2020

Report on operations and consolidated financial statements at 31 December 2020

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

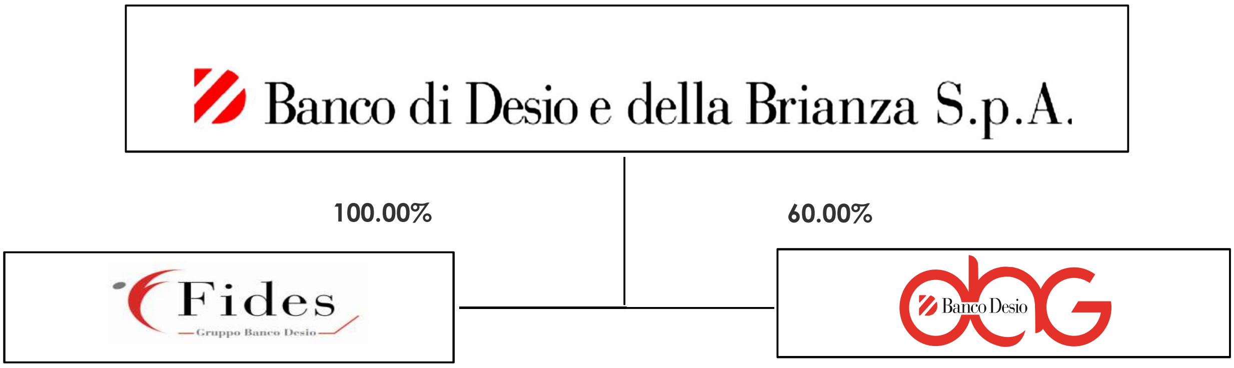
Independent Auditors

Independent Auditors	Deloitte & Touche S.p.A.

Consolidated Report on Operations

The Banco Desio Group

The scope of consolidation of the Banco Desio Group at 31 December 2020 includes the following companies:



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" (on page 11).

Inevitably, the results of the Banco Desio Group 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 the "Covid-19" section of the Consolidated Report on Operations, as well as in "Part A – Accounting policies" (page 91) and "Part E - Information on risks and related hedging policy" (page 202) of the Consolidated explanatory notes.

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 (the so-called "bonus pool") for the current year.

2 - Key figures and ratios

Balance sheet

Amounts in thousands of Euro	31.12.2020	31.12.2019	Change amount	%
Total assets	15,663,522	14,192,062	1,471,460	10.4%
Financial assets	3,543,697	3,365,922	177,775	5.3%
Due from banks [1]	1,034,768	619,794	414,974	67.0%
Loans to customers [1]	10,473,228	9,567,686	905,542	9.5%
Property, plant and equipment [2]	222,483	226,305	-3,822	-1.7%
Intangible assets	18,513	18,194	319	1.8%
Due to banks	2,412,244	1,603,208	809,036	50.5%
Due to customers [3]	10,203,490	9,445,899	757,591	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)	995,071	965,108	29,963	3.1%
Own Funds	1,057,064	1,038,147	18,917	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 51.5 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	%
Operating income	402,270	399,450	2,820	0.7%
of which: Net interest income	*214,352*	*210,870*	*3,482*	*1.7%*
Operating costs	274,993	281,608	-6,615	-2.3%
Result of operations	127,277	117,842	9,435	8.0%
Profit (loss) from continuing operations after tax	34,117	45,765	-11,648	-25.5%
Non-recurring profit (loss) after tax	-10,427	-5,609	-4,818	n.s.
Net profit (loss) for the period	23,690	40,156	-16,466	-41.0%

[4] from the reclassified income statement.

Key figures and ratios

	31.12.2020	31.12.2019	Change amount
Capital/Total assets	6.4%	6.8%	-0.4%
Capital/Loans to customers	9.5%	10.1%	-0.6%
Capital/Due to customers	9.8%	10.2%	-0.4%
Capital / Debt securities in issue	61.8%	55.2%	6.6%
Common Equity Tier 1 (CET 1)/Risk-weighted assets *(Common Equity Tier 1 ratio)* [5] [6]	14.7%	13.0%	1.7%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) [5] [6]	14.7%	13.0%	1.7%
Total Own Funds/Risk-weighted assets *(Total capital ratio)* [5] [6]	15.1%	13.7%	1.4%
Financial assets/Total assets	22.6%	23.7%	-1.1%
Due from banks/Total assets	6.6%	4.4%	2.2%
Loans to customers/Total assets	66.9%	67.4%	-0.5%
Loans to customers/Direct customer deposits	88.7%	85.5%	3.2%
Due to banks/Total assets	15.4%	11.3%	4.1%
Due to customers/Total assets	65.1%	66.6%	-1.5%
Debt securities in issue/Total assets	10.3%	12.3%	-2.0%
Direct customer deposits / Total assets	75.4%	78.9%	-3.5%

	31.12.2020	31.12.2019	Change amount
Cost/Income ratio	68.4%	70.5%	-2.1%
Net interest income/Operating income	53.3%	52.8%	0.5%
Result of operations/Operating income	31.6%	29.5%	2.1%
Profit (loss) from operations after tax/Capital [7]	3.5%	4.9%	-1.4%
Profit (loss) from operations after tax/Capital [7] (R.O.E.)	2.4%	4.3%	-1.9%
Profit (loss) from operations before tax/Total assets (ROA)	0.3%	0.5%	-0.2%

	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%	3.6%	-0.7%
% Coverage of doubtful loans	61.0%	61.5%	-0.5%
% Coverage of doubtful loans, gross of cancellations	62.2%	63.1%	-0.9%
% Total coverage of non-performing loans	47.5%	45.5%	2.0%
% Coverage of non-performing loans, gross of cancellations	48.4%	46.7%	1.7%
% Coverage of performing loans	0.72%	0.49%	0.23%

Structure and productivity ratios

	31.12.2020	31.12.2019	Change amount	%
Number of employees	2,179	2,198	-19	-0.9%
Number of branches	249	257	-8	-3.1%
Amounts in thousands of Euro				
Loans and advances to customers per employee [8]	4,786	4,342	444	10.2%
Direct deposits from customers per employee [8]	5,397	5,081	316	6.2%

	31.12.2020	31.12.2019	Change amount	%
Operating income per employee [8]	184	181	3	1.7%
Result of operations per employee [8]	58	53	5	9.4%

[5] Consolidated capital ratios for Banco Desio. The ratios for the scope of consolidation for regulatory purposes at Brianza Unione level at 31 December 2020 are: Common Equity Tier1 11.2%; Tier 1 12.0%; Total capital ratio 13.2%.

[6] 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 13.9%; Tier 1 13.9%; Total capital ratio 14.3%

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

[8] 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

3.1 - The macroeconomic scenario

International scenario

The global economy is in a holding pattern: while China has returned to normal, with economic activity in full swing once again, Europe and the United States are in the midst of a second wave of the pandemic. The predominant theory is that contagion will attenuate steadily during the spring, following the recent distribution of vaccines. The financial markets expect a strong recovery over the next year; in reality, uncertainties remain about the timing and availability of vaccines, about their effectiveness when delivered on a large scale and about the adequacy of the existing production and distribution chain.

