given: if the accounts are not comparable, the prior year figures have to be adjusted.

Terms of approval and publication of the financial statements

Art. 154-ter of Decree 58/98 (CFA) requires financial statements to be approved within 180 days of the reporting date, with publication of an annual financial report comprising the draft separate financial statements, the consolidated financial statements, the report on operations and the attestation of the Financial Reporting Manager pursuant to art. 154-bis, para. 5.

The draft financial statements of Banco di Desio e della Brianza S.p.A. were approved by the Board of Directors at the meeting held on 11 February and will be presented for approval at the Shareholders' Meeting called for 15 April 2021.

Independent audit

These financial statements have been audited by Deloitte & Touche S.p.A., pursuant to Legislative Decree 39 of 27 January 2010 and to the resolution of the Shareholders' Meeting of 26 April 2012, which appointed this company for the years 2012 to 2020 included.

The audit report is made available to the public in full together with the annual financial report, pursuant to art. 154-ter of Legislative Decree 58/98.

It should also be noted that the Shareholders' Meeting of 23 April 2020 assigned to KPMG S.p.A. the statutory audit for the financial years from 2021 to 2029 inclusive.

A.2 MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

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

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

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

Classification

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

– financial assets held for trading, essentially represented by debt and equity securities and the positive value of derivative contracts held for trading purposes;

– financial assets mandatorily at fair value, represented by financial assets that do not meet the requirements for valuation at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not provide exclusively for repayments of principal and payments of interest on the principal to be repaid (i.e. failed to pass the SPPI test) or that are not held as part of a business model whose objective is to hold the assets with a view to collecting the contractual cash flows (Hold To Collect or "HTC") or whose objective is achieved both through the collection of contractual cash flows and through the sale of financial assets (Hold To Collect and Sell or "HTCS");

– the financial assets designated at fair value, i.e. the financial assets defined as such at the time of initial recognition when the right conditions exist. In these circumstances, an entity can irrevocably designate a financial asset as being measured at fair value through profit or loss, but only if doing so eliminates or significantly reduces an inconsistency in measurement.

In particular, the following are recognised in this item:

– debt securities and loans that are not attributable to the "HTC" or "HTCS" business models (which are therefore included in the "Other/Trading" business model) or which do not pass the SPPI test;

– capital instruments that do not qualify as control, association and joint control instruments held for trading purposes or which were not designated at fair value through other comprehensive income (under the FVOCI option) at the time of initial recognition;

– mutual funds.

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

According to the general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equities for which no reclassification is allowed), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through profit or loss to one of the other two categories envisaged by IFRS 9 (*Financial assets measured at amortised cost* or *Financial assets measured at fair value through other comprehensive income*). The transfer value is represented by the fair value at the time of the reclassification and its effects apply prospectively starting from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is recalculated based on its fair value at the reclassification date and this date is considered the initial recognition date for allocation to the various stages of credit risk (stage assignment) for impairment purposes.

Recognition

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

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

Measurement

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

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

Derecognition

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

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

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

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

Classification

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

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

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

In particular, the following are recognised in this item:

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

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

Recognition

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

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

Measurement

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

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

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

Financial assets valued at fair value through other comprehensive income are subject to verification to see if there has been a significant increase in credit risk (i.e. impairment) as required by IFRS 9, in the same way as *Assets at amortised cost*, with consequent recognition in the income statement of an adjustment to cover expected losses. More specifically, on instruments classified in stage 1 (i.e. financial assets at the time of origination, if not impaired, and instruments for which there has not been a significant increase in credit risk with respect to the initial recognition date), an expected loss at one year is accounted for at each reporting date. On the other hand, for instruments classified in stage 2 (performing loans for which there has been a significant increase in credit risk compared with the initial recognition date) and stage 3 (non-performing exposures), an expected loss is recorded for the entire residual life of the financial instrument. Equities are not subject to the impairment process.

Derecognition

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

3 – Financial assets at amortised cost

Classification

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

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

In particular, the following are recognised in this item:

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

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

Recognition

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

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

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

Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the purposes for which the changes were made: for example, renegotiations for commercial reasons and concessions for the financial difficulties of the counterparty:
  - the former, aimed at holding on to the customer, involves a debtor who is not in a situation of financial difficulty. Cases include all renegotiations that aim to bring the cost of the debt into line with market conditions. Such transactions involve a change in the original conditions of the contract, usually on the debtor's request, to do with the cost of the loan, leading to an economic benefit for the debtor. Generally speaking, it is thought that whenever the bank renegotiates loan to avoid losing a customer, the renegotiation has to be considered substantial, because if it was not carried out, the customer could find alternative funding through another intermediary and the bank would suffer a decrease in its expected future revenues;
  - the latter, which are carried out for "reasons of credit risk" (i.e. forbearance measures), are due to the bank's attempt to maximise recovery of the original loan's cash flows. As a rule, after the changes, the underlying risks and benefits are not substantially transferred, so the accounting treatment is performed through "modification accounting" - which involves immediate recognition in the income statement caption 140. "Profit/losses from contractual changes without write-offs" of the difference between the carrying amount of the loan and the present value of the new cash flows discounted at the original interest rate - and not through derecognition;
- the presence of specific objective elements (known as "triggers") that affect the characteristics and/or contractual flows of the financial instrument (such as a change in currency or a change in the type of risk to which it is exposed, where it is correlated to parameters of equity and commodity), which are considered to involve derecognition because of their impact (expected to be significant) on the original contractual flows.

Derecognition

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

Recognition of items affecting the income statement

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

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

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

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

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

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

4 – Hedging transactions

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

Classification

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

The type of hedge used may be:

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

Recognition

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

The recognition of hedging transactions assumes:

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

specific measurement procedures and frequency;

- preparation of formal documentation of the hedging relationship.

Measurement

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

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

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

Recognition of items affecting the income statement – Fair value hedges

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

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

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

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

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

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

Derecognition

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

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

5 – Equity investments

Classification

Equity investments are classified as investments in subsidiaries, associates or as investments in companies subject to joint control. The other minority holdings follow the treatment envisaged by IFRS 9, they are classified as Financial assets valued at fair value through profit or loss (FVTPL) or Financial assets valued at fair value through other comprehensive income (FVOCI).

Subsidiaries are entities in which the Bank is exposed to variable returns, or holds rights to these returns, deriving from its relationship with them and at the same time has the capacity to affect these returns by exercising its power over these entities.

The companies in which the Bank holds at least 20% of the voting rights (including "potential" voting rights) or in which, despite having a lower share of rights, it has the power to participate in the determination of the financial and management policies of the investee by virtue of particular legal links such as participation in syndicated agreements, are considered companies subject to significant influence (i.e. associates).

Joint ventures are those companies, for which, on a contractual basis, the Bank and one or more other parties share control, or for which decisions regarding key activities require unanimous consent of all the parties that share control.

Recognition

Equity investments are recognised on the settlement date. Initial recognition is at cost, including directly attributable ancillary costs. Investments in foreign currency are translated into euro at the exchange rate ruling on the settlement date.

Measurement

Subsequent to initial recognition, equity investments are measured at cost, adjusted to consider value impairment, if any.

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

6 – Property, plant and equipment

Classification

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

Recognition

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

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

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

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

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

Measurement

Property, plant and equipment are shown at purchase cost, including ancillary expenses, less accumulated depreciation and any impairment losses, with the exception of works of art, which are measured according to the value re-determination method.

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

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

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

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

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

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

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

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

7 – Intangible assets

Classification

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

Recognition

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

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

Measurement

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

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

9 – 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 *Deferred tax assets*.

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

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

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

10 – Provisions for risks and charges

Provisions for risks and charges for commitments and guarantees given

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

Other provisions for risks and charges

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

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

The evaluation of long-service bonuses to employees is made by independent external actuaries and follows the same logic as described above for calculating the provision for termination indemnities. Actuarial gains and losses are recognised immediately in the income statement.

Recognition of items affecting the income statement

Provisions are charged to the income statement.

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

11. Financial liabilities at amortised cost

Classification

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

Recognition

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

Measurement

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

Derecognition

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

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

12 – Financial liabilities held for trading

Recognition and classification

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

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

Measurement and recognition of items affecting the income statement

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

Derecognition

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

14 – Currency Transactions

Recognition

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

Measurement

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

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

Recognition of items affecting the income statement

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

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

15 – Other information

Other assets

This caption includes assets not attributable to other items in the assets side of the balance sheet. The entry may include by way of example:

- gold, silver and precious metals;
- accrued income, other than that capitalised together with related financial assets, including that deriving from contracts with clients pursuant to IFRS 15;
- receivables connected with the supply of non-financial goods or services;
- tax receivables, other than those classified in caption "110. Tax assets"
- tax credits linked to the "Cure Italy" and "Relaunch" Decrees acquired following disposal by the direct beneficiaries or previous purchasers.

This caption can also include unallocated in-transit and suspense items ("debit balances"), on condition that they are insignificant in total.

Other liabilities

This caption includes the liabilities not attributable to other items of the liabilities side of the balance sheet.

The caption includes by way of example:

- payment agreements that must be classified as payables pursuant to IFRS 2;
- amounts due in relation to the supply of goods and non-financial services;
- accrued expenses, other than those capitalised together with related financial liabilities, including those deriving from contracts with clients pursuant to IFRS 15;
- tax payables other than those classified in caption "60. Tax liabilities", including amounts withheld as a tax agent.

Provision for termination indemnities

Measurement

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

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

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

Recognition of items affecting the income statement

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

Valuation reserves

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

Recognition of costs and revenues

Revenues are recognised:

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

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

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

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

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

– default interest, which may be provided by contract, is recognised in the income statement only when actually collected;

– dividends are recognised in the income statement when the right to collect them arises, the Bank is likely to receive the related economic benefits and the amount can be determined reliably; commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;

– revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (Level 1 and Level 2 of the fair value hierarchy). If these values cannot easily be determined or have a reduced level of liquidity (Level 3), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;

– gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;

– revenues from the sale of non-financial assets are recognised on completion of the sale, i.e. when the obligation towards the customer is fulfilled.

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

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

Finance leases

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

Securitisations

Exposures to the securitisation (in the form of junior securities or deferred purchase price) are allocated to Financial assets measured at fair value through profit or loss. However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control[5] introduced by IFRS 10, it is included in the Banco Desio Group's scope of consolidation.

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

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

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

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, book value and interest income

Type of financial instrument	Source portfolio	Destination portfolio	Date of reclassification	Reclassified book value	Interest income recorded during the year (before tax)
Debt securities	HTCS	HTC	01.10.2018	872,210	n.a.

With reference to the reclassified financial assets still recorded under assets at the reporting date, the "Reclassified book value" column shows the amount transferred from the HTCS to the HTC portfolio (originally Euro 898,391 thousand), including the cumulative OCI valuation reserve at 30 September 2018, negative for Euro 41,227 thousand (originally Euro 41,512 thousand, pre-tax), which was eliminated from shareholders' equity on the reclassification date in exchange for the fair value of the reclassified financial assets, which are then recognised as if they had always been valued at amortised cost.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

According to IFRS 9 *Financial instruments*, a business model represents the way in which groups (or portfolios) of financial assets are managed collectively to pursue certain strategic corporate objectives, i.e. the collection of contractual cash flows, earning profits by selling them, or a combination of the two, which in relation to the contractual characteristics of the cash flows of the financial assets in question (SPPI test - Solely Payments of Principal and Interest) determines the measurement at amortised cost, at fair value through profit or loss or at fair value recognised in equity. The business model does not therefore depend on management's intentions with respect to a single financial instrument, but at a higher level of aggregation (the portfolio) and is determined by management according to the scenarios that are reasonably expected to occur, also taking into account the methods for measuring the performance of financial assets held under the model, the methods of communication (and remuneration) of performance to managers with strategic responsibilities and of the risks that affect the performance of the business model (and therefore of the financial assets held within the ambit of the business model) and the way in which these risks are managed.

On first-time adoption of IFRS 9, in order to allocate the financial instruments to the business models, for the loan portfolio, if the conditions apply, only the Held to Collect (or HTC) business model was defined. This model reflects the operating mode that is always followed by the members of the Banco Desio Group in managing loans granted to retail and corporate customers. For the proprietary portfolio of financial instruments, on the other hand, three business models have been defined: Held to Collect (HTC), Held to Collect and Sell (HTC&S) and Trading (FVTPL), with limited cases in which a change in management's intentions was chosen with respect to the accounting categories envisaged by IAS 39, for which the prevailing destination for bond instruments (mainly Italian government securities) held for investment purposes has been identified by the Banco Desio Group in the categories HTC and HTC&S to a more or less equal extent.

This decision was taken following a specific analysis of the performance and management of the securities portfolio over the previous two years, with the aim of ensuring periodic cash flows through the HTC&S category, while reserving the possibility of taking advantage of market opportunities to sell securities before their maturity (but not on a regular basis); this business model was seen as the main category to which financial investments should be allocated, while reflecting the exposure to market risk by measuring them at fair value with an impact on comprehensive profitability in each reporting period.

Considering the evolution of the reference context, during the year the Board of Directors of Banco di Desio e della Brianza monitored the effects of the operational decisions made with particular attention (including the "2Worlds" securitisation, for which the GACS was obtained) in order to achieve the strategic objectives defined in the Group's 2018-2020 business plan. In fact, the above plan reiterated the centrality of the credit chain as the main driver of profitability, while pursuing a reduction in the overall risk exposure, accompanied by prudent and conservative management of the proprietary securities portfolio.

Analysis of the results at 30 June 2018 then gave further impetus to the implementation of initiatives designed to protect the Bank's assets. These included a specific assessment, with the help of an independent external advisor, relating to the overall strategic management of the Group's investment activities to identify the ways in which the business models of the proprietary securities portfolio could be redefined. The Board of Directors of Banco di Desio e della Brianza therefore met on 26 September 2018 to discuss, among other things, the results of this assessment; in this context, the rationale underlying the work of the Finance Department has been critically reviewed with particular regard to the risk profile expressed by the groups of financial assets allocated to the various business models.

The analysis showed how the Bank's investment policies led to situations of sometimes considerable misalignment with respect to the objectives and strategic lines defined in the business plan, based on the pursuit of a stable policy of strengthening capital ratios. In light of the conclusions reached, while reiterating the need to maintain a particularly prudent risk profile in managing the securities portfolio, the Bank opted for a more decisive management strategy aimed at favouring stability in the collection of medium-long term financial flows of the securities portfolio and therefore mitigation of the risks of weakening the capital ratios (albeit at the expense of taking advantage of any market opportunities).

Operationally, this necessarily involved a change of approach in the overall management of financial assets:

- favouring the HTC portfolio as a category for investment purposes, so as to ensure, on the one hand, certain and stable cash flows with low risk assumption and, on the other hand, a way of managing loans that is more consistent with the sources of financing increasingly oriented towards medium to long-term stability (covered bond issues, EMTN programme),
- the HTC&S portfolio, which showed a strong sensitivity to market risk, as a category destined for short-term treasury activities now of a "residual" nature compared with the past,
- the FVTPL portfolio to exploit market opportunities through short/very short-term (intraday) trading activities according to a defined and limited exposure to market risks (a marginal activity with respect to the Group's core business).

In order to ensure consistent management of the new business models, it was necessary to change the organisational structure of the Parent Company's Finance Department: from 27 September 2018, it is now split into three separate sectors (respectively "ALM" for medium-long term investments, "Trading" and "Treasury", the last two being only for the needs of Banco di Desio e della Brianza in a centralised Group logic. The change in the business models therefore led to a redefinition/integration of the operating limits previously established with a view to the new financial asset management processes that have been defined; similarly, a review has been carried out by the Finance Department of the reports produced and integration of the primary indicators included in the Risk Appetite Framework.

Again from an operational point of view, the management objectives and drivers associated with the new business models have determined a need to review the allocation of financial assets among the various portfolios, according to the characteristics of each financial instrument with respect to the new reasons for holding them, i.e. approximately 74% of the HTC&S portfolio outstanding at the date when the change in business models was approved was associated with the HTC/ALM portfolio.

In order to make the new investment management models immediately operational, the amendments to the internal regulations of the Banco Desio Group of the highest level were approved (e.g. the methodological framework of IFRS 9, Group risk management policies, operating policy limits, etc.) as a consequence, amendments were made to the Finance Department's internal regulations for managing the Group's proprietary securities and treasury portfolio.

The accounting effects of this operation, which only affect the balance sheet, took place on 1 October 2018 (the "reclassification date"), for which the conditions established by IFRS 9 in the case of a change in business models were satisfied (in terms of rarity of occurrence, decision taken by senior management following external or internal changes, materiality for operations in general and the fact that they can be demonstrated to third parties).[6]

The financial instruments involved in the change of business model from HTC&S to HTC are mainly represented by sovereign debt securities, as well as corporate bonds for a total nominal value of Euro 936 million for the Parent Company Banco Desio. The relative accumulated loss on the reclassification date of Euro 41.5 million (gross of the related tax effect), previously recognised in the other components of comprehensive income (valuation reserve), is eliminated from equity against the fair value of the same financial instruments, which are therefore recognised as if they had always been valued at amortised cost.

In December 2019, the Finance Department, in collaboration with the Chief Risk Officer, concluded the annual analysis to verify the operating limits and thresholds of the proprietary securities portfolio, which took into account the changes made in the meantime to the Eurozone's monetary policy. This analysis was submitted to Banco Desio's Board of Directors on 12 December 201. After discussing the matter, the Board approved the proposal to update (in accordance with paragraph B4.1.2C of IFRS 9) the operating thresholds of the proprietary securities portfolio, with effect from 1 January 2020, in order to bring the composition of the individual portfolios into line as much as possible with their set objectives, making it easier to pursue them on an ongoing basis. Specifically:

- with reference to the FVTPL portfolio: increase in the daily stop-loss, while keeping the other periodic VAR and Stop Loss limits unchanged;
- with reference to the HTC&S portfolio: (a) increase in the maximum duration of the portfolio, (b) increase in the maximum residual life of the securities that can be held and (c) establishment of a maximum limit that can be invested in securities with a rating lower than investment grade, but still equal to or greater than BB- or Ba3;
- with reference to the HTC portfolio: (a) differentiation in the weighting of sales as the modified duration of the securities in portfolio decreases, without prejudice to the sales materiality threshold of

[6] To specifically assess the significance/relevance of the change in the business model, reference was made to the "2018 Conceptual Framework for Financial Reporting" of the IASB and therefore to the expectations of users of the financial statements in relation to the amounts deemed relevant by them; so, in this specific case, for the Banco Desio Group and for the individual Bank concerned, quantitative elements were used such as the size of the HTC&S portfolio potentially subject to reallocation, which was placed in relation to capital amounts such as the entire HTC&S portfolio, the total of financial assets other than loans, total assets and carrying amount of equity at 30 June 2018. In consideration of the strong sensitivity to risk demonstrated by the HTC&S portfolio, associated with the dual purpose of holding financial assets to collect cash flows or to take advantage of any market opportunities to make sales, the "transaction materiality" was also considered in terms of the incidence of the OCI valuation reserve on securities potentially subject to reallocation with respect to equity at 30 June 2018, 31 July 2018 and 31 August 2018, demonstrating a volatility effect on the balance sheet over three months that was not negligible. Even the final figures at 30 September 2018 further corroborated the analyses carried out for the purposes of the resolutions passed on 26 September 2018.

5% and (b) it is better to set the frequency threshold (i.e. the number of annual executions) at 12, regardless of the number of positions that make up the portfolio.

Considering the market yields offered for the asset classes to which the Bank is most exposed, in June 2020 the Board of Directors approved an update to the operational limits for the hold to collect & sell (HTC&S) portfolios and the trading portfolio. This decision was made in order to align their composition as closely as possible with the specified business model objectives, confirmed in the assessment approved by the Board of Directors on 26 September 2018, having regard for the changes in the financial markets that have taken place in the meantime.

The information relating to the effective interest rate determined at the date of reclassification (IFRS 7, paragraph 12C, letter a) is not considered relevant, as it is not required for the type of reclassification that was made.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

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

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

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

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

Fair value measurement with use of level 1 inputs

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

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

The fundamental elements are the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

- for loans and receivables, the fair value is calculated for performing positions beyond the short term using the valuation technique that envisages the discounting of expected cash flows, considering, at the free risk rate, the credit risk of the relationship (in terms of PD and LGD measured by the internal rating models in use), while for non-performing and short-term performing positions, the carrying amount is considered a reasonable approximation of the fair value. In general, they are classified in Level 3, except in the case where the significance of the observable inputs compared with the entire assessment is higher than a predetermined threshold (Level 2), or in the event of assets held for sale or transactions being completed at the reference date (Level 1) Taking into account the current context of the credit market, with particular reference to non-performing loans, this fair value (Level 2 and 3), determined taking into account multi-scenario assumptions that provide for the combination between internal management and so-called "disposal scenarios", may not represent the potential exit price because of a certain margin of uncertainty, which is in any case inherent in the various components making up the price considered by a potential third-party purchaser;

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

A.4.2 Process and sensitivity of valuations

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

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

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

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

A.4.3 Fair value hierarchy

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

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

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

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

A.4.4 Other information

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

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities designated at fair value	31.12.2020 L1	31.12.2020 L2	31.12.2020 L3	31.12.2019 L1	31.12.2019 L2	31.12.2019 L3
1. Financial assets at fair value through profit or loss	18,657	3,790	34,255	22,254	860	20,948
a) Financial assets held for trading	2,662	2,930	647	4,456	-	1,350
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	15,995	860	33,608	17,798	860	19,598
2. Financial assets at fair value through other comprehensive income	574,459	23,893	64,281	509,364	47,267	2,990
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**593,116**	**27,683**	**98,536**	**531,618**	**48,127**	**23,938**
1. Financial liabilities held for trading	-	6,934	592	-	6,874	1,264
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	1,540	-	-	2,157	-
Total	**-**	**8,475**	**592**	**-**	**9,031**	**1,264**

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

Investments measured on the basis of unobservable inputs (Level 3) represent a very small percentage of total financial assets measured at fair value (13.7% at 31 December 2020 compared with 4.0% in the previous year). These investments consist in Euro 64.3 million (around two third of total) by minor equity investments booked under "Financial assets at fair value through other comprehensive income".

Given the nature and overall size of these equity instruments, the sensitivity analysis was carried out for the shares held in Cedacri S.p.A. (approximately 60.5 million euro); considering an increase of 100 bps in the cost of equity (Ke) or, alternatively, a decrease of 10% in future net profits, the effects of the analysis showed reductions in the fair value of the level 3 "Financial assets at fair value through other comprehensive income" of about 6% and 7% respectively.

At 31 December 2020, the impact of applying the Credit Value Adjustment and Debit Value Adjustment to the balance sheet values has not been calculated as all outstanding derivative contracts are backed by collateral agreements with counterparties to mitigate credit risk (CSA agreements).

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

	Financial assets at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily at fair value	Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	**20,948**	**1,350**	**-**	**19,598**	**2,990**	**-**	**-**	**-**
2. Increases	**22,293**	**647**	**-**	**21,646**	**61,479**	**-**	**-**	**-**
2.1. Purchases	21,227	-	-	21,227	1,019	-	-	-
2.2. Profits posted to:	1,066	647	-	419	-	-	-	-
2.2.1. Income	1,066	647	-	419	-	-	-	-
- of which: capital	1,066	647	-	45	-	-	-	-
2.2.2. Shareholders' equity	-	-	-	-	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	60,452	-	-	-
2.4. Other increases	-	-	-	-	8	-	-	-
3. Decreases	**8,986**	**1,350**	**-**	**7,636**	**188**	**-**	**-**	**-**
3.1. Sales	-	-	-	-	8	-	-	-
3.2. Redemptions	59	-	-	59	-	-	-	-
3.3. Losses posted to:	6,815	1,350	-	5,465	180	-	-	-
3.3.1. Income	6,815	1,350	-	5,465	-	-	-	-
- of which: capital losses	6,815	1,350	-	5,464	-	-	-	-
3.3.2. Shareholders' equity	-	-	-	-	180	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	2,112	-	-	2,112	-	-	-	-
4. Closing balance	**34,255**	**647**	**-**	**33,608**	**64,281**	**-**	**-**	**-**

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

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Hedging derivatives
1. Opening balance	**1,264**	**-**	**-**
2. Increases	**592**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses posted to:	592	-	-
2.2.1. Income statement	592	-	-
- of which: capital losses	592	-	-
2.2.2. Shareholders' equity	-	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**1,264**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits posted to:	1,264	-	-
3.3.1. Income statement	1,264	-	-
- of which: capital gains	1,264	-	-
3.3.2. Shareholders' equity	-	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**592**	**-**	**-**

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	31.12.2020				31.12.2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	14,278,375	2,099,604	7,970,888	4,602,651	12,897,501	2,082,039	6,438,674	4,727,371
2. Investment property	1,758			1,920	1,787			1,936
3. Non-current assets and disposal groups held for sale								
Total	**14,280,133**	**2,099,604**	**7,970,888**	**4,604,571**	**12,899,288**	**2,082,039**	**6,438,674**	**4,729,307**
1. Financial liabilities at amortised cost	14,278,176	.	1,601,142	12,677,596	12,851,165	-	1,736,955	11,116,599
2. Liabilities associated with assets held for sale								
Total	**14,278,176**	**-**	**1,601,142**	**12,677,596**	**12,851,165**	**-**	**1,736,955**	**11,116,599**

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

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

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

In relation to the operations of Banco and based on the internal valuation methodologies currently in use, the fair value of the financial instruments on initial recognition generally coincides with the transaction price; however, if a difference arises between the transaction price and the amount determined using valuation techniques, this difference is immediately recognised to the income statement (see table "7.2 Net change in value of other financial assets and liabilities designated at fair value through profit and loss: breakdown of other financial assets that are mandatorily valued at fair value").

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - caption 10

1.1 Cash and cash equivalents: breakdown

	31.12.2020	31.12.2019
a) Cash	56,524	60,815
b) Demand deposits with central banks	-	-
Total	**56,524**	**60,815**

Section 2 - Financial assets designated at fair value through profit or loss - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	2,930	-	863	-	-
1.1 Structured securities	-	-	-	863	-	-
1.2 Other debt securities	-	2,930	-	-	-	-
2 Equity instruments	2,553	-	-	2,192	-	-
3. Mutual funds	-	-	-	1,282	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**2,553**	**2,930**	**-**	**4,337**	**-**	**-**
B. Derivatives						
1. Financial derivatives	109	-	647	119	-	1,350
1.1 for trading	109	-	647	119	-	1,350
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**109**	**-**	**647**	**119**	**-**	**1,350**
Total (A+B)	**2,662**	**2,930**	**647**	**4,456**	**-**	**1,350**

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

Caption 20 "Financial assets held for trading" comprises:

a) cash assets held for trading;
b) positive value of derivatives held for trading.

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

Captions/Amounts	31.12.2020	31.12.2019
A. Cash assets		
1. Debt securities	**2,930**	**863**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	2,930	-
d) Other financial companies	-	863
of which: insurance companies	-	-
e) Non-financial companies	-	-
2 Equity instruments	**2,553**	**2,192**
a) Banks	302	-
b) Other financial companies	266	490
of which: insurance companies	-	-
c) Non-financial companies	1,985	1,702
d) Other issuers	-	-
3. Mutual funds	**-**	**1,282**
4. Loans	**-**	**-**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**5,483**	**4,337**
B. DERIVATIVES	**-**	**-**
a) Central counterparties	-	-
b) Other	756	1,469
Total (B)	**756**	**1,469**
Total (A+B)	**6,239**	**5,806**

2.5 Other financial assets mandatorily at fair value: breakdown

Captions/Amounts	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**860**	**-**	**-**	**860**	**1,440**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	860	-	-	860	1,440
2 Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Mutual funds	**15,995**	**-**	**33,608**	**17,798**	**-**	**18,158**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**15,995**	**860**	**33,608**	**17,798**	**860**	**19,598**

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

The item "Financial assets mandatorily at fair value" includes the mutual fund units that are not held for trading purposes; these instruments by their very nature do not pass the SPPI test ("solely payments of principal and interests") foreseen in IFRS 9 "Financial Instruments". This caption includes quotas of closed-end funds subscribed following completion of a sale of non-performing loans to the fund; the fair value of the fund units (Level 3) is determined by applying the policies provided by the bank for this type of financial instrument.

In particular, loans with a total nominal value of 35,242 thousand euro were sold in December 2020, involving subscription for units in closed-end funds totalling 21,226 thousand euro that are subject to the liquidity discounts envisaged in the measurement policies adopted by the Group.

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

	31.12.2020	31.12.2019
1. Equity instruments	**-**	**-**
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	**860**	**2,300**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	1,440
d) Other financial companies	860	860
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Mutual funds	**49,603**	**35,956**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**50,463**	**38,256**

Section 3 - Financial assets designated at fair value through other comprehensive income - caption 30

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

Captions/Amounts	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	574,272	13,893	-	509,364	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	574,272	13,893	-	509,364	-	-
2 Equity instruments	187	10,000	64,281	-	47,267	2,990
3. Loans	-	-	-	-	-	-
Total	**574,459**	**23,893**	**64,281**	**509,364**	**47,267**	**2,990**

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

The caption "Financial assets measured at fair value through other comprehensive income" includes:

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

Caption "2. Equity securities" includes, in particular, the investment in Cedacri S.p.A. that was revalued by 21,575 thousand euro at 31 December 2020 (23,185 thousand euro gross of tax effect) using internal measurement models. These were applied to the economic-financial forecasts contained in the strategic plan approved during the year by the board of directors of that company, identifying a prudent and conservative equity value for the investment of about 600 million euro.

At the reference date of this financial report, the shareholders of Cedacri S.p.A. have initiated a project for the disposal of their entire equity interest in this company. In this regard, Ion Investment - a British group - presented a binding offer in January 2021 that identifies an equity value of about 1.2 billion euro, which was only considered for comparative purposes with respect to the above internal valuation, as discussed further in the Report on Operations.

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

Captions/Amounts	31.12.2020	31.12.2019
1. Debt securities	**588,165**	**509,364**
a) Central banks	-	-
b) Public administrations	574,272	506,813
c) Banks	13,893	2,551
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2 Equity instruments	**74,468**	**50,257**
a) Banks	10,000	10,000
b) Other issuers:	64,468	40,257
- other financial companies	2,504	2,363
of which: insurance companies	-	-
- non-financial companies	61,964	37,894
- other	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**662,633**	**559,621**

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

		Gross value				Total write-downs			Total partial write-offs
		First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt		588,165	588,165	-	-	(172)	-	-	-
Loans		-	-	-	-	-	-	-	-
Total	**31.12.2020**	**588,165**	**588,165**	**-**	**-**	**(172)**	**-**	**-**	**-**
Total	**31.12.2019**	**509,364**	**509,364**	**-**	**-**	**(363)**	**-**	**-**	**-**
of which: impaired financial assets acquired or originated		X	X	-	-	X	-	-	-

Section 4 - Financial assets measured at amortised cost - caption 40

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

Type of transaction/Amounts	31.12.2020						31.12.2019					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. Due from central banks	**836,893**	**-**	**-**	**-**	**-**	**836,893**	**335,833**	**-**	**-**	**-**	**-**	**335,833**
1. Time deposits	-	-	-				-	-	-			
2. Reserve requirement	836,893	-	-				335,833	-	-			
3. Repurchase agreements	-	-	-				-	-	-			
4. Other	-	-	-				-	-	-			
B. Due from banks	**528,683**	**-**	**-**	**-**	**337,229**	**199,492**	**578,972**	**-**	**-**	**-**	**297,880**	**283,747**
1. Loans	197,692	-	-	-	-	197,692	283,747	-	-	-	-	283,747
1.1 Current accounts and demand deposits	63,635	-	-				43,568	-	-			
1.2. Time deposits	43,172	-	-				30,155	-	-			
1.3. Other loans:	90,885	-	-				210,024	-	-			
- Repurchase agreements	-	-	-				-	-	-			
- Loans for leases	-	-	-				-	-	-			
- Other	90,885	-	-				210,024	-	-			
2. Debt securities	330,991	-	-	-	337,229	1,800	295,225	-	-	-	297,880	-
2.1 Structured securities	3,945	-	-	-	3,988	-	3,920	-	-	-	3,920	-
2.2 Other debt securities	327,046	-	-	-	333,241	1,800	291,305	-	-	-	293,960	-
Total	**1,365,576**	**-**	**-**	**-**	**337,229**	**1,036,385**	**914,805**	**-**	**-**	**-**	**297,880**	**619,580**

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

Stage segmentation takes place in compliance with the following requirements of "IFRS 9 Financial Instruments:

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

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

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

The Bank's commitment to maintain the reserve requirement amounts to Euro 101.3 million at 31 December (Euro 94.6 million in December 2019).