The global growth forecasts of international institutions have been revised downwards repeatedly. The International Monetary Fund anticipates a drop in world GDP of -4.4% in 2020 (+3.6% in 2018 and +2.9% in 2019) and reductions in all geographical areas. The latest available data, for September 2020, indicates that international trade and industrial production have continued to slow (down 1.5% y/y and 1.9% y/y respectively).

Consumer inflation, which has fallen significantly since the beginning of the year, is now below 1% in all main advanced economies. The recovery in demand has been linked to a reduction in the propensity to save, after the March-April increase, and has been stronger for goods than for services. The expansionary monetary and budgetary policies adopted by governments have, to date, limited the permanent damage and facilitated the recovery. On the supply side, the recovery is decidedly uneven across the various sectors, some of which continue to work at levels of capacity utilisation below pre-crisis levels, with the risk of insolvency and structural downsizing. The countries most dependent on international tourism are suffering the most detrimental effects.

On the employment front, government support measures will spread over time the impact of the decline in demand on jobs, which has not yet been experienced in full. The crisis has accentuated the inequalities in income distribution.

The principal risks for growth depend on how long the second wave of contagion will last: in particular, the second wave is having an adverse effect on confidence and the consumption and investment decisions of households and businesses, as well as on the performance of the financial markets, which are particularly sensitive to the progress of the pandemic. Additionally, a more extended crisis would impact the global value chains more heavily, with longer lasting effects on economic activity and international trade. Lastly, world trade is still faced with the risk of heightened protectionist tensions between the United Stated and China.

United States

There are no historical precedents for the recession that began in February 2020, considering the speed, depth and mechanisms for its transmission, affecting both supply with the closure of businesses and demand, due to the lockdown and social distancing. Despite any control over the contagion curve, the recovery of the US economy that began in May continues and, after the second quarter collapse, there was a health summer bounce back (+7.4% on a quarterly basis), due to the spring fiscal stimulus and household savings. The data for the third quarter is consistent with sustained growth, driven above all by household spending. Consumption is recovering, being higher than pre-pandemic levels for goods, with services gaining ground more slowly. The tenacity of household spending derives both from the reopening of activities and from the shift from services towards goods. The increase in disposable income and the high level of savings have made this rapid recovery in consumption possible, despite record unemployment. The forecasts to year end remain uncertain however, due to the combined effects of healthcare problems, linked to the upswing in contagion during the final quarter, and political turmoil deriving from the troubled handover from the Republicans to the incoming Democratic administration. These phenomena, together with the need for new fiscal stimulus to support consumption and non-residential investment, represent the weak link in the recovery process. Overall, by the end of 2020 US GDP is expected to have contracted by -3.6% (+2.2% expansion in 2019).

Japan

The Covid-19 pandemic worsened the recession that was already biting at the end of 2019. However, fiscal measures and the characteristics of the jobs market helped to contain the decline in employment. Since the end of Q1 2020, the Japan has tracked the performance of the other advanced economies, with a marked fall in GDP during the spring, followed by a solid recovery in the summer. Growth continued at a moderate rate in the autumn, somewhat reliant on fiscal stimulus. GDP fell by 5.8% in 2020, but should grow by 2.4% in 2021. Monetary policy will become increasingly marginalised in the context of low inflation and zero interest rates, with the BOJ limited to providing support for fiscal policies. The situation in Japanese will also be influenced by the political developments that took place in the country during 2020. The resignation of Prime Minister Abe for health reasons was followed by the appointment of a new general secretary by the majority party, who was then elected as Prime Minister (until September 2021). Fiscal policy in the coming quarters should remain essentially unchanged with respect to the highly expansionary approach adopted by Abe. Non-residential investment is expected to achieve modest growth linked to machinery, while exports will continue to be a negative factor for growth, with lower imports as well. Inflation, currently negative, is expected to return close to zero by the end of 2020, remaining far from the desired 2% for the foreseeable future. As the pandemic has worsened, the government has introduced two manoeuvres, each worth about 20% of GDP, to support households and businesses, together with other measures to strengthen the healthcare system and public investment.

Emerging Economies

The picture with regard to the emerging economies is patchy. Some, especially in Asia, are expected to recover well, while many others - especially in Africa and South America – are burdened by major public debt that compromises their macroeconomic stability. Overall, due to the effects of the pandemic, the GDP of the emerging economies probably fell by 3.6% during 2020, with expectations of healthier 5.5% growth in 2021.

GDP in China has continued to strengthen, supported by all sectors of the economy. Q3 growth of 2.7% highlighted the extension of the recovery to the service sector, which had remained penalised for longer. Control over the pandemic appears highly effective at the moment, with marginal numbers of cases; this, combined with the lifting of restrictive measures, has increased the confidence of households and businesses. Looking at the October macroeconomic data, services have experienced lively growth (+7.4%) and an analysis of retail sales (+4.3%) shows - symbolically - that even the catering sector, among the worst hit by the pandemic, has returned to growth (+0.8%). After the initial support provided, monetary policy has tightened a little, principally to avoid overheating the property sector. GDP is forecast to have grown by 2.0% in 2020, while the outlook for growth in 2021 remains good (+8.8%). Relations with the new US administration remain to be seen after the trade war with the Trump administration, although in the meantime China has woven and completed an historic FTA with all the principal Asian countries (including Japan and South Korea).

The economy remains weak in India, although better than in the first half of the year due to the steady reopening after the lockdown. The recovery has benefited from the good performance of the agricultural sector, but the remaining anti-pandemic restrictions in the rest of the economy have, despite some relaxation, weakened the recovery of industry and services by dampening both consumer and investment demand. In addition to this unfavourable outlook, investment is challenged by a financial sector hampered by inefficient public sector banks and the high level of NPLs. The macroeconomic situation has shown signs of improvement in the final months of 2020, with Q3 data causing an improvement in the estimates for the full year (-9.9% formerly -11.2%) and also for 2021 (+3.9%). The vaccine hopes that emerged in December are however challenged, in practical terms, by serious logistical difficulties that remain unresolved, which will slow the return to normality.

The prospects for the Russian economy continue to improve gradually, given the massive public support provided and rising oil prices. Brazil's prospects remain fragile, albeit in a context of recovery and weak growth. The most critical issues among developing countries are in Turkey, Argentina, South Africa and Venezuela.

Europe

The trend over the summer months was very encouraging, with continuation of the recovery of the leading European economies that started in May. This upturn was not only very lively, but also better than expected. Relaxation of the pandemic restrictions during the third quarter contributed to strong GDP growth, enabling some countries to recover their Q2 losses. That said, the macroeconomic indicators for the fourth quarter indicate a possible interruption of the recovery process due to the re-emergence of the healthcare emergency. The climate of consumer confidence in the principal countries waned considerably in November, almost returning to the worst levels seen during the first wave of the pandemic. Confidence among retailers also slipped, albeit to a lesser extent: forecasts regarding their expectations for 2021 are worse. By contrast, there are no obvious signs of weakened confidence in the construction industry; industrial production rose moderately in October, with almost complete recovery in the operating assets sector, which was badly hit by the pandemic. It seems however, based on expectations, that this process in the manufacturing sector may have been interrupted in November.

The downward trend in GDP is common to an Euro area countries, although with marked differences between the individual nations; following the Q3 spike up, the economic recovery will be impeded by the new healthcare emergency, with a return to pre-crisis levels of activity deferred to 2022 in Germany and only 2023 in France, Italy and Spain. Overall, GDP in the Euro area is expected to have fallen by 7.2% in 2020: Spain was the worst hit by the pandemic, with a likely drop in GDP during 2020 of 11.6%.