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

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

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

Type of transaction/Amounts	31.12.2020						31.12.2019					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originate d	L1	L2	L3
1. Loans	**10,117,495**	**301,946**	**10,702**	**-**	**7,196,337**	**3,561,278**	**9,178,445**	**337,251**	**10,510**	**-**	**5,754,613**	**4,107,791**
1.1. Current accounts	1,686,639	72,888	311				2,069,285	90,939	386			
1.2. Repurchase agreements	-	-	-				-	-	-			
1.3. Mortgage loans	7,501,000	211,712	10,235				5,898,078	227,514	9,994			
1.4. Credit cards, personal loans and assignments of one-fifth of salary	8,712	620	35				10,418	757	34			
1.5 Loans for leases	154,268	12,057	-				151,430	10,830	-			
1.6. Factoring	43,027	296	-				30,033	16	-			
1.7. Other loans	723,849	4,373	121				1,019,201	7,195	96			
2. Debt securities	**2,493,358**	**-**	**-**	**2,099,604**	**437,322**	**4,989**	**2,467,000**	**-**	**-**	**2,082,039**	**386,181**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	2,493,358	-	-	2,099,604	437,322	4,989	2,467,000	-	-	2,082,039	386,181	-
Total	**12,610,853**	**301,946**	**10,702**	**2,099,604**	**7,633,659**	**3,566,267**	**11,645,445**	**337,251**	**10,510**	**2,082,039**	**6,140,794**	**4,107,791**

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

Gross loans total 10,766,773 thousand euro (9,843,472 thousand euro at the end of the previous year), of which: 10,191,052 thousand euro related to performing loans (9,223,665 thousand euro at the end of the previous year) and 575,721 thousand euro to non-performing loans (619,807 thousand euro at the end of the previous year).

Total write-downs on the same loans amount to Euro 347,332 thousand (Euro 327,776 thousand at the end of the previous year), of which Euro 273,776 thousand relate to non-performing loans (Euro 282,556 thousand at the end of the previous year) and Euro 73,556 thousand to performing loans (Euro 45,220 thousand at the end of the previous year).

With regard to the determination of credit losses, the information provided in the note on "Risks, uncertainties and the impacts of the Covid-19 pandemic" in "Section 4 – Other aspects", contained in subsection "A.1 General information" of "Part A - Accounting policies", is supplemented by the note on the "Model for measuring expected losses on performing loans" contained in "Part E – Information on risks and related hedging policy" of these explanatory notes.

The breakdown of loans to customers by type at 31 December 2020 (compared with 31 December 2019) shows significant growth in medium/long-term mortgages and loans due to the disbursements made to companies backed by guarantees from Medio Credito Centrale.

The table also includes the amounts of receivables sold which have not been derecognised, constituting eligible assets for the Covered Bond programme; at 31 December 2020 these loans amount to 1,473,441 thousand euro (1,291,557 thousand euro at the end of the previous year).

The sub-caption "Mortgage loans" also include collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 2,889,722 thousand (Euro 1,784,028 thousand at the end of last year).

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

Loans and receivables from companies belonging to the Banco Desio Group amount to Euro 811,611 thousand; they all relate to the subsidiary Fides S.p.A. (Euro 741,553 thousand at the end of the previous year).

This caption includes the interest accrued at 31 December 2020 that is recoverable from 1 March of the following year, due to application of the rules for the calculation of interest on banking transactions established in MEF Decree no. 343/2016, which implements art. 120, para. 2, of the Consolidated Banking Law (T.U.B.).

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

The fair value of non-current performing loans is measured using techniques that discount the cash flows expected after considering the related credit risk, while the carrying amount of non-performing and current performing loans is considered to be a reasonable approximation of fair value. Taking into account the current context of the credit market, with particular reference to non-performing loans, this fair value (Level 2 and 3), determined taking into account multi-scenario assumptions that provide for the combination between internal management and so-called "disposal scenarios", may not represent the potential exit price because of a certain margin of uncertainty, which is in any case inherent in the various components making up the price considered by a potential third-party purchaser.

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows. The value of debt securities is shown net of adjustments deriving from the application of the new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments". This portfolio at 31 December 2020 includes Euro 206,000 thousand of senior notes issued by the "2Worlds s.r.l." SPV following the sale of doubtful loans through use of the "GACS" scheme in 2018. Another reimbursement of Euro 15,473 thousand was made in January 2021.

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

Type of transaction/Amounts	31.12.2020			31.12.2019		
	First and second stage	Third stage	of which: impaired assets acquired or originated	First and second stage	Third stage	of which: impaired assets acquired or originated
1. Debt securities	**2,493,358**	**-**	**-**	**2,467,000**	**-**	**-**
a) Public administrations	2,048,094	-	-	2,069,131	-	-
b) Other financial companies	417,290	-	-	364,635	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	27,974	-	-	33,234	-	-
2. Loans to:	**10,117,495**	**301,946**	**10,702**	**9,178,445**	**337,251**	**10,510**
a) Public administrations	67,062	319	-	36,503	377	-
b) Other financial companies	944,639	5,209	-	861,335	4,481	-
of which: insurance companies	4,342	-	-	2,886	-	-
c) Non-financial companies	5,790,542	192,279	4,511	5,136,836	222,428	4,060
d) Households	3,315,252	104,139	6,191	3,143,771	109,965	6,450
Total	**12,610,853**	**301,946**	**10,702**	**11,645,445**	**337,251**	**10,510**

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

		Gross value				Total write-downs			Total partial write-offs
		First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities		2,825,699	2,825,699	-	-	1,350	-	-	-
Loans		8,887,843	31,218	2,337,941	575,723	16,956	56,748	273,777	9,039
Total	**31.12.2020**	**11,713,542**	**2,856,917**	**2,337,941**	**575,723**	**18,306**	**56,748**	**273,777**	**9,039**
Total	**31.12.2019**	**11,576,763**	**2,754,759**	**1,031,024**	**619,808**	**24,006**	**23,531**	**282,557**	**12,155**
of which: impaired financial assets acquired or originated		X	X	4,477	9,854	X	122	3,508	-

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

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

The breakdown into stages is relevant for the application of the model for the calculation of impairment based on expected losses, determined on the basis of past events, current and reasonable conditions and "supportable" future forecasts (current model based on losses incurred but not recorded). In particular, the model for the calculation of the expected loss has the following characteristics:

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

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

4.4a Loans valued at amortized cost subject to Covid-19 support measures: gross value and total value adjustments

	Gross value				Total write-downs		
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage
1. Loans subject to concession in compliance with the GL (*)	1,248,854	553	1,352,147	58,768	1,962	37,905	13,621
2. Loans subject to other forbearance measures	-	-	-	-	-	-	-
3. New loans	1,528,958	-	286,223	2,153	2,046	2,378	559
Total	**2,777,812**	**553**	**1,638,370**	**60,921**	**4,008**	**40,283**	**14,180**

(*) GL: Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (EBA/GL/2020/02)

The stage 2 exposures, reported in the table, are mainly attributable to management overlay actions with respect to the model staging allocation that will be described in detail in "Part E – Information on risks and hedging policies".

Section 6 - Adjustment to financial assets with generic (or "macro") hedges - caption 60

6.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets/Amounts	31.12.2020	31.12.2019
1. Positive adjustments	**563**	**624**
1.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets designated at fair value through other comprehensive income	-	-
1.2 total	563	624
2. Negative adjustments	**-**	**-**
2.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets designated at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**563**	**624**

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

At 31 December, the balance solely comprises unamortised positive differentials on portfolios that were discontinued in prior years.

Section 7 - Equity investments - caption 70

7.1 Equity investments: details of holdings

Name	Registered office	Operational headquarters	% Held	Voting rights %
A. Subsidiaries				
Fides S.p.A.	Rome	Rome	100.000	100.000
Desio OBG S.r.l	Conegliano	Conegliano	60.000	60.000

7.2 Significant equity investments: book value, fair value and dividends received

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to paragraph "3. Investments in subsidiaries with significant minority interests" of section 3 - Scope of consolidation and methodology" of Part A of the Banco Desio Group's consolidated financial statements.

7.3 Significant equity investments: accounting information

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to paragraph "3. Investments in subsidiaries with significant minority interests" of section 3 - Scope of consolidation and methodology" of Part A of the Banco Desio Group's consolidated financial statements.

Impairment testing of equity investments

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

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

As described in the note on "Risks, uncertainties and impacts of the Covid-19 pandemic" in "Section 4 – Other aspects" of subsection "A.1 General information" in "Part A - Accounting policies" of these explanatory notes, the preparation of these financial statements included the performance of impairment tests on goodwill and equity investments. These tests took account of the new Group Business Plan for the three-year period 2021-2023, approved by the Board of Directors on 17 December 2020, and therefore made reference to a strategic planning document based on reasonable assumptions linked to the latest and most updated macroeconomic and sector assumptions, in turn influenced by the effects of the global spread of Covid-19 contagion and the government measures adopted in support of households and businesses.

In particular, pursuant to IAS 36 and in application of the policy on the impairment of intangible assets with an indefinite useful life (goodwill) and equity investments, the recoverable amount of equity investments was determined with reference to their value in use, if there was no fair value arising from transactions concerning the target of the impairment test or from market transactions involving similar targets. 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 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 period adopted for the 2021-2023 Business Plan was considered, together with the further projection of that plan made by management and approved by the Board of Directors on 21 January 2021. This prudent projection was used to obtain an explicit forecast for the next 5 years, thus reducing the distortions that would derive from using the shorter time horizon for the Plan, which is heavily conditioned by a complex systemic situation clouded by macroeconomic and sector uncertainties as a result of the pandemic. More generally, the longer time frame normalises the effect on results of exceptional events, in order to focus more properly on the true medium/long-term potential of the business tested.

Cash flows

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

Discount rate

For the valuation of banks and financial intermediaries, reference is made to 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.

Legal entity	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratios
Fides S.p.A.	DDM	2021-23 Business Plan extended to 2025	11.9%	8.09%	1.50%	Net results	Tier1 8.95% (*)

(*) Overall Capital Requirement Tier 1 ratio assigned with the last SREP measure

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

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

c) Sensitivity analysis

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

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the equity investments match their carrying amounts.

Equity investments	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Fides S.p.A.	26.63%	444

7.5 Equity investments: changes during the year

	31.12.2020	31.12.2019
A. Opening balance	**42,200**	**274,571**
B. Increases	**-**	**-**
B.1 Purchases	-	-
- of which: business combinations	-	-
2. Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**-**	**232,371**
C.1 Sales	-	232,371
- of which: business combinations	-	232,371
C.2 Write-downs	-	-
C.3 Impairment losses	-	-
C.4 Other changes	-	-
D. Closing balance	**42,200**	**42,200**
E. Total revaluations	**-**	**-**
F. Total write-downs	**-**	**-**

Caption "C. Decreases" of the previous year included the effect of absorbing the former subsidiary Banca Popolare di Spoleto, with legal effect from 1 July 2019.

LISTING OF EQUITY INVESTMENTS AND SIGNIFICANT EQUITY INVESTMENTS

List of investments in subsidiaries (Caption 70. Equity investments)

(amounts in Euro)

Equity investments	*Number of shares or quotas*	*% held*	*Nominal value*	*Book value*
Subsidiaries				
Fides S.p.A.	35,000,000	100.000	35,000,000	42,193,729
Desio OBG S.r.l.	1	60.000	6,000	6,000
Total Caption 100. Equity investments				**42,199,729**

List of equity investments (Caption 30. Financial assets measured at fair value through other comprehensive income)

(amounts in Euro)

Equity investments	*Number of shares or quotas*	*% held*	*Nominal value*	*Book value*
Cedacri S.p.A.	1,270	10.072	1,270,000	60,452,000
Bank of Italy	400	0.133	10,000,000	10,000,000
Gepafin S.p.A.	*113,848*	*10.728*	*683,088*	*1,593,417*
Unione Fiduciaria	*15,050*	*1.394*	*82,775*	*485,212*
Baires Produzioni s.r.l.	-	-	-	*240,000*
Sviluppo Como - ComoNExt Spa	*150,000*	*1.542*	*150,000*	*150,000*
Bancomat S.p.A.	*29,150*	*0.691*	*145,750*	*145,749*
S.W.I.F.T. - Bruxelles	*17*	*0.016*	*2,125*	*38,226*
Sia S.p.A.	*101,794*	*0.059*	*13,233*	*6,097*
CBI S.C.P.A	*5,720*	*1,243*	*11,440*	*11,440*
Total				**73,122,141**

7.8. Significant restrictions

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to paragraph "4. Significant restrictions" of "Section 3 - Scope of consolidation and methodology" of Part A of the Banco Desio Group's consolidated financial statements.

Section 8 - Property, plant and equipment - caption 80

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

Assets/Amounts	31/12/2020	31/12/2019
1. Own assets	**169,101**	**172,641**
a) land	52,778	52,778
b) property	99,107	101,605
c) furniture	4,216	4,610
d) electronic systems	3,246	3,484
e) other	9,754	10,164
2. Rights of use acquired under lease	**50,676**	**50,659**
a) land	-	-
b) property	49,809	49,580
c) furniture	-	-
d) electronic systems	-	-
e) other	867	1,079
Total	**219,777**	**223,300**
of which: obtained through enforcement of the guarantees received	-	-

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

The expected useful lives of the main asset categories are as follows:

- property: 50 years,
- office furniture, fittings, miscellaneous plant and equipment, armoured counters and compasses and alarm systems: 10 years,
- terminals and PCs, mixed use vehicles: 4 years.

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

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

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

8.2 Investment property: breakdown of assets valued at cost

Assets/Amounts	31.12.2020				31.12.2019			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**1,758**	**-**	**-**	**1,920**	**1,787**	**-**	**-**	**1,936**
a) land	828	-	-	846	828	-	-	853
b) property	930	-	-	1,074	959	-	-	1,083
2. Rights of use acquired under lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) property	-	-	-	-	-	-	-	-
Total	**1,758**	**-**	**-**	**1,920**	**1,787**	**-**	**-**	**1,936**
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

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

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

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

8.3 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.

8.4 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.

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

Assets/Amounts	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**52,778**	**198,914**	**39,722**	**29,795**	**56,729**	**377,988**
A.1 Total net write-downs	-	(47,729)	(35,162)	(26,311)	(45,486)	(154,688)
A.2 Net opening balance	**52,778**	**151,185**	**4,610**	**3,484**	**11,243**	**223,300**
B. Increases:	**-**	**17,548**	**347**	**1,038**	**2,241**	**21,174**
B.1 Purchases	-	13,262	232	1,038	1,810	16,342
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increase in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	-
B.7 Other changes	-	4,286	115	-	431	4,832
C. Decreases:	**-**	**19,817**	**741**	**1,276**	**2,863**	**24,697**
C.1 Sales	-	-	121	-	594	715
C.2 Depreciation	-	12,632	620	1,276	2,252	16,780
C.3 Impairment write-downs booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property, plant and equipment	-	-	X	X	X	-
b) non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	7,185	-	-	17	7,202
D. Net closing balance	**52,778**	**148,916**	**4,216**	**3,246**	**10,621**	**219,777**
D.1 Net total write-downs	-	(60,362)	(35,667)	(27,587)	(47,307)	(170,923)
D.2 Gross closing balance	**52,778**	**209,278**	**39,883**	**30,833**	**57,928**	**390,700**
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

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

Captions "B.7 Other changes", "C.1 Sales" and "C.7 Other changes" include the effects of disposals and sales of property, plant and equipment during the year; in particular, caption "B.7 Other changes" includes the release of the accumulated depreciation on the assets sold and caption "C.7 Other changes" includes the release of the historical cost of the same assets. As a result of the aforementioned disposals, losses of Euro 156 thousand were recorded to the income statement under caption 200 "Other operating charges/income".

8.7 Investment property: changes during the year

Assets/Amounts	Total	
	Land	Buildings
A. Gross opening balance	**828**	**959**
B. Increases	**-**	**-**
B.1 Purchases	-	-
B.2 Capitalised improvement costs	-	-
B.3 Positive changes in fair value	-	-
B.4 Write-backs	-	-
B.5 Foreign exchange gains	-	-
B.6 B.6 Transfers from assets used in business	-	-
B.7 Other changes	-	-
C. Decreases	**-**	**29**
C.1 Sales	-	-
C.2 Depreciation	-	29
C.3 Negative changes in fair value	-	-
C.4 Impairment write-downs	-	-
C.5 Foreign exchange losses	-	-
C.6 Transfers to:	-	-
a) assets used in business	-	-
b) non-current assets and disposal groups held for sale	-	-
C.7 Other changes	-	-
D. Closing balance	**828**	**930**
E. Measurement at fair value	**846**	**1,074**

8.9 Commitments to purchase property, plant and equipment

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

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	632
ARCORE	Via Casati, 7	362	502
BAREGGIO	Via Falcone, 14	200	251
BESANA BRIANZA	Via Vittorio Emanuele, 1/3	625	751
BOLOGNA	Porta Santo Stefano, 3	1,223	8,255
BOLOGNA SANTA VIOLA	Via Della Ferriera, 4	200	947
BOVISIO MASCIAGO	Via Garibaldi, 8	382	382
BRESCIA	Via Verdi, 1	720	2,720
BRIOSCO	Via Trieste, 14	430	372
BRUGHERIO	Viale Lombardia, 216/218	425	1,154
BUSTO ARSIZIO	Via Volta, 1	456	924
CADORAGO	Via Mameli, 5	187	268
CANTU'	Via Manzoni, 41	1,749	2,008
CARATE BRIANZA	Via Azimonti, 2	773	879
CARUGATE	Via XX Settembre, 8	574	557
CARUGO	Via Cavour, 2	252	343
CASTELLANZA	Corso Matteotti, 18	337	379
CESANO MADERNO	Corso Roma, 15	692	791
CHIAVARI	Piazza Matteotti	68	933
CINISELLO BALSAMO	Via Frova, 1	729	825
CINISELLO BALSAMO	Piazza Gramsci	26	14
COLOGNO MONZESE	Via Cavallotti, 10	128	43
COMO	Via Garibaldi, angolo Via Varese	548	2,123
CUSANO MILANINO	Viale Matteotti, 39	522	622
DESIO	Piazza Conciliazione, 1	1,694	1,886
DESIO	Via Rovagnati, 1	20,032	26,804
DESIO	Via Volta, 96	238	533
GARBAGNATE	Via Varese, 1	400	1,083
GIUSSANO	Via Addolorata, 5	728	840
LECCO	Via Volta, ang. Via Montello	615	1,571
LEGNANO	Corso Italia, 8	1,545	2,433
LISSONE	Via San Carlo, 23	583	1,199
MEDA	Via Indipendenza, 60	678	723
MILAN	Via della Posta, 8	1,912	7,374
MILAN	Via Foppa	223	735
MILAN	Via Menotti	825	2,724
MILAN	Via Moscova, 30/32	668	4,933
MILAN	Via Trau', 3	422	1,903
MILAN	Piazza De Angeli, 7/9	385	2,006
MISINTO	Piazza Mosca, 3	330	332
MODENA	Via Saragozza, 130	720	3,887
MONZA	Corso Milano, 47	453	790
MONZA	Via Rota, 66	330	492
MONZA	Piazza S. Paolo, 5	496	3,425

Location of the property		surface area of office space (sqm)	Net carrying amount (in thousands of Euro)
NOVA MILANESE	Piazza Marconi, 5	526	613
NOVATE MILANESE	Via Matteotti, 7	462	616
ORIGGIO	Largo Croce, 6	574	691
PADUA	Via Matteotti, 20	550	3,212
PALAZZOLO MILANESE	Via Monte Sabotino, 1	605	597
PIACENZA	Via Vittorio Veneto,67/a	486	1,308
REGGIO EMILIA	Via Terrachini, .1	713	2,415
RENATE	Piazza don Zanzi, 2	429	581
RHO	Via Martiri Libertà, 3	410	674
RUBIERA	Via Emilia Ovest, 7	310	1,270
SARONNO	Via Rimembranze, 42	530	696
SEGRATE	Via Cassanese, 200	170	266
SEREGNO	Via Trabattoni, 40	1,233	1,927
SESTO SAN GIOVANNI	Piazza Oldrini	377	710
SEVESO	Via Manzoni, 9	382	963
SOVICO	Via Frette, 10	673	968
TURIN	Via Filadelfia, 136	370	1,590
VAREDO	Via Umberto I°, 123	501	472
VEDUGGIO	Via Vittorio Veneto, 51	257	217
VERANO BRIANZA	Via Preda, 17	322	350
VERANO BRIANZA	Via Furlanelli, 3	790	636
VIGEVANO	Via Decembrio, 21	480	1,867
VIMERCATE	Via Milano, 6	338	865
AMELIA	Via Orvieto, 14	204	146
ASSISI	Piazza Santa Chiara, 19	464	673
BEVAGNA	Corso Matteotti, 36/38	103	139
CASCIA	Piazza G. Garibaldi, 1	372	190
CORCIANO	Via Gramsci	290	187
EMPOLI	Via Busoni, 83/97	578	1,469
FOLIGNO	Via Cesare Battisti, 2	2,280	1,723
NORCIA	Corso Sertorio, 5	259	267
PERUGIA	C.so Vannucci, 30	901	1,737
PERUGIA	Via delle Marche, 26	113	118
PERUGIA	Via Tagliapietra	518	466
PERUGIA	Via Settevalli, 175	521	1,408
ROME PRATI FISCALI	Via Val Maggia, 135	197	1,815
SCHEGGINO	Piazza del Mercato, 1	170	134
SPOLETO	Piazza Pianciani	8,423	18,827
SPOLETO	Via G. Marconi, 220	189	134
SPOLETO	Via Nursina, 1	815	1,149
SPOLETO	Viale Trento e Trieste	3,793	2,379
TERNI	Corso del Popolo, 45	1,895	2,532
TERNI	Via del Rivo, 104/F	180	186
TREVI	Piazza Garibaldi, 7	703	354
Sub total		**79,673**	**151,885**

Investment property

MEDA parking space	Via Indipendenza, 60	15	6
MILAN	1st floor Via Trau', 3	205	997
MONZA	Via Manzoni, 37	397	674
FOLIGNO	Via Velino, 2	168	81
Sub total		**785**	**1,758**
Total		**80,458**	**153,643**

Table of revalued assets recognised in the financial statements

(pursuant to art. 10 of Law no. 72 of 19/3/1983)

(amounts in Euro)

	Revaluations in line with inflation			**Revaluations to reflect change in value**		
	Law 576/75	Law 72/83	Law 413/91	Merger deficit	Voluntary revaluation	**TOTAL**
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 9 - Intangible assets - caption 90

9.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2020		31.12.2019	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		**9,796**		**9,796**
A.2 Other intangible assets	**1,976**	**-**	**1,655**	**-**
A.2.1 Carried at cost	1,976	-	1,655	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	1,976	-	1,655	-
A.2.2 Carried at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**1,976**	**9,796**	**1,655**	**9,796**

Goodwill recorded in the financial statements, having an indefinite useful life, is not amortised on a straight-line basis but subjected to impairment testing at least once a year, particularly at the year end reporting date or, in any case, any time circumstances arise that suggest that there may be impairment.

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

Impairment testing of goodwill

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

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.

As described in the note on "Risks, uncertainties and impacts of the Covid-19 pandemic" in "Section 4 – Other aspects" of subsection "A.1 General information" in "Part A - Accounting policies" of these explanatory notes, the preparation of these financial statements included the performance of impairment tests on goodwill and equity investments. These tests took account of the new Group Business Plan for the three-year period 2021-2023, approved by the Board of Directors on 17 December 2020, and therefore made reference to a strategic planning document based on reasonable assumptions linked to the latest and most updated macroeconomic and sector assumptions, in turn influenced by the effects of the global spread of Covid-19 contagion and the government measures adopted in support of households and businesses.

In particular, pursuant to IAS 36 and in application of the policy on the impairment of intangible assets with an indefinite useful life (goodwill) and equity investments, the recoverable amount of the CGUs was determined with reference to their 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 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) <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 period adopted for the 2021-2023 Business Plan was considered, together with the further projection of that plan made by management and approved by the Board of Directors on 21 January 2021. This prudent projection was used to obtain an explicit forecast for the next 5 years, thus reducing the distortions that would derive from using the shorter time horizon for the Plan, which is heavily conditioned by a complex systemic situation clouded by macroeconomic and sector uncertainties as a result of the pandemic. More generally, the longer time frame normalises the effect on results of exceptional events, in order to focus more properly on the true medium/long-term potential of the business tested.

<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).

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 S.p.A.	DDM	2021-23 Business Plan extended to 2025	-1.3%	8.09%	1.50%	Net results	Tier1 8.95% (*)

(*) Overall Capital Requirement Tier 1 ratio assigned with the last SREP measure

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, currently unforeseeable, that could have an impact on the main assumptions applied and, therefore, potentially, also on the results of future years, which could differ from those presented here.

c) Sensitivity analysis

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

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

CGU	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banco di Desio e della Brianza S.p.A.	22.60%	391

9.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		LIM	UNLIM	LIM	UNLIM	
A. Opening balance	**11,940**	**-**	**-**	**18,873**	**-**	**30,813**
A.1 Total net write-downs	(2,144)	-	-	(17,218)	-	(19,362)
A.2 Net opening balance	**9,796**	**-**	**-**	**1,655**	**-**	**11,451**
B. Increases	**-**	**-**	**-**	**1,248**	**-**	**1,248**
B.1 Purchases	-	-	-	1,246	-	1,246
- of which: business combinations	-	-	-	-	-	-
B.2 Increases in internally generated intangible	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- recognised in equity	X	-	-	-	-	-
- recognised in income statement	X	-	-	-	-	-
B.5 Foreign exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	2	-	2
C. Decreases	**-**	**-**	**-**	**927**	**-**	**927**
C.1 Sales	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Write-downs	-	-	-	927	-	927
- Amortisation	X	-	-	927	-	927
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value:	-	-	-	-	-	-
- recognised in equity	X	-	-	-	-	-
- recognised in income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Foreign exchange losses	**-**	**-**	**-**	**-**	**-**	**-**
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**9,796**	**-**	**-**	**1,976**	**-**	**11,772**
D.1 Total net write-downs	(2,144)	-	-	(18,145)	-	(20,289)
E. Gross closing balance	**11,940**	**-**	**-**	**20,121**	**-**	**32,061**
F. Measurement at cost	-	-	-	-	-	-

Key
LIM: limited duration
UNLIM: unlimited duration

9.3 Other information

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

Section 10 - Tax assets and liabilities - Asset caption 100 and Liability caption 60

10.1 Deferred tax assets: breakdown

	IRES	IRAP	31.12.2020	31.12.2019
A) With contra-entry to the income statement:				
Tax losses	12,144		12,144	
Tax deductible goodwill	3,395	687	4,082	4,479
Write-down of loans to customers deductible on a straight-line basis	133,644	18,624	152,268	175,783
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994				
Statutory depreciation of property, plant and equipment	276		276	347
Provision for guarantees and commitments and country risk	1,360		1,360	752
Provisions for personnel costs	4,699	744	5,443	3,560
Provision for lawsuits	2,600	40	2,600	2,628
Provision for claw-backs	196	121	236	243
Provision for sundry charges	1,090		1,211	553
Tax provision for termination indemnities				
Other general expenses deductible in the following year				
Other	1,237	488	1,725	1,301
Total A	**160,946**	**20,704**	**181,650**	**189,951**
B) With contra-entry to shareholders' equity:				
Cash-flow hedges	1,082	219	1,301	1,301
Write-down of securities classified at FVOCI	38	13	51	6
Tax deductible goodwill	82	17	99	105
Tax provision for termination indemnities	1,112		1,112	990
Other				
Total B	**2,314**	**249**	**2,563**	**2,402**
Total (A+B)	**163,260**	**20,953**	**184,213**	**192,353**

10.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2020	31.12.2019
A) With contra-entry to the income statement:				
Tax depreciation of buildings	6,685	870	7,555	7,557
Tax depreciation of property, plant and equipment		16	16	16
Tax amortisation of goodwill	475	96	571	572
Tax amortisation of deferred charges (software)				
Tax provision as per art. 106, paragraph 3				
PPA of loans and receivables				2,355
PPA of depreciation and amortisation	846	165	1,011	1,014
Other	548	21	569	740
	8,554	**1,168**	**9,722**	**12,254**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	699	142	841	632
Revaluation of securities classified at FVOCI	524	106	630	951
Revaluation of equity investments	695	1,523	2,218	1,899
Revaluation of artworks	66	13	79	79
Total B	**1,984**	**1,784**	**3,768**	**3,561**
Total (A+B)	**10,538**	**2,952**	**13,490**	**15,815**

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

	31.12.2020	31.12.2019
1. Opening balance	**189,951**	**108,402**
2. Increases	**7,638**	**90,473**
2.1 Deferred tax assets recognised during the year	7,161	3,832
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	7,161	3,832
2.2 New taxes or increases in tax rates		
2.3 Other increases	477	86,641
of which: business combinations		*86,262*
3. Decreases	**15,939**	**8,924**
3.1 Deferred tax assets cancelled in the year	15,939	8,633
a) reversals	15,939	8,633
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		291
a) Conversion to tax credits as per L. 214/2011		
b) Other		291
of which: business combinations		
4. Closing balance	**181,650**	**189,951**

The deferred tax assets recognised during the year mainly comprised:

- Euro 5,990 thousand relating to non-deductible provisions to risks and charges and employee related provisions;
- Euro 644 thousand for non-deductible provisions for legal disputes and bankruptcy clawback actions;
- Euro 497 thousand for ACE (Aid for Economic Growth).

The sub-caption "2.3 Other increases" relates to the recognition of deferred tax assets as a result of the recomputation, made for the purpose of the tax return for the year 2019.

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

- Euro 8,335 thousand from the recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83/2015 and subsequent amendments and integrations;
- Euro 3,036 thousand from the deduction of the 10% annual portion pursuant to paragraphs 1067 and 1068 of art. 1 of Law 145/2018, of the income elements arising from the adoption of the recognition of the expected losses on loans and receivables from customers, booked on first-time adoption of the IFRS 9 standard;
- Euro 3,542 thousand relating to the use of taxed provisions.

The closing balance comprises the credit for the current-year tax loss of the Company, 12,144 thousand euro, which is transformable into a tax credit pursuant to art. 2, para. 56-bis, of Decree 225/2010, upon presentation of the annual income tax declaration.

10.3.bis Changes in deferred tax assets under Law 214/2011

	31.12.2020	31.12.2019
1. Opening balance	**150,876**	**93,716**
2. Increases		**57,160**
of which: business combinations		*57,160*
3. Decreases	**8,407**	
3.1 Reversals	8,407	
3.2 Conversion to tax credits		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other decreases		
of which: business combinations		
4. Closing balance	**142,469**	**150,876**

"3.1 Reversals" refers to:

- Euro 8,335 thousand from the recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83/2015 and subsequent amendments and integrations;
- Euro 72 thousand relating to an adjustment to the deferred tax asset on the step-up for tax purposes of goodwill in 2012 and 2013.

The closing balance comprises the credit for the current-year tax loss of the Company, 12,144 thousand euro, which is transformable into a tax credit pursuant to art. 2, para. 56-bis, of Decree 225/2010, upon presentation of the annual income tax declaration.

Probability test on deferred tax assets

In relation to the deferred tax assets described above, it should be noted that they refer for Euro 142,469 thousand to taxes as per Law 214/2011, which made it certain that they would be recovered, thereby making the IAS 12 probability test automatically satisfied.

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

The additional deferred tax assets described above, which are outside the scope of Law 214/2011, have been recognised in view of the probability of their recovery, expecting there to be sufficient taxable income in the future to recover these assets. In particular, deferred tax assets have been analysed by type and by the timing of the reversal considering the future profitability of the Bank and the taxable income forecast in the 2021-2023 business plan and their extension to 2025, as discussed in greater detail in the section about the impairment tests on goodwill. The analysis showed that there will be sufficient taxable income in the future to recover these assets.

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

	31.12.2020	31.12.2019
1. Opening balance	**12,253**	**8,589**
2. Increases	**63**	**5,111**
2.1 Deferred tax liabilities recognised during the year	63	8
a) relating to prior years		
b) due to changes in accounting policies		
c) other	63	8
2.2 New taxes or increases in tax rates		
2.3 Other increases		5,103
of which; business combinations		*876*
3. Decreases	**2,594**	**1,447**
3.1 Deferred tax liabilities cancelled during the year	2,594	1,156
a) reversals	2,594	1,156
b) due to changes in accounting policies		
c) other		291
3.2 Reduction in tax rates		
3.3 Other decreases		
of which; business combinations		
4. Closing balance	**9,722**	**12,253**

Deferred tax liabilities cancelled during the year are mainly attributable:

- for 2,355 thousand euro to the franking, pursuant to art. 15, para. 11, of Decree 185/2008, of the extra value allocated to the loans (residual amounts of the purchase price allocation – PPA) reported in the balance sheet assets on the absorption of Banca Popolare di Spoleto;
- for 234 thousand euro to the share of capital gains realised on financial assets in 2016 and 2017, deductible on a straight-line basis over the following four years in accordance of art. 86 of TUIR (Consolidated Income Tax Act).

10.5 Changes in deferred tax liabilities (as a contra-entry to shareholders' equity)

	31.12.2020	31.12.2019
1. Opening balance	**2,402**	**1,481**
2. Increases	**171**	**941**
2.1 Deferred tax assets recognised during the year	171	237
a) relating to prior years		
b) due to changes in accounting policies		
c) other	171	237
2.2 New taxes or increases in tax rates		
2.3 Other increases		704
of which: business combinations		*704*
3. Decreases	**10**	**20**
3.1 Deferred tax assets cancelled in the year	10	20
a) reversals	10	20
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		
of which: business combinations		
4. Closing balance	**2,563**	**2,402**

Deferred tax assets recognised during the year are attributable to:

- Euro 121 thousand for the actuarial measurement of the Provision for termination indemnities;
- Euro 49 thousand for the valuation of securities classified as financial assets at fair value through other comprehensive income (FVOCI).

10.6 Changes in deferred tax liabilities (as a contra-entry to shareholders' equity)

	31.12.2020	31.12.2019
1. Opening balance	**3,562**	**2,446**
2. Increases	**1,102**	**1,507**
2.1 Deferred tax liabilities recognised during the year	1,102	936
a) relating to prior years		
b) due to changes in accounting policies		
c) other	1,102	936
2.2 New taxes or increases in tax rates		
2.3 Other increases		571
of which: business combinations		*571*
3. Decreases	**896**	**391**
3.1 Deferred tax liabilities cancelled during the year	896	391
a) reversals	896	391
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
of which: business combinations		
4. Closing balance	**3,768**	**3,562**

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

- Euro 894 thousand for the valuation of securities classified as financial assets at fair value through other comprehensive income (FVOCI);
- for Euro 209 thousand to the change in the reserve for cash-flow hedges.

Deferred tax liabilities cancelled during the year are mainly due to the valuation of securities classified as Financial assets valued at fair value through other comprehensive income (FVOCI).

10.7 Other information

Current tax assets assets

Captions	31.12.2020	31.12.2019
Ires	12,183	1,640
Irap	4,717	5,857
Total	**16,900**	**7,497**

Section 12 - Other assets – caption 120

12.1 Other assets: breakdown

	31.12.2020	31.12.2019
Tax credits		
- capital	2,944	10,521
- interest		
Amounts recoverable from the tax authorities for advances paid	29,720	26,276
Cheques negotiated to be cleared	15,808	19,490
Invoices issued to be collected	305	631
Items being processed and in transit with branches	19,409	20,810
Currency spreads on portfolio transactions	141	614
Investments of the supplementary fund for termination indemnities	31	170
Leasehold improvement expenditure	8,173	9,682
Accrued income and prepaid expenses	2,495	2,261
Other items	28,358	39,322
Total	**107,384**	**129,777**

The "Tax credits" caption mainly relates to:

- for Euro 1,127 thousand, to the credit linked to management of the reconstruction loans disbursed after the 2009 earthquake in Abruzzo;
- for Euro 1,112 thousand, to the credit linked to management of the reconstruction loans disbursed after the 2016 earthquake in Central Italy;
- for Euro 368 thousand, to the VAT credit of the Banco Desio Group;

At 31 December 2019, this caption also included a tax credit of 7,037 thousand euro relating to the application for reimbursement presented by Banco Desio in 2012, following recognition of the deductibility for IRES purposes of the IRAP due on personal costs and similar expenses. Banco Desio received this reimbursement during 2020 and, accordingly, closed-out the above tax credit against the amount collected.

"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 virtual stamp duty of Euro 18,485 thousand;
- a receivable for an advance payment of substitute tax due on capital gains of Euro 9,579 thousand, as per art. 2, para. 5, of Decree Law no. 133 of 30 November 2013;
- a receivable for withholding tax on interest on deposits and current accounts of Euro 1,655 thousand.

The "Items being processed and in transit with branches" principally include cheques being processed, Euro 3,619 thousand; the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 1,765 thousand, and the recovery of commissions on lines of credit made available to customers, Euro 7,401 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new year.

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

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

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

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

- commissions and taxes awaiting collection for Euro 15,808 thousand;
- other amounts awaiting collection for 9,760 thousand euro (mainly stamp duty recoverable on bank statements, services charged to clients on a quarterly basis and interbank income receivable);
- invoices to be issued for Euro 2,165 thousand;
- a receivable due from Fides for services provided, Euro 146 thousand.

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - caption 10

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

Type of transaction/Amounts	31.12.2020				31.12.2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**2,396,584**	X	X	X	**1,579,967**	-	-	-
2 Due to banks	**15,660**	X	X	X	**23,241**	-	-	-
2.1 Current accounts and demand deposits	1,375	X	X	X	10,948	-	-	-
2.2 Time deposits	14,285	X	X	X	3,444	-	-	-
2.3 Loans	-	X	X	X	8,849	-	-	-
2.3.1 Repurchase agreements	-	X	X	X	-	-	-	-
2.3.2 Other	-	X	X	X	8,849	-	-	-
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	-	-	-
2.5 Finance lease payables	-	X	X	X	-	-	-	-
2.6 Other payables	-	X	X	X	-	-	-	-
Total	**2,412,244**	**-**	**-**	**2,412,244**	**1,603,208**	**-**	**-**	**1,603,208**

Key
BV = book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

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

In June 2020, a "TILTRO II" loan for 800 million euro was repaid and a new "TILTRO III" loan was arranged for 1,200 million euro.

In December 2020, the residual balance on the "TILTRO II" loan was repaid for 800 million euro and an additional "TILTRO III" loan was arranged for 1,200 million euro.

In the previous year, the caption "Other" referred to the so-called "EIB mortgages".

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

Type of transaction/Amounts	31/12/2020				31/12/2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	9,560,492	X	X	X	8,374,021	X	X	X
2. Time deposits	515,159	X	X	X	1,002,203	X	X	X
3. Loans	69,505	X	X	X	40,373	X	X	X
3.1 Repurchase agreements	-	X	X	X	-	X	X	X
3.2 Other	69,505	X	X	X	40,373	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Finance lease payables	51,438	X	X	X	51,199	X	X	X
6. Other payables	60,411	X	X	X	31,058	X	X	X
Total	**10,257,005**	**-**	**-**	**10,257,005**	**9,498,854**	**-**	**-**	**9,498,854**

Key
BV = book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The main components of "Other payables" relate to: cashier's cheques for Euro 59,837 thousand and cheques for Euro 543 thousand.

The heading "5. Finance lease payables" shows, in application of IFRS16 in force from 1 January 2019, the lease liability, consisting of the current value of the payments which still have to be paid to the lessor at the reference date.

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

Type of security/Amounts	31.12.2020				31.12.2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	1,600,580	-	1,601,142	-	1,734,567	-	1,736,955	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,600,580	-	1,601,142	-	1,734,567	-	1,736,955	-
2. other securities	8,347	-	-	8,347	14,536	-	-	14,537
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	8,347	-	-	8,347	14,536	-	-	14,537
Total	**1,608,927**	**-**	**1,601,142**	**8,347**	**1,749,103**	**-**	**1,736,955**	**14,537**

Key
BV = book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

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

The caption "A.1.2 Bonds: other" includes the Guaranteed Bank Bonds (GGB) issued for Euro 1,072 million.

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

1.4 Details of subordinated payables/securities

Bonds	Issue date	Maturity date	Currency	Interest rate	31.12.2020	31.12.2019
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	80,006	79,938
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	50,081	50,067
Total					**130,087**	**130,005**

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

Section 2 - Financial liabilities held for trading - caption 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	31.12.2020					31.12.2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	X	-	6,935	592	X	X	-	6,874	1,264	X
1.1 For trading	X	-	6,935	592	X	X	-	6,874	1,264	X
1.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**6,935**	**592**	**X**	**X**	**-**	**6,874**	**1,264**	**X**
Total (A+B)	**X**	**-**	**6,935**	**592**	**X**	**X**	**-**	**6,874**	**1,264**	**X**

Key
NV = Nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
Fair value* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

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

Section 4 - Hedging derivatives - caption 40

4.1 Hedging derivatives: breakdown by type and level

	Fair value 31.12.2020			NV	Fair value 31.12.2019			NV
	L1	L2	L3	31.12.2020	L1	L2	L3	31.12.2019
A. Financial derivatives	**-**	**1,540**	**-**	**130,000**	**-**	**2,157**	**-**	**130,000**
1) Fair value	-	-	-	-	-	-	-	
2) Cash flows	-	1,540	-	130,000	-	2,157	-	130,000
3) Foreign investments	-	-	-	-	-	-	-	
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1) Fair value	-	-	-	-	-	-	-	
2) Cash flows	-	-	-	-	-	-	-	
Total	**-**	**1,540**	**-**	**130,000**	**-**	**2,157**	**-**	**130,000**

Key
NV = Notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

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

Section 6 - Tax liabilities - caption 60

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

Section 8 - Other liabilities - caption 80

8.1 Other liabilities: breakdown

	31.12.2020	31.12.2019
Due to tax authorities	2,776	573
Amounts payable to tax authorities on behalf of third parties	26,788	25,914
Social security contributions to be paid	6,378	6,488
Dividends due to shareholders	12	14
Suppliers	20,701	23,747
Amounts available to customers	11,543	14,859
Interest and dues to be credited		19
Payments against bill instructions	304	157
Early payments on loans not yet due	64	32
Items being processed and in transit with branches	14,402	25,603
Currency differences on portfolio transactions	104,184	104,980
Due to personnel	11,668	13,052
Sundry creditors	85,230	65,891
Accrued expenses and deferred income	2,596	1,649
Total	**286,646**	**282,978**

The "Amounts payable to tax authorities on behalf of third parties" mainly relate to the F24 tax payments to be made on behalf of customers and to the taxes withheld by the for payment to the tax authorities.

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

- bank transfers being processed of Euro 4,024 thousand,
- MAV/RAV receipts, payment slips and Sepa direct debit (SDD) instructions for Euro 1,931 thousand,
- items related to transactions in securities settled afterwards for Euro 4,326 thousand,
- transitory items for the settlement of purchase orders of customers of asset management products (funds and bancassurance) for Euro 723 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 9,877 thousand and the amount due for holiday pay of Euro 1,791 thousand.

The main items included under caption "Sundry creditors" refer to: credit transfers to be processed totalling 57,759 thousand euro (58,019 thousand euro at the end of the prior year), sundry creditors for currency transactions, 2,198 thousand euro (510 thousand euro last year); creditors for notes paid, 824 thousand euro (612 thousand euro last year); unallocated amounts collected in relation to outstanding disputes, 5,837 thousand euro (2,569 thousand euro last year), and the dividends declared in relation to the results of Banco Desio for the year ended 31 December 2019, 14,359 thousand euro, which will be distributed to the shareholders when the suspension required by specific sector regulations is lifted.

Section 9 - Provision for termination indemnities - caption 90

9.1 Provision for termination indemnities: changes during the year

	31.12.2020	31.12.2019
A. Opening balance	**25,240**	**17,511**
B. Increases	**517**	**8,385**
B.1 Provision for the year	76	208
B.2 Other changes	441	8,177
C. Decreases	**(1,275)**	**(656)**
C.1 Payments made	(1,275)	(656)
C.2 Other changes	-	-
D. Closing balance	**24,482**	**25,240**
Total	**24,482**	**25,240**

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

The provision made in the year does not include amounts paid directly by the Bank, depending on the choice made by employees, to supplementary pension schemes or to the state pension scheme managed by INPS. The cost of the foregoing payments, which for the year just ended amounts to Euro 11,279 thousand (Euro 10,827 thousand at the end of the previous year), is recognised in Personnel expenses in the sub-caption "g) payments to external supplementary pension funds: defined contribution".

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

The statutory liability to the employees of the Bank at year end amounts to Euro 22,031 thousand.

9.2 Other information

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

Demographic assumptions

- for the probability of death, those determined by gender by the State General Accounting Department, denominated RG 48;
- for the probability of disability, those, by gender, adopted by the 2010 INPS forecasting model. These probabilities were arrived at by starting with the distribution by age and gender of pensions at 1 January 1987 with effect from 1984, 1985 and 1986 relating to personnel in the credit sector;
- for the retirement age for the general working population, it was assumed that the first of the pension requirements valid for compulsory social security insurance had been met;

- for the probability of leaving employment for reasons other than death, based on internal statistics, an annual frequency of 2.50% was used; account has also been taken of the Bank's redundancy plan;
- for the probability of advances, an annual amount of 4% was assumed;

Economic-financial assumptions

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

- technical discounting rate -0.01%
- annual inflation rate 1.00%
- total annual income growth rate 2.50%
- termination indemnity annual growth rate 2.25%.

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

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

	Increase in parameter (+)	**Decrease in parameter (-)**
Annual discounting rate (+/-0.25%)	24,099	24,876
Annual inflation rate (+/- 0.25%)	24,702	24,264
Annual turn over rate (+/- 2.00%)	24,231	24,778

Section 10 - Provisions for risks and charges - caption 100

10.1 Provisions for risks and charges: breakdown

Items/Components	31.12.2020	31.12.2019
1. Credit risk provisions relating to commitments and financial guarantees given	4,947	2,734
2. Provisions for other commitments and other guarantees given	-	-
3. Pensions and similar commitments	-	-
4. Other provisions for risks and charges	34,946	25,892
4.1 Legal and tax disputes	10,167	10,119
4.2 Personnel expenses	17,450	11,851
4.3 Other	7,329	3,922
Total	**39,893**	**28,626**

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

The "Legal disputes" sub-caption includes provisions made for losses expected to arise from disputes, of which Euro 9,455 thousand relates to legal disputes (Euro 9,385 thousand at the end of last year) and Euro 712 thousand relates to bankruptcy clawback actions (Euro 734 thousand at the end of last year).

"Personnel expenses" mainly include estimated liabilities for the solidarity fund, 7,852 thousand euro; the bonus system, 5,661 thousand euro (8,045 thousand euro at the end of the prior year), and long-service awards and additional holidays, 3,906 thousand euro (3,636 thousand euro at the end of last year).

The caption "Other" includes provisions for charges pertaining to other operating risks, including provisions for contractual indemnities due to financial advisors on the occurrence of certain conditions

10.2 Provisions for risks and charges: changes in the year

	Provisions for other commitments and other guarantees given	Other provisions for risks and charges	Total
A. Opening balance	**2,734**	**25,892**	**28,626**
B. Increases	**2,213**	**20,354**	**22,567**
B.1 Provision for the year	2,213	20,350	22,563
B.2 Changes due to the passage of time		4	4
B.3 Changes due to changes in the discount rate			
B.4 Other changes			
C. Decreases		**11,300**	**11,300**
C.1 Utilisations during the year		11,281	11,281
C.2 Changes due to changes in the discount rate			
C.3 Other changes		19	19
D. Closing balance	**4,947**	**34,946**	**39,893**

With reference to "Other provisions", "B.1 Provisions of the year" include accruals for:

- to the bonus fund of Euro 5,810 thousand,
- to the solidarity fund of 7,852 thousand euro,
- for other operational risks, including the provisions related to the indemnities to be paid to financial advisors, for Euro 4,348 thousand,
- charges for legal disputes and bankruptcy of Euro 2,240 thousand.

The caption "B.2 Changes due to the passage of time" includes discount interest accrued during the year on the provision for legal disputes and on the staff provision for solidarity, due to the proximity of the expected maturities of the liabilities.

The caption “C.1 Utilisations in the year” includes direct utilisations of Provisions for risks and charges as a result of agreements and settlements executed in the year, as well as conditions having been met for the payment of provisions to the personnel. In particular, utilisations related mainly to payments for legal disputes and claims from bankruptcy administrators, Euro 2,277 thousand, payments relating to the bonus fund, Euro 8,064 thousand, and to operational risks, Euro 940 thousand.

10.3 Credit risk provisions relating to commitments and financial guarantees given

	Credit risk provisions relating to commitments and financial guarantees given			
	First stage	Second stage	Third stage	Total
1. Commitments to disburse funds	1,888	337	-	2,225
2. Financial guarantees given	308	429	1,985	2,722
Total	**2,196**	**766**	**1,985**	**4,947**

10.5 Pensions and similar commitments - defined benefits

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

10.6 Provisions for risks and charges: other provisions

	31.12.2020	31.12.2019
Legal disputes	10,167	10,119
Other operating risks	7,329	3,922
Solidarity fund	7,852	-
Long-service bonuses and additional holidays	3,906	3,636
Other employee related provisions	5,692	8,215
Total	**34,946**	**25,892**

Section 11 - Redeemable shares - caption 120

Banco Desio does not have this type of shares.

Section 12 - Shareholders' equity - captions 110, 130, 140, 150, 160, 170 and 180

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

	31.12.2020	31.12.2019
A. Share capital	70,693	70,693
A.1 - Ordinary shares	63,828	63,828
A.2 Savings shares	6,865	6,865
A.3 Preference shares		
B. Treasury shares		
B.1 - Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	70,693	70,693

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

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

12.2 Share capital - Number of shares: changes in the year

Captions/Type	Ordinary	Other
A. Shares at the beginning of the year	**122,745,289**	**13,202,000**
- fully paid	122,745,289	13,202,000
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares in circulation: opening balance	**122,745,289**	**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	**122,745,289**	**13,202,000**
D.1 Treasury shares (+)		
D.2 Shares at the end of the year		
- fully paid		
- not fully paid		

12.3 Share capital: other information

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

12.4 Revenue reserves: other information

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

	31.12.2020	Possible uses		Unrestricted portion	Uses in the last three years	
					Loss coverage	Other uses
Share capital	70,693					
Share premium reserve	16,145	A,B,C	(1)	16,145		
Legal reserve	102,800	A, B	(2)			
Statutory reserve	592,375	A,B,C		592,375		
Reserves for intercompany transactions	8,313	A, B	(3)			
Valuation reserves:						
- financial assets at fair value through other comprehensive income	47,643		(4)			
- property, plant and equipment	161					
- actuarial measurement of provision for termination indemnities	(3,824)		(4)			
- special revaluation laws	22,369	A,B	(5)			
- revaluation reserve Law 413/1991	697	A,B,C		697		
- exchange differences	-					
- cash-flow hedges	(931)		(4)			
IAS transition reserve	122,231		(6)			
Reserves for FTA IFRS 9	- 18,972		(6)			
Charity reserve	82		(7)			118
Other	3,369	A,B,C		3,369		
Total	**963,151**			**612,586**		**118**

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) Reserves deriving from the transfer of the business unit and purchase/sale of the Milan branch with BPS in connection wit the application of OPI 1.
(4) Restricted reserve as per art. 6 of Legislative Decree 38/2005
(5) Reserve set up on first-time adoption of IAS/IFRS for the impact of the valuation at "deemed cost" of property and equipment, as required by the "IAS decree"
(6) The IAS/IFRS transition reserve complies with article 7 of Legislative Decree 38/2005
(7) Reserve for social-cultural contributions, as specified in the articles of association

12.5 Equity instruments: breakdown and changes in the year

None.

12.6 Other information

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

OTHER INFORMATION

1. Commitments and financial guarantees given (other than those designated at fair value)

	Nominal value on commitments and financial guarantees given			31.12.2020	31.12.2019
	First stage	Second stage	Third stage		
Commitments to disburse funds	**3,262,290**	**65,403**	**28,809**	**3,356,502**	**2,956,055**
a) Central banks	-	-	-	-	-
b) Public administrations	15,856	-	-	15,856	17,407
c) Banks	6,741	-	-	6,741	10,441
d) Other financial companies	163,831	340	10	164,181	105,077
e) Non-financial companies	2,872,333	60,363	28,309	2,961,005	2,629,144
f) Households	203,529	4,700	490	208,719	193,986
Financial guarantees given	**46,758**	**2,862**	**852**	**50,472**	**40,417**
a) Central banks	-	-	-	-	-
b) Public administrations	6	-	-	6	6
c) Banks	32	-	-	32	2,508
d) Other financial companies	2,612	38	-	2,650	276
e) Non-financial companies	39,336	2,641	793	42,770	33,084
f) Households	4,772	183	59	5,014	4,543

2. Other commitments and other guarantees given

	Nominal value 31.12.2020	Nominal value 31.12.2019
1. Other guarantees given	**210,896**	**248,149**
of which: non-performing loans	3,188	3,146
a) Central Banks	-	-
b) Public administrations	50	35
c) Banks	6,325	7,437
d) Other financial companies	2,445	2,573
e) Non-financial companies	183,344	218,846
f) Households	18,372	19,258
2. Other commitments	**-**	**15**
of which: non-performing loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	15
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as guarantees for own liabilities and commitments

Portfolios	**31.12.2020**	**31.12.2019**
1. Financial assets at fair value through profit or loss	-	-
2. Financial assets at fair value through other comprehensive income	-	-
3. Financial assets at amortised cost	4,363,163	3,932,808
4. Property, plant and equipment	-	-
of which: tangible fixed assets that constitute inventories	-	-

Caption "3. Financial assets measured at amortised cost" includes loans transferred to the SPV Desio OBG Srl consisting of assets suitable for the issue of Covered Bonds (GBB) and the collateralised loans with the ECB through the A.Ba.Co. procedure.

4. Administration and trading on behalf of third parties

Type of services	31.12.2020
1. Execution of orders on behalf of customers	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	**1,558,021**
3. Custody and administration of securities	**20,297,228**
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	8,377,007
1. securities issued by the reporting bank	554,122
2. other securities	7,822,885
c) third-party securities deposited with third parties	8,354,727
d) portfolio securities deposited with third parties	3,565,494
4. Other transactions	**-**

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

Technical forms		Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e)	Net amount
					Financial instruments (d)	Cash deposits posted as collateral (e)	31.12.2020	31.12.2019
1. Derivatives		8,475	-	8,475	6,330	1,140	1,005	1,271
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
Total	**31.12.2020**	**8,475**	**-**	**8,475**	**6,330**	**1,140**	**1,005**	
Total	**31.12.2019**	**9,031**	**-**	**9,031**	**6,290**	**1,470**		**1,271**

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	31.12.2020	31.12.2019
1. Financial assets at fair value through profit or loss:	**40**	**-**	**-**	**40**	**415**
1.1 Financial assets held for trading	40	-	-	40	5
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	-	-	-	-	411
2.Financial assets at fair value through other comprehensive income	**1,033**	**-**	**X**	**1,033**	**2,082**
3. Financial assets at amortised cost:	**17,253**	**205,157**	**X**	**222,410**	**229,916**
3.1 Due from banks	4,004	201	X	4,205	3,362
3.2 Loans to customers	13,249	204,956	X	218,205	226,555
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**2**	**2**	**8**
6. Financial liabilities	**X**	**X**	**X**	**8,397**	**6,400**
Total	**18,326**	**205,157**	**2**	**231,882**	**238,822**
of which: interest income on impaired financial assets	-	3,862	-	3,862	4,788
of which: interest income from finance leases	-	3,408	-	3,408	2,769

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

Interest on "Financial assets at amortised cost" is recognised net of default interest accrued and not collected in the reference period on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question accrued at the year-end amounts to Euro 1,933 thousand (Euro 3,840 thousand).

Conversely, the caption includes default interest referred to the year and collected during the year of Euro 254 thousand (Euro 492 thousand last year).

Caption "6. Financial liabilities" includes the negative interest earned on the TLTRO loans obtained, recognised using the effective interest rate on an amortised cost basis, of which 3,167 thousand euro relates to the TLTRO III operations (see the note on "TLTRO III Operations – Targeted Longer Term Refinancing Operations" in "Section 4 - Other aspects" in subsection "A.1. General information" of "Part A - Accounting policies").

"Interest and similar income" includes interest paid on loans from the subsidiary Fides S.p.A. totalling Euro 15,845 thousand euro (15,488 thousand euro last year).

This caption also includes about 1.0 million euro in out-of-period interest due on the tax credit received during 2020, relating to the application for reimbursement filed by Banco Desio in 2012 following recognition of the deductibility for IRES purposes of the IRAP due on payroll costs and similar expenses.

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Captions	31.12.2020	31.12.2019
Interest income on financial assets in foreign currency	676	1,817

1.2.2 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 3,408 thousand (Euro 2,769 thousand last year); of this, Euro 2,389 thousand relates to index-linked contracts, of which Euro 154 thousand relates to leaseback agreements (in 2019 Euro 2,590 thousand related to index-linked contracts, of which Euro 160 thousand related to leaseback agreements).

Financial income pertaining to subsequent years amounts to Euro 25,854 thousand, of which Euro 2,272 thousand relates to leaseback agreements (last year Euro 28,562 thousand and Euro 2,130 thousand, respectively).

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2020	31.12.2019
1. Financial liabilities at amortised cost	(10,138)	(14,986)	X	(25,124)	(34,385)
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(1,047)	X	X	(1,047)	(1,009)
1.3 Due to customers	(9,091)	X	X	(9,091)	(16,211)
1.4 Debt securities in issue	X	(14,986)	X	(14,986)	(17,165)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	(240)	(240)	(167)
5. Hedging derivatives	X	X	(989)	(989)	(1,121)
6. Financial assets	X	X	X	(29)	(284)
Total	**(10,138)**	**(14,986)**	**(1,229)**	**(26,382)**	**(35,957)**
of which: interest expense relating to lease payables	(1,021)	-	-	(1,021)	(1,220)

The caption includes interest payable to Group companies of Euro 9 thousand.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

Captions	31.12.2020	31.12.2019
Interest expense on foreign currency financial liabilities	(280)	(785)

1.4.2 Interest expense on finance leases

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

1.5 Differentials on hedging transactions

Captions	31.12.2020	31.12.2019
A. Positive differentials on hedging transactions:	-	32
B. Negative differentials on hedging transactions:	(989)	(1,153)
C. Balance (A-B)	**(989)**	**(1,121)**

Section 2 - Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2020	31.12.2019
a) guarantees given	2,345	2,618
b) credit derivatives	-	-
c) management, brokerage and consulting services:	72,449	67,795
1. trading in financial instruments	-	-
2. trading in foreign exchange	905	1,009
3. Individual asset management	7,777	7,358
4. custody and administration of securities	1,544	1,519
5. custodian bank	-	-
6. placement of securities	2,956	821
7. order taking	5,445	5,392
8. advisory services	-	-
8.1. regarding investments	-	-
8.2. regarding financial structuring	-	-
9. distribution of third-party services	53,822	51,696
9.1. asset management	26,086	23,644
9.1.1. individual	395	399
9.1.2. collective	25,691	23,245
9.2. insurance products	22,266	19,744
9.3. other products	5,470	8,308
d) collection and payment services	26,372	29,232
e) servicing related to securitisation	-	45
f) services for factoring transactions	923	114
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	70,416	73,412
j) other services	7,599	7,749
Total	**180,104**	**180,965**

The prior-year commissions relating to the "Placement of securities" (subcaption 6) e and the "Distribution of third-party services for collective asset management" (subcaption 9.1.2) have been reclassified for consistency.

The commissions paid by the subsidiary Fides S.p.A. amount to Euro 2,532 thousand (Euro 1,912 thousand last year).

Commissions for "other services" include recoveries of expenses on customer collection and payments for Euro 2,115 thousand (Euro 2,168 thousand last year), fees for the Internet banking service of Euro 2,123 thousand (Euro 1,637 thousand last year) and recoveries of expenses on mortgage instalments for Euro 1,343 thousand (Euro 1,482 thousand last year).

2.2 Fee and commission income: product and service distribution channels

Channels/Amounts	31.12.2020	31.12.2019
a) at own branches:	**64,555**	**59,875**
1. asset management	7,777	7,358
2. placement of securities	2,956	821
3. distribution of third-party services and products	53,822	51,696
b) doorstep banking:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. distribution of third-party services and products	-	-
c) other distribution channels:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. distribution of third-party services and products	-	-

2.3 Commission expense: breakdown

Services/Amounts	31.12.2020	31.12.2019
a) guarantees received	(203)	(458)
b) credit derivatives	-	-
c) management and brokerage services:	(3,660)	(3,138)
1. trading in financial instruments	(120)	(94)
2. trading in foreign exchange	-	-
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	(1,289)	(1,335)
5. placement of financial instruments	-	-
6. offer of securities, financial products and services through financial promoters	(2,251)	(1,709)
d) collection and payment services	(3,196)	(3,050)
e) other services	(1,072)	(2,722)
Total	**(8,131)**	**(9,368)**

Commissions for "other services" include fees for the presentation of customers and loans granted to them for Euro 319 thousand.

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2020		31.12.2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	143	0	82	0
B. Other financial assets mandatorily at fair value	0	0	0	0
C. Financial assets valued at fair value through other comprehensive income	1,622	0	1,014	0
D. Equity investments	1,625	0	5,740	0
Total	**3,390**	**0**	**6,836**	**0**

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

Dividend income from equity investments, as per caption "D. Equity investments", relates to Fides S.p.A.

Section4 - Net trading income - caption 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**14**	**665**	**(649)**	**(181)**	**(151)**
1.1 Debt securities	-	179	(58)	(125)	(4)
1.2 Equity instruments	14	346	(591)	(56)	(287)
1.3 UCITS units	-	103	-	-	103
1.4 Loans	-	-	-	-	-
1.5 Other	-	37	-	-	37
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**3,210**
4. Derivatives	**115**	**5,931**	**(136)**	**(6,651)**	**(769)**
4.1 Financial derivatives:	115	5,931	(136)	(6,651)	(769)
- On debt securities and interest rates	67	775	(130)	(1,367)	(655)
- On equities and equity indices	48	5,156	(6)	(5,284)	(86)
- On currency and gold	X	X	X	X	(28)
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**129**	**6,596**	**(785)**	**(6,832)**	**2,290**

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

Caption "3. Other financial assets and liabilities: exchange differences" includes the gains (or losses) arising from assets and liabilities in foreign currency.

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

5.1 Net hedging gains (losses): breakdown

Income items/Amounts	31.12.2020	31.12.2019
A. Income relating to:		
A.1 Fair value hedges	-	8
A.2 Hedged financial assets (fair value)	-	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash flow hedges	-	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging activity (A)	-	8
B. Charges relating to:		
B.1 Fair value hedges	-	(554)
B.2 Hedged financial assets (fair value)	-	(5)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedges	-	-
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging activity (B)	-	**(559)**
C. Net hedging gains (losses) (A-B)	**-**	**(551)**
of which: result of hedging on net positions	-	-

The caption includes net hedging gains (losses). The various sub-captions indicate income components arising from the measurement process for hedged assets and liabilities – bonds issued by the Bank – 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	31.12.2020			31.12.2019		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	6,502	(8,249)	(1,747)	8,374	(9,081)	(707)
1.1 Due from banks	-	-	-	148	-	148
1.2 Loans to customers	6,502	(8,249)	(1,747)	8,226	(9,081)	(855)
2. Financial assets at fair value through other comprehensive income	9,001	(783)	8,218	2,037	(272)	1,765
2.1 Debt securities	9,001	(783)	8,218	2,037	(272)	1,765
2.2 Loans	-	-	-	-	-	-
Total assets	**15,503**	**(9,032)**	**6,471**	**10,411**	**(9,353)**	**1,058**
Financial liabilities at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	43	(60)	(17)	28	(184)	(156)
Total liabilities	**43**	**(60)**	**(17)**	**28**	**(184)**	**(156)**

Nella voce “1.2 Crediti verso clientela” sono riportati i risultati economici derivanti dalla cessione di attività finanziarie non comprese tra quelle detenute per la negoziazione e tra quelle valutate al fair value con variazioni a conto economico, nell’esercizio positivi per 2.431 migliaia di Euro. In detta voce sono altresì riportati i risultati derivanti dalle cessioni di crediti deteriorati perfezionate dal Banco.

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

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

Section 7 - Net result of other financial assets and liabilities designated at fair value through profit and loss - caption 110

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**1,037**	**877**	**(5,647)**	**(1)**	**(3,734)**
1.1 Debt securities	-	360	-	-	360
1.2 Equity instruments	-	-	-	-	-
1.3 Mutual funds	1,037	517	(5,647)	(1)	(4,094)
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**1,037**	**877**	**(5,647)**	**(1)**	**(3,734)**

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

Caption "1.3 Mutual funds" in column "Capital losses (C)" includes the difference between the transaction price and the amount determined through the use of valuation techniques (day one loss) with reference to the units purchased during the year as part of the multi-originator disposal transaction (doubtful loans and UTP) described in Part E, Section II "Risks of the consolidation for regulatory purposes", Sub-section D "Sales", Point D.3 "Regulatory consolidation – Financial assets sold and derecognised in full".