Italy

GDP declined by 5% on an annualised basis during the third quarter of 2020, despite the strong recovery achieved during the summer months. Domestic demand contributed most to this upturn (+13.1% y/y), which was assisted by an improvement in the balance of payments (+3.9% y/y), although inventories fell (-1.1%). The improvement in domestic demand was driven by the strong growth in household spending (+12.4%) and investment, which briefly returned to pre-crisis levels. The recovery of the foreign components was led by the exports of goods and services, which grew somewhat faster than the related imports. On the supply side, the greatest contribution (+7.8%) came from private services including, in particular, wholesaling and retailing, car repairs, transportation and accommodation and catering services. The re-imposition of restrictions during the final quarter of the year caused the consumer confidence indicators to turn negative again. The unemployment rate rose slightly (9.8% from 9.7% in September), as did youth unemployment (30.3% from 29.7%). The harmonised consumer price index remains negative (-0.5%). Overall, GDP is expected to have fallen by 9.1% during 2020: the massive economic and fiscal policy measures implemented by the government should manage to contain the decline in domestic product, at the expense of a sharp rise in public debt. GDP is expected to return to growth in 2021 (+4.1%), although the pre-crisis levels will probably only be reached during 2023.

3.2 - Capital markets and the banking system in Italy

Financial and monetary markets

The ECB kept the policy rates unchanged in December (reference rate of zero, -0.50% on deposits). The Governing Council expects reference interest rates to remain at current levels until it sees the inflation outlook converging steadily to levels below but close to 2% in the medium term.

The FED, as expected by operators, confirmed its monetary policy. Interest rates have remained unchanged (in a range between 0 and 0.25%). The current approach of American economic policy will last as long as it has overcome the recent unprecedented facts and it will go back in line with full occupation and price stability target.

In the first ten days of December, 3-month Euribor was still negative (-0.53%); the 10-year IRS rate, on the other hand, was -0.25%. On the bond market, 10-year benchmark rates fell in the USA (0.86%, having been 1.80% at the end of 2019) and in the Eurozone; in Germany, the benchmark rate came to -0.53% (from -0.33% at the end of 2019), while in Italy it was 0.63% (down from 1.18%).

International share prices grew on a monthly basis. In detail, the Dow Jones Euro Stoxx index rose by 5.5% m/m (+6.6% y/y), the Standard & Poor's 500 index by 3.9% (+14.3% y/y) and the Nikkei 225 index by 7.9% (+8.8% y/y). Similarly, the major European stock market indices showed positive monthly performances; the FTSE Mib rose by +9.9% (-10.4% y/y), in France the CAC40 rose by +10.2% (-9.5% y/y), while in Germany the DAX30 rose by +2.8% (-1.8% y/y). The main banking indices tended to be rising on a monthly basis: the Italian FTSE Banks index rose by 13.8% m/m (-23.2% y/y), the Dow Jones Euro Stoxx Banks by 21.9% m/m (-27.7% y/y) and the S&P 500 Banks rose by 12.5% m/m (-22.9% y/y).

Banking markets

With regard to the banking market, the annual trend in deposits from resident customers increased by +6.0%. Internally, short-term deposits continued to grow (+8.3%, +5.8% at the end of 2019), while bonds maintained their negative trend (-9.3%, -1.9% at the end 2019). The rise in volumes was accompanied by a progressive fall in the overall remuneration (0.49%, compared with 0.58% at the end of 2019). In terms of lending, the latest available data confirms the recovery in loans to the private sector (+4.4%, compared with +0.2% at the end of 2019); the sector was led by loans to businesses (+7.4%, +1.4% in December 2019), which benefited from the Decree Law called Liquidity The trend of loans to households is stable (+2.1%, +2.4% at the end of 2019). Lending to the productive sector continues to be influenced by the trend in investments and the economic cycle that, although recovering, remains muted. In November rates on new loans to households and businesses remained very low (2.25%). Within them, the interest rate on home purchase loans to households was 1.26% (1.44% in December 2019), while for loans to businesses it came to 1.10% (1.37% at the end of 2019), coming near to the all-time low recorded in March (1.05%).

3.3 - Covid-19

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 European institutions (European

Commission, European Council and European Parliament), the European and Italian Supervisory Authorities (EBA, BCE/SSM, Bank of Italy, ESMA, Consob) and the international bodies (**IASB, Basel Committee**) have adopted a series of measures and guidance intended to help banks to mitigate the economic impact of the Covid-19 pandemic. The principal actions and support measures adopted or being introduced at the reference date for this financial report are summarised below.

Government intervention

State aid in the European context

The European institutions have activated the suspension clause of the Stability Pact, i.e. the rules that Member States have to follow in the area of public finances.

In addition, on 19 March 2020 the European Commission adopted a Temporary Framework to allow Member States to take full advantage of the flexibility provided by the rules on state aid to support the economy in the current Covid-19 emergency. Along with many other support measures that can be used by Member States under the existing rules on state aid, the temporary framework allows Member States to ensure that businesses of all kinds have sufficient liquidity and to maintain the continuity of economic activity during and after the Covid-19 epidemic.

This temporary framework, based on article 107 (3) (b) of the Treaty on the Functioning of the European Union, provides for five types of aid:

- direct grants, selective tax breaks and advance payments: Member States will be able to set up schemes to grant up to € 0.8 million to a company in urgent need of liquidity;
- State guarantees for bank loans contracted by businesses: Member States will be able to provide state guarantees to allow banks to continue providing loans to customers who need them;
- subsidised public sector loans to businesses: Member States will be able to grant loans with favourable interest rates to businesses. These loans will help businesses to cover their immediate working capital and investment needs;
- guarantees for banks that channel state aid to the real economy: some Member States plan to exploit banks' existing lending capacities and to use them as a channel for supporting businesses, especially small and medium-sized enterprises. The framework makes clear that such aid is considered direct aid to the customers of the banks and not to the banks themselves and provides guidelines to minimise any distortion of competition between banks;
- short-term export credit insurance: the framework introduces additional flexibility as to how to demonstrate that some countries constitute uninsurable risks on the market, thus allowing states to offer short-term export credit insurance coverage, where necessary.

On 3 April, the European Commission extended the Temporary State Aid Framework adopted on 19 March 2020 to allow Member States to accelerate the research, testing and production of coronavirus-related products, to protect jobs and further support the economy.

Modification of the temporary framework also widens the range of existing types of support that Member States can provide to firms in difficulty. For example, it now allows Member States to grant zero-interest loans, loan guarantees covering 100% of the risk or to provide capital up to a nominal value of € 0.8 million per company. This can also be combined with "*de minimis*" aid (bringing aid per company to Euro 1 million) and other types of aid. This possibility should be particularly useful for meeting the urgent liquidity needs of small and medium-sized enterprises very quickly. The modification will be effective until the end of December 2020.