Section 8 - Adjustments for credit risk - caption 130

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

Transactions/Income components	Write-downs (1)			Write-backs (2)		31.12.2020	31.12.2019
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Due from banks	**(53)**	**-**	**-**	**78**	**-**	**(25)**	**788**
- loans	-	-	-	68	-	68	248
- debt securities	(53)	-	-	10	-	(43)	540
of which: non-performing loans acquired or originated	-	-	-	-	-	-	-
B. Loans to customers	**(33,700)**	**(3,594)**	**(56,062)**	**5,952**	**16,122**	**(71,282)**	**(53,573)**
- loans	(33,700)	(3,594)	(56,062)	5,158	16,122	(72,076)	(56,354)
- debt securities	-	-	-	794	-	794	2,781
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
Total	**(33,753)**	**(3,594)**	**(56,062)**	**6,030**	**16,122**	**(71,257)**	**(52,785)**

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

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

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

- doubtful loans Euro 19,740 thousand (versus Euro 39,837 thousand)
- unlikely to pay loans Euro 36,192 thousand (formerly Euro 38,869 thousand)
- past due loans Euro 130 thousand (formerly Euro 311 thousand)

"Write-backs of first and second stage" are calculated on the performing loan portfolio.

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

- doubtful loans amortised in previous years and with actual recoveries higher than expected for Euro 717 thousand (formerly Euro 900 thousand),
- collections of loans previously written down for Euro 8,141 thousand (formerly Euro 12,005 thousand),
- measurement write-backs for Euro 7,264 thousand (formerly Euro 11,418 thousand).

Adjustments to loans and debt securities result from the application of models for determining expected loan losses adopted by the bank.

With regard to the determination of credit losses, the information provided in the note on "Risks, uncertainties and the impacts of the Covid-19 pandemic" in "Section 4 – Other aspects", contained in subsection "A.1 General information" of "Part A - Accounting policies", is supplemented by the note on the "Model for measuring expected losses on performing loans" contained in "Part E – Information on risks and related hedging policy" of these explanatory notes.

8.1a Net adjustments for credit risk relating to loans valued at amortized cost subject to Covid-19 support measures: breakdown

Transactions/Income components	Write-downs, net			Total
	First and second stage	Third stage		
		Write-off	Other	31.12.2020
1. Loans subject to concession in compliance with the GL (*)	24,053	n.a.	6,203	**30,256**
2. Loans subject to other forbearance measures	-	n.a.	-	**-**
3. New loans	4,424	n.a.	559	**4,983**
Total	**28,477**	**n.a.**	**6,762**	**35,239**

(*) GL: Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (EBA/GL/2020/02)

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

Transactions/Income components	Write-downs (1)			Write-backs (2)		31.12.2020	31.12.2019
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Debt securities	(165)	-	-	356	-	191	99
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
Of which: impaired financial assets acquired or originated	-	-	-	-	-	-	-
Total	**(165)**	**-**	**-**	**356**	**-**	**191**	**99**

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

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

9.1 Profits/losses from contractual changes: breakdown

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

Section 10 - Administrative costs - caption 160

10.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2020	31.12.2019
1) Employees	(174,583)	(165,014)
a) wages and salaries	(111,970)	(111,183)
b) social security charges	(29,977)	(29,519)
c) termination indemnities	-	-
d) pension expenses	-	-
e) provision for termination indemnities	(86)	(329)
f) provision for post-retirement benefits and similar commitments:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(11,279)	(10,827)
- defined contribution	(11,279)	(10,827)
- defined benefit	-	-
h) Equity-based payments	-	-
i) other personnel benefits	(21,271)	(13,156)
2) Other active employees	(464)	(470)
3) Directors and auditors	(2,765)	(3,248)
4) Retired personnel	-	-
5) Recovery of cost of employees seconded to other companies	21	255
6) Reimbursement of cost of third-party employees seconded to the Company	-	(38)
Total	**(177,791)**	**(168,515)**

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 10.4 below.

In comparison period, caption "6. Reimbursement of cost of third-party employees seconded to the Company" referred to employees of Banca Popolare di Spoleto seconded to Banco di Desio in connection with the operational concentration at the Parent Company.

10.2 Average number of employees by level

	31.12.2020	31.12.2019
1) Employees	**2,140**	**2,156**
a) managers	35	32
b) middle managers	1,027	1,037
c) other employees	1,078	1,087
2) Other personnel	**5**	**6**

10.4 Other personnel benefits

	31.12.2020	31.12.2019
Provision for sundry charges	(4,884)	(6,610)
Contributions to healthcare fund	(2,336)	(2,076)
Training and instruction costs	(335)	(1,260)
Rent expense of property used by employees	(137)	(299)
Cost for redundancy incentives	(12,027)	(692)
Other	(1,552)	(2,219)
Total	**(21,271)**	**(13,156)**

“Costs for redundancy incentives” represent the cost related to the allocation to the "Income Support Solidarity Fund" at 31 December 2020 for the redundancy plan.

The main components of the "Other" caption include company canteen costs of Euro 1,856 thousand (Euro 1,927 thousand) and costs relating to insurance premiums of Euro 323 thousand (Euro 303 thousand), partly offset by the use of provisions previously recorded as productivity bonuses received in the form of corporate welfare for Euro 1,265 thousand.

10.5 Other administrative costs: breakdown

	31.12.2020	31.12.2019
Indirect taxes and duties:		
- Stamp duty	(27,291)	(28,055)
- Other	(6,072)	(4,099)
Other costs:		
- IT expenses	(20,139)	(21,313)
- Lease of property and other assets	(1,586)	(1,470)
- Maintenance of buildings, furniture and equipment	(8,661)	(7,554)
- Post office and telegraph	(1,358)	(2,204)
- Telephone and data transmission	(5,983)	(6,969)
- Electricity, heating, water	(3,555)	(4,008)
- Cleaning services	(3,213)	(1,336)
- Printed matter, stationery and consumables	(608)	(1,100)
- Transport costs	(861)	(1,108)
- Surveillance and security	(2,171)	(2,033)
- Advertising	(1,071)	(2,766)
- Information and surveys	(2,444)	(1,581)
- Insurance premiums	(970)	(1,002)
- Legal fees	(2,488)	(3,221)
-Professional consulting fees	(9,356)	(10,351)
- Various contributions and donations	(94)	(286)
- Sundry expenses	(19,833)	(18,833)
Total	**(117,754)**	**(119,289)**

"Lease of property and other assets" includes the costs incurred on lease/rent software contracts not included in the scope of IFRS 16.

The increases in "Cleaning services" and the "Maintenance of buildings, furniture and equipment" with respect to the prior year mainly reflect the additional operating charges incurred in order to tackle the Covid-19 emergency.

The caption "Sundry expenses" comprises the contributions of the year to Single Resolution Mechanism and to Deposit Guarantee Scheme for Euro 11,520 thousand (Euro 10,635 thousand) of which:

- Euro 3,443 thousand for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for the year (Euro 4,357 thousand in the previous period);

- Euro 1,088 thousand for the extraordinary contribution to the Single Resolution Mechanism (SRM) for the year (Euro 1,596 thousand in the previous period);

- Euro 6,989 thousand (Euro 4,682 thousand in the previous period) for the contribution to the Deposit Guarantee Schemes Directive (DGSD), of which Euro 2,089 thousand for the year (Euro 1,596 thousand in the previous as additional contribution;

It also includes the fees paid to the auditing firm Deloitte & Touche S.p.A. and to other entities of the same network, for services provided to the Bank, summarised below by type of service provided.

Type of services	Party which provided the service	Fees (in thousands of euro)
Audit	Deloitte & Touche S.p.A.	353
Attestation services	Deloitte & Touche S.p.A.	99
Other services:		
- Risk Management and IFRS 9 Methodological Support	Deloitte Risk Advisory S.r.l..	820
- *CSR methodological support*	Deloitte & Touche S.p.A.	58
Total		**1,330**

Section 11 - Net provisions for risks and charges - caption 170

11.1 Net provisions for risks and charges: breakdown

	Provision	Utilisations	31.12.2020	31.12.2019
Commitments for guarantees given	(2,234)		(2,234)	(368)
Charges for legal disputes	(4,103)	1,854	(2,249)	758
Other	(2,649)	940	(1,709)	(485)
Total	**(8,986)**	**2,794**	**(6,192)**	**(95)**

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

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

Other provisions include provisions for other operating risks.

Section 12 - Net adjustments to property, plant and equipment - caption 180

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

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Property, plant and equipment				
1 For business purposes	(16,781)	-	-	(16,781)
- Owned	(6,572)	-	-	(6,572)
- Rights of use acquired under lease	(10,209)	-	-	(10,209)
2 Investment property	(28)	-	-	(28)
- Owned	(28)	-	-	(28)
- Rights of use acquired under lease	-	-	-	-
3 Inventory	X	-	-	-
Total	**(16,809)**	**-**	**-**	**(16,809)**

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

The item "Rights of use acquired under lease" includes the depreciation charged on RoU Assets recorded in application of IFRS16 "Leases" in force from 1 January 2019 and calculated as the sum of the lease payable, initial direct costs, payments made on or before the contract's starting date (net of any incentives received for leasing) and decommissioning and/or recovery costs.

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 "9.5 and 9.6 Changes in the year" of Section 9, Assets.

Section 13 - Net adjustments to intangible assets - caption 190

13.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b + c)
A. Intangible assets				
A.1 Owned	(927)	-	-	(927)
- Generated internally	-	-	-	-
- Other	(927)	-	-	(927)
A.2 Held under finance leases	-	-	-	-
Total	**(927)**	**-**	**-**	**(927)**

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

Section 14 - Other operating charges/income - Caption 200

14.1 Other operating charges: breakdown

	31.12.2020	31.12.2019
Depreciation of leasehold improvements	(1,567)	(2,076)
Losses on disposal of property, plant and equipment	(168)	(24)
Charges on non-banking services	(279)	(836)
Total	**(2,014)**	**(2,936)**

14.2 Other operating income: breakdown

	31.12.2020	31.12.2019
Recovery of taxes from third parties	30,531	29,299
Recharge of costs of current accounts and deposits	2,776	4,342
Rental and leasing income	77	102
Other expense recoveries	2,359	3,641
Gains on disposal of property, plant and equipment	12	4
Other	1,127	2,750
Total	**36,882**	**40,138**

The "Recovery of taxes from third parties" caption principally includes the recovery of stamp duty on current accounts, deposit accounts and other customer investments totalling Euro 25,420 thousand (Euro 26,093 thousand), and the recovery of substitute taxes totalling Euro 5,111 thousand (Euro 3,146 thousand).

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 1,339 thousand (Euro 2,298 thousand) and other recoveries for various communications to customers of Euro 1,268 thousand (Euro 1,859 thousand).

"Other expense recoveries" include, in particular, recoveries of legal costs relating to various doubtful loans of Euro 1,315 thousand (Euro 933 thousand last year), the recovery of investigation costs of various loans for Euro 340 thousand (Euro 1,929 thousand last year), recovery of appraisals in connection with mortgage loans of Euro 9 thousand (Euro 177 thousand last year), the recovery of sundry expenses relating to lease applications of Euro 291 thousand (Euro 238 thousand last year).

The "Other" caption principally relates to a reimbursement received for expenses incurred by the Bank during the start-up phase in the placement of a Net Insurance product; the principal component in the comparative period was an insurance reimbursement received of 1,450 thousand euro.

Section 16 - Net gains (losses) arising from the far value measurement of property, plant and equipment and intangible assets - caption 230

16.1. Net result of the measurement at fair value (or amount revalued) or at estimated realisable value of property, plant and equipment and intangible assets: breakdown

Assets/Income items	Revaluations	Write-downs	Exchange differences		Net result
			Positive	Negative	
	(a)	(b)	(c)	(d)	(a-b+c-d)
A. Property, plant and equipment	**-**	**-**	**-**	**-**	**-**
A.1 For business purposes:	-	-	-	-	-
- Owned	-	-	-	-	-
- Rights of use acquired under lease	-	-	-	-	-
A.3 Other	-	-	-	-	-
A.2 Investment property:	-	-	-	-	-
- Owned	-	-	-	-	-
- Rights of use acquired under lease	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
B.1.1 Generated internally	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Rights of use acquired under lease	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

This item has a zero balance at the reference date. The amount in the comparative period reflected the negative revaluation of works of art by 627 thousand euro, following a change in the accounting policy for recognising and measuring quality artistic assets (governed by IAS 16 “Property, plant and equipment”).

Section 19 - Income taxes on current operations - caption 270

19.1 Income taxes on current operations: breakdown

Income items/Amounts	31.12.2020	31.12.2019
1. Current taxes (-)	(433)	(13,488)
2. Change in prior period income taxes (+/-)	106	174
3. Reduction in current taxes (+)	-	-
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(8,777)	(4,802)
5. Change in deferred tax liabilities (+/-)	2,531	1,148
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(6,573)**	**(16,968)**

The caption "1. Current taxes", negative for 433 thousand euro, includes the positive effects of the step-up for tax purposes after the absorption of the former subsidiary Banca Popolare di Spoleto of 931 thousand euro and the tax benefit related to the assisted Patent Box regime for 1,174 thousand euro.

In particular, taxation for the period benefited from the step-up for tax purposes (pursuant to art. 15, paragraph 11, of Legislative Decree 185/2008) of the Euro 7,120 thousand extra value allocated to the loans reported in the balance sheet on the absorption of Banca Popolare di Spoleto by the Parent Company; The positive effect on net profit for the year is due to the difference between the substitute tax paid of Euro 1,424 thousand (shown in caption 1. Current taxes) and the change in deferred tax liabilities of Euro 2,355 thousand (shown in caption 5. Change in deferred tax liabilities (+/-)).

Law 190/2014 added the Patent Box regime to the Italian legal framework: this is an optional regime for the reduced taxation of income deriving from the use of intangible assets, including trademarks. In 2015, the Bank filed for the application of this procedure in relation to the trademark for the five-year period 2015-2019. In December 2020, an agreement was reached with the Central Major Taxpayers Department, Advance Agreements Office, of the Milan Tax Office regarding the methodology for calculating the economic contribution made by the intangible concerned.

Following the subscription of the agreement, Banco Desio has recognised among current taxes, the tax benefit obtained under the assisted Patent Box regime for the five-year period 2015-2019.

Caption "2. Change in prior period income taxes", which records an increase of Euro 106 thousand, refers to the recalculation of taxes as of 31 December 2019.

The caption "4. Change in deferred tax assets" comprises the balance of captions "2.1 Deferred tax assets recognised during the year" and "3.1 Deferred tax assets cancelled in the year" (booked as a contra-entry to the income statement).

Caption "5. Change in deferred taxes" comprises the balance of the captions "2.1 Deferred tax liabilities recognised during the year" and "3.1 Deferred tax liabilities cancelled during the year" (booked as a contra-entry to the income statement).

19.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	30,468		30,468	
Costs not deductible for IRAP purposes			27,918	
Revenue not taxable for IRAP purposes			(7,541)	
Sub total	30,468		50,845	
Theoretical tax charge **24% Ires - 3.5% Ires surcharge - 5.57% Irap**		**(8,379)**		**(2,832)**
Temporary differences taxable in subsequent years	(230)		-	
Temporary differences deductible in subsequent years	22,472		15,338	
Reversal of prior year temporary differences	(44,748)		(60,920)	
Differences that will not reverse in subsequent years	(11,592)		(7,418)	
Taxable income	3,630		(2,155)	
Current taxes for the year **24% Ires - 3.5% Ires surcharg - 5.57% Irap**		**871**		**120**

No current taxes have been set aside for the purposes of the IRES surcharge.

The "Current taxes for the year" reported in this table total Euro 991 thousand (positive). The difference compared with the amount reported in caption "1. Current taxes" of table 19.1 is due to the substitute tax paid of Euro 1,424 thousand, following the franking of reserves pursuant to art. 15, para. 11, of Decree 185/2008, as stated at the foot of table "19.1 Income taxes on current operations: breakdown".

The difference between the theoretical tax charge and the current tax charge was principally due to:

- recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83 of 27 June 2015 and subsequent amendments and integrations;
- the deduction of the 10% annual portion pursuant to paragraphs 1067 and 1068 of art. 1 of Law 145/2018, of the income elements arising from the adoption of the recognition of the expected losses on loans and receivables from customers, booked on first-time adoption of the IFRS 9 standard.

PART D – COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME

Captions		31.12.2020	31.12.2019
10.	**Net profit (loss) for the period**	**23,895**	**44,886**
	Other elements of income, without reversal to income statement		
20.	Equity instruments designated at fair value through other comprehensive income:	**22,971**	**(273)**
	a) change in fair value	22,971	(270)
	b) transfers to other components of shareholders' equity		(3)
50.	**Property, plant and equipment**		**240**
70.	**Defined-benefit pension plans**	**(440)**	**(667)**
100.	Taxes on other elements of income without reversal to profit or loss	**(1,480)**	**104**
	Other elements of income, with reversal to income statement		
130.	Cash-flow hedges:	**631**	**(85)**
	a) changes in fair value		(85)
	b) reversal to income statement	631	
150.	Financial assets (other than equities) designated at fair value through other comprehensive income:	**(1,111)**	**1,405**
	a) changes in fair value	1,592	1,504
	b) reversal to income statement	(2,632)	(99)
	- adjustments for credit risk	(191)	(99)
	- gains/losses on disposal	(2,441)	-
	c) other changes	(71)	
180.	**Taxes on other elements of income with reversal to profit or loss**	**158**	**(436)**
190.	**Total other elements of income**	**20,729**	**288**
200.	**Total comprehensive income (Captions 10+190)**	**44,624**	**45,174**

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 Bank'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 Banco envisages that the Risk Management function reports directly to the Board of directors and participates in the risk management process designed to identify, measure, assess, monitor, prevent, mitigate and communicate the risks assumed or which could be assumed in the conduct of business. This function also covers the subsidiaries, in accordance with the provisions of the relevant Service Agreements.

The Board of Directors approves, at least annually, the Group's "Risk Appetite Framework (RAF)" and the "Policy for risk management", which define risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. Within the context of these documents, specific risk indicators with related attention thresholds are provided at the level of individual legal entity, identifying the competent functions for the specific control mechanisms and providing dedicated information flows. The Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) also form part of the Bank's risk management system.

SECTION 1 – CREDIT RISK

Qualitative information

1. *General aspects*

The Bank's lending activity has developed according to the guidelines of the Business Plan, addressed to local economies primarily in the retail, small business and small SME markets. To a lesser extent, our lending activity is directed towards the corporate market.

The activities aimed at individual customers, small businesses (artisans, family businesses and professionals), SMEs and Corporates, and customers in the financial sector, mainly include the following products: loans and deposits; financial, banking and payment services; documentary credit; lease; factoring; financial, insurance and asset management products; debit and credit cards.

Commercial policy is mainly pursued through the Bank's branch network based on credit policies geared to supporting local economies. Particular attention is paid to maintaining relationships established with customers and their development in the geographic areas where the Bank has traditionally been present and in new markets with the aim of acquiring new market shares and facilitate growth in business volumes. The Bank also operates under agreements with the Italian Banking Association and with trade and business associations, signing conventions aimed at providing support to corporate borrowers while carefully monitoring asset quality.

2. Credit risk management policies

2.1. Organisational aspects

Factors that generate credit risk involve the possibility that an unexpected change in the creditworthiness of a counterparty in respect of which there is an exposure, might generate a corresponding unexpected change in the market value of the credit position. It follows that not only the possibility of a counterparty's insolvency, but also a simple deterioration of its creditworthiness has to be considered a manifestation of credit risk.

The Bank's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Board of Directors has exclusive power to lay down guidelines that have an impact on the running of the Group's affairs and, in this context, to make decisions on strategic lines and operations, business and financial plans as well as those relating - again at the level of strategic supervision - to the Internal Control and Risk Management System in compliance with the Capital Requirements in force at the time. In line with the provisions of Bank of Italy circular 285/2013, the Bank has granted to the Risk Management Department the activities of verification and supervision of the monitoring and debt collection activities carried out by the competent company departments, providing for the right to intervene, where necessary, with regard to the classification of anomalous credit and provisional accruals and postings.

2.2 Systems for managing, measuring and monitoring credit risk

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

During the fact finding stages of the lending process, the bank performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer’s financial standing from what is known of the customer and of the customer's economic environment.

During the process of granting credit, the bank operates according to guidelines based on risk diversification among various customers operating in different industries and market sectors and on the appropriateness of the credit facility depending on the independent creditworthiness of the borrower, the technical form and the collateral that could be acquired.

The analysis and monitoring of risk associated with the lending process is performed with the support of specific operating procedures. The aim of a prompt monitoring system is to identify, as soon as possible, signs of deterioration of exposures in order to intervene with effective corrective measures. To this end, credit exposures are monitored by means of an analysis of relationship trends and by central oversight of risk by means of dedicated procedures. This review facilitates the identification of customers with anomalies in the conduct of their relationship as opposed to those with a regular trend.

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

The concessions or suspensions carried out for legislative "Covid" purposes, requested by customers before 30 September, have not been classified as forborne (according to the indications provided by the supervisory authorities). Legislative suspensions received after 30 September were analytically assessed in order to identify the elements of forbearance. Commencing from the final quarter, a series of detailed checks were carried out on counterparties with the largest exposures and applying portfolio logic to those of lower amount, to look for evidence that they should be classified as forborne or, in the case of significant anomalies, as UTP. These checks, which had limited effects on the classification of exposures as impaired, will continue during the first quarter of 2021.

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

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

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

As part of its corporate risk management policy, the bank has set up a system of operating limits and specific Key Risk Indicators (KRI). In the context of monitoring and control, on pre-established thresholds being exceeded, the Risk Management function activates internal procedures for an intervention in order to maintain a risk appetite level consistent with the guidelines laid down in the RAF and the risk management policies.

For risk management purposes, the bank uses an internal rating system that classifies each counterparty in risk classes that reflect their probability of default. The classification of performing counterparties is on a scale from 1 to 10. Non-performing loans (past due and/or overdrawn exposures, unlikely-to-pay and doubtful loans) are excluded from the rating assignment.

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

2.3 Methods of measuring expected losses

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

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

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

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

Accordingly, consistent with the approach taken to prepare the consolidated financial report at 30 June 2020, Banco considered it appropriate to link the macroeconomic forecasts referenced by the models used to estimate expected losses with the 2020-2023 projections for Italy made by experts at the Bank of Italy, in the context of the coordinated Eurosystem exercise published on 11 December 2020, and with the projections for Europe made by experts at the European Central Bank and published on 10 December 2020. These projections take into account the transmission of the effects of the pandemic to the economy through multiple channels, such as the drop in international trade and foreign demand, the reduction of international tourist flows, the effects of uncertainty and confidence on companies' propensity to invest, etc.

In this regard, it should also be noted that, beyond the Covid-19 pandemic, starting from 30 June 2020 Banco Desio has changed its methodology for the inclusion of forward-looking factors, compared with the one used up to the financial statements at 31December 2019 (as well as the interim financial report at 31 March 2020), by developing specific satellite models derived from the new statistical rating model recently implemented, also taking forecasts made by external providers as a point of reference.

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

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

$$ECL = \sum_{t=1}^{T} PDt \times EADt \times LGDt \times (1+r)^{-t}$$

where:

PDt represents the probability of default on each cash flow date. This is the probability of moving from performing to non-performing over the one-year time horizon (1-year PD) or over the entire duration of the exposure (PD lifetime)

EADt represents the counterparty exposure at each cash flow date

LGDt represents the loss associated to counterparty on each cash flow date. This is the percentage of loss in the event of default, based on the historical experience observed in a given observation period, as well as the prospective evolution over the entire lifetime of the exposure;

r represents the discount rate

t represents the cash flow number

T represents the total number of cash flows, limited to the following 12 months for stage 1 relationships, whereas it refers to the entire residual life for those in stage 2

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

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

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

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

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

Estimate of the PD parameter

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

For Banco, the lifetime PD curves were constructed by multiplying the 12-month rating migration matrices, divided by segments conditioned by prospective macroeconomic scenarios, with a Markovian approach. The relevant lifetime PD curve is associated with each rating class assigned to counterparties using internal models. The main methodological steps used to estimate lifetime PD are listed below:

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

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

Estimate of the LGD parameter

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

EAD estimate

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

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

Inclusion of forward-looking factors

For the purpose of determining expected losses, the inclusion of forward-looking information is obtained by considering the effects on risk parameters, derived from different macroeconomic scenarios. In detail, the many possible alternative macroeconomic scenarios have been traced to a limited to three scenarios (positive, basic and negative) which constitute the input of the so-called "satellite models". Use of these latter models makes it possible to define, through statistical regression techniques, the relationship between a limited number of significant macroeconomic variables, taken as a point of reference, and the decay rates of the various segments. The result of these estimates is used to create stress factors, called “delta scores”, distinguished by scenario and risk segments. These "delta scores" are applied using the

Merton method to the average Point in Time (PiT) matrix by risk segment, represented by the most recent three-year internal data available on migration between ratings, so as to obtain three future stressed matrices based on macroeconomic forecasts. From the fourth year onwards, to calculate the PD curves, we chose to refer to the long-term matrix.

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

The information on the macroeconomic scenarios for Italy in the 2020-23 period, as previously recalled, is based on that published by the Bank of Italy on 11 December 2020 as part of the coordinated working of the Eurosystem and that published by the ECB on 10 December 2020.

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

For this reason, we identified fine-tunings to be made to the standard conditioning logics, in order to adequately treat the specificities deriving from and/or connected to the COVID-19 pandemic. In particular, in the construction of the scenarios underlying the forward-looking conditioning, a four-quarter smoothing is applied in the application of the macroeconomic forecasts for the three years 2020, 2021 and 2022 published by the Bank of Italy and the ECB (except for the price of residential properties, which on standard conditions already shows a quarterly lag).

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

The following table shows the minimum and maximum values (in the "range of values") referring to the macroeconomic parameters considered in the forward-looking conditioning models (the so-called "satellite models"), for the three scenarios considered most capable of influencing the expected losses of performing loans and the related probabilities of occurrence considered as at 31 December 2020.

	Positive Scenario		**Basic scenario**		**Negative scenario**	
Macroeconomic indicators	**Min**	**Max**	**Min**	**Max**	**Min**	**Max**
GDP - Italy	-8.9	6.1	-9	3.8	-9.2	1.4
Unemployment - Italy	8.9	9.8	9.2	10.4	9.6	11.3
Residential property values	292.2	324.2	288.2	294.7	270.3	283.0
Unemployment - Europe	7.5	8.8	8	9.3	8.1	10.3
Probabilities of occurrence	0%/5%		70%		25%/30%	

The following tables are provided solely for comparative purposes, without prejudice to the update of the methodology for including forward-looking factors. They indicate:

a) values for the principal macroeconomic parameters with the related probabilities of occurrence considered at 30 June 2020 using the same methodology for including forward-looking factors

	Positive Scenario		Basic scenario		Negative scenario	
Macroeconomic indicators	**Min**	**Max**	**Min**	**Max**	**Min**	**Max**
GDP - Italy	-6.3	5.8	-9.2	4.8	-13.1	3.5
Unemployment - Italy	10.2	10.3	10.6	11.0	11.1	11.9
Residential property values	290.8	315.0	287.0	288.3	253.8	284.9
Unemployment - Europe	7.5	8.7	9.1	10.1	11.2	12.5
Probabilities of occurrence	25%		70%		5%	

b) values for the principal macroeconomic parameters with the related probabilities of occurrence considered at 31 December 2019 using the previous methodology for including forward-looking factors.

	Basic scenario		Negative scenario	
Macroeconomic indicators	**Min**	**Max**	**Min**	**Max**
GDP - Italy	1.30	1.32	-1.52	-0.62
Unemployment - Italy	10.51	10.81	11.93	12.68
Inflation - Italy	1.50	1.62	-0.10	0.77
Inflation - Europe	1.53	1.73	0.11	0.51
BTP yield	2.49	2.85	3.72	4.02
3-month Euribor	-0.13	0.15	0.34	0.54
Probabilities of occurrence	80%		20%	

Post model adjustments

Considering, in addition, that the latent riskiness of a cluster of exposures at the reference date cannot be fully reflected in the models for measuring expected losses pursuant to IFRS9 in terms of staging allocation, due to the special impact of government support measures on the liquidity of businesses and the normal monitoring of loans (reference to past-due amounts, financial tensions, etc.), the Bank deemed it appropriate to make post model adjustments (management overlay) for the transfer of exposures to stage 2, commencing from those in rating class 4, based on:

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

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

ATECO (sector code)	SECTOR	SECTOR ATTRACTIVITY
13	Textiles and Clothing	LOW
14	Textiles and Clothing	LOW
15	Textiles and Clothing	LOW
19	Chemistry, Rubber and Plastic Products	LOW
20	Chemistry, Rubber and Plastic Products	LOW
22	Chemistry, Rubber and Plastic Products	LOW
24	Metallurgy	LOW
25	Metallurgy	LOW
29	Automotive	LOW
30	Automotive	LOW
36	Waste Water Treatment	LOW
37	Waste Water Treatment	LOW
38	Waste Water Treatment	LOW
39	Waste Water Treatment	LOW
45	Automotive	LOW
47	Retail	LOW
49	Transport and Logistics	LOW
50	Transport and Logistics	LOW
51	Transport and Logistics	LOW
52	Transport and Logistics	LOW
53	Transport and Logistics	LOW
55	Accommodation and Catering	LOW
56	Accommodation and Catering	LOW
68	Real Estate	LOW
70	Business Services	LOW
73	Business Services	LOW
77	Business Services	LOW
78	Business Services	LOW
79	Recreational Activities, Sports and Travel Agencies	LOW
80	Business Services	LOW
81	Business Services	LOW
82	Business Services	LOW
90	Recreational Activities, Sports and Travel Agencies	LOW
91	Recreational Activities, Sports and Travel Agencies	LOW
92	Recreational Activities, Sports and Travel Agencies	LOW
93	Recreational Activities, Sports and Travel Agencies	LOW

Sensitivity analysis of expected losses attese

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

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

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

Therefore the Bank deemed it reasonable for the sensitive analysis to consider the probability of occurrence of the negative scenario to be 50%, while zeroing the probability of occurrence of the positive scenario, which would increase the adjustment made to the value of the portfolio of performing loans by about another Euro 3.0 million, gross.

2.4 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). Substantial loans are sometimes also assisted by public guarantees, such as the guarantees and counter-guarantees given by the Guarantee Fund for SMEs pursuant to Law 662/96, SACE or the European Investment Fund, as well as by the pledge of securities and/or cash.

Guarantees received are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions. The process of collateral management provides for monitoring and specific controls to check their eligibility, in line with the requirements of supervisory regulations.

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

3. Non-performing loans

3.1 Management strategies and policies

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

- Doubtful loans: exposure to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations, regardless of the loss forecasts made by the intermediary.
- Unlikely to pay: exposures for which the intermediary considers full compliance by the debtor unlikely without recourse to actions such as collection of guarantees, regardless of the presence of amounts due and/or overdrawn.
- Past due and/or overdrawn non-performing exposures: exposures, other than those classified as doubtful or unlikely to pay, with amounts that are past due and/or overdrawn continuously for more than 90 days.

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

Banco has a policy that lays down the criteria for making adjustments that establish the minimum percentages to be applied in determining expected losses, depending on the type of impaired loan, the original technical form and the type of collateral. The management of non-performing exposures is delegated to a specific organisational unit, the NPL Department, responsible for identifying strategies for maximising recovery on individual positions and defining the adjustments to be applied to them. The only "non-performing past due/overdue" exposures subject to a collective write-down and with a high probability of reclassification between "performing" exposures are managed by the function delegated to credit performance monitoring, which eventually proceeds to classify among the "unlikely to pay" loans, transferring their management to the NPL Department.

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

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

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

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

In execution of its capital management strategy, the bank completed a programme of sales of NPLs, particularly significant in recent years, with reference to loans classified as "doubtful" and loans classified as "unlikely-to-pay" (UTP). The additional disposals carried out in November and December further reduced the NPL Ratio (Gross non-performing loans/Gross loans) to 5.35%, which is among the lowest in the Italian banking system. In line with the NPL ratio containment policy, there are plans for initiatives that will allow further improvement in this indicator.

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

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

a. prevention of inflows to UTP;

b. effective management of the impaired portfolio in order to maintain good levels of recovery and/or return to performing status.