On 14 April 2020, as part of the temporary state aid framework, the European Commission approved an aid package to support the Italian economy to deal with the effects of the Covid-19 epidemic. In order to implement these measures immediately, the Ministry of Economic Development made the guarantee request form for up to € 25 thousand available online. Circular 13/2020 of Mediocredito Centrale, the manager of the Guarantee Fund, also communicated that "following the authorisation granted by the European Commission" on 16 June, the amendments to art. 13 of the Liquidity for Companies decree (23/2020) are applied to requests for admission to the Fund submitted from 19 June 2020; as a result, companies and professionals can apply to banks for loans covered 100% by the SME Guarantee Fund of up to 30 thousand euro and with a ten-year term.

On 21 April 2020, the European Commission also approved two additional support schemes, for a total of Euro 150 million, for the agriculture, forestry, fishing and aquaculture sectors in the context of the Covid-19 pandemic.

On 2 July 2020, the Commission extended the validity of certain rules for the non-emergency provision of State aid that would otherwise have expired at the end of 2020. At the same time, following consultations with the member States, certain targeted changes were made to the current regulations in order to provide certainty about their application during the COVID-19 crisis.

Lastly, on 13 October 2020, the Commission adopted the fourth amendment of the Temporary Framework, extending its instructions for another six months to 30 June 2021, except in relation to the recapitalisation measures that were extended for an additional three months to 30 September 2021; the admissible types of State aid were also expanded further. On certain conditions, support for the fixed costs not covered by businesses due to the pandemic is now allowed.

Italian Government Decrees

To counteract the negative effects that the Covid-19 emergency is having on the national socio-economic fabric and to prevent the transitory crisis from producing permanent effects, in the first few months of the year the Italian government has implemented a series of measures of extraordinary necessity and urgency. Among these, we note, in particular, Decree Law 18/2020 issued on 17 March 2020 "Measures to strengthen the National Health Service and economic support for families, workers and businesses related to the Covid-19 epidemiological emergency" (the "**Cure Italy**" decree) and Decree Law 23/2020 issued on 8 April 2020, "Urgent measures regarding access to credit and tax obligations for companies, special powers in strategic sectors, as well as interventions on health and work, extension of administrative and procedural terms" (the "Liquidity decree") which, within their vast sphere of intervention, contain a series of provisions that are important for the banking system.

The **Cure Italy decree** acts along four main lines of intervention. Firstly, the resources available to healthcare system have been increased to allow, among other aspects, the recruitment of additional doctors and nurses and expand ICU capacity. Secondly, measures to support household income are being introduced through a multiplicity of tools, most of which are intended to strengthen social safety nets throughout the country for employees and for self-employed workers and specific sectors. In particular, the existing social safety nets, such as the Ordinary Redundancy Fund[1], the Wage Integration Fund and the Redundancy Fund in Derogation have been extended to all companies forced to limit or stop business due to Covid-19, reducing the working hours of employees in whole or in part. In addition, the decree suspends lay-offs for economic reasons for the duration of the emergency. The third line of intervention relates to support for corporate liquidity, put at risk by the collapse of demand following the block on economic activity, through the banking system and the use of the Central Guarantee Fund. The

[1] the introduction of "National Covid-19" as a new explanation for a banking transaction.

Italian government's primary objective is to prevent the difficulties of the real economy from escalating due to a lack of liquidity and a credit squeeze. The following matters are foreseen in particular:

- the temporary postponement of deadlines for payments of tax and social contributions;
- the obligation to maintain banks' credit lines[2] to respond promptly to the exceptional nature and urgency of liquidity, especially of small and medium-sized enterprises (SMEs);
- recognition to banks by the State of guarantees on one third of the loans subject to a moratorium. At the same time, the Central Guarantee Fund for SMEs has been strengthened, in terms of resources and operating methods, and a public guarantee has been given on the exposures assumed by Cassa Depositi e Prestiti in favour of banks and financial intermediaries that provide loans to companies affected by the emergency that operate in specific sectors.

The fourth line of intervention of the Cure Italy decree concerns aid for the sectors that have been damaged the most, such as the tourism/hotel sector, transport, catering and bars, culture (cinemas, theatres), sports and education.

Among the tax changes made by this decree, there is art. 55 "Financial support for businesses" which introduces important measures in favour of selling non-performing loans. In particular, the company that completes the sale of pecuniary claims against defaulting debtors by 31 December 2020, has the possibility of transforming the deferred tax assets (DTA) deriving from the following components into tax credits:

- tax losses not yet deducted from taxable income on the date of sale;
- the notional return exceeding total net income, not yet deducted or used as a tax credit on the date of sale (so-called ACE Excess),

for a total amount not exceeding 20% of the nominal value of the receivables sold, with a maximum limit of 2 billion euro of gross value of the receivables sold for each company (taking into account all sales made by 31 December 2020 by companies linked together by control relationships). These provisions are not applicable to companies for which the state of financial difficulty or the risk of financial difficulty or the state of insolvency has been ascertained.

Lastly, of the other measures introduced by the Cure Italy decree, mention should be made of art. 106, which allows companies to extend the deadline for approval of their financial statements for the year ended 31 December 2019 to 180 days, establishing, also by way of derogation from the current articles of associations, the possibility of voting electronically or by correspondence, of attending the meeting remotely by video/audio conferencing equipment and, lastly, the possibility of designating for the ordinary or extraordinary meetings the representative envisaged by art. 135-undecies of Legislative Decree 58 of 24 February 1998.

The Cure Italy decree was converted into Law 27/2020, which was published in the Official Journal on 29 April 2020. The main changes introduced during the process of conversion into law include the extension of the beneficiaries of the "first home" mortgage solidarity fund, the so-called Gasparrini Fund, providing, among other things, for the suspension of mortgage loans of up to 400 thousand euro (the previous threshold was 250 thousand euro), as well as of mortgages granted through the Guarantee Fund for first home purchase loans, managed by CONSAP S.p.A.

[2]Banks are obliged to: i) grant the suspension of mortgage and loan repayments until 30 September; ii) keep available any amounts not yet drawn down on lines of credit and iii) not to revoke lines of credit and advances already granted.

The **Liquidity Decree** introduces urgent measures regarding access to credit and postponement of obligations for companies, as well as special powers in sectors of strategic importance and justice, to deal with the consequences of the coronavirus emergency. In particular, it ensures the granting of credit for 400 billion euro to the economy (on top of the 350 billion subject to a moratorium or guaranteed by the Cure Italy decree); it also envisages:

- specific measures to facilitate access to credit, to support liquidity, exports, internationalisation and capital investment; among these, enhancement of the guarantees granted through SACE Simest, a company of the Cassa Depositi e Prestiti Group, on loans of companies affected by the emergency, provided that the loans are intended for production activities located in Italy;
- faster payment of suppliers by the public administration;
- enhancement of the special powers in the sectors of strategic importance, as well as the financial transparency obligations; among these, an extension of the "golden power", i.e. the instrument that allows the State to authorise in advance corporate operations in companies operating in strategic sectors for the country system, such as banking, insurance, water and energy, in order to block hostile takeover bids;
- other tax and accounting measures, such as a further postponement of tax obligations by workers and businesses, and other measures, such as the temporary postponement of the deadline for adjourning civil and criminal proceedings pending at all judicial offices, as well as suspension of the deadline for carrying out any act of civil and criminal proceedings.

On 14 May 2020, the Government adopted urgent measures in the field of health, support for work and the economy, as well as social policies, connected to the epidemiological emergency caused by Covid-19 (Relaunch Decree). The main measures to support businesses include:

- a non-refundable contribution in favour of persons carrying on business and self-employment activities, one-man businesses with VAT number, including companies carrying on agricultural or commercial activities, also in the form of a cooperative, with turnover in the last tax period of less than 5 million euro. The contribution is due if turnover in April 2020 was less than two thirds of the turnover in April 2019.
- the exemption from paying the IRAP balance due for 2019 and the first instalment, equal to 40%, of the IRAP advance due for 2020 for companies with revenues of between 0 and 250 million and self-employed workers with a corresponding amount of income. The obligation to pay advances for the 2019 tax period remains valid;
- for persons engaged in a business, art or profession, who have suffered a decrease in turnover of at least 50% in March, April and May compared with the same months of the previous tax period, a tax credit of 60% of the monthly amount of the rent for non-residential properties used for industrial, commercial, craft, agricultural, tourist activities or for the habitual and professional exercise of a self-employed activity;
- abolition of payment of the first instalment of IMU (State and Municipality quotas) due on 16 June 2020 for owners of properties classified in cadastral category D/2, i.e. hotels and guest-houses, providing their owners are also the managers of the activities carried on there. The decree also provides the same facility for bathing, maritime, lake and river establishments;
- the reduction in expenses incurred by low voltage electrical utilities other than domestic use, with reference to the items in the utility bill identified as "meter transport and management" and "general system charges";

- strengthening the capital of small and medium-sized enterprises, with the possibility for natural persons to detract and for legal entities to deduct, for 2020, 20% of the amount invested by the taxpayer in the share capital of one or more joint-stock companies, in limited partnerships, limited liability companies, also simplified, cooperative enterprises, which do not operate in the banking, financial or insurance sector. The maximum amount of investment that can be detracted/deducted must not exceed 2,000,000 euro;
- additional rules to simplify and speed up venture capital-raising operations through increases in capital of companies;
- authorisation to Cassa Depositi e Prestiti S.p.A. (CDP) to set up a specific fund, called the "Relaunch Fund", to which assets and legal relationships can be contributed by the Ministry of Economy and Finance. It can be divided into sectors and its resources will be used to support and relaunch the Italian economy, in compliance with the European Union regulatory framework on State aid adopted to cope with the Covid-19 emergency or at market conditions.
- establishment of the "SME Capital Fund", the management of which will be entrusted to Invitalia S.p.A., the national agency for the attraction of investments and company development. The purpose of the fund will be to subscribe, by 31 December, participatory financial instruments issued by the companies already indicated in the previous point;
- establishment at the Ministry of Economic Development of the "Fund for safeguarding employment levels and the continuation of business activities", with a budget of 100 million euro for 2020 and an increase in the national fund to support access to rental housing, of the fund to cover the guarantees granted to small and medium-sized enterprises, of ISMEA (Institute of services for the agricultural food market) for guarantees to SMEs in the agro-food sector, the first home loan guarantee fund, the fund for the purchase of vehicles with low CO2 emissions, of the integrated promotion fund established by the "Cure Italy" decree, of the 394/81 fund for the internationalisation of SMEs, with the further establishment of a guarantee fund aimed at relieving small and medium-sized enterprises that draw on credits for internationalisation from the costs and administrative burdens deriving from the need to provide bank guarantees and insurance for part of the loans obtained;
- establishment at the Ministry of Economic Development of a "Technology Transfer Fund", aimed at promoting initiatives and investments useful for the enhancement and use of research results at companies operating on the national territory, with particular reference to innovative start-ups;
- further rules aimed at strengthening public support for the birth and development of innovative start-ups, acting within the ambit of "Smart&Start Italia";
- the provision that the regions and autonomous provinces, other territorial bodies, Chambers of Commerce can adopt direct aid measures, out of their own resources, up to an amount of 800,000 euro per company, granted in the form of direct grants, tax benefits and payment or other forms, such as repayable advances, guarantees, loans and equity investments.

Law 126/2020 enacting Decree 104 dated 14 August 2020 on "Urgent measures to support and relaunch the economy" (so-called **August Decree**) was published in Italian Official Gazette 253 on 13 October 2020, resulting in allocation by the government of a further Euro 25 billion to strengthen the actions taken to recover from the adverse consequences of the COVID-19 pandemic. This measure was amended several times during the parliamentary examination phase, especially with regard to the Guarantee Fund for SMEs and the 110% Superbonus. In particular, the special moratorium on the debt exposures of micro-businesses and SMEs was extended to 31 January 2021 (see art. 56 of the Cure Italy Decree);

Law 76/2020 dated 18 December 2020 enacting Decree 137/2020 (so-called **Restoration Decree**) was published in Italian Official Gazette 319 on 24 December 2020, combining the three subsequent decrees issued during November 2020 and including a number of provisions for particular interest to the banking and financial system: (i) suspension of enforced collection procedures in relation to first homes; (ii) changes to the first home guarantee fund; (iii) simplified access to the over-indebtedness procedures for businesses and consumers and rules for procedures that are currently pending; (iv) time extension for access to the Gasparrini Fund.

Lastly, the special moratorium until 30 September 2020 envisaged in art. 56 of the Cure Italy Decree was extended to 30 June 2021.

Monetary policy intervention

Financing transactions

At the meeting of 12 March 2020, the Governing Council of the ECB approved some significant changes to refinancing operations, while leaving the interest rate on the main refinancing operations and interest rates on marginal loans and deposits unchanged. These involved in particular:

- an increase in the nominal amounts required for access to TLTRO III and an improvement in the conditions applied;
- the introduction of new financing transactions (LTRO).

With reference to TLTRO (Targeted Longer-Term Refinancing Operations) III, the maximum total amount that counterparties are entitled to borrow has been increased, for all future operations, from 30% to 50% of the stock of eligible loans as of 28 February 2019, while the 10% limit of the stock of eligible loans, applied to determine the amount of funds obtainable in each transaction, has been removed. Particularly favourable conditions have been applied in the period from June 2020 to June 2021: during this period, the interest rate on TLTRO III operations will be 25 basis points lower than the average rate applied to the Main Refinancing Operations (MRO).

In the same period, for counterparties that have net lending between 1 April 2020 and 31 March 2021 that is not negative, the interest rate applied on existing TLTRO III will be 25 basis points lower than the average interest rate applied on the Deposit Facility in the same period and, in any case, not exceeding -0.75%.

The option to repay the amounts borrowed under TLTRO III before their final maturity was brought forward one year by the settlement of each operation (instead of two years), starting from September 2021.

On 30 April 2020 the Governing Council decided to further relax the conditions applied with reference to the interest rate and the incentive mechanism. In particular:

- for the period from 24 June 2020 to 23 June 2021 the interest rate on all TLTRO III operations will be 50 basis points (instead of 25) lower than the average rate applied to MROs in the same period (currently 0%);
- for counterparties whose net lending in the period 1 March 2020 - 31 March 2021 is not negative, the interest rate applied from 24 June 2020 to 23 June 2021 on all TLTRO III transactions will be 50 basis points (instead of 25);
- for banks that achieve this net lending target, more favourable conditions will be applied for the duration of the operations; otherwise the remuneration scheme originally envisaged will apply, in other words: "base" rate equal to the average of the MRO rate over the life of the operation, reduction of this rate in the event of exceeding a certain net lending benchmark in the period 1 April 2019 - 31 March 2021, up to a minimum equal to the average of the DF rate. Lastly, the net lending threshold,

in excess of the benchmark, to be reached in order to benefit from the maximum rate reduction, was reduced from 2.5% to 1.15%.