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

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

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

3.2 Write-offs

Non-performing exposures for which there is no possibility of recovery (either total or partial) are subject to cancellation from the accounting records ("write-offs") in accordance with the policies in force from time to time, subject to approval by Banco's Board of Directors. Among the strategies identified for the containment of non-performing loans, a distinction between the "going" and "gone concern" approach was envisaged for unlikely to pay loans, thereby allowing for the assessment of single-name assignments for those loans managed with a view to liquidation or total repayment ("gone concern").

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

3.3 Impaired financial assets acquired or originated

As indicated in "IFRS 9 – Financial Instruments", in some cases, a financial asset is considered non-performing at the time of initial recognition as the credit risk is very high and, in the case of purchase, is purchased at a significant discount (compared with the initial value). In the event that the financial assets in question, based on the application of classification drivers (i.e. SPPI test and business model), are classified among assets valued at amortised cost or at fair value through other comprehensive income, they qualify as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to a specific treatment. Adjustments equal to the lifetime expected credit loss (ECL) are recorded against them, from the date of initial recognition and throughout their life. In light of the above, POCI financial assets are initially registered in stage 3, without prejudice to the possibility of being subsequently transferred to performing loans, in which case a lifetime ECL (stage 2) will continue to be recorded. A "POCI" therefore qualifies as such in the reporting processes and in the calculation of the expected loss.

4. Financial assets subject to commercial renegotiations and exposures subject to forbearance

In the face of financial difficulties on the part of the debtor, exposures may be subject to changes in the contractual terms in favour of the debtor in order to make their repayment sustainable. Depending on the subjective characteristics of the exposure and the reasons for the debtor's financial difficulties, the changes may act in the short term (temporary suspension from payment of the loan principal or an extension of a due date) or in the long term (lengthening the duration of a loan, revision of the interest rate) and lead to classification of the exposure (both performing and non-performing) as "forborne". "Forborne" exposures are subject to specific forecasts with a view to classification, as indicated in the ITS

EBA 2013-35 implemented by the Bank's credit policies; if the forbearance measures are applied to performing exposures, these are taken into account in the process of assigning the internal management rating and are part of the exposures in stage 2. All exposures classified as "forborne" are included in specific monitoring processes by the relevant company departments.

To be more specific, with the help of suitable IT procedures, these functions monitor the effectiveness of the forbearance measures granted, detecting whether the customer's financial situation is subsequently getting better or worse. If at the end of the monitoring period the position complies with all the criteria required by regulations, it is no longer considered as a forborne loan; otherwise, it remains under forborne exposures.

If considered opportune, the branches have the right to review the conditions applied to customer exposures, even when there are no signs of financial difficulty, within the limits of their current decision-making autonomy.

In this case, the exposure does not fall into the category of forborne exposures.

In this regard, see the "Covid-19" information provided in the Consolidated Report on Operations and the note on "Contractual changes and derecognition (IFRS 9)" in "Section 4 – Other aspects" of subsection "A.1 General information" of "Part A - Accounting policies" in these explanatory notes.

Quantitative information

A. Credit quality

A.1 Non-performing and performing loans: amounts, adjustments, trends and economic distribution

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

Portfolio/Quality	Doubtful loans	Unlikely to pay loans	Past due non-performing loans	Past due performing loans	Other performing exposures	Total
1. Financial assets at amortised cost	116,633	184,303	1,010	38,010	13,938,419	14,278,375
2. Financial assets at fair value through other comprehensive income	-	-	-	-	588,165	588,165
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	860	860
5. Financial assets being sold	-	-	-	-	-	-
Total 31.12.2020	**116,633**	**184,303**	**1,010**	**38,010**	**14,527,444**	**14,867,400**
Total 31.12.2019	**119,391**	**215,043**	**2,817**	**109,797**	**12,962,116**	**13,409,164**

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net amounts)

Portfolio/Quality	Non-performing				Performing			Total (Net exposure)
	Gross exposure	Total write-downs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs	Net exposure	
1. Financial assets at amortised cost	575,722	(273,776)	301,946	9,039	14,051,483	(75,054)	13,976,429	14,278,375
2. Financial assets at fair value through other comprehensive income	-	-	-	-	588,337	(172)	588,165	588,165
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	X	X	860	860
5. Financial assets being sold	-	-	-	-	-	-	-	-
Total 31.12.2020	**575,722**	**(273,776)**	**301,946**	**9,039**	**14,639,820**	**(75,226)**	**14,565,454**	**14,867,400**
Total 31.12.2019	**619,808**	**(282,557)**	**337,251**	**12,155**	**13,117,513**	**(47,900)**	**13,071,914**	**13,409,165**

Portfolio/Quality	Assets with an obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	3,686
2. Hedging derivatives	-	-	-
Total 31.12.2020	**-**	**-**	**3,686**
Total 31.12.2019	**-**	**-**	**2,332**

A.1.3 Distribution of financial assets by past due bands (book values)

Portfolios/Stages of risk		First stage			Second stage			Third stage		
		From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days
1. Financial assets at amortised cost		10,083	-	-	20,389	7,118	420	9,737	13,037	196,976
2.Financial assets at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-
3. Financial assets being sold		-	-	-	-	-	-	-	-	-
Total	**31.12.2020**	**10,083**	**-**	**-**	**20,389**	**7,118**	**420**	**9,737**	**13,037**	**196,976**
Total	**31.12.2019**	**38,973**	**-**	**-**	**49,249**	**19,521**	**2,054**	**13,925**	**26,217**	**227,937**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and provisions (Part 1)

Description/stages of risk	Total write-downs							
	Assets included in the first stage				Assets included in the second stage			
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs
Total opening adjustments	**24,006**	**363**	**-**	**24,369**	**23,531**	**-**	**-**	**23,531**
Increases in financial assets acquired or originated	6,345	-	-	6,345	971		-	971
Cancellations other than write-offs	(2,654)	-	-	(2,654)	(730)		-	(730)
Net adjustments/write-backs for credit risk (+/-)	(9,391)	(191)	-	(9,582)	32,976		-	32,976
Contractual changes without write-offs	-	-	-	-	-		-	-
Changes in the method of making estimates	-	-	-	-	-		-	-
Write-offs		-	-	-	-		-	-
Other changes	-	-	-	-	-		-	-
Total closing adjustments	**18,306**	**172**	**-**	**18,478**	**56,748**		**-**	**56,748**
Recoveries of financial assets subject to write-off	-	-	-	-	-		-	-
Write-offs booked directly to the income statement	-	-	-	-	-		-	-

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and provisions (Part 2)

Description/stages of risk	Total write-downs						Total provisions on commitments to disburse funds and financial guarantees given			Total
	Assets included in the third stage									
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive	Financial assets being sold	of which: individual write-downs	of which: collective write-downs	Of which: non-performing financial assets acquired or originated	First stage	Second stage	Third stage	
Total opening adjustments	**282,557**	**-**	**-**	**282,557**	**-**	**3,384**	**375**	**467**	**1,892**	**333,191**
Increases in financial assets acquired or originated	525	-	-	525	-	2,507	255	259	-	8,355
Cancellations other than write-offs	(279)	-	-	(279)	-	-			(13)	(3,676)
Net adjustments/write-backs for credit risk (+/-)	43,232	-	-	43,232	-	(435)	1,566	40	106	68,338
Contractual changes without write-offs	-	-	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-	-	-
Write-offs	(14,811)	-	-	(14,811)	-	-	-	-	-	(14,811)
Other changes	(37,447)	-	-	(37,447)	-	-	-	-	-	(37,447)
Total closing adjustments	**273,777**	**-**	**-**	**273,777**	**-**	**5,456**	**2,196**	**766**	**1,985**	**353,950**
Recoveries of financial assets subject to write-off	1,593	-	-	1,593	-	-	-	-	-	1,593
Write-offs booked directly to the income statement	1,667	-	-	1,667	-	-	-	-	-	1,667

A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portfolios/Stages of risk	Gross exposure/nominal value					
	Transfers between first and second stage		Transfers between second and third stage		Transfers between first and third stage	
	From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
1. Financial assets at amortised cost	1,893,174	323,183	49,693	12,265	25,773	2,149
2.Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets being sold	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	55,880	38,614	2,863	5,035	11,857	113
Total	**1,949,054**	**361,797**	**52,556**	**17,300**	**37,630**	**2,262**
Total	**454,310**	**367,684**	**59,426**	**29,808**	**54,966**	**3,020**

A.1.5a Loans subject to Covid-19 support measures: transfers between the different credit risk stages (gross values)

Portfolios/Stages of risk	Gross values					
	Transfers between first and second stage		Transfers between second and third stage		Transfers between first and third stage	
	From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
A. Loans at amortised cost	**1,273,297**	**93,817**	**21,658**	**7,790**	**9,976**	**122**
A.1 subject to forbearance complying with GL	1,087,225	77,757	21,603	7,542	9,007	122
A.2 subject to other forbearance measures	-	-	-	-	-	-
A.3 new loans	186,072	16,060	55	248	969	-
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to forbearance complying with GL	-	-	-	-	-	-
B.2 subject to other forbearance measures	-	-	-	-	-	-
B.3 new loans	-	-	-	-	-	-
Total 31.12.2020	**1,273,297**	**93,817**	**21,658**	**7,790**	**9,976**	**122**

A.1.6 On- and off-balance sheet exposures to banks: gross and net amounts

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. Cash exposures					
a) Doubtful loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
c) Past due non-performing loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
d) Past due performing loans	X	-	-	-	-
- of which: exposures subject to forbearance	X	-	-	-	-
e) Other performing exposures	X	1,382,892	493	1,382,399	-
- of which: exposures subject to forbearance	X	-	-	-	-
Total (A)	**-**	**1,382,892**	**493**	**1,382,399**	**-**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	13,602	1	13,601	-
Total (B)	**-**	**13,602**	**1**	**13,601**	**-**
Total (A+B)	**-**	**1,396,494**	**494**	**1,396,000**	**-**

"Cash exposures" include all on-balance sheet financial assets due from banks, regardless of the portfolio they are allocated to for accounting purpose.

"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- and off-balance sheet credit exposures to customers: gross and net amounts

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. Cash exposures					
a) Doubtful loans	298,890	X	(182,257)	116,633	9,039
- of which: exposures subject to forbearance	29,740	X	(15,288)	14,452	-
b) Unlikely to pay	275,668	X	(91,365)	184,303	-
- of which: exposures subject to forbearance	137,557	X	(37,358)	100,199	-
c) Past due non-performing loans	1,164	X	(154)	1,010	-
- of which: exposures subject to forbearance	339	X	(47)	292	-
d) Past due performing loans	X	39,858	(1,848)	38,010	-
- of which: exposures subject to forbearance	X	6,001	(408)	5,593	-
e) Other performing exposures	X	13,220,860	(72,885)	13,147,975	-
- of which: exposures subject to forbearance	X	122,501	(7,055)	115,446	-
TOTAL A	**575,722**	**13,260,718**	**(348,509)**	**13,487,931**	**9,039**
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing	32,849	X	(1,985)	30,864	-
b) Performing	X	3,572,213	(2,950)	3,569,263	-
TOTAL B	**32,849**	**3,572,213**	**(4,935)**	**3,600,127**	**-**
TOTAL A+B	**608,571**	**16,832,931**	**(353,444)**	**17,088,058**	**9,039**

"Cash exposures" include all on-balance sheet financial assets due from customers, regardless of the portfolio they are allocated to for accounting purposes.

"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.1.7a Cash exposures to customers subject to Covid-19 support measures: gross and net amounts

Type of loans / Amounts	Gross exposure	Total write-downs and provisions	Net exposure	Total partial write-offs*
A. LOANS IN DOUBTFUL LOANS	**-**	**-**	**-**	**-**
a) Subject to forbearance complying with GL	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
B. UNLIKELY TO PAY LOANS	**60,627**	**14,139**	**46,488**	**-**
a) Subject to forbearance complying with GL	58,549	13,590	44,959	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	2,078	549	1,529	-
C. PAST-DUE NON-PERFORMING LOANS	**292**	**41**	**251**	**-**
a) Subject to forbearance complying with GL	218	31	187	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	74	10	64	-
D. OTHER PAST-DUE PERFORMING LOANS	**16,594**	**1,028**	**15,566**	**-**
a) Subject to forbearance complying with GL	16,159	1,003	15,156	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	435	25	410	-
E. OTHER PERFORMING LOANS	**4,399,588**	**43,264**	**4,356,324**	**-**
a) Subject to forbearance complying with GL	2,584,842	38,865	2,545,977	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	1,814,746	4,399	1,810,347	-
TOTAL (A+B+C+D+E)	**4,477,101**	**58,472**	**4,418,629**	**-**

A.1.8 On-balance sheet credit exposures to banks: changes in gross non-performing loans

There are no such credit exposures at the reporting date.

A.1.8 bis On-balance sheet credit exposures to customers: changes in exposures subject to forbearance broken down by credit quality

There are no such credit exposures at the reporting date.

A.1.9 On-balance sheet credit exposures to customers: changes in gross non-performing loans

Description/Categories	Doubtful loans	Unlikely to pay loans	Past due non-performing loans
A. Opening gross exposure	**309,649**	**306,940**	**3,218**
- of which: exposure sold but not derecognised	-	7,629	-
B. Increases	**57,142**	**117,108**	**19,872**
B.1 transfers from performing loans	-	79,368	19,000
B.2 transfers from impaired financial assets acquired or originated	-	357	140
B.3 transfers from other categories of non-performing exposures	56,831	6,899	262
B.4 contractual changes without write-offs	-	-	-
B.5 other increases	311	30,484	470
C. Decreases	**(67,901)**	**(148,380)**	**(21,926)**
C.1 transfers to performing loans	(4)	(16,409)	(14,282)
C.2 write-off	(14,649)	(162)	-
C.3 collections	(17,363)	(52,427)	(744)
C.4 proceeds from disposal	(7,912)	(16,179)	-
C.5 losses on disposal	(27,885)	(6,199)	-
C.6 transfers to other categories of non-performing exposures	(88)	(57,004)	(6,900)
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposure	**298,890**	**275,668**	**1,164**
- of which: exposure sold but not derecognised	-	8,962	55

A.1.9bis On-balance sheet credit exposures to customers: changes in exposures subject to forbearance broken down by credit quality

Description/Categories	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. Opening gross exposure	**201,495**	**126,677**
- of which: exposure sold but not derecognised	3,348	15,445
B. Increases	**13,176**	**61,436**
B.1 transfers from performing positions not subject to forbearance	2,704	39,401
B.2 transfers from performing positions subject to forbearance	9,918	X
B.3 transfer from exposures subject to forbearance	X	8,130
B.4 transfers from non-performing positions not subject to forbearance	-	20
B.5 other increases	554	13,885
C. Decreases	**47,035**	**59,611**
C.1 transfers to performing positions not subject to forbearance	X	22,018
C.2 transfers to performing positions subject to forbearance	8,130	X
C.3 transfers to exposures subject to forbearance on non-performing positions	X	9,918
C.4 write-offs	-	X
C.5 collections	8,053	24,857
C.6 proceeds from disposal	-	3
C.7 losses on disposal	30,486	-
C.8 other decreases	366	2,815
D. Closing gross exposure	**167,636**	**128,502**
- of which: exposure sold but not derecognised	5,260	24,232

A.1.10 Non-performing on-balance sheet credit exposures to banks: changes in total adjustments

Balances were zero at the reporting dates.

A.1.11 Non-performing on-balance sheet credit exposures to customers: changes in total adjustments

Description/Categories	Doubtful loans		Unlikely to pay loans		Past due non-performing loans	
	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance
A. Total opening adjustments	**190,258**	**26,636**	**91,897**	**36,283**	**401**	**43**
- of which: exposure sold but not derecognised	-	-	1,165	551	-	-
B. Increases	**56,680**	**10,868**	**40,076**	**16,020**	**142**	**42**
B.1 write-downs of impaired assets acquired or originated	-	X	-	X	-	X
B.2 other write-downs	27,335	4,783	39,429	15,723	136	42
B.3 losses on disposal	7,469	185	546	276	-	-
B.4 transfers from other categories of non-performing exposures	21,159	5,900	101	-	6	-
B.5 contractual modifications without derecognition	-	-	-	21	-	-
B.6 other increases	717	-	-	-	-	-
C. Decreases	**64,681**	**22,216**	**40,608**	**14,945**	**389**	**38**
C.1 measurement write-backs	6,996	1,201	7,586	5,438	228	16
C.2 writebacks on collection	5,291	1,691	3,515	1,476	52	1
C.3 gains on disposal	2,390	417	1,443	412	-	-
C.4 write-offs	14,649	5,386	162	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	21,157	5,900	109	21
C.6 contractual changes without write-offs	-	-	-	-	-	-
C.7 other decreases	35,355	13,521	6,745	1,719	-	-
D. Total closing adjustments	**182,257**	**15,288**	**91,365**	**37,358**	**154**	**47**
- of which: exposure sold but not derecognised	-	-	1,525	895	7	7

A.2 Distribution of financial assets, commitments to disburse funds and financial guarantees given for external and internal rating classes

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees given for external rating classes (gross values)

Exposures	External rating class						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A) Financial assets measured at amortised cost	**16,450**	**454,631**	**2,878,294**	**393,442**	**39,287**	**12,423**	**10,832,679**	**14,627,206**
- First stage	16,450	425,203	2,812,362	301,938	31,343	11,471	8,114,775	11,713,542
- Second stage	-	29,428	64,795	88,621	7,944	952	2,146,201	2,337,941
- Third stage	-	-	1,137	2,883	-	-	571,703	575,723
B. Financial assets designated at fair value through other comprehensive income	**-**	**-**	**583,773**	**-**	**-**	**-**	**4,392**	**588,165**
- First stage	-	-	583,773	-	-	-	4,392	588,165
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total financial assets	**16,450**	**454,631**	**3,462,067**	**393,442**	**39,287**	**12,423**	**10,837,071**	**15,215,371**
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	14,332	14,332
C. Commitments to disburse funds and financial guarantees issued								**-**
- First stage	-	241,011	281,079	97,886	5,386	577	2,877,588	3,503,527
- Second stage	-	1,108	3,474	4,712	-	-	72,198	81,492
- Third stage	-	-	1,004	-	-	-	31,845	32,849
Total commitments to disburse funds and financial guarantees issued	**-**	**242,119**	**285,557**	**102,598**	**5,386**	**577**	**2,981,631**	**3,617,868**
Total (A+ B + C)	**16,450**	**696,750**	**3,747,624**	**496,040**	**44,673**	**13,000**	**13,818,702**	**18,833,239**

The attribution of external ratings refers to the positions of the Bank proprietary securities portfolio and to loans for which Cerved, an external credit assessment institution (or ECAI) has assigned a credit risk rating.

The following table gives a reconciliation between the rating classes indicated in table A.2.1 and those provided by the ECAIs Moody's and Cerved, the agencies that the Bank uses for external ratings.

Classes of credit quality	*Moody's rating*	*Cerved rating*
1	from Aaa to Aa3	A1
2	from A1 to A3	from A2 to A3
3	from Baa1 to Baa3	B1
4	from Ba1 to Ba3	B2
5	from B1 to B3	C11
6	Caa1 or less	C12 and below

A.2.2 Distribution of financial assets, commitments to disburse funds and financial guarantees given for internal rating classes

Banco Desio does not use internal rating models for the determination of capital requirements.

The Bank uses a rating model to assess retail customers (individual consumers) and corporate customers (Small Businesses, Small and Medium-sized Enterprises, Large Corporate, Real Estate, Financial and Institutional).

The following table shows performing loans belonging to the above categories with the proportion of each rating class to the overall exposure.

Exposures at 31.12.2020	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
On-balance sheet exposures	64.51%	27.17%	6.83%	1.49%	100%
Off-balance sheet exposures	77.36%	15.25%	5.15%	2.24%	100%

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed on- and off-balance sheet credit exposures to banks

There are no such credit exposures at the reporting date.

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Secured guarantees (1)				Unsecured guarantees (2)									Total
							Credit derivatives					Endorsement credits				(1)+(2)
								Other derivatives								
			Property - Mortgages	Property under finance leases	Securities	Other secured guarantees	CLN	Central counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	
1. Guaranteed on-balance sheet exposures:	7,982,181	7,720,388	4,199,384	133,299	241,959	110,185	-	-	-	-	-	1,900,873	80	22,287	910,062	7,518,129
1.1. totally guaranteed	6,624,643	6,377,217	4,195,393	133,299	220,864	104,623	-	-	-	-	-	840,407	38	18,623	860,221	6,373,468
- of which: non-performing	449,925	259,171	197,134	10,511	549	3,650	-	-	-	-	-	3,728	18	981	42,112	258,683
1.2. partially guaranteed	1,357,538	1,343,171	3,991	-	21,095	5,562	-	-	-	-	-	1,060,466	42	3,664	49,841	1,144,661
- of which: non-performing	18,821	8,228	322	-	410	154	-	-	-	-	-	1,519	-	943	2,988	6,336
2. Guaranteed off-balance sheet exposures:	927,464	926,086	5,454	-	54,912	56,445	-	-	-	-	-	6,388	685	5,203	748,928	878,015
2.1. totally guaranteed	811,067	809,837	5,454	-	45,893	49,209	-	-	-	-	-	5,796	20	3,841	697,801	808,014
- of which: non-performing	10,807	10,467	1,094	-	52	533	-	-	-	-	-	-	-	-	8,776	10,455
2.2. partially guaranteed	116,397	116,249	-	-	9,019	7,236	-	-	-	-	-	592	665	1,362	51,127	70,001
- of which: non-performing	1,600	1,562	-	-	17	6	-	-	-	-	-	-	-	10	1,449	1,482

B. Distribution and concentration of credit exposures

B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers (book value) (Part 1)

Exposures/Counterparties		Public administrations		Financial companies		Financial companies (of which: insurance companies)	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures							
A.1 Doubtful loans		-	-	2,168	9,751	-	-
- of which: exposures subject to forbearance		-	-	-	-	-	-
A.2 Unlikely to pay		319	289	3,038	1,220	-	-
- of which: exposures subject to forbearance		-	-	2,989	1,070	-	-
A.3 Past due non-performing loans		-	-	3	-	-	-
- of which: exposures subject to forbearance		-	-	-	-	-	-
A.4 Performing loans		2,689,428	725	1,362,789	1,541	4,342	-
- of which: exposures subject to forbearance		-	-	402	12	-	-
Total A		**2,689,747**	**1,014**	**1,367,998**	**12,512**	**-**	**-**
B. Off-balance sheet exposures							
B.1 Non-performing loans		-	-	10	-	-	-
B.2 Performing loans		15,912	-	169,257	10	-	-
Total B		**15,912**	**-**	**169,267**	**10**	**-**	**-**
Total (A+B)	**31.12.2020**	**2,705,659**	**1,014**	**1,537,265**	**12,522**	**-**	**-**
Total (A+B)	**31.12.2019**	**2,630,272**	**2,137**	**1,340,109**	**12,273**	**-**	**-**

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

Exposures/Counterparties		Non-financial companies		Households	
		Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures					
A.1 Doubtful loans		77,672	134,769	36,793	37,737
- of which: exposures subject to forbearance		7,982	10,581	6,470	4,707
A.2 Unlikely to pay		114,198	65,251	66,748	24,605
- of which: exposures subject to forbearance		56,908	23,324	40,302	12,964
A.3 Past due non-performing loans		409	63	598	91
- of which: exposures subject to forbearance		157	26	135	21
A.4 Performing loans		5,818,516	45,576	3,315,252	26,891
- of which: exposures subject to forbearance		67,162	4,365	53,475	3,086
Total A		**6,010,795**	**245,659**	**3,419,391**	**89,324**
B. Off-balance sheet exposures					
B.1 Non-performing loans		30,248	1,938	606	47
B.2 Performing loans		3,152,477	2,705	231,632	180
Total B		**3,182,725**	**4,643**	**232,238**	**227**
Total (A+B)	**31.12.2020**	**9,193,520**	**250,302**	**3,651,629**	**89,551**
Total (A+B)	**31.12.2019**	**8,271,296**	**251,150**	**3,471,369**	**67,122**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers (Part 1)

Exposures/Geographical areas	Italy		Other European countries		America
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure
A. Cash exposures					
A.1 Doubtful loans	116,583	182,188	49	69	-
A.2 Unlikely to pay	183,793	91,298	510	67	-
A.3 Past due non-performing loans	1,009	154	1	-	-
A.4 Performing loans	13,052,887	74,564	111,938	150	20,912
Total (A)	**13,354,272**	**348,204**	**112,498**	**286**	**20,912**
B. Off-balance sheet exposures					
B.1 Non-performing loans	30,864	1,985	-	-	-
B.2 Performing loans	3,564,069	2,895	4,735	-	465
Total (B)	**3,594,933**	**4,880**	**4,735**	**-**	**465**
Total (A+B) 31.12.2020	**16,949,205**	**353,084**	**117,233**	**286**	**21,377**
Total (A+B) 31.12.2019	**15,594,604**	**332,379**	**97,082**	**284**	**21,048**

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers (Part 2)

Exposures/Geographical areas	America	Asia		Rest of the world	
	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures					
A.1 Doubtful loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Past due non-performing loans	-	-	-	-	-
A.4 Performing loans	18	167	1	82	-
Total (A)	**18**	**167**	**1**	**82**	**-**
B. Off-balance sheet exposures					
B.1 Non-performing loans	-	-	-	-	-
B.2 Performing loans	-	4	-	5	-
Total (B)	**-**	**4**	**-**	**5**	**-**
Total (A+B) 31.12.2020	**18**	**171**	**1**	**87**	**-**
Total (A+B) 31.12.2019	**17**	**205**	**1**	**107**	**1**

B.3 Territorial distribution of on- and off-balance sheet credit exposures to banks (Part 1)

Exposures/Geographical areas	Italy		Other european countries		America
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure
A. Cash exposures					
A.1 Doubtful loans	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-
A.3 Past due non-performing loans	-	-	-	-	-
A.4 Performing loans	1,249,611	433	128,650	57	3,018
Total (A)	**1,249,611**	**433**	**128,650**	**57**	**3,018**
B. Off-balance sheet exposures					
B.1 Non-performing loans	-	-	-	-	-
B.2 Performing loans	11,031	1	2,505	-	-
Total (B)	**11,031**	**1**	**2,505**	**-**	**-**
Total (A+B) 31.12.2020	**1,260,642**	**434**	**131,155**	**57**	**3,018**
Total (A+B) 31.12.2019	**829,121**	**447**	**101,997**	**57**	**1,099**

B.3 Territorial distribution of on- and off-balance sheet credit exposures to banks (Part 2)

Exposures/Geographical areas		America	Asia		Rest of the world	
		Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures						
A.1 Doubtful loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-
A.4 Performing loans		2	317	-	802	1
	Total (A)	**2**	**317**	**-**	**802**	**1**
B. Off-balance sheet exposures						
B.1 Non-performing loans		-	-	-	-	-
B.2 Performing loans		-	-	-	-	-
	Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B)	**31.12.2020**	**2**	**317**	**-**	**802**	**1**
Total (A+B)	**31.12.2019**	**1**	**4,259**	**1**	**3,835**	**1**

B.4 Large exposures

With reference to current supervisory regulations, the situation at 31 December 2020 is reported below:

Description	Amount (book value)	Amount (weighted amount)	Number
Large exposures	6,750,400	190,158	5

The five positions indicated relate to exposures to Group companies, the Bank of Italy, the Treasury Ministry, the Guarantee Fund as per Law 662 of 23.12.1996 and the SPV Two Worlds S.r.l.

C. Securitisation transactions

Qualitative information

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

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

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

- senior securities for Euro 288.5 million, corresponding to 28.8% of the Gross Book Value (GBV) at the date of identification of the loans at 31 December 2019, to which DBRS Ratings Ltd and Scope Ratings GmbH have given "BBB low" and "BBB" ratings respectively;
- mezzanine securities for Euro 30.2 million to which DBRS Ratings Ltd and Scope Ratings GmbH have given "B low" and "B" ratings respectively;
- junior securities for Euro 9.0 million, with no rating.

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

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

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

The objectives of this initiative are to:

1. obtain an expected return consistent with the risk profile of the operation with underlying loans that are 90% guaranteed by Medio Credito Centrale;

2. increase the number of clients with a target profile consistent with the established commercial and lending policies (location, business size and expected loss on the portfolio), resulting in about 750 new clients in the territories where Banco Desio is present;
3. commence operations in fintech channels (co-branded portal) that provide clients with a fully on-line user experience that is simple and quick.

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

Quantitative information

C.1 Exposures arising from principal "own" securitisations, broken down by type of securitised asset and by type of exposure

TYPE OF SECURITISED ASSETS/ EXPOSURES	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
A. Fully derecognised	206,057	58	859		1	
- Financial assets at amortised cost	*206,057*	*58*				
B. Partially derecognised						
C. Not derecognised						

The exposure shown in the financial statements represents:

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

C.2 - Exposures arising from principal "third party" securitisations, broken down by type of securitised asset and by type of exposure

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

E. Asset disposals

A. Financial assets sold and not fully derecognised

E.4 Covered bonds

This section includes covered bond transactions in which the transferring bank and the financing bank coincide.

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

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

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

1. non-revolving sales without recourse of a residential mortgage loan portfolio;
2. disbursement of a subordinated loan to the SPV by Banco Desio;
3. issuance by Banco di Desio e della Brianza of covered bonds for institutional investors for Euro 575 million (issued in 2017) and Euro 500 million (issued in 2019) with a maturity of 7 years.
4. a liability swap on the covered bonds issued taken out by the SPV for a notional amount of Euro 300 million (for the 2017 issue) and for a notional amount of Euro 200 million (for the 2019 issue) with BNP Paribas as counterparty;
5. a back-swap taken out by Banco di Desio e della Brianza for the same notional amount with the same counterparty, as a mirror-image of the previous one.

The main characteristics of the transaction are summarised below:

a) SPV name: Desio OBG S.r.l.
b) Type of underlying loans: Residential mortgage loans;
c) *Value of the loans sold:* total of Euro 1,961 million;
d) *Amount of subordinated loan:* totalling Euro 1,560 million at 31 December 2020;
e) *Nominal value of the covered bonds issued:* Euro 1,075 million;
f) *Interest rate on covered bonds issued:* fixed rate of 0.875% (2017 issue) and 0.375% (2019 issue).

Alla data del 31 dicembre 2020 il portafoglio dei crediti ceduti dal Banco ha un valore di bilancio pari a circa 1.473 milioni di euro.

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

C. Financial assets sold and fully derecognised

Qualitative information

In accordance with its capital management strategy, alongside the traditional true sale disposals, the bank also took part in a multi-originator assignment on non-performing exposures (mainly UTP and doubtful loans) to a closed-end investment fund with the units allotted to the transferring intermediaries.

During the year, the Bank completed 4 sale transactions for a nominal value of Euro 35.6 million to a closed-end investment funds against the investment in units of the same funds for a value of Euro 21.2 million.

As can be seen from the analysis of the quantitative information reported in the following paragraph, the structure of each transaction was configured in a way to allow Banco Desio to meet the requirements of IFRS 10 Consolidated Financial Statements regarding the absence of the conditions required for the exercise of control over the investment fund (and therefore exclusion of the units received from the scope of consolidation of the Banco Desio Group). Likewise, the conditions laid down by IFRS 9 for the substantial transfer of the rights to receive the cash flows from the individual assets sold and the risks and benefits associated with them are respected. This results in total deconsolidation of the loans transferred from an accounting point of view, also taking into consideration that no further guarantees have been granted, except for the usual ones on the existence of credit in favour of the Fund.

As part of the agreements involved in the Transaction ("side letters"), specific periodic reporting has been provided for to allow subscribers of the units adequate feedback on the assets underlying the net asset value of the closed-end Fund.

Quantitative information

Against this multi-originator transfer, due to the presence of sales of non-performing loans by a series of investors, Banco Desio holds:

1. 714,754.405 units of the Efesto Fund, corresponding to 0.3% of the total of the issued units;
2. 15.4873 units of the Back2Bonis Fund, corresponding to 1.7% of the total of the issued units;
3. 159 units of the Vir1 Fund, corresponding to 17.0% of the total of the issued units;
4. 103 units of the Vic2 Fund, corresponding to 19.7% of the total of the issued units.

Taking into account the participation in each fund with respect to the series of investors involved, the conditions required by IFRS 10 for the exercise of control over the related Fund are not met, whereas the bank met the conditions of IFRS 9 for the derecognition of the loans sold due to the changed characteristics of the asset recorded in the financial statements in place of the loans originated by the Bank (in terms of number, characteristics and nominal amount of the loans) and derecognised as a result of the transactions. To reach these conclusions, the following were assessed:

- the absence of elements indicating an ability to guide or control the variable yields of the funds, to which the Bank is exposed as holder of the units;
- the number of debtors, the segments in which they operate, the existence of guarantees, the timing of recoveries and the types of loan: analysis of these qualitative factors identifies considerable diversification, with many debtors having different characteristics that, furthermore, cause the funds to adopt different recovery strategies to those that the individual participating banks would have adopted;
- for the more significant contributions with respect to the total assets of the funds (Vir1 and Vic2), the conclusions of a quantitative test carried out by calculating the ratio of the variability of the cash flows from the loan portfolios contributed by each participating bank to the variability of the cash flows from the overall loan portfolio held by the fund.