In order to encourage banks to maintain the current level of bank lending, a new target for the volume of loans granted was introduced in December 2020. Specifically:

- for counterparties whose net suitable lending between 1 October 2020 and 31 December 2021 is at least equal to the respective reference levels, the interest rate applied on TLTRO-III transactions during the period from 24 June 2021 to 23 June 2022 will be 50 basis points lower than the average rate over the same period for deposits with the central bank and, in any case, not more than -1%; after 23 June 2022, the rate applied will be equal to the average for deposits with the central bank over the entire period of the transaction concerned;
- for counterparties whose net suitable lending between 1 October 2020 and 31 December 2021 is lower than the respective reference levels, the rate applied after 23 June 2022:
  - will be calculated in accordance with the rules described earlier for operations carried out until March 2021;
  - will be equal to the average rate for the principal refinancing operations over the entire period of the transaction concerned for operations carried out in June, September and December 2021.

The Governing Council of the ECB, at its meeting on 7 April 2020, approved measures aimed at loosening the eligibility criteria and the risk control system applied to the activities that can be lodged as collateral for the Eurosystem's refinancing operations, in response to the economic and financial crisis caused by the Covid-19 pandemic. The measures introduced are aimed at widening the availability of guarantees, facilitating banks' access to financing and supporting credit for businesses and households by strengthening the use of guaranteed loans and a general increase in risk tolerance by the Eurosystem.

These temporary interventions will remain in force until the end of the pandemic emergency purchase programme (PEPP). By the end of 2020, the Governing Council will assess whether an extension is needed to continue ensuring adequate availability of guarantees for counterparties.

On 22 April 2020 the Governing Council of the ECB adopted temporary measures (applicable until September 2021) to mitigate the effects on the availability of collateral to guarantee refinancing operations of possible rating downgrades of negotiable assets due to the Covid-19 pandemic.

In particular, the Governing Council introduced a grandfathering regime under which negotiable assets and issuers that met the minimum credit quality requirements for the eligibility of guarantees at 7 April 2020 (BBB- for all activities, with the exception of the ABS) will continue to be eligible in the event of rating downgrades, provided their rating remains equal to or greater than credit step 5 on the Eurosystem's harmonised rating scale (equivalent to a BB rating).

The measures adopted therefore offer protection against potential risks of a downgrade and consequent ineligibility of all negotiable assets (securities) included in the Group's counterbalancing.

On 30 April 2020, the Governing Council of the ECB decided, temporarily, to carry out longer-term refinancing operations for the pandemic emergency (PELTRO) to support the liquidity of the Eurozone's financial system and help preserve the orderly functioning of money markets by providing effective liquidity support after the expiry of the additional LTROs carried out since March 2020. Counterparties participating in PELTRO will be able to benefit from the easing of the eligibility criteria applicable to assets that can be lodged as collateral, which are in force until the end of September 2021.

Market liquidity support

At the same meeting on 12 March 2020, in addition to the current asset purchase programme (APP), the ECB activated a temporary window to increase the purchase of securities, up to the end of the year, for a total of 120 billion euro, with a view guaranteeing favourable financing conditions for the real economy in a context of considerable uncertainty.

Faced with the rapid spread of the epidemic and the onset of significant turbulence in financial markets, on 18 March the Governing Council, during an extraordinary meeting, introduced a new programme for the purchase of public and private securities for the pandemic emergency (PEPP) for a total of 750 billion euro.

The purchases, which will be carried out in a flexible manner over time, involving types of assets and in different jurisdictions, will continue at least until the end of the current year and, in any case, for as long as the epidemic persists; they will concern all financial assets covered by the APP, including government bonds issued by Greece, which have not hitherto been admitted to the Eurosystem's programmes. The Governing Council has also included commercial paper with adequate creditworthiness on the list of assets eligible under the programme to purchase bonds issued by non-financial companies of countries in the Eurozone (Corporate Sector Purchase Programme, CSPP).

Regulatory and supervisory intervention by institutions

The European institutions (European Commission, European Council and Parliament) the Italian and European Supervisory Authorities (EBA, ESMA, ECB/SSM, Bank of Italy, SRB) international institutions (IASB, Basel Committee) are adopting a series of measures to deal with the effects of the Covid-19 pandemic on the economy. These are measures designed to support banks in mitigating the economic impact of the pandemic.

Regulatory interventions

Capital requirements

The European Central Bank (ECB), on 12 March 2020, issued a press release "ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus" which indicated important measures with reference to the capital and liquidity requirements of banks, for the duration of the Covid-19 pandemic, which in all respects represents a situation of severe systemic stress.

Specifically, the ECB has envisaged, among other things:

- the possibility of operating temporarily below the level of capital established by the Pillar II Capital Guidance (P2G), the capital conservation buffer (CCB) and the liquidity coverage ratio (LCR);
- the possibility of partially using Additional Tier 1 or Tier 2 Capital to meet the requirement of Pillar II, anticipating a measure contained in the Capital Requirements Directive V (CRDV), which was due to come into force in 2021. These measures free up capital that banks can use to support the economy. In this regard, the ECB underlined the fact that banks should not use the positive effects of these measures to increase dividends or bonuses;
- application of the preferential treatment to non-performing exposures (NPE) currently envisaged for loans guaranteed by official export credit agencies to exposures that become non-performing and which benefit from public guarantees granted for the Covid-19 emergency (i.e. a minimum coverage of 0% for seven years as part of the so-called "calendar provisioning" envisaged by the Addendum).
- The ECB also indicated that maximum flexibility regarding NPE reduction strategies will be ensured, taking into account the extraordinary nature of current market conditions.

On 26 June 2020, the European Commission adopted EU Regulation 873/2020 containing a number of measures for easing capital requirements, such as:

- an amendment to the transitional provisions of IFRS 9 "Financial Instruments", 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. In particular, the amendment provides for the re-introduction into Tier 1 capital of a progressively declining share of the higher adjustments equal to 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024;
- on the bank's request, the possibility to sterilise any unrealised gains and losses accumulated as of 31 December 2019 and recognised in the financial statements under "Changes in the fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI)", corresponding to exposures to central administrations, regional administrations or local authorities for the period 2020-2022;
- bringing forward the date of application of (a) SMEs Supporting Factor, (b) Infrastructure Supporting Factor and (c) fairer calibration of salary- or pension-backed loans;
- given the rapid transition of the banking sector towards a more digital environment, replacement of the previous prudential regime allowing the total advance deduction of software investments with a simplified approach based on the prudential amortisation of software over a maximum of three years (in October, the EBA published the Regulatory Technical Standards – RTS - on this subject, which further clarify the prudential treatment of software assets);
- the amendments to the Regulation on the prudential backstop for non-performing loans ("calendar provisioning"), or the extension of the preferential regime envisaged for loans guaranteed by Export Credit Agencies (SACE in Italy) as regards the provisioning obligations (0% for the first 7 years, 100% provision only in the eighth year), to all loans guaranteed by the State (only for the guaranteed portion of the loan);
- As regards the leverage ratio, the change in the compensation mechanism associated with the discretion of the competent authority to allow banks to temporarily exclude exposures in the form of central bank reserves from the calculation of the leverage ratio.

Liquidity requirement

With regard to the Liquidity requirement, the ECB has allowed supervised banks to operated below the 100% Liquidity Coverage Ratio. The ECB has stressed the temporary nature of the measures adopted, confirming their validity until further notice.

Classification of exposures for accounting and prudential purposes

Various authorities and standard setters have commented on the prudential and accounting rules that governing credit risk: European Commission, Ecofin, ECB, EBA, ESMA, IASB, BCBS. The general recommended approach is to use in full the flexibility within the prudential and accounting rules to support the households and businesses affected by the pandemic.

The suggested flexibility is also to avoid excessive pro-cyclical effects; at the same time, the authorities have stressed the importance of banks continuing to measure risks accurately and transparently.

Specifically, the indications provided by the authorities can be group together as follows:

- classification as forborne;
- classification as performing/non-performing;

- update of macroeconomic scenarios;
- assessment of a significant increase in credit risk (SICR) for IFRS 9 purposes;
- accounting for the effects (gain/loss from forbearance) relating to contractual changes deriving from customer support measures;
- inclusion of state guarantees in the calculation of ECL for IFRS 9 purposes;
- public disclosures;
- financial disclosures.

Classification as forborne

The European Banking Authority (EBA) intervened on this specific aspect with a document dated 25 March 2020 called "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of Covid-19 measures", which discussed the accounting and prudential issues relating to the potential reclassification of loans as a result of public and private moratoria and other forms of support adopted in response to the pandemic.

In particular, the EBA specifies that the public and private moratorium measures granted in connection with the pandemic, being designed to mitigate systemic risks and not specific needs of a single debtor, must not be automatically classified as forbearance measures, neither for the purpose of classifying the loans that benefit from it, nor for IFRS 9 purposes (i.e. for transfers between risk stages, particularly transfers to stage 2 and consequent recognition of the expected lifetime loss instead of the 12-month loss), as well as for the prudential classification of positions among non-performing loans.

That said, the EBA recalls that, even in this specific circumstance, the banks are called upon to assess the creditworthiness of the debtors who benefit from the moratorium and, consequently, to consider reclassifying those debtors that show a deterioration in their creditworthiness.

In carrying out these assessments - which may concern a large audience of debtors - banks will have to shy away from automatic approaches and give preference to risk-based analyses. Furthermore, once the moratoria are over, particular attention must be paid to companies that have late payments or other signs of deterioration in their creditworthiness.

On 2 April 2020, the EBA also published the document called "Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the Covid-19 crisis", which gives detailed criteria that must be respected for the public and private moratoria granted by 30 June 2020, so that they are not classified as exposures subject to onerous concessions or restructurings. The guidelines also establish that banks must continue to identify promptly any situations of possible financial difficulty on the part of debtors and provide for consistent classification in accordance with the regulatory framework.

The EBA's guidelines refer both to moratorium measures based on legislation and to measures based on private initiatives that have "general scope", i.e. granted by banks in order to prevent systemic risk by giving widespread support to all companies temporarily in difficulty due to the pandemic. These guidelines express a series of conditions that must all be satisfied so that a moratorium can be considered to have “general scope”:

1. the moratorium is founded on domestic legislation or a private initiative. In the latter case, the measure must be founded on an approach with broad acceptance within the banking sector, in order to ensure that the moratoria granted by the various banks are consistent;
2. the moratorium is applied in relation to a broad spectrum of debtors, determined on the basis of general criteria, such as belonging to a certain type of customers (retail, SME, etc.), originating from

one of the areas most affected by the pandemic, the type of exposure (mortgage, lease, etc.), belonging to a production sector that has been particularly affected, etc;

3. the measure solely involves a change in the timing of payments, such as their suspension or rescheduling, or in a temporary reduction in the principal and/or interest to be paid. Accordingly, the moratorium cannot include any other contractual changes (e.g. to the interest rate);
4. the moratorium is applied on the same conditions to all beneficiaries;
5. the measure is not applied to loans granted after the date on which the moratorium was announced;
6. the moratorium is established in order to cope with the emergency generated by the Covid-19 pandemic and is applied before 30 June 2020.

If it meets the requirements listed above, the moratorium measure must not be qualified as a "forbearance measure" unless it was already so at the time of application of the measure.

Recognising the spread of the Covid-19 pandemic, the EBA subsequently decided to extend the application period for its guidance by 3 months, from 30 June to 30 September 2020.

Then, on 21 September, the EBA communicated the gradual elimination of the guidelines for moratoria and invited banks to normalise their lending practices; accordingly, all rescheduling of loan repayments should follow the usual process, which might result in the classification of such loans as in default or forborne.

Subsequently, considering that the support objective is intended to overcome the shortage of liquidity consequent to prolonged lockdowns, the EBA published its "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis*" on 2 December 2020, which reactivated the moratoria guidelines published on 2 April, with a new deadline of 31 March 2021 instead of 30 September 2020.

In this way, the EBA recognised that prolonged lockdowns increase significantly the insolvency risk faced by certain customers and businesses. Given the importance of ensuring that this risk is reflects in the asset positions of banks, reactivation of the guidelines was made conditional on applying them to existing moratoria as well. In particular, when a loan is rescheduled under a general scope moratorium, this should not result in reclassification of the exposure as forborne or its treatment as the restructuring of a doubtful position, on condition that the total rescheduling period does not exceed 9 months. This limit, applied at the level of individual exposure, contains the overall duration of payment suspensions granted under general scope moratoria after 30 September 2020.

The rescheduling of payments agreed after 30 September 2020 should take account of the suspensions already granted under general scope moratoria prior to 30 September 2020. Payment suspensions granted for longer than the 9-month limit under general scope moratoria prior to 30 September are, by contrast, eligible for the treatment specified in the guidelines. Lastly, the ECB reiterates that banks must inform the relevant competent authorities about their plans to ensure that customer positions are assessed in a suitable manner.

Classification as performing/non-performing

The moratoria granted in the context of the Covid-19 pandemic generate impacts on the recognition and reporting of past due loans as the past due calculation takes the agreed changes in payment deadlines into account; consequently such concessions should, in the short term, lead to a reduction in transfers to non-performing exposures as a result of suspending the deadlines for calculating loans that are past due.

Article 18 of the EBA "Guidelines on the application of the definition of default under art. 178 of Regulation (EU) No 575/2013" of 18 January 2017 (in force for the Group from 31 December 2020) established, in relation to legislative moratoria, that the calculation of past due loans would be interrupted during the period of suspension of payments, leading to an extension of the period of 90 days as a trigger for the transfer of exposures to non-performing loans.

The EBA guidelines of 2 April 2020 referred to above equate moratoria granted on a private basis to general public moratoria in response to Covid-19; consequently, the latter also benefit from the interruption of the calculation of past due loans, providing they comply with the requirements of the EBA guidelines.

The EBA reiterates that the concessions made for Covid-19, in situations where there is practically no change in the present value of the cash flows subsequent to the contractual modification, are not to be considered onerous, they do not involve a transfer to default and represent a temporary relief for those who are unable to fulfil their contractual obligations because of the interruption of activities due to the pandemic.