Due to the pre-existing write-downs at 31 December 2019 on the loans sold, a gain was recorded from the sale of financial assets at amortised cost of approximately Euro 0.9 million.

The units of the fund subscribed are recognised under financial assets mandatorily valued at fair value; this fair value (level 3) was determined in application of the bank's policies for the measurement of this type of financial instrument, recognising a difference between the Transaction price and the amount determined by using valuation techniques immediately in the income statement (so-called "day one loss" totalling Euro 4.2 million. The same criterion will be applied to each update of the total net value of the fund's assets (the Net Asset Value or NAV communicated by the fund manager).

F. Credit risk measurement models

The Bank does not use internal portfolio models for measuring credit risk exposure.

SECTION 2 – MARKET RISK

2.1 Interest rate risk and price risk - Trading portfolio reported for supervisory purposes

Qualitative information

A. General aspects

Unexpected changes in market interest rates, in the presence of differences in maturities and in the timing of interest rate reviews for assets and liabilities, result in a change in the net interest flow and therefore in net interest income (or "interest margin"). In addition, these unexpected fluctuations expose the Bank to changes in the economic value of assets and liabilities.

The Bank 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 issued specific rules on controls.

Trading by the Bank's Finance Department is subject to operating limits as set out in the "Risk policy" and in internal regulations; in order to mitigate market risk, specific limits have been set for size, duration and Value at Risk (VaR). A specific reporting system is the tool used to provide adequate information to the organisational units involved.

The content and frequency of reports depend on the objectives assigned to each participant in the process. Together with the above controls, Banco also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the risk management function, which operates in complete autonomy from both the operational areas and the subsidiaries.

For the quantification of generic and specific risks, Banco has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum probable loss of a static portfolio with reference to a specific time horizon and at a specific confidence level under normal market conditions. This method has the advantage of allowing the aggregation of positions involving heterogeneous risk factors; it also provides a summary number which, being a monetary expression, is easily used by the organisational structure involved. The VaR model uses involves the Monte Carlo simulation technique which, after appropriate assumptions and correlations, estimates the value of the portfolio by calculating a number of possible revaluations and, given the vector of expected portfolio returns, determines the ideal percentile for distribution. The model uses a confidence interval of 95% with a period of 1 day. The application used to calculate the VaR is provided by Bloomberg.

The internal model is not used in the calculation of capital requirements for market risk.

Quantitative information

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives - EURO

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
A. Cash assets	**-**	**-**	**-**	**-**	**-**	**2,905**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	2,905	-	-
- with early redemption option	-	-	-	-	-	417	-	-
- other	-	-	-	-	-	2,488	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	109	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	109	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	83,943	4,542	49	-	-	-	-
+ Short positions	-	71,886	4,704	361	2,750	4,531	6,578	-

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives – Other currencies

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
A. 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								
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	-	71,291	4,450	49	-	-	-	-
+ Short positions	-	68,958	4,450	49	-	-	-	-

2. Regulatory trading book: distribution of exposures concerning equities and equity indices by the main countries where they are listed

Type of operation/equity index	Listed			Unlisted
	Italy	United States	Other	
A. Equity securities				
long positions	2,320		233	
short positions				
B. Unsettled transactions in equity securities				
long positions				
short positions				
C. Other equity security derivatives				
long positions	108		1	
short positions			4,390	
D. Equity index derivatives				
long positions				
short positions				

3 Trading portfolio for supervisory purposes: internal models and other methodologies for the analysis of sensitivity

Il monitoraggio effettuato fino al terzo trimestre sul portafoglio di negoziazione di vigilanza evidenzia una struttura con rischi di mercato contenuti. Il VaR simulazione Monte Carlo alla data del 31.12.2020 ammonta a 62,95 migliaia di euro, con una percentuale pari a 5,21% del portafoglio di negoziazione.

2.2 Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, management and measurement of interest rate risk and price risk

The measurement of interest rate risk is performed by the risk management function. This activity is carried out for the Bank's, which covers almost all of the banking book. The whole of the Bank's business associated with the transformation of maturities of assets and liabilities, portfolio securities, treasury operations and the respective hedging derivatives are monitored with Asset and Liability Management (ALM) methods using ERMAS5.

The static analysis currently performed allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income. In this context, the results of the banking book for financial statement purposes are also presented, excluding analysis of financial instruments in the trading portfolio for supervisory purposes.

The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of Gap Analysis. The changes in the economic value of assets and liabilities are analysed by applying a Sensitivity Analysis approach.

The analyses are carried out also considering non-parallel shifts in the yield curve and the application of behavioural models for demand items. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

Quantitative information

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities - Euro

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	6 to 12 months	1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**1,757,268**	**6,024,950**	**1,587,339**	**473,056**	**2,602,825**	**1,537,948**	**781,254**	**-**
1.1 Debt securities	-	654,503	1,313,486	94,090	622,589	660,053	68,654	-
- with early redemption option	-	228,909	3,019	4,091	38,709	47,854	1,488	-
- other	-	425,594	1,310,467	89,999	583,880	612,199	67,166	-
1.2 Loans to banks	117,773	836,893	-	-	-	341	-	-
1.3 Loans to customers	1,639,495	4,533,554	273,853	378,966	1,980,236	877,554	712,600	-
- current accounts	1,370,704	351,100	2,578	3,792	28,934	2,472	-	-
- other loans	268,791	4,182,454	271,275	375,174	1,951,302	875,082	712,600	-
- with early redemption option	80,177	3,535,640	221,149	371,740	1,924,692	863,058	712,455	-
- other	188,614	646,814	50,126	3,434	26,610	12,024	145	-
2. Cash liabilities	**9,510,534**	**359,854**	**245,466**	**138,655**	**3,291,349**	**532,617**	**34,469**	**-**
2.1 Due to customers	9,508,598	151,686	164,770	115,908	98,952	31,676	34,469	-
- current accounts	9,368,211	114,821	124,426	71,021	49,212	-	-	-
- other payables	140,387	36,865	40,344	44,887	49,740	31,676	34,469	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	140,387	36,865	40,344	44,887	49,740	31,676	34,469	-
2.2 Due to banks	1,375	-	-	-	2,396,583	-	-	-
- current accounts	1,375	-	-	-	-	-	-	-
- other payables	-	-	-	-	2,396,583	-	-	-
2.3 Debt securities	561	208,168	80,696	22,747	795,814	500,941	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	561	208,168	80,696	22,747	795,814	500,941	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	40	15	10	-	-	-
+ Short positions	-	65	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	7,952	13,396	23,967	138,693	65,527	38,822	-
+ Short positions	-	286,282	2,075	-	-	-	-	-
- Other derivatives								
+ Long positions	-	130,000	-	-	-	-	-	-
+ Short positions	-	-	-	50,000	80,000	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	60,477	-	-	-	-	-	-	-
+ Short positions	60,477	-	-	-	-	-	-	-

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities - Other currencies

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	6 to 12 months	1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	**37,462**	**62,300**	**2,280**	**26**	**206**	**258**	**103**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	36,405	41,604	1,567	-	-	-	-	-
1.3 Loans to customers	1,057	20,696	713	26	206	258	103	-
- current accounts	493	-	-	-	-	-	-	-
- other loans	564	20,696	713	26	206	258	103	-
- with early redemption option	-	-	26	26	206	258	103	-
- other	564	20,696	687	-	-	-	-	-
2. Cash liabilities	**88,312**	**14,970**	**1,569**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	88,312	685	1,569	-	-	-	-	-
- current accounts	88,312	685	1,569	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	14,285	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	-	14,285	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**-**	**6**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	3	-	-	-	-	-	-
+ Short positions	-	3	-	-	-	-	-	-

2. Banking book - internal models and other methodologies for the analysis of sensitivity

Banco's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value of own funds.

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date has, however, some peculiarities arising from the current market environment, which sees an increase in demand and short-term deposits; this has led to a physiological decrease in the average duration of liabilities, whereas assets have not undergone any substantial changes in terms of average duration.

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

Risk ratios: parallel shifts in the yield curve at 31.12.2020

	+100 bps	***-100 bps***
% of the expected margin	5.11%	-9.14%
% of net interest and other banking income	3.22%	-5.75%
% of shareholders' equity	0.84%	-1.51%

With regard to 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 at 31 December 2020 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 31.12.2020.

	+100 bps	***-100 bps***
% of the economic value	-10.74%	2.30%

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 exposure to exchange risk is marginal. Forex operations are managed by the 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 Bank's main objective is to manage exchange risk in a prudent manner, always taking into consideration the possibility of taking advantage of any market opportunities. Transactions that involve taking on exchange risk are managed through appropriate hedging strategies.

Quantitative information

1. Distribution by currency of denomination of assets, liabilities and derivatives

Captions	Currencies				
	US dollar	Pound Sterling	Franc	Yen	Other currencies
A. Financial assets	**86,935**	**6,298**	**4,267**	**2,070**	**3,074**
A.1 Debt securities					
A.2 Equity instruments	9				
A.3 Loans to banks	68,293	4,994	3,059	162	3,069
A.4 Loans to customers	18,633	1,304	1,208	1,908	5
A.5 Other financial assets					
B. Other assets	**252**	**298**	**197**	**48**	**185**
C. Financial liabilities	**89,063**	**6,268**	**4,362**	**2,130**	**3,026**
C.1 Due to banks	12,229			2,055	
C.2 Due to customers	76,834	6,268	4,362	75	3,026
C.3 Debt securities					
C.4 Other financial liabilities					
D. Other liabilities	**88**	**24**	**0**		
E. Financial derivatives					
- Options					
+ Long positions					
+ Short positions					
- Other derivatives					
+ Long positions	71,661	1,650	115	1,524	839
+ Short positions	69,509	1,653	38	1,463	793
Total assets	**158,848**	**8,246**	**4,579**	**3,642**	**4,098**
Total liabilities	**158,660**	**7,945**	**4,400**	**3,593**	**3,819**
Net balance (+/-)	**188**	**301**	**179**	**49**	**279**

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.

3. DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

3.1 Financial trading derivatives

A. Financial derivatives

A.1 Financial trading derivatives: period-end notional values

Underlying assets/Type of derivatives	Total 31.12.2020				Total 31.12.2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With compensation arrangements	Without compensation arrangements			With compensation arrangements	Without compensation arrangements	
1. Debt securities and interest rates	-	-	14,514	-	-	-	15,227	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	14,514	-	-	-	15,227	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	109	-	-	-	119	-
a) Options	-	-	109	-	-	-	119	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	142,278	-	-	-	279,939	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	142,278	-	-	-	279,939	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**156,901**	**-**	**-**	**-**	**295,285**	**-**

A.2 Financial trading derivatives: positive and negative gross fair value - breakdown by product

Type of derivatives	31.12.2020				31.12.2019			
	Over the counter				Over the counter			
	Central counterparties	Without central counterparties		Organised markets	Central counterparties	Without central counterparties		Organised markets
		With compensation arrangements	Without compensation arrangements			With compensation arrangements	Without compensation arrangements	
1. Positive fair value								
a) Options	-	-	109	-	-	-	119	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	647	-	-	-	1,350	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**756**	**-**	**-**	**-**	**1,469**	**-**
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	6,935	-	-	-	6,874	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	592	-	-	-	1,264	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**7,527**	**-**	**-**	**-**	**8,138**	**-**

A.3 OTC financial trading derivatives – notional values, positive and negative gross fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of compensation arrangements				
1) Debt securities and interest rates				
- notional value	X	14,514	-	-
- positive fair value	X	-	-	-
- negative fair value	X	6,935	-	-
2) Equities and equity indices				
- notional value	X	-	-	109
- positive fair value	X	-	-	109
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	71,642	57,870	12,766
- positive fair value	X	505	-	141
- negative fair value	X	132	211	249
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of compensation				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
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) Commodities	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial trading derivatives: notional values

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

3.2 Accounting hedges

Qualitative information

A. Fair value hedges

To date, the Bank did not take out any fair value hedges.

B. Cash flow hedges

The Bank uses cash flow hedges to reduce exposure to adverse changes in expected cash flows; the objective is to stabilise the cash flows of the hedged instrument with the flows of the hedging instrument.

D. Hedging instruments

For hedging, we use derivatives represented by interest rate swaps, but only to hedge interest rate risk.

E. Hedged items

To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges.

For hedging, we use derivatives represented by interest rate swaps, but only to hedge interest rate risk.

Banco Desio has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards. The method used for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

Quantitative information

A. Hedging financial derivatives

A.1 Hedging financial derivatives: period-end notional values

Underlying assets/Type of derivatives	Total 31.12.2020				Total 31.12.2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With compensation arrangements	Without compensation arrangements			With compensation arrangements	Without compensation arrangements	
1. Debt securities and interest rates	-	-	130,000	-	-	-	130,000	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	130,000	-	-	-	130,000	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**130,000**	**-**	**-**	**-**	**130,000**	**-**

A.2 Hedging financial derivatives: positive and negative gross fair value - breakdown by product

Type of derivatives	Positive and negative fair value								Change in amount used to determine hedge effectiveness	
	31.12.2020				31.12.2019					
	Over the counter				Over the counter					
	Central counterparties	Without central counterparties		Organised markets	Central counterparties	Without central counterparties		Organised markets	31.12.2020	31.12.2019
		With compensation arrangements	Without compensation arrangements			With compensation arrangements	Without compensation arrangements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	1,540	-	-	-	2,157	-	1,540	2,157
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**1,540**	**-**	**-**	**-**	**2,157**	**-**	**1,540**	**2,157**

A.3 OTC hedging financial derivatives - notional values, positive and negative gross fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of compensation				
1) Debt securities and interest rates				
- notional value	X	130,000	-	-
- positive fair value	X	-	-	-
- negative fair value	X	1,540	-	-
2) Equities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of compensation				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
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) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying/Residual life		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives linked to debt securities and interest rates		50,000	80,000	-	130,000
A.2 Financial derivatives linked to equities and stock indices		-	-	-	-
A.3 Financial derivatives linked to currencies and gold		-	-	-	-
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	**31.12.2020**	**50,000**	**80,000**	**-**	**130,000**
Total	**31.12.2019**	**-**	**130,000**	**-**	**130,000**

3.3 Other information on trading and hedging instruments

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other parties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	144,514	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	8,475	-	-
2) Equities and equity indices				
- notional value	-	-	-	109
- net positive fair value	-	-	-	109
- net negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	71,642	57,870	12,766
- net positive fair value	-	505	-	141
- net negative fair value	-	132	211	249
4) Commodities				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchase of protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
2) Sale of protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

SECTION 4 - 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 verifying the Group's ability to meet liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market.

The monitoring of and periodic reporting on liquidity risk is carried out by the Risk Management Office in compliance with the threshold of tolerance for this kind of risk as determined by the Policy for the management of liquidity risk. Treasury activities consist of procuring and allocating available liquidity through the interbank market, open market operations and transactions in repurchase agreements and derivatives.

The management of operational liquidity has the objective of ensuring the Group is capable of meeting expected and unexpected payment commitments in the context of the "normal course of business" (going concern) over a short term time horizon that does not exceed 3 months. The scope of reference of the daily report on operating liquidity refers to items with a high level of volatility and a considerable impact on the monetary base. The monitoring and control of operating limits is carried out through the acquisition of information resulting from collection and payment transactions, management of accounts for services and trading in the financial instruments held in proprietary portfolios.

The counterbalancing capacity model allows us to integrate the report with all of the free assets that can readily be used, both to be eligible for refinancing with the ECB and to be sold. Next to the application of haircuts determined by the ECB for eligible securities and A.Ba.Co. loans, appropriate discount factors are prepared (divided by type of security, rating and currency), also for all securities not eligible, but still considered marketable if appropriately positioned in time buckets.

Further support for the management of liquidity risk is derived from the monitoring of structural liquidity with the primary objective of maintaining an adequate dynamic relationship between assets and liabilities in the medium to long term.

Operations are measured using Asset and Liability Management (ALM) methods through the ERMAS5 application: by developing all of the cash flows generated by operations, it allows us to evaluate and manage in the various time periods any liquidity requirement that the Bank may encounter due to imbalances between inflows and outflows.

The analysis of the overall structural liquidity is developed on a monthly basis using the technique, i.e. showing imbalances by date of liquidation of capital flows over a set time horizon.

In order to evaluate the impact of the negative events on the risk exposure, stress tests are performed at consolidation level. In particular, the events considered are:

- outflow from overdrafts repayable on demand considered non core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) and "on demand" due to the increase in impaired loans;
- decrease in value of the owned securities portfolio (Held to collect and sell "HTCS" and Held to collect "HTC");
- repurchase of issued Bonds;
- use of available facilities for revocable lines of credit (call risk).

On completion of the analysis, three types of scenarios are created:

1. Idiosyncratic, defined as a loss of confidence by the Group's market;

2. Market, defined as a loss arising from exogenous events and from the impact of a general economic downturn;
3. Combined, being a combination of scenarios 1 and 2.

The time horizon for the simulation of all scenarios is 1 month, a period in which the Bank 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

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	1 to 5 years	Over 5 years	Unspecified duration
A. Cash assets	**1,901,878**	**32,495**	**105,221**	**146,447**	**654,362**	**708,349**	**788,381**	**6,010,436**	**3,805,356**	**839,871**
A.1 Government securities	-	-	1,379	-	11,122	299,887	85,361	1,615,921	599,790	-
A.2 Other debt securities	37	-	137	387	22,208	11,579	16,291	333,625	408,879	2,950
A.3 Mutual funds	49,594	-	-	-	-	-	-	-	-	-
A.4 Loans	1,852,247	32,495	103,705	146,060	621,032	396,883	686,729	4,060,890	2,796,687	836,921
- Banks	117,862	-	-	-	-	-	-	-	342	836,921
- Customers	1,734,385	32,495	103,705	146,060	621,032	396,883	686,729	4,060,890	2,796,345	-
B. Cash liabilities	**9,576,354**	**7,162**	**7,764**	**30,040**	**178,941**	**249,582**	**197,152**	**3,374,407**	**568,774**	**-**
B.1 Deposits and current accounts	9,513,129	5,755	7,706	24,895	107,777	160,984	109,756	56,942	-	-
- Banks	1,375	-	-	-	-	-	-	-	-	-
- Customers	9,511,754	5,755	7,706	24,895	107,777	160,984	109,756	56,942	-	-
B.2 Debt securities	545	1,407	58	5,127	70,828	83,469	79,775	875,738	502,693	-
B.3 Other liabilities	62,680	-	-	18	336	5,129	7,621	2,441,727	66,081	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	3,346	9,821	52,264	3,998	4,582	64	10	-	-
- Short positions	-	5,736	9,813	52,239	3,988	4,536	49	109	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	6,935	-	-	112	169	297	599	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	126	-	-	-	-	14	57	15,063	45,217	-
- Short positions	60,477	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

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

OTHER CURRENCIES

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
A. Cash assets	**37,494**	**35,737**	**12,605**	**8,886**	**5,141**	**2,295**	**32**	**210**	**380**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	12	-
A.3 Mutual funds	9	-	-	-	-	-	-	-	-	-
A.4 Loans	37,485	35,737	12,605	8,886	5,141	2,295	32	210	368	-
- Banks	36,433	35,064	4,077	2,500	-	1,569	-	-	-	-
- Customers	1,052	673	8,528	6,386	5,141	726	32	210	368	-
B. Cash liabilities	**88,312**	**14,287**	**-**	**-**	**686**	**1,569**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	88,312	14,287	-	-	686	1,569	-	-	-	-
- Banks	-	14,287	-	-	-	-	-	-	-	-
- Customers	88,312	-	-	-	686	1,569	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	5,593	9,767	52,059	3,872	4,450	49	-	-	-
- Short positions	-	3,259	9,767	52,059	3,872	4,450	49	-	-	-
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 Commitments to disburse funds										
- Long positions	-	3	-	-	-	-	-	-	-	-
- Short positions	-	3	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISK

Qualitative information

A. General aspects, management and measurement of operational risk

Operational risk is the risk of incurring losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events, inclusive of legal risk (see EU regulation 575/2013).

The Bank uses the above definition of operational risk within the operational risk management model that has been approved and embodied within corporate policy.

In this regard, a specific operational risk management macro-process (ORM framework) has been designed that consists of the following phases:

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

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

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

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

IT security and data protection are priorities for Banco, which attaches central importance to the various risk management strategies. The measures adopt comply consistently with the current regulations governing privacy and security, as well as with the principal sector standards, in order to ensure that the IT systems are protected from events that might have adverse impacts on the Group and the rights of data subjects.
The management, control and measurement of IT risks, including cyber risk, are integral parts of the broader system of internal control and risk management adopted by the Bank, as the parent of the Banco Desio Group.

With reference to the principal organisational and operational controls currently in place to ensure data security and protection, Banco applies:

- ✓ an ICT Risk Assessment process aimed at identifying and measuring exposure to IT risk. This process includes assessment of the risks deriving from the IT system provided to the Bank on a full outsourcing basis by Cedacri S.p.A.; a system of key risk indicators that monitor constantly exposures to the principal data security threats, including: events deriving from the violation of business rules and practices in the area of information security (i.e. IT fraud, Internet attacks, malfunctions and service outages), attempted fraud via virtual banking channels and potential malware attached to e-mail or web interactions;

- ✓ a process for assessing third parties and the technological and organisational controls established by them to ensure *inter alia* IT security and operational continuity in the context of the services provided, both in the contracting phase and throughout the entire working relationship;
- ✓ a DPIA (Data Protection Impact Assessment) that considers the need for and proportionality of the processing of confidential data, considers and manages any risks for the rights and freedoms of the data subjects concerned, and identifies and implements mitigation measures for any weaknesses found in the existence and effectiveness of adequate physical, organisational and technological controls;
- ✓ internal training on the data protection regulations and on the methods for processing and protecting data;
- ✓ pro-active anti-fraud procedures that address the dynamic changes in the techniques employed in IT attacks;
- ✓ procedures for the management of security incidents;
- ✓ threat alert systems, partly by specialist recourse to Security Operation Centres. In addition, a service has been acquired recently that includes an advanced IT application complete with intrusion detection system, as well as a component that uses machine learning techniques to group network devices into similar clusters, in terms of the behaviour, in order to help identify anomalies and generate alerts;
- ✓ daily monitoring of the performance of ICT security that uses a rating system (external assessment by a specialist operator with a global footprint).

With reference to the principal lines of development, Banco is working to strengthen the first level controls over IT security, via the development of a system of KPIs capable of monitoring constantly the following areas: positioning of the Group with regard to cyber security, effectiveness of fraud detection systems, exposure to vulnerabilities and management of incidents.

As regards the management of risks impacting the Group's business continuity, a Business continuity plan has been revised and integrated during the year, with a view to process: measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), new branches have identify (to replace the Bologna branches) as Business Continuity site as an alternative for personnel who cannot operate remotely and for process which still need materiality.

For risk management of criminal offences pursuant to Legislative Decree 231/2001 "Regulation of the administrative liability of legal entities, companies and associations with or without legal personality", Group companies have adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned to specific internal bodies.

As regards legal risk, the various corporate functions operate with standard contracts that have previously been vetted by the appropriate business structure. Accordingly, it should be noted that most of the ongoing legal disputes at the year end relate to disputes concerning compensation for damages, alleged usury, compound interest charges and early repayment.

Risk related to outstanding legal disputes

Banco Desio, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions. The following table summarises the outstanding disputes at the end of the period, together with the related provisions:

	Number	**Claim**	**Provisions**
Claw-back suits	13	€ 11.810 million	€ 0.712 million
Other lawsuits	544	€ 109.567 million	€ 9.295 million

Subsection "1.5. Operational risk" of "Section 2 – Risks of the consolidation for regulatory purposes" contained in Part E - Information on risks and related hedging policy" of the consolidated explanatory notes describes the main disputes (with claims of more than million euro) outstanding at the reporting date.

Action for damages against former corporate officers of Banca Popolare di Spoleto S.p.A.

For completeness, it should be noted that, under article 72, paragraph 5, of the CBA, after approval has been obtained from the Bank of Italy, the Extraordinary Commissioners of in charge of special administration of the subsidiary Banca Popolare di Spoleto, at the end of their mandate, had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager. On 7 April 2016, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto resolved, among other things, confirmation of the action of responsibility already taken by the Extraordinary Commissioners and its extension against the former Statutory Auditors. It should be noted that this action contains a request for the defendants to be sentenced to pay damages of approximately Euro 30.0 million, broken down according to their respective responsibilities. The proceedings relating to admission of the evidence and the case brought against the former auditors have been combined. The Judge invited the parties to file a list of the documents that they asked to exhibit. The case is under investigation and has been postponed to 6 May 2021 also pending verification of a possible out-of-court settlement.

Quantitative information

The number of detrimental events recorded by the Group at 31 December 2020 comes to 1,288. The result of the process of collecting adverse events is summarised in the table below:

Event type	% Events	% gross loss of total	% net loss of total	% Recoveries
INTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination), involving at least one member of the bank	0.6%	1.9%	1.9%	0.0%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	2.8%	4.8%	4.2%	14.4%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	0.6%	4.5%	4.5%	0.0%
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)	7.7%	16.3%	16.4%	0.0%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	0.9%	54.2%	54.6%	0.0%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.5%	0.2%	0.2%	0.0%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	86.8%	18.2%	18.3%	0.0%
TOTAL Banco Desio e della Brianza	**100.0%**	**100.0%**	**100.0%**	**0.7%**

The gross operating loss comes to Euro 5,465 thousand, for which provisions were made during the period of Euro 1,486 thousand; recoveries were recorded for Euro 38 thousand; so the net operating loss amounted to Euro 5.427 thousand.

PART F - INFORMATION ON SHAREHOLDERS' EQUITY

Section 1 – Shareholders' equity

A. Qualitative information

The Board of Directors has always paid a great deal of attention to the Bank's capital. It is well aware of its importance in inspiring confidence in external providers of finance, as it can be used to absorb losses, and of its importance for purely operational and business development purposes. A good level of capitalisation allows us to address the question of business development with the necessary degree of autonomy and to preserve the stability of the Bank.

The concept of book equity used by Banco Desio is given by the sum of the following liability captions: share capital, valuation reserves, other reserves, share premium reserve and net profit (loss) for the period.

The policy of the Board of Directors is thus to assign a considerable priority to capital, so as to use it in the best way possible to expand the Bank's business and to maximise the return for shareholders, while maintaining a prudent risk profile. As regards this last aspect, it should be borne in mind that the main component of mandatory minimum capital requirements relates to credit risk associated with a diversified loan portfolio focused on the core sector of local businesses and households.

Shareholders' equity at 31 December 2020, inclusive of net profit for the year, increased to Euro 987.0 million compared with Euro 956.9 million at the 2019 year end.

B. Quantitative information

B.1 Shareholders' equity: breakdown

Captions/Amounts	**31.12.2020**	**31.12.2019**
1. Share capital	70,693	70,693
2.Share premium reserve	16,145	16,145
3.Reserves	810,200	779,762
- revenue reserves	798,518	768,080
a) legal reserve	102,800	98,312
b) extraordinary reserve	592,375	566,386
d) other	103,343	103,382
- other	11,682	11,682
6. Valuation reserves:	66,113	45,384
- Equity instruments designated at fair value through other comprehensive	46,463	25,092
- Financial assets at fair value through other comprehensive income	1,180	1,925
- Property, plant and equipment	161	161
- Cash-flow hedges	(933)	(1,355)
- Actuarial gains (losses) on defined-benefit pension plans	(3,824)	(3,505)
- Special revaluation laws	23,066	23,066
7. Net profit (loss) for the period	23,895	44,886
Total	**987,046**	**956,870**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amounts	31.12.2020		31.12.2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,275	95	1,925	
2 Equity instruments	47,023	560	25,448	356
3. Loans				
Total	**48,298**	**655**	**27,373**	**356**

B.3 Valuation reserves of financial assets designated at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance	**1,925**	**25,092**	
2. Positive changes	**1,278**	**21,575**	
2.1 Fair value increases	1,163	21,575	
2.2 Write-downs for credit risk	111		
2.3 Reversal of negative reserves on disposal to profit or loss	4		
2.4 Transfers to other components of shareholders' equity (equity instruments)			
2.5 Other changes			
3. Negative changes	**(2,023)**	**(204)**	
3.1 Fair value decreases	(100)		
3.2 Write-backs for credit risk	(238)		
3.3 Reversal to income statement from positive reserve: from disposals	(1,638)		
2.4 Transfers to other components of shareholders' equity (equity instruments)			
3.4 Other changes	(47)	(204)	
4. Closing balance	**1,180**	**44,463**	

B.4 Valuation reserves related to defined-benefit pension plans: changes of the year

Valuation reserves related to defined-benefit pension plans generated a positive effect of Euro 319 thousand (net of the related tax effect of 121 thousand euro) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.

Section 2 – Own funds and capital adequacy ratios

As required by the 6th update of Circular 262 "Bank financial statements: schedules and rules for preparation", reference should be made to the contents of the public disclosure ("Third Pillar") provided by the Bank at consolidated level

PART H - TRANSACTIONS WITH RELATED PARTIES

1 - Information on the remuneration of Managers with strategic responsibilities

For information on the remuneration paid to directors and key management personnel, please refer to the "Report on the Group's Remuneration Policies" at 31 December 2020 prepared in accordance with art. 123-ter CFA, published on the website www.bancodesio.it.

2 - Related party disclosures

The internal procedure ("Internal Regulations") 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 Banco di Desio e della Brianza or the Banking Group pursuant to art. 53 TUB, is explained in the Annual Report on Corporate Governance at 31 December 2020. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents/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[7];

b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Bank;

c) on changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Bank

there have been no transactions worth mentioning.

* * *

Transactions with related parties are generally entered into on an arm's length basis and are, in any case, in the Group's interest. Comparison with the equivalent market or standard conditions is mentioned in the periodic reporting of transactions to the Corporate Bodies.

In this context, there are no transactions outstanding at 31 December 2020 that present particular risk profiles compared with those considered part of the normal course of banking business and related financial activity or that present profiles of atypical/unusual features worthy of note.

The following paragraphs summarise - in a prudential logic of unified management of potential conflicts of interest - existing relationships with the Parent company, subsidiary companies and other related parties pursuant to art. 53 CBA and/or art. 2391 of the Italian Civil Code, included entities treated as per art 136

[7] With respect to the level of significance of the transactions with related parties, the Internal Regulations refer to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised for Banco Desio at the date of adoption of the Procedure)

of CBA also in compliance with Italian laws), highlighting, in particular, the balance of current accounts and of the securities portfolio at the end of the year.

I - Parent company

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. amounted to Euro 175 million, of which Euro 173.4 million, relating to the securities portfolio.

It should be recalled that at the end of 2018, a five-year unsecured "bullet" loan was entered into with this Company for a total of 5 million to replace a similar credit line at another bank which was about to expire. This transaction falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers, carried out at market conditions (also on the list of conditions in force for Related Parties according to the specific framework resolution) and included in ordinary credit and loans activity.

The service agreement has also been renewed with the same Company governing the reciprocal rights and obligations inherent to the accounting and reporting activities delegated to Banco di Desio e della Brianza S.p.A. for regulatory consolidation purposes pursuant to art. 11 and 99 of EU Regulation no. 575/2013 (CRR). The fees paid to the latter are of a minor amount and have in any case been determined with the same methodology as similar agreements with subsidiaries belonging to the same banking group. It should be noted that this transaction also falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers referred to in the following paragraph "Transactions with Officers and parties related to them".

II – Subsidiaries

Set out below is a summary of significant transactions with subsidiaries approved by the Board of Directors during the year, in compliance with the above Procedure:

Counterparty	Nature of Transaction	Amounts/financial conditions (Euro)
Fides	Review of economic conditions (effective 1 January 2020)	Conditions detailed in the resolution
Desio OBG	Subordinated unsecured loan	2,000,000,000
Fides	Overdraft facility	Overall increase from Euro 785,000,000 to Euro 835,000,000
Fides	Overdraft facility	Overall increase from Euro 835,000,000 to Euro 865,000,000
Fides	Amendment of the Service Agreement between Banco di Desio e della Brianza S.p.A. and Fides S.p.A.	2021 fee in favour of the Parent Company Euro 152,912.66 (not subject to VAT following the establishment of the VAT Group below)
Desio OBG Srl	Service Agreement between Banco di Desio e della Brianza SpA and Desio OBG Srl	Amount for 2021 in favour of the Parent Company Euro 7,065.54 (service not subject to VAT following the establishment of the VAT Group, as mentioned above)

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 - Transactions with Officers and parties related to them

As for the granting of credit lines approved in 2020 pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of the Bank and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 37 positions existing at 31 December 2020 comes to some Euro 14.3 million and the related utilisations amount in total to some Euro 6.5 million.

As regards funding relationships held by Banco Desio directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2020 amounted to Euro 114.1 million in amounts due to customers (including approximately Euro 100.0 million in securities portfolios).

The above computation excludes transactions and balances with the parent company and with subsidiaries as per paragraphs above.

Details on to the lending and funding relationships referred to in this paragraph are shown in the following table:

	Balances at 31.12.2020 (in €/million)
Lending transactions:	
Amount granted-	14.3
Amount drawn down	6.5
Funding transactions:	
C/c and d/r amount (a)	14.1
Amount of securities portfolios (b)	100.0
Total (a+b)	114.1

In accordance with Consob Resolution no. 15519 of 27 July 2006, it should be noted that the overall incidence of the balances shown in the previous paragraphs, in terms of equity, financial and economic results, is more or less insignificant.

It should also be noted that with the resolution of the Board of Directors of 10 September 2020, the economic conditions relating to current accounts expenses applicable to Company Representatives were updated.

PART M – INFORMATION ON LEASES

SECTION 1 - LESSEE

Qualitative information

As required by IFRS 16 "Leases", for the contracts that confer the right to control the use of an identified asset (see IFRS 16.B9 and paragraphs B13-B20) for a certain period of time, over the period of use, Banco Desio has assessed whether both of the following requirements have been satisfied:

a) The right to obtain substantially all the economic benefits from use of the identified asset, as described in paragraphs B21-B23;

b) The right to direct the use of the identified asset, as described in paragraphs B24-B30.

Consequently, when a lease contract is identified and the asset is made available for use by the lessee, the Bank recognises:

- a liability consisting of payments due for leases (i.e. Lease Liability). This liability is initially recognised at the present value of future payments due for the lease discounted at the interest rate implicit in the lease or, if this rate cannot easily be determined, at the lessee's incremental borrowing rate;
- an asset consisting of the right of use (i.e. RoU Asset). This asset is initially recognised as a sum of the lease liabilities, initial direct costs, payments made on the date or before the effective date of the contract, net of any lease incentives received, and dismantling costs.

These balance sheet amounts are recognised separately for each type of asset identified, comprising solely property and cars in the case of Banco Desio.

Banco has adopted some of the practical expedients and recognition exemptions envisaged in IFRS 16 "Leases":

- contracts with an underlying asset value of less than or equal to Euro 5,000 at the FTA date ("low-value assets") were excluded;
- contracts with an overall lease term of less than or equal to 12 months ("short-term assets") were excluded;
- the initial direct costs of measuring the RoU Asset on the FTA date were excluded.

Estimated dismantling costs for the purpose of determining the RoU Asset have not been taken into consideration, as this type of cost should only be considered on the effective date of the lease contract.

With reference to the lease term, the Banco Desio has decided to consider only the first renewal period as reasonably certain for new contracts, unless there are contractual clauses that prohibit it, or facts or circumstances that might lead to consider additional renewals or determine the end of the lease agreement. For contracts in existence at the FTA date, a renewal period is added if the contract is in the first contractual period (i.e. the first renewal period has not yet taken place), or if the contract is in a renewal period following the first one, but the deadline for communication of the cancellation has already expired.

As regards the rate for discounting future lease payments, Banco Desio decided to use as an incremental borrowing rate a single interest rate curve relating to Banco di Desio e della Brianza, also considering a floor of 0% for due dates that have negative interest rates. This curve is based on a risk-free rate (i.e. market interest rate) on the financing spread (i.e. the lessee's credit risk) and is amortising. Typically, the lease contract does not provide for a single payment on the due date, but rather a periodic payment of instalments over the entire duration of the contract, which involves a declining trend for the residual debt.

With reference to 2020, Banco Desio has not applied the practical expedient envisaged in Regulation (EU) 1434/2020. This measure, linked to Covid-19, provides optional, temporary operational support to lessees that benefit from concessions with regard to their instalment payments. The renegotiations carried out during the reference period do not fall within the scope of application of this amendment.

Quantitative information

The leasing assets and liabilities recognised at 31 December 2020 comprise:

- a "RoU Asset" of Euro 49.8 million for properties and Euro 0.9 million for cars;
- a "Lease Liability" of Euro 50.5 million for properties and Euro 0.9 million for cars.

The charges recognised during the year in relation to lease contracts totalled Euro 11,230 thousand, comprising Euro 1,021 thousand classified as "Interest expense" and Euro 10,209 thousand as "Net adjustments to property, plant and equipment", being the RoU depreciation charge.

In particular, the depreciation recognised in the income statement refers:

- Euro 407 thousand to cars,
- Euro 9,802 thousand to property.

Overall costs for the year referring to lease contracts and not falling within the application of IFRS 16 (low-value assets and short-term assets) amount to Euro 1,078 thousand.

With reference to the "Lease liability" recognised at 31 December 2020, equal to Euro 51,438 thousand, a breakdown by residual maturity is shown below:

- Euro 9,611 thousand within 12 months;
- Euro 16,032 thousand from 1 to 3 years;
- Euro 11,011 thousand from 3 to 5 years;
- Euro 14,784 thousand over 5 years.

SECTION 2 – LESSOR

Qualitative information

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.

Quantitative information

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

	31.12.2020				31.12.2019			
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	189,390	25,854	163,536	40,825	187,869	28,562	159,307	42,539
- of which leaseback agreements	12,569	2,272	10,297	3,590	13,609	2,530	11,079	3,605
Total	**189,390**	**25,854**	**163,536**	**40,825**	**187,869**	**28,562**	**159,307**	**42,539**

	31.12.2020			31.12.2019		
Falling due	Gross investment	Deferred profit	Net investment	Gross investment	Deferred profit	Net investment
- Within one year	3,974	87	3,887	2,873	51	2,822
- Between one and two years	12,074	671	11,403	9,373	384	8,989
- Between two and three years	11,143	787	10,356	20,602	1,654	18,948
- Between three and four years	12,258	888	11,370	7,557	709	6,848
- Between four and five years	23,197	1,596	21,601	9,051	676	8,375
- Beyond five years	126,744	21,825	104,919	138,413	25,088	113,325
Total	**189,390**	**25,854**	**163,536**	**187,869**	**28,562**	**159,307**

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

Total interest recognised as income in the year is included in the caption "Loans to customers – loans" and amounts to Euro 3,408 thousand (Euro 2,769 thousand last year); of this, Euro 2,389 thousand relates to index-linked contracts, of which Euro 154 thousand relates to leaseback agreements (in 2019 Euro 2,590 thousand related to index-linked contracts, of which Euro 160 thousand related to leaseback agreements).

Financial income pertaining to subsequent years amounts to Euro 25,854 thousand, of which Euro 2,272 thousand relates to leaseback agreements (last year Euro 28,562 thousand and Euro 2,530 thousand, respectively).

Certification pursuant to art. 154-bis of Legislative Decree 58/98

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 154 BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned, Alessandro Decio, Chief Executive Officer, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 bis of Legislative Decree 58 of 24 February 1998:
   - the adequacy of the administrative and accounting procedures for the preparation of the financial statements with respect to the Company and their
   - effective application during 2020.
2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the financial statements at 31 December 2020 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.
3. We also certify that:

   3.1 the financial statements:

   a. have been prepared in accordance with the applicable IAS/IFRS recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002;

   b. agree with the books of account and accounting records;

   c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer .

   3.2 the Report on Operations includes a reliable analysis of the results of operations and of the situation of the issuer, together with a description of the principal risks and uncertainties faced by it.

Desio, 11 February 2021

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

Auditors' report

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Banco di Desio e della Brianza S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Banco di Desio e della Brianza S.p.A. (the "Bank"), which comprise the balance sheet as at December 31, 2020, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement for the year then ended and the explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

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Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT 03049560166

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Classification and valuation of non-performing loans to customers measured at amortised cost classified as doubtful loans and unlikely to pay	
Description of the key audit matter	As indicated in the Explanatory Notes *Part B – Information on the balance sheet* and *Part E – Information on risks and related hedging policy*, as at December 31, 2020, non-performing loans to customers measured at amortised cost of Banco di Desio e della Brianza S.p.A. amount to a gross book value of Euro 575 million (Euro 617 million at the end of 2019), while allowances for impairment amount to Euro 274 million (Euro 282 million at the end of 2019); the coverage ratio is 47.6% (45.8% at the end of 2019). In particular, the above-mentioned non-performing loans include net doubtful loans for Euro 117 million, while gross value amounts to Euro 299 million, with a coverage ratio of 61.0% (61.4% at the end of 2019) and net unlikely to pay loans for Euro 184 million, while gross value amounts to Euro 276 million, with a coverage ratio of 33.1% (29.9% at the end of 2019). In order to classify loans into homogeneous risk categories, the Bank refers to applicable sector legislation integrated with internal regulations that define rules in terms of loan classification and transfer into non-performing loans categories. As better specified in the Explanatory Notes *Part A - Accounting policies* and *Part E – Information on risks and related hedging policy*, non-performing loans valuation takes place on an analytical basis and considers the estimated recoverable amount, the expected collection period and collaterals, where in place, according to methodologies set out in the Bank's credit policies for each category into which loans are classified. In consideration of the complexity of the estimation process adopted by the Directors, that involves classification activity into homogeneous risk categories, as well as the significance of judgment inherent in determining the estimate of the recoverable amount of non-performing loans classified as doubtful loans and unlikely to pay, we have considered that the classification of such loans and the related impairment process represent a key audit matter for the audit of the financial statements of Banco di Desio e della Brianza S.p.A..
Audit procedures performed	As part of our audit procedures, we have preliminarily acquired information about the Bank lending process which includes the understanding of the organisational and procedural controls implemented by the Bank in order to guarantee the monitoring of loan quality and the classification and valuation in accordance with the applicable accounting standards and sector policies. We have also verified the operating effectiveness of key controls implemented by the corporate structure. For this purpose, we have also made use of IT experts belonging to the Deloitte network to verify the proper data recording and management.

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As part of this process we have also understood methods and assumptions adopted by the Bank related to non-performing loans recoverable amount according to applicable accounting standards and sector policies.

As a result of these activities, audit procedures have been defined to test data used to calculate the recoverable amount and verify the estimation process. In such context, our audit procedures included, among other, the following:

- verification, on a sample basis, of the appropriateness of the recoverable amount determined by the Bank through the recomputing of the amounts and analysis of the reasonableness of the criteria related to classification and valuation, financial hypothesis and assumptions used by the Bank;

- comparative analysis of historical series and for each class of non-performing loans, through the calculation of coverage ratios and the comparison of such ratios with comparable information relating to previous periods and with data derived from the market;

- analysis of the events occurred after the reporting period in order to make considerations regarding the valuations that have been made.

Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance with accounting standards and applicable laws, as well as with directives issued by Supervisory Authorities following the Covid-19 pandemic emergency.

Classification and valuation of performing loans to customers measured at amortised cost	
Description of the key audit matter	As indicated in the Explanatory Notes *Part B – Information on the balance sheet* and *Part E – Information on risks and related hedging policy*, as at December 31, 2020, performing loans to customers measured at amortised cost of Banco di Desio e della Brianza S.p.A. amount to a gross book value of Euro 10,191 million (Euro 9,224 million at the end of 2019), while allowances for impairment amount to Euro 74 million (Euro 45 million at the end of 2019), with a coverage ratio of 0.72% (0.49% at the end of 2019). As better specified in the Explanatory Notes *Part A - Accounting policies* and *Part E – Information on risks and related hedging policy*, performing loans are grouped into homogeneous risk classes and measured collectively, also considering the current environment of macroeconomic uncertainty resulting from the pandemic emergency and the effects of legislative and sector moratorium measures issued in the current year, as well as other supportive measures introduced by the Government. In consideration of the significance of the amount of performing loans to customers measured at amortised cost in the financial statements, of the complexity of the estimation process performed by the Board of Directors, also based on an articulated classification into homogeneous risk categories,

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and of facts associated with the current context of pandemic emergency that made particularly critical and exposed to further elements of subjectivity the identification of credit exposures with significant increase of credit risk and the resulting classification into the stages required by IFRS 9 accounting standard, we consider that the classification of performing loans to customer measured at amortised cost and the related impairment process represent a key audit matter for the audit of the financial statements of Banco di Desio e della Brianza S.p.A..

Audit procedures performed	As part of the audit procedures, we have preliminarily acquired information about the Bank lending process which includes the understanding of the organisational and procedural controls implemented by the Bank in order to guarantee the monitoring of loan quality and the proper classification and valuation according to applicable accounting standards and sector policies. We have also verified the operating effectiveness of key controls implemented by the corporate structure. For this purpose, we have also made use of IT experts belonging to the Deloitte network to verify the proper data recording and management. As a result of these activities, we have designed audit procedures to test data used to classify performing loans measured at amortised cost into homogeneous risk classes as well as the impairment process. In such context, our audit procedures included, among other, the following: - examination of the classification criteria adopted by the Bank in order to group performing loans to customers measured at amortised cost into homogeneous risk categories; - examination of the valuation models and the assumptions adopted by the Bank, including updates thereof, also taking into account the complexity and uncertainty connected with the current macroeconomic context resulting from the pandemic emergency; - verification, on a sample of performing loans measured at amortised cost, of their proper classification and valuation; - comparative analysis of historical series, through the calculation of coverage ratios and the comparison of such ratios with comparable information relating to previous periods and with data derived from the market; - analysis of the management overlay implemented by the Bank with the aim of identifying credit exposures with significant increase of credit risk, with particular regards to credit exposures subjected to moratorium measures and/or belonging to sectors most affected by the pandemic emergency, as well as the verification of its reasonableness and its correct application;

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- analysis of the events occurred after the reporting period in order to make considerations regarding the classification and valuation that have been made.

Finally, we analysed the completeness and the compliance of financial statements disclosure in accordance with accounting standards and applicable laws, as well as recent directives issued by Supervisory Authorities following the Covid-19 pandemic emergency.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Banco di Desio e della Brianza S.p.A. has appointed us on April 26, 2012 as auditors of the Bank and the Group for the years from December 31, 2012 to 31 December 31, 2020.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Banco di Desio e della Brianza S.p.A. as at December 31, 2020, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Banco di Desio e della Brianza S.p.A. as at December 31, 2020 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Banco di Desio e della Brianza S.p.A. as at December 31, 2020 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Marco De Ponti
Partner

Milan, Italy
March 10, 2021

This report has been translated into the English language solely for the convenience of international readers.

Report of the Board of Statutory Auditors

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF BANCO DI DESIO E DELLA BRIANZA S.P.A.

FOR THE YEAR ENDED 31 DECEMBER 2020

Shareholders,

In accordance with art. 153 of Legislative Decree 58 of 24 February 1998, we submit this report to you on the supervision and inspections that we performed during the year, that ended with the financial statements at 31/12/2020 and which will be presented together with the Directors' Report on Operations and supporting documentation where the performance, financial and economic data and results of Banco di Desio della Brianza S.p.A. (Banco or the Bank) and its subsidiaries are explained in sufficient detail.

This past year was significantly affected by the emergency linked to the Covid-19 pandemic (the "Covid emergency") and, accordingly, the activities of the Board of Statutory Auditors included in-depth consideration of its effects.

The Board of Statutory Auditors in office at the date of this Report was appointed by the Shareholders' Meeting on 23 April 2020 and will terminate its mandate with the Shareholders' Meeting for the approval of the financial statements at 31 December 2022.

As regards the audit of the books of accounts and financial statements, we would remind you that this task was carried out by the Independent Auditors, Deloitte & Touche S.p.A. ("Deloitte" or "Independent Auditors"), who were appointed by the Shareholders' Meeting of 26 April 2012 as per Legislative Decree 58/1998 and Legislative Decree 39/2010 for the years 2012 to 2020, based on a reasoned proposal made by the Board of Statutory Auditors. This assignment will therefore expire with the separate and consolidated financial statements at 31 December 2020.

The Board of Statutory Auditors, acting as the Internal Control and Audit Committee pursuant to art. 19 paragraph 2, letter a) of Legislative Decree 39/2010 ("Committee"), deemed it appropriate to bring forward the start of the selection procedure for the audit assignment for the period 2021-2029, in consideration of the prohibition provided by art. 5 of the European Regulation 537/2014 which, to protect the independence of auditors, requires that they refrain from providing certain types of services other than the audit of accounts already from the year immediately preceding the first year of audit (the so-called "cooling-in period"). In view of the above, it was deemed appropriate to foresee that the same Shareholders' Meeting called for 23 April 2020 will also be called upon to resolve on the choice of the new independent auditors of Banco di Desio e della Brianza S.p.A., as well as to approve the audit fee and related adjustment criteria, based on a specific recommendation of the Committee. The Ordinary Shareholders' Meeting resolved to confer the independent audit mandate for the period 2021-2029 to KPMG S.p.A.

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The Board of Statutory Auditors performed its institutional duties in accordance with the provisions of the Italian Civil Code, Legislative Decrees 385/1993 (CBA), 58/1998 (CFA) and 39/2010, with the statutory regulations and with those issued by the Public Authorities that perform supervisory and control activities, also taking into consideration the Code of Conduct for Listed Companies recommended by the Italian Accounting Profession, represented by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili.

In reporting to you about the institutional activity for which we are responsible, up to the date of preparation of this Report, we would like to point out that we:

- attended the Shareholders' Meeting, meetings of the Board of Directors and of the Executive Committee, as well as of the Board Committees (i.e. the Control and Risk Committee, the Related-

Party Transactions Committee, the Nominations Committee and the Remuneration Committee) and obtained, in compliance with the provisions of law and the articles of association, comprehensive information on the activities carried out and on the more significant transactions carried out by the Bank and its subsidiaries;

- acquired the information necessary to assess compliance with the law and the articles of association, compliance with the principles of correct administration as well as the functionality and adequacy of the Bank's organisational structure and of the internal and administrative-accounting control systems, through direct investigations and collection of data and information from the Managers of the main corporate functions involved, as well as from the Independent Auditors;
- carried out our checks on the internal control and risk management system, making use of the assiduous presence at our works of the Financial Reporting Manager, the Heads of the Internal Audit and Risk Management Departments and the Heads of the Compliance and Anti-Money Laundering Offices, who ensured in this way the necessary exchange of information on the methods of carrying out their respective institutional control duties, as well as on the outcome of their respective activities;
- carried out the necessary checks on the adequacy of the instructions given to the subsidiaries, also pursuant to art. 114, paragraph 2, of Legislative Decree 58/1998;
- verified compliance with the laws and regulations on the training process, the format and the financial statements for 2020, as well as compliance with the laws and regulations in force and consistency with the resolutions adopted by the Board of Directors;
- noted that Law 21/2021, which enacted Legislative Decree 183/2020 (on extensions) with amendments, included measures deferring until 1 January 2021 the start of the obligation to prepare annual financial reports in XHTML format and identify certain consolidated information with the Inline XBRL specifications. The MEF issued this notification pursuant to art. 2 of Regulation (EU) 337/2021 and, consequently, the website of the European Commission confirms this exercise of the extension option by Italy (see https://ec.europa.eu/info/publications/201211-esef-postponement_);
- considered carefully Consob Note 1/21 dated 16 February 2021 on "Covid 19 - support for the economy - Reminder about the disclosures to be made:
    - by supervised issuers, control bodies and auditing firms in relation to 2020 financial statements prepared in accordance with international accounting standards;
    - by companies that publish 2020 Non-Financial Statements;
    - by issuers with listed shares and control bodies at shareholders' meetings called to resolve on capital-related matters;
    - by those responsible for preparing offer documents and prospectuses;
    - by issuers subject to the Market Abuse Regulation (MAR);
- performed the supervisory activity in the various profiles required by art. 19 of Legislative Decree 39/2010 as an Internal Control and Audit Committee;
- received on 10 March 2021 from the Independent Auditors the additional report pursuant to art. 11 of EU Regulation 537/2014, which the Board of Statutory Auditors immediately sent to the Chairman of the Board of Directors without any observations;
- received on 10 March 2021 from the Independent Auditors, pursuant to art. 6, paragraph 2, letter a) of EU Regulation 537/2014, confirmation of their independence as well as an indication of their fees for any other non-audit services provided to the Bank by the same or by entities belonging to their network, after discussion with them on the risks relating to their independence and the measures adopted to limit these risks, even reducing assignments other than the audit ones;
- monitored the procedures for implementing the corporate governance rules envisaged by the current edition of the Code of Conduct for Listed Companies promoted by Borsa Italiana S.p.A. The recommendations formulated by the Chairman of the Corporate Governance Committee by letter of last December were brought to the attention of the Corporate Affairs Area of the Bank, of the Chairman of the Board of Directors, as well as of the Chief Executive Officer and of the Chairman of the Board of Statutory Auditors. We examined the content of the letter on 14 January 2021 and we

found that the Recommendations were taken into account in the Report on Corporate Governance and Ownership Structures where an appropriate summary table has also been prepared in an annex. The recommendations were also considered during the self-assessment. We also took into account that on 31 January 2020, the 2020 Corporate Governance Code was issued with substantial changes that follow four fundamental guidelines: sustainability, engagement, proportionality, simplification. The companies that adopt the Code will apply it from the first financial year that starts after 31 December 2020, informing the market in the Corporate Governance Report to be published during 2022; on 19 November 2020, the Board of Directors resolved to adopt the New Code in its entirety:

- applying the recommendations for companies that are "not large" and that have "concentrated ownership";
- in compliance with the Supervisory Instructions applicable to listed banks, as the equivalent of "banks of larger size" pursuant to Circular 285, from 1 January 2021, on the basis of the documentation described above, except that the related independence criteria recommendations will be applied at the same time as satisfying the independence requirements specified in the above MEF Regulation, in order to ensure consistent application of the governance framework;

- supervised compliance with the Internal Regulation on Related-Party Transactions carried out directly or via subsidiaries, pursuant to Consob Regulation 17221 dated 12 March 2010, as amended, and the Supervisory Instructions issued by the Bank of Italy pursuant to art. 53 TUB, as well as compliance with the Regulation and related instructions on compliance with art. 136 TUB;
- ascertained, on the basis of the declarations issued by the individual Directors and the assessments collectively expressed by the Board of Directors, that the criteria and procedures adopted by the Board to assess the independence of its members have been correctly applied.

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The functions of the Supervisory Body (SB) pursuant to Legislative Decree 231/2001 are granted to the Board of Statutory Auditors (art. 28 of the Articles of Association).

Given this assignment, we consider it appropriate to report to you the main activities carried out by the Supervisory Body during the 19 meetings that we held in 2020.

We monitored the functioning and compliance with the Organisational Model adopted pursuant to Legislative Decree 231/2001 (OM 231) and reported every six months to the Board of Directors on the monitoring and verification activities performed and their results.

During 2020, the SB received the requested six-monthly reports from all the Functions involved, which revealed the compliance and adequacy of the OM and no reports of its violation emerged. For reports from the whistleblowing system, please refer to the relevant paragraph.

Likewise, updating activities of the OM 231 continued following the regulatory and organisational changes. We met the Working Group dedicated to the revision of the OM 231 with whom we shared the planning activities, which also continue during 2021 in an increasingly systematic way, also by virtue of a more rational allocation of activities among the main functions involved (Internal Audit, Compliance, Organisation and Corporate Affairs) and the appropriate support of a particularly qualified external criminal lawyer who has been entrusted with a specific assignment.

The latest amendments to the General Part and the Special Part of the OM 231 were approved by the Board of Directors at the meeting held on 30 July 2020 (following the favourable opinion issued by the Supervisory Board).

The Supervisory Body dedicated special attention to various aspects of the Covid emergency including, in particular, occupational safety (where the Group implemented all reasonable prevention measures, consistent with government instructions and the related application protocols) and the granting of loans in the context of the Cure Italy and Liquidity Decrees.

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Pursuant to the Consob Note mentioned at the start of this Report, we confirm that we dedicated special attention to the assessments made with regard to satisfaction of the going concern presumption and the adequacy of the system of internal controls, as well as to the difficulties of carrying out on-site checks due to restrictions associated with the Covid-19 pandemic. We did not identify any issues in relation to the above matters.

When preparing the Financial and Non-Financial Reports at 31 December 2020, the Bank made proper reference to the instructions contained in the above Consob Note, making specific disclosures in the "Covid-19" section of the Consolidated Report on Operations, in the notes on "Risks, uncertainties and impacts of the Covid-19 pandemic" and "Contractual modifications changes resulting from Covid-19" in "Part A - Accounting policies" and on the "Model for measuring expected losses on performing loans" in "Part E - Information on risks and related hedging policy" in the separate and consolidated explanatory notes. Similarly, specific disclosures were also made, in particular, in the sections on "Sustainability risk management", "Value creation", "Quality and innovation in customer relations", "Data security and protection", "Quality of life and corporate welfare", "Health and Safety" and "Relations with the territory" in the consolidated Non-Financial Statement pursuant to Legislative Decree 254/2016.

In this regard, as mentioned, specific focus was placed on the risks associated with the initiatives implemented at various times during the year in support of customers (including, in particular, the moratoria granted for Covid-19 and the loans backed by State guarantees) and to protect the health and safety of employees. In-depth monitoring was carried out on multiple occasions (meetings with the Risk Control and Sustainability Committee and meetings of this Board) of the control, measurement and reporting of performing and impaired loans by the competent functions, having regard for the additional risks posed to the banking system by the unusual nature of the Covid-19 emergency, which resulted in updates to the models used to measure expected losses.

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We provide below the specific details required by Consob Communication 1025564 of 6 April 2001 and subsequent amendments.

<u>More significant economic, financial and capital transactions</u>

By participating in meetings of the Board of Directors, Executive Committee and Board Committees, we received adequate information about the Bank's activities and its major economic and financial transactions during 2020, as explained in considerable detail in the Report on Operations.

On the basis of the information received and as a result of the analyses carried out, it emerged that the more significant economic, financial and capital transactions carried out by the Bank consisted essentially of the following:

Participation in TLTRO 3

During the year, the European Central Bank stimulated bank lending by improving the conditions of TLTRO 3. Banco Desio participated in the auction last June for an amount of 1.2 billion euro (against the repayment of 800 million euro) and in a auction in December for the same amount (again against the repayment of 800 million euro), bringing the total of TLTRO loans outstanding at 2.4 billion euro.

Trade union agreement

On 27 November 2020, the Banco Desio Group signed an agreement with the Trade Unions on access to the "Income support solidarity fund" (the "Fund") and on the departure of personnel who reach pensionable age. This agreement envisages voluntary access to the Fund by workers who satisfy the "Mandatory General Insurance" ("AGO") pension requirement for persons eligible to retire between 1 December 2021 and 31 December 2024. The departure of the above persons will be spread between two windows, one on 1 July 2021 and the other on 1 July 2022. Measures also facilitate termination of the employment relationships of employees who satisfy the AGO pension requirement by 30 September 2021.

At 31 December 2020 101 applications have been accepted; additional identified persons have not yet accepted the above forms of termination and, accordingly, the Bank plans to carry out further negotiations with a view to terminating their employment relationships by April. the one-time charge to the payroll costs is Euro 12.0 million.

2021-2023 business plan

On 17 December 2020 the Board of Directors of the Parent Company approved the Business Piano ("Plan") of the Group for the 2021-2023 three-year period. The Board of Directors of the Bank considered there to be a sound basis for approving the Plan, despite the uncertain macroeconomic scenario, in view of the positive response by the organisation and the customer base to the adverse external conditions encountered during 2020.

Sales of non-performing loan (NPL) portfolios

Continuing the pro-active strategy for managing non-performing loans and in line with the guidelines issued by the European Central Bank, in November and December six sales were finalised to specialist intermediaries of loan portfolios consisting of mortgage and unsecured loans classified as doubtful and UTP loans, as follows:

a) loans with a nominal value of Euro 35.6 million sold to closed-end investment funds accompanied by the investment of Euro 21.2 million in fund units;

b) loans with a nominal value of Euro 25.8 million sold for cash totalling Euro 2.7 million

As a result of these sales, taking account of all doubtful items identified since last year, pre-tax losses of Euro 0.9 million have been realized overall.

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

In view of the strategic planning document approved by the Board of Directors of Cedacri S.p.A. during the 2020, the Bank has remeasured the fair value of the non-controlling interest held in this company using internal valuation models, identifying a prudent and conservative equity value of about Euro 2020 million. Given that this investment is measured at fair value through other comprehensive income pursuant to para. 5.7.5 of IFRS 9 Financial Instruments, the Bank has credited the revaluation of Euro 23.2 million (gross of tax effect) to an equity reserve.

In this regard, at 31 December 2020 there is no basis for classifying this investment as "held for sale" pursuant to para. 31 et seq. of IFRS 2020 Non-current assets held for sale and discontinued operations. As an addition to the information reported in the financial statements (approved on 11 February 2021), we can report that the negotiations for the sale of control over Cedacri S.p.A. to ION Investment, a UK group, for an amount considerably in excess of that stated in the 2020 financial statements, were completed on 5 March 2021 with the signature of a binding agreement that was disclosed in press releases issued by (i) Banco Desio and (ii) all selling shareholders, jointly, on 6 March 2021. Completion of the deal is subject to the fulfilment of certain conditions precedent, as is normal, and is therefore expected to take place by the end of the third quarter of 2021.

Covered bond programme

As part of the programme for issuing covered bonds (OBG in Italian) pursuant to art. 7-bis of Law no. 130/99 (the "Programme") launched in 2017, on 12 January 2021 another issue as private placement of 100 million at a level of midswap +34 b.p. (a security with 0% coupon and issue price of 98.493%), maturing in 2031.

Atypical and/or unusual transactions, intercompany or with related parties/associated persons

There were no atypical and/or unusual transactions in 2020.

Intercompany transactions and other ordinary transactions with related parties/associated persons, pursuant to art. 2391-bis of the Italian Civil Code and art. 53 of the Consolidated Banking Act (CBA), as well as transactions with bank officers pursuant to art. 136 CBA, have always been subject to specific review by the Executive Committees and the Board of Directors.

In the Report on Operations and Notes accompanying the financial statements, the Board of Directors has adequately reported and explained the characteristics of the main transactions with third parties, intercompany and related parties, of which we have verified compliance with the law and internal regulations in force from time to time.

As for intercompany transactions, after examining the profiles of legitimacy and reasonableness, we can confirm that they are based on correct economic, financial and accounting principles.

However, no transactions of this kind occurred in 2020, which are considered worthy of note.

Inspection activities of the Supervisory Authorities

During 2020 we monitored the actions implemented by the Bank in the context of the plan accompanying the reply to the inspection matters raised on 10 September 2019.

Other activities of the Supervisory Authorities

During 2020 we reported to the Bank of Italy, to the extent required pursuant to art. 52 TUB, about the anomalies found in operations carried out by certain employees of the Bank (2 reports). In this regard, we also provided requested information to the Supervisory Authorities about the controls in place over operational and reputational risks. Specifically, with support from the internal control functions, we stated that the Banco Desio Group has already established a detailed system of rules, procedures and controls designed to prevent and mitigate risks and, in general, to establish the conduct required so that the professional efforts of each employee are focused on compliance with the relevant internal and external regulations. Additionally, checks were carried out at various level on the work of employees and financial advisors, in order to ensure the governance and mitigation of the potential risks mentioned above. Given the above matters and in the context of constant development of the control adopted, a number of measures were also implemented to improve the internal control system and enhance its efficiency.

We also monitored the responses to certain requests for information made by Consob pursuant to arts. 115 and 187-octies TUB.

Complaints as per ex art. 2408 of the Italian Civil Code

During 2020, we did not receive any complaints pursuant to art. 2408 of the Italian Civil Code.

As stated during the Ordinary Shareholders' Meeting held on 23 April 2020, the Board of Statutory Auditors took a position with regard to the complaint pursuant to art. 2408 of the Italian Civil Code presented by shareholder Nicola Tempesta in 7 March 2019 to the Board of Statutory Auditors of Banca Popolare di Spoleto S.p.A., now absorbed, declining involvement as the matter had already been addressed by the Board of Statutory Auditors of that bank. This Board therefore did not deem it necessary to mention the matter in its Report to the Shareholders' Meeting. To the extent relevant, this Board had in any case reached the same conclusion about the contents of the complaint, after analysing it at a meeting held on 20 April 2020. The above information is provided in response to a question asked by the shareholder concerned pursuant to art. 127-ter TUF.

Complaints of other nature - denounces - complaints

For completeness of information we would like to inform that all complaints received by Banco di Desio e della Brianza S.p.A. from customers during 2020 (a total of 459, of which 23 relating to investment services) were duly examined by the Complaints Office, which carried out for the required formalities; of such complaints, 275 were rejected, 117 were accepted and 67 were still under discussion as of 31 December 2020.

In addition, the Bank of Italy sent 56 requests for information on the basis of complaints submitted to it by customers.

Reports of the Independent Auditors pursuant to law

On 10 March 2021, the Independent Auditors issued the reports required by art. 14 of Legislative Decree 39/2010 and art. 10 of EU Regulation 537/2014 on the financial statements and the consolidated financial statements at 31 December 2020, without any exceptions, remarks or matters to be highlighted, including their judgement of compliance and consistency with the report on operations required by art. 14, paragraph 2, letter e) of the Legislative Decree.

Other tasks assigned to the Independent Auditors and to other entities linked to them and related costs

The assignments conferred, after an assessment of independence by the Board of Statutory Auditors for non-audit services:

1) in January 2020 Deloitte & Touche S.p.A. was assigned the audit-related task to audit the 2019 schedule of advertising investment in accordance with ISA 805 (Revised), the fee for which was fixed at Euro 10,000 + VAT;
2) in June 2020 Deloitte & Touche S.p.A. was assigned the audit-related task to issue attestations on the safeguarding of customer assets pursuant to the Bank of Italy regulation dated 5 December 2019 (Reasonable Assurance ISAE 3000), the fees for which were fixed at Euro 45,000 + VAT for examination of the descriptive document for 2019 and at Euro 30,000 + VAT for examination of the description document for 2020;

3) in June 2020 Deloitte & Touche S.p.A. was appointed to provide methodological assistance in the area of sustainability, the maximum fees for which were fixed at Euro 46,000 + VAT for 2020 and Euro 90,000 + VAT for 2021. The amount of the services actually requested in 2020 was Euro 30,000 + VAT;

4) in December 2020 Deloitte & Touche S.p.A. was assigned the audit-related task to audit the 2020 schedule of advertising investment in accordance with ISA 805 (Revised), the fee for which was fixed at Euro 5,000 + VAT.

The appointments assigned to the Independent Auditors and its network are monitored specifically by the Board of Statutory Auditors, with support from the Office of the Financial Reporting Manager, in compliance with Regulation (EU) 537/2014 and the Group "Rules for the selection of the independent auditors and for the assignment to them and to their network of tasks other than the independent audit". The most recent six-monthly report produced by that Office as at 31 December 2020 was examined by this Board on 21 January 2021 without the identification of any matters.

During the year we constantly checked compliance with the limit on appointments pursuant to art. 4, para. 2, of Regulation (EU) 537/2014, pursuant to which the fees for non-audit services (all those other than the audit-related services requires under national/community rules/regulations) provided to public interest bodies must not exceed 70% of the average fees paid in the last three consecutive years for the legal audit.

Pursuant to art. 19, paragraph 1, letter e) of Legislative Decree 39/2010, we carried out the activities needed to verify and monitor the Auditors' independence, also in the light of articles 10-bis, 10-ter, 10-quater and 17 of Legislative Decree 39/2010, as well as art. 6 of EU Regulation 537/2014.

We also assessed the adequacy of non-audit services provided in the light of the criteria laid down in EU Regulation 537/2014, as required by art. 5 of the Regulation.

No critical aspects emerged during the year with reference to the Auditors' independence; in this regard, note that, having seen the Transparency Report prepared by the Auditors, we obtained their Annual Independence Confirmation, dated 10 March 2021, pursuant to the art. 6, paragraph 2, letter a) of EU Regulation 537/2014 and pursuant to paragraph 17 of the ISA Italy 260.

Given that the Shareholders' Meeting held on 23 April 2020 appointed KPMG S.p.A. to perform the legal audit for the years 2021-2029, the appointments to provide non-audit services assigned to entities in the same network during the cooling-in period were also monitored by the Board of Statutory Auditors, after an assessment of their independence.

In this regard, in November 2020 KPMG Advisory S.p.A. was appointed to provide methodological assistance regarding the process to obtain authorisation for the use of internal AIRB systems, by carrying out benchmarking work and checking regulatory compliance for the development and validation function in relation to the project to enhance the internal models, the fees for which were fixed at Euro 510,000 + VAT for the first phase (November 2020 – July 2021) and at Euro 210,000 + VAT for the second phase, which Banco Desio will decide whether or not to activate, in whole or in part, if necessary (September 2021 onwards). The reason for making an appointment of this size is that KPMG Advisory S.p.A. also advises Cedacri S.p.A. and there is a need for the AIRB project to be completed successfully in the near future. As already mentioned, we have stated as general guidance that advisory appointments to the network of the Independent Auditors should be limited.

Relationship with the Independent Auditors and any comments

During 2020, we met periodically with the Independent Auditors of Deloitte & Touche S.p.A. in compliance with the provisions of art. 150, paragraph 3, of Legislative Decree 58/1998 to exchange information. The Independent Auditors did not highlight any deeds or facts considered censurable or improper that would have required specific mention pursuant to art. 155, para. 2, of Decree 58/1998. KPMG S.p.A. attended the main meetings as the incoming auditor.

Opinions issued by the Board of Statutory Auditors

During 2020, we issued opinions, also in accordance with the law and regulations, adopted during specific collegial meetings, namely:

- on 24 February 2020, we issued a favourable opinion on the "Annual Report on the Remuneration Policies of the Banco Desio Group";

- on 19 March 2020, we expressed our opinion, at the request of the Bank of Italy, in favour of the report prepared by the Internal Audit Department on the "Outsourcing of Important Operational Functions (IOF)";
- On 23 April 2020, we expressed our favourable opinion pursuant to art. 2389 of the Italian Civil Code on the remuneration of the Chief Executive Officer;
- On 29 April 2020, we expressed our favourable opinion on rationalising the organisation of the internal control functions;
- On 25 June 2020, we expressed our favourable opinion on the appointment of the new head of the Risk Management function;
- on 25 June 2020 we expressed our opinion in favour of the document entitled "ICAAP Report on the internal capital adequacy assessment process and of the liquidity risk governance and management system (ILAAP) at 31 December 2019";
- on 2 December 2020 we examined the letter from the Bank of Italy dated 23 November 2020 on the "strategic alignment of banks with the post Covid-19 scenarios and the structural changes in the market" and, on 21 January 2021, we expressed our favourable opinion on the contents of the reply letter;
- On 1 December 2020, we expressed our favourable opinion on the Code of Ethics updated with particular emphasis on the trade rule and the discipline of the relation with shareholders;
- on several occasions we have expressed our favourable opinion, to the extent of our sphere of competence, on the updating of the main internal company regulations (Governing Bodies Regulations, Flows Regulations, etc.).

We also expressed our opinions in all those cases requested by the Board of Directors in the light of the provisions that require the Board of Statutory Auditors to be consulted before making certain decisions.

Furthermore, also taking into account our constant participation in the Control and Risks Committee, as well as the joint meetings held with it, we have also expressed our opinions for the aspects of our competence on the following main topics addressed here:

- Business Plan and Funding Plan
- Code of Ethics
- Information on the annual Non-financial Report (NFR)
- Sustainability issues (see below)
- Draft Financial Statements, Interim financial report and Quarterly Financial Information
- Report on the activity of the Financial Reporting Manager
- Large exposures, own funds and ratios
- Impairment testing of equity investments and goodwill
- Independent Auditors: assignments other than the statutory audit and related monitoring
- Controls on operational and reputational risks
- Organizational set up of internal control functions
- Tableau de Board of internal control functions
- Information on loans and implementation of the NPL Operational Plan
- Assignment proposal of non-performing loans
- Risk mitigation actions on the loan portfolio
- Collective coverage of risks on performing loans
- Credit Policy
- RAF Policy

- Recovery plan
- AIRB project
- Business Continuity
- IT risks
- Data treatment (“data breach”)
- Complaints and litigation
- Transparency
- Inspections: update on the state of implementation of corrective actions

The Committee dedicated particular attention to topics related to the “Covid-19” emergency, receiving information and updates from the Chief Executive Officer and General Manager.

Frequency and number of meetings of the Board of Directors, Board Committees and Board of Statutory Auditors

In order to acquire the information needed for the performance of our supervisory duties, we inform you and acknowledge that we:

- attended the Shareholders 'Meetings held on 23 April 2020 (Extraordinary and Ordinary sessions);
- took part in 16 meetings of the Board of Directors and 12 meetings of the Executive Committee held during 2020;
- performed 52 collective and individual audits, of which 19 as 231 Supervisory Body; branch checks were limited for a few remote checks, carried out with support from the Internal Audit Department, due to the Covid emergency;
- took part in 16 meetings of the Control and Risk and Sustainability Committee, 9 of the Remuneration Committee, 11 of the Nominations Committee and 6 of the Committee for Transactions with Related Parties and Associated Persons

Compliance with the principles of proper management

We examined and monitored, to the extent of our duties, compliance with the principles of proper management by attending meetings of the Board of Directors and numerous meetings with managers and heads of department.

We believe that the governance tools and processes adopted by the Bank constitute a valid defence to ensure compliance with the principles of proper management in operational practice. In particular, as regards the decision-making processes of the Board of Directors, we monitored to ensure that the transactions approved and implemented by the Directors were in accordance with the above rules and principles of economic rationality and not manifestly imprudent or reckless, in conflict of interest with the Bank, in contrast to the resolutions adopted by the Shareholders' Meeting, or such as to compromise the integrity of the Bank's assets.

Adequacy of the organizational structure

We examined and carefully monitored the main developments in the organisation and organisational methods and monitored the adequacy of the organisational structure with respect to the Bank's strategic objectives. We do not have particular comments to make. The organisational structure, which was rationalised in 2020, appears to be adequate in consideration of the corporate purpose, characteristics and size of the Bank.

Adequacy of the Internal Control and Risk Management System

The Bank has adopted a system of internal controls and risk management aimed at continuously identifying, measuring, managing and monitoring the risks to which it is or could be exposed, in order to ensure that efficiency and effectiveness of business processes are achieved through constant monitoring of the processes carried out in compliance with the provisions of the law and supervision regarding internal controls.

In this context, the Board of Directors defines the nature and level of risk compatible with the strategic objectives of the issuer, including in its assessments all the risks that may be relevant from the point of view of the Bank's medium-long term sustainability.

This system is characterised by a complex structure that involves all company levels, with specific duties reserved for the Board of Directors, the Board of Statutory Auditors, the Chief Executive Officer, the General Manager and the person in charge of internal controls, identified as the pro-tempore Manager of the Internal Audit Department. This Department reports directly to the Board of Directors. The Risk Management, Compliance and Anti-Money Laundering functions report to the Chief Executive Officer as part of the organisation rationalisation. The structure of the verification and reporting activities performed by the Internal Audit Department is consistent with the specific recommendations of the Corporate Governance Code, as well as with Supervisory Provisions. The Parent Company has outsourced the functions of internal audit, risk management, compliance and anti-money laundering for Fides S.p.A.

The Board of Directors has set up a Control, Risk and Sustainability Committee, the meetings of which are attended by the Board of Statutory Auditors: it is currently made up of 1 Non-executive director and by 2 Independent directors, including the Chairman of the Committee. The Statutory Auditors and the Control, Risk and Sustainability Committee, within the ambit of their respective duties, and having regard to the provisions of Legislative Decree 39/2010, have the task of assessing the effectiveness and efficiency of the control services established by virtue of the resolutions of the Board of Directors. Furthermore, the participation of the Control, Risk and Sustainability Committee in the joint meetings of the Boards of Statutory Auditors with the Independent Auditors is now a consolidated practice, at least in the preparation of the annual and interim accounting reports.

The Annual Report on Corporate Governance and Ownership Structures describes the Guidelines of the Internal Control System and the management of Group risks in line with the statutory and regulatory provisions.

While maintaining the specific operational features of each type of company, all Group companies share risk measurement and management models defined in general terms by the Parent Company, also including socio-environmental risks (pursuant to Legislative Decree 254/2016) deriving from the company's activity, from the products and services offered and from supply and subcontracting chains.

The Parent Company outlines the reference model for integrated risk management and the internal control system as a central element of coordination between the control functions and between these and the corporate bodies, ensuring their implementation also at the Subsidiaries.

The Parent Company assesses the methods of centralising internal control functions/activities of the Subsidiaries, even partially, ensuring the presence of local supervisory and control figures.

In accordance with the provisions of the Bank of Italy contained in Circular 285 of 17 December 2013 (Title IV, Chapter 3 "The internal control system"), the Bank prepared the "Regulation for the Coordination of Controls and Information Flows of the Parent Company", which was last updated by Board resolution on 27 May 2020 as regards information flows. The Regulation defines the duties and responsibilities of the Corporate Bodies and control functions of the Banco Desio Group (in particular, the procedures, moments of coordination, organisational reports and related links between the aforementioned company functions, as well as the duties and responsibilities of the control functions, the main controls carried out by each function, the information flows between the various functions). Bear in mind that, in the context of the Group's management and coordination activity, governed in an organic manner by the "Group Regulations" adopted in the past, the Parent Company exercises: a) strategic control over the evolution of the various areas of activity in which the Group operates and the possible risks to the portfolio of activities carried on; b) management control to ensure that conditions of economic, financial and equity balance are maintained both for the individual companies and for the Group as a whole; c) technical-operational control for assessing the various risk profiles brought to the Group by the individual subsidiaries.

In the context of its institutional role, the Board of Statutory Auditors is called upon by Bank of Italy Circular 285 of 17 December 2013 to monitor the adequacy and compliance with the requirements of the internal capital adequacy assessment (ICAAP) and liquidity risk governance and management system (ILAAP) and of the management and risk control system in general. During the course of specific meetings, we evaluated the functionality and adequacy of the process itself, as well as compliance with the requirements of the regulations, with the help of the Chief Risk Officer.

In line with the provisions of Bank of Italy Circular 285 of 17 December 2013 (Title IV, Chapter 3 "The internal control system") we acknowledge the updating of the document that outlines the Risk Appetite Framework (RAF) which defines - in line with the business model and the strategic plan - risk appetite, tolerance thresholds, risk limits and the reference policies necessary to define and mitigate them.

The management and risk control system also contemplates the aforementioned "Organisational Model 231", aimed at preventing the commission of crimes that could involve a liability for the Bank.

On the basis of the information acquired, we acknowledge the assessment of the adequacy and effectiveness of the internal control and risk management system with respect to the characteristics of the Bank and the risk profile assumed, expressed by the Board of Directors in the Annual Report on Corporate Governance and the Ownership Structure.

Internal system for the reporting of violations

Since 1 January 2016, the Banco Desio Group established a confidential internal system for reporting violations ("whistleblowing"), governed by a specific Regulation, with the aim of preventing prejudicial effects arising from irregularities relating to compliance with external regulations and to promote the constant development of a culture of legality. Matters can be reported by Group personnel or similar individuals. The Head of the System draws up an annual summary report on the correct functioning of the system, which is brought to the attention of the Board of Directors of the company in question.

During 2018, it was necessary to update the Regulation following the introduction of Law 179 of 30 November 2017, with its provisions for the protection of those who report crimes or irregularities that they become aware of in the context of a public or private employment relationship. This involved a reorganisation and further segmentation of the internal reporting channels. In addition to a generic channel, known as "general whistleblowing", concerning banking activities[8], which was already in place, a specific anti-money laundering channel was introduced, known as "anti-money laundering whistleblowing", as well as one for "231" reports, known as "Supervisory Body whistleblowing"; the latter reports refer exclusively to violations of the OM as per Legislative Decree 231/2001 and do not replace the existing methods and channels for the transmission to the SB of the usual mandatory reports and information. The Chief Auditing Officer, as the Person in charge of the internal reporting system for violations, receives and evaluates all general whistleblowing reports, except for those referring to himself and the Corporate Bodies (Board of Directors and Board of Statutory Auditors, as well as Supervisory Body). He also receives and evaluates anti-money laundering reports, involving the Anti-money laundering manager, except for those relating to himself and to the Corporate Bodies listed above. At the end of the assessment phase, the System Manager immediately transmits an information flow on the report and the outcome of the assessment to the Chairman of the Board of Directors. The Chairman of the Supervisory Body of the Parent Company receives whistleblowing reports from the Supervisory Body (except for those relating to the Supervisory Body itself) and assesses them together with the members of the Supervisory Body. In the event of reports relating to the Subsidiaries, the activities pertaining to the Parent Company's Corporate Bodies remain, with the Corporate Bodies of the Subsidiaries getting involved to the extent of their duties or for any collaboration. The process of managing reports includes specific reporting methods and channels which ensure that the persons in charge of receiving, examining and evaluating the reports are not hierarchically or functionally subordinated to the person being reported on, nor that they themselves are the alleged perpetrators of violations or might have a potential interest in the report such as to compromise their impartiality and independence of judgement. The channels have been defined in such a way as to avoid reports being sent to persons who could end up in situations of conflict of interest with respect to the whistleblower, the person being reported on or anyone else involved in the report. The internal system for reporting violations in any case guarantees the confidentiality and protection of the personal data of the person making the report and of the person being reported on.

During 2020 the Chairman of the SB received 2 Whistleblowing reports. In one case, the report was deemed to be unfounded after an investigation and no action was taken. In the other case, the internal control function responsible for monitoring the matter concerned made an appropriate assessment regarding the parties involved and the reported transactions. In this regard, the competent function adopted the measures deemed appropriate.

[8] Banking activities also include the "intermediaries" and "issuers" governed by Consob regulations (MIFID, MAR).

Code of Ethics

A Board resolution adopted on 17 December 2020 approved the update of the Code of Ethics mentioned above, with particular reference to the commercial rules and the governance of shareholder relations.

Adequacy of the administrative and accounting system

To the extent of our duties, we examined and monitored the adequacy and functioning of the administrative and accounting systems and its reliability in the correct representation of management events, by obtaining information from the heads of the respective functions, Independent Auditors, by examining documents; we do not have particular comments to make.

The accounting system makes use of outsourcing for the IT system assigned to Cedacri S.p.A.

With reference to the accounting information contained in the financial statements at 31 December 2020, we acknowledge that on 11 February 2021 the Financial Reporting Manager issued his certification pursuant to art. 81-ter of the current Consob Regulation 11971 of 14 May 1999 without any observations. During his periodic meetings with the Board of Statutory Auditors to exchange information and carry out supervision in accordance with art. 19 of Legislative Decree 39/2010, the Financial Reporting Officer did not report any significant weaknesses in the operational and control processes which, due to their importance, could affect his opinion on the adequacy and effective application of the administrative-accounting procedures safeguarding a fair view of operations, in accordance with current international financial reporting standards. To conclude his control activities, the Financial Reporting Officer expressed an opinion on the adequacy and effective application of the administrative and accounting procedures that govern the preparation of the financial statements.

We are in a position to state that the Bank's administrative accounting system is reliable and adequate to give a fair view of operations.

Instructions given to subsidiaries (art. 114, paragraph 2, Legislative Decree 58/98)

The relations maintained by the Parent Company with the Subsidiaries have always been explained at Parent Company Board meetings. Where necessary, we have obtained exhaustive answers to requests for further information. The planning, coordination and control system implemented by the Bank in the performance of its functions of policy and strategic leadership of the entire Group, in accordance with art. 61 of the CBA and art. 2497 of the Italian Civil Code is appropriate and functional.

We have taken note of the instructions given by the Parent Company to the Subsidiaries pursuant to art. 114, paragraph 2, of the CFA, considering them adequate to fulfil the legal disclosure requirements. In this regard, it should be pointed out that the Parent Company regulates the information flows sent in by the subsidiaries through specific regular procedures. To this end, the Management Control and Coordination Regulation of the Banco Desio Group was last updated on 12 December 2019.

Relations with the corresponding bodies of the subsidiaries

As part of our coordination of control activities, we exchanged information with the Boards of Statutory Auditors of Fides S.p.A. We also attended several joint meetings with it, without receiving evidence of significant events to be reported in this Report.[9]

Code of Conduct for Listed Companies

In addition to what is indicated in the introduction to this Report with regard to the corporate governance rules, the Bank has been complying with the current Code of Conduct for Listed Companies of Borsa Italiana S.p.A. since 1999, as reported in the Annual Report on Corporate Governance and Ownership Structure, made available on the Bank's website and drawn up pursuant to art. 123-bis of Legislative Decree 58/1998 and subsequent amendments and additions; this Annual Report on Corporate Governance and Ownership Structure illustrates the methods and types of behaviour with which the principles and application criteria of the Borsa Italiana Code of Conduct were applied in practice, as well as any failed or partial adoption or application of some of the recommendations of the Code of Conduct, explaining the reasons for it.

As part of the Code of Conduct's recommendations, among other things, we have verified that Directors'

[9] It should be remembered that the "special purpose vehicle" Desio OBG S.r.l. (also a subsidiary company) did not appoint a Board of Statutory Auditors as there is no legal requirement to do so.

independence requirements have been correctly assessed by the Board.

We have verified the existence of the independence requirement for each of its members.

We monitor the implementation of the board resolution of 19 November 2020 with which Banco adopted the new Corporate Governance Code referred to above.

Self-assessment of the Board of Statutory Auditors

In compliance with the provisions of the Bank of Italy Circular 285/2013, the body with the control function is also required to perform a self-assessment on its composition and functioning, based on criteria and methods that are consistent with its own characteristics. We therefore carried out our self-assessment with reference to 2020, drawing up the specific report.

The self-assessment concluded that performance was generally adequate. The appointment of 2 new members out of 3 on 23 April 2020 inevitably resulted in an inability to achieve full adequacy in all areas, which are nevertheless addressed constantly in order to achieve full effectiveness.

In any case, all of the aspects outlined in the self-assessment will continue to be monitored in relation to changes in the regulatory context of the financial sector and/or the operational scope of the Banco Desio Group.

Corporate Governance and Organisation

During 2020, there were no significant changes in the overall corporate governance structure of the Bank and the Group, apart from the Merger already mentioned in a specific paragraph.

Complete information on these arrangements is provided in the Annual Report on Corporate Governance and Ownership Structure, which we have reviewed carefully and to which reference is made in full as regards also the management of corporate information, conflicts of interest, etc.

Remuneration and incentive policies

During 2020, we verified, with positive results, the methods used to ensure that the Bank's remuneration policies comply with the regulatory environment in 2019, making use of the results of the checks carried out by the internal control functions within their respective scope of competence.

We have examined, without comment, the Annual Report on Group Remuneration and Incentive Policies, approved by the Board of Directors Meeting of 27 February 2020 and prepared in accordance with applicable rules with regard to policies and practices of remuneration and incentive in banks and banking groups.

The report explains the Group's remuneration policies and procedures for 2020, as well as the application during 2019 of the policies approved the previous year.

During 2020 the Group operated in a manner consistent with the Bank of Italy recommendations for remuneration, issued as part of the measures to tackle the Covid emergency.

Non-financial statement (Sustainability Report)

In the context of the functions attributed to us by the law, we monitored compliance with the law regarding the preparation of the consolidated non-financial statement required by Legislative Decree 254/2016.

In 2017 (and up to the year 2020), Banco di Desio e della Brianza S.p.A. granted to the independent auditors Deloitte & Touche S.p.A. the assignment provided for by article 3, paragraph 10, of Legislative Decree 254/2016 and article 5 of CONSOB Regulation implementing the Decree (adopted with Resolution 20267 of 18 January 2018).

In this regard, we confirm that we met representatives of Deloitte & Touche S.p.A. to exchange information about the process of preparing the consolidated Non-Financial Statement and its contents. There were no comments made in this regard.

During the meeting of the Board of Statutory Auditors held on 24 February 2021, the Office of the Financial Reporting Manager presented us with a draft of the “Consolidated Non-Financial Statement pursuant to Legislative Decree 254/2016 – Sustainability Report 2020”, which was approved by the Board of Directors of the Bank on 25 February 2021 as a separate document with respect to the Report on Operations accompanying the consolidated Financial Report also prepared as at 31 December 2020.

The attestation issued by Deloitte & Touche S.p.A. pursuant to art. 3, para. 10, of Legislative Decree 254/2016 and the declaration made within their auditors' report on the consolidated financial statements pursuant to art. 4 of the Consob Regulation implementing that Decree, also did not include any observations.

the Board has no remarks to make in relation to the consolidated non-financial statement entitled "2020 Sustainability Report of the Banco Desio Group" which, in light of the rules of common law regarding the competence of the shareholders' meeting (art. 2364, paragraph 1, no. 5, of the Italian Civil Code), it is not subject to approval by the Shareholders' Meeting.

Diversity policies

We acknowledge that the Report on Corporate Governance and Ownership Structure, pursuant to art. 123 bis, paragraph 2, letter d bis) of the CFA, added by art. 10 of Legislative Decree 254/2016, contains the information requested about the diversity policies applied by the Banco Desio Group in relation to the composition of the administrative, management and control bodies as regards aspects such as age, gender composition and training and professional path, as well as a description of the objectives, methods of implementation and results of these policies.

The practices adopted by the Banco Desio Group are consistent with the provisions of law on gender quotas (art. 147-ter and /148 of CFA), with the Supervisory Provisions on the composition of the Corporate Bodies, which provide for "an adequate degree of diversification in terms, among other things, of skills, experience, age, gender and international projection". This aspect is also the subject of analysis in the context of the self-assessment process, taking into account the operational and dimensional complexity of the Company.

As proposed by the Board of Statutory Auditors, these practices were formalised in a specific policy approved by the Board of Directors at the meeting of 28 February 2019, also in line with the instructions of the Italian Committee for Corporate Governance, taking into account the EBA/ESMA Guidelines in force since 30 June 2018.

Final assessment of supervisory activity and proposals under art. 153, paragraph 2, of Legislative Decree 58/98

The supervisory activity explained above did not reveal any omissions, reprehensible facts or irregularities worthy of mention. There is no reason for us to exercise the right to make proposals to the Shareholders' Meeting pursuant to art. 153, paragraph 2, of Legislative Decree 58/1998.

We can therefore confirm the adequacy:

– of the Governance System and related Internal Control and Risk Management System, the foundations of which are outlined in the Annual Report on Corporate Governance pursuant to art. 123-bis of the CFA;

– of the Internal control process over capital adequacy (ICAAP) and of the liquidity risk governance and management system (ILAAP), the development and updating of which is checked in accordance with the specific regulatory provisions;

– the organisational and control structures in the field of Anti-Money Laundering, in line with the provisions of the law and the Supervisory regulations;

– of the Information Flow Regulations regarding the Corporate Bodies and internal control functions and the attached Controls Coordination Document drawn up in accordance with the Supervisory Provisions concerning Corporate Governance and relating to Internal Control Systems, Information Systems and Business Continuity;

– of the control activities carried out by pertinent functions and, in particular, by the Internal Audit Department, by the Risk Management Department, by the Compliance and Anti-Money Laundering Offices and by the Financial Reporting Manager, also through periodic evaluation of the institutional reports;

– of procedures for management of the complaints received from Group customers, also with reference to those relating to investment services;
– of the activities carried out on questions of Privacy (Law 196/2003 as amended by Legislative Decree 101/2018 and by European Regulation 679/2016);
– of existing controls in matters of Safety at Work under Legislative Decree 81/2008;
– of the Regulation of the internal reporting system for violations pursuant to Bank of Italy Circular 285/2013 and Law 179/2017.

We can therefore conclude that through the work performed during the year we were able to ascertain:

- observance of the law and the Articles of Association;
- the adequacy of the administrative and accounting system;
- the adequacy of the organizational and internal control structure;
- application of the principles of correct administration;
- the implementation of the corporate governance rules;
- the adequacy of instructions given to subsidiaries;
- the adequacy of supervisory controls over related-party transactions;
- the preparation of financial statements in accordance with -IFRS and the provisions of the Bank of Italy (Circular 262 of 22 December 2005 and subsequent updates), also in consideration of the specific communications sent on the subject by the Bank of Italy.

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Financial statements at 31 December 2020

We examined the draft financial statements at 31 December 2020, made available to us under the terms of law, on which we report as follows.

The financial statements for the year ended 31 December 2020 have been prepared in accordance with the applicable IAS/IFRS in force at the reference date, issued by the International Accounting Standards Board (IASB) and related interpretations issued by the IFRS Interpretations Committee (IFRIC) and endorsed by the European Commission, as well as with the Bank of Italy Circular 262 "Bank financial statements: schedules and rules for preparation" of 22 December 2005 as subsequently updated.

The report on operations adequately comments on and illustrates the Bank's performance during the year and gives an outlook on operations. It also provides, among other things, the information required by art. 123-bis of the CFA on the ownership structure, with appropriate reference to the related Annual Report on Corporate Governance and Corporate Structure.

As mentioned previously, the independent auditors Deloitte & Touche S.p.A. expressed their professional opinion on the financial statements by issuing a report drawn up pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of EU Regulation 537/14, which does not contain any observations, exceptions or matters to be highlighted.

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Consolidated financial statements at 31 December 2020

We have also examined the consolidated financial statements at 31 December 2020, as presented by the Directors. It has been prepared in accordance with the law and the report on operations helps to explain the performance of the Bank and its subsidiaries, as well as the structure of the Group, as required by art. 25 *et seq.* of Legislative Decree 127/91 and subsequent amendments.

The following subsidiaries are consolidated on a line-by-line basis:

- Fides S.p.A. held 100%;
- Desio OBG S.r.l. held 60%.

Preparation of the consolidated financial statements is the responsibility of the Board of Directors of the

Bank, as required by art. 29 of Legislative Decree 127/91, as amended, and it is up to the Independent Auditors is to express an opinion on them, based on their audit. Deloitte & Touche S.p.A. issued a clean opinion on 10 March 2021 with no qualifications or matters to be highlighted.

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Dear Shareholders,

we conclude this report on our control activities, giving a positive opinion on the Company's activities and organisation, on its internal control and risk management system and on its compliance with the law and Articles of Association.

We therefore recommend that you approve the financial statements at 31 December 2020 as submitted to you by the Board of Directors.

Taking into account that the dividend distribution proposal contained in the Report on Operations to the financial statements is consistent with:

- the provisions of art. 31 of the Articles of Association;
- the press release dated 16 December 2020 in which the Bank of Italy recommended that the less significant Italian banks should abstain from the recognition or payment of dividends until 30 September 2021, or limit their amount to 15% of the net profits accumulated in 2019-20 or, if lower, 20 basis points of the CET 1 coefficient, after related discussions with the Supervisory Authority;
- the dividend distribution policies approved by the Board of Directors on 13 May 2014;

and that on 23 April 2020 the Shareholders' Meeting resolved to distribute a dividend for 2019 of Euro 14,358,740.74 (Euro 0.1036 for each of the 122,745,289 ordinary shares and Euro 0.1244 for each of the 13,202,000 savings shares);

we are in favour of

a) the allocation of the net profit for 2020, of Euro 23,895,085.43, as follows:

10 % to the ordinary reserve:	*Euro 2,389,509.00*
10% to the statutory reserve	*Euro 2,389,509.00*
To the shareholders:	
Euro 0.0603 for each of the 122,745,289 ordinary shares for	*Euro 7,401,540.93*
Euro 0.0724 for each of the13,202,000 savings shares for	*Euro 955,824.80*
To the charity reserve:	*Euro 50,000.00*
further allocation to the statutory reserve	*Euro 10,708,701.70*

b) to the payment of dividends within the aforementioned limits, as follows:

2019:

- *Euro 9,410,368.12 (Euro 0.0679 for each of the 122,745,289 ordinary shares and Euro 0.0815 for each of the 13,202,000 savings shares) on the first useful date following the resolution of the Ordinary Shareholders' Meeting for the approval of the 2020 financial statements;*
- *Euro 4,948,372.62 (Euro 0.0357 for each of the 122,745,289 ordinary shares and Euro 0.0429 for each of the 13,202,000 savings shares) after 30 September 2021.*

2020:

- *payment of the dividends recommended in the above proposed allocation of net profit subsequent to 30 September 2021, given that the limit of 15% of the net profits accumulated in 2019-20 has already been reached.*

We also express our favourable opinion on the fact that, in any case, the dividends concerned will only be paid on the basis and with the timing consistent with the relevant prudential rules/regulatory framework and or recommendations of the Supervisory Authorities, following approval by the Board of Directors and subsequently at the Shareholders' Meeting, and in any case in compliance with the instructions contained in any future Recommendations made.

We confirm that the above proposals are consistent with the recommendation made by the Bank of Italy with regard to dividends on 16 December 2020.

Desio, 10 March 2021

The Statutory Auditors

Emiliano Barcaroli – Chairman

Rodolfo Anghileri

Stefania Chiaruttini