The EBA underlines that banks are still obliged to evaluate the possible classification of customers benefiting from moratoria under unlikely-to-pay, considering the debtor's ability to cope with the new payment plan (regardless of any public guarantee) and excluding the transfer of these loans to the "onerous restructuring" portfolio.

In this regard, the EBA recognizes that there may be difficulties in making individual assessments for the purpose of classifying a loan as non-performing; in this case the banks must adopt a risk-based approach (e.g. taking into account the sectors most exposed to the long-term effects of the crisis, such as transport, tourism, hotel, retail trade). It will therefore be important, after the suspensions linked to the Covid-19 moratoria, to intercept those exposures that will show delays in payment with respect to the new repayment plans, for the purpose of timely classification as non-performing.

Update of macroeconomic scenarios

In accordance with IFRS 9, the determination of expected credit losses (or, in any case, on all financial instruments that fall within the scope of application of this standard) must always be the result of a joint analysis of the following factors:

- an objective and probability-weighted amount determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and demonstrable information that is available without excessive cost or effort at the reporting date on past events, current conditions and forecasts of future economic conditions (in this case, the reference is to the inclusion of so-called "forward-looking" macroeconomic scenarios).

In the context of IFRS 9, information on future macroeconomic scenarios in which the Group is likely to operate and which clearly affect the situation of debtors with reference to both the "riskiness" of the migration of exposures to classes of lower quality (which would involve "staging") and recoverable amounts (involving the determination of the expected loss on exposures).

The crisis triggered off by the Covid-19 pandemic has produced a deterioration in the economic outlook: the context of pronounced uncertainty limits the reliability of available information, making the task of producing detailed long-term forecasts extremely difficult.

In December 2020, the ECB published a document entitled "Eurosystem staff macroeconomic projections for the Euro Area", which was followed by the "Macroeconomic projections for the Italian economy (coordinated by the Eurosystem)" published by the Bank of Italy in December.

Assessment of a significant increase in credit risk (SICR) for IFRS 9 purposes

Analysis of a significant increase in credit risk and, therefore, the identification of exposures to be included in stage 2 is, as indicated in IFRS 9, a multi-factor, holistic analysis which takes into account the changes in default risk over the expected life of the financial instruments. In this regard, ESMA, in its statement of 25 March 2020, indicated that when economic support programmes for businesses implemented by governments reduce the risk of default on a financial instrument, they must be appropriately considered in the assessment; a moratorium should not therefore be considered *per se* representative of a significant increase in the credit risk of the financial instrument. In addition, the specific circumstances related to the Covid-19 epidemic are an adequate reason to refute the presumption of a significant increase in credit risk for loans that are past due by more than thirty days. This represents a significant departure from the normal requirements of IFRS 9 and will affect the transfers to stage 2. ESMA also invites banks to consider collective approaches, as recommended by the ECB too, when evaluating significant increases in credit risk; in other words, given the difficulty in identifying risk factors or indicators at the individual debtor level, the use of a top-down logic is suggested, i.e. starting from the risk level of specific portfolios (e.g. sectors most affected, such as tourism, hotel, air travel) and the credit rating prior to the Covid-19 pandemic.

For staging purposes, the EBA also underlines the need to distinguish those exposures that will suffer a temporary deterioration in their credit standing from those that will undergo a structural deterioration: a transfer to stage 2 must only be considered for the latter.

Accounting for the effects (gain/loss from forbearance) relating to contractual changes deriving from customer support measures

ESMA is of the opinion that banks ought to assess whether support and economic relief measures could lead to a change in the characteristics of the financial assets and, consequently, their derecognition also in relation to the substantial nature of the change. This assessment must include both qualitative and quantitative criteria. In light of current circumstances, the Authority reiterates that it is unlikely that the change would be considered substantial and lead to derecognition, if the financial support measures provide temporary relief to the debtors affected by the Covid-19 epidemic and the net economic value of the loan is not significantly affected. In any case, the entities must provide adequate disclosure of the accounting policies adopted to determine the substantial nature of the change.

Inclusion of state guarantees in the calculation of ECL for IFRS 9 purposes

The guarantee measures of sovereign states provided in conjunction with legislative moratoria or other support measures have different characteristics in different jurisdictions, but they share the fundamental one of guaranteeing partial or complete recovery of the loans being supported.

On the basis of IFRS 9, ESMA reiterates that such guarantees impact the measurement of expected losses insofar as they can be considered an integral part of the contractual conditions governing the loans and are not recognised independently. In this regard, ESMA recalls with reference to the first aspect that the guarantee does not have to be explicitly established in the contractual clauses (as envisaged by the Transition Resource Group for Impairment in December 2015): for example, this is the case of public guarantees provided jointly with large-scale debt moratoria or economic support measures. The Authority stresses the importance of providing adequate disclosures about the assessments made (see part E - "Information on risks and related hedging policy").

Financial disclosures

In line with the ESMA statements published in March 2020 and in attention call no. 6/20 of 9 April 2020 "Covid 19 - Calling attention to financial disclosures", Consob underlines the importance that issuers provide updated information (i) on risks related to Covid-19 that may have an impact on the economic and financial situation, (ii) on any measures taken or planned to mitigate these risks, as well as (iii) an indication of a qualitative and/or quantitative nature of the potential impacts that have been considered when estimating the company's future performance. In relation to reports subsequent to 31 December 2019, it also draws the attention of directors to carefully evaluate the importance of business planning in order to consider the main risks related to the pandemic that could preclude the achievement of strategic objectives and/or compromise business continuity. These elements could constitute an indication that the assets entered in the financial statements may have suffered impairment, highlighting the need to estimate the recoverable value of the asset. Specific assessments must also be made in relation to other areas of the financial statements that might be affected by the crisis.

With another attention call 8/20 of 16 July 2020, on the recommendations provided by ESMA in the public statement "Implications of the Covid-19 outbreak on the half-yearly financial reports" of 20 May 2020, which it referred to in full, Consob put particular emphasis on the following aspects: (i) the importance when preparing half-yearly reports of the assessments that the directors are required to make pursuant to IAS 36 "Impairment of assets" (IAS 36 paragraphs 9 and 12), with particular reference to the fact that the effects of the Covid-19 epidemic may constitute indicators of impairment that require specific checks to be made on the recoverability of the assets, (ii) attention to the description of uncertainties and significant risks associated with Covid-19, especially if they cast doubt on business continuity, (iii) as regards the description of the impacts of the Covid-19 epidemic on the income statement, inclusion of information, also on a quantitative basis, in a single note of the interim financial report, in order to make users of the financial statements understand the overall impact of the pandemic on the economic results of the period, (iv) where available, presentation of detailed and specific information in relation to the impacts, present and future, of COVID-19 on strategic planning and plan targets, economic performance, financial situation and cash flows, with particular emphasis on measures adopted or planned to face and mitigate the impacts of COVID-19 on activities and economic results, indicating the implementation status. In this regard reference should be made to the "Explanatory notes" in the "Basis of preparation and accounting policies" and "Information on risks and related hedging policy" sections.

<u>ESMA published "European common enforcement priorities for 2020 annual financial reports"</u> on 28 October 2020, drawing attention to the following main priorities for financial disclosures:

- presentation of information (IAS 1) - specific reference to the going concern presumption, the significant use of estimates, information about the impacts of Covid-19 and the methodology used to determine them
- impairment of assets (IAS 36) – requirement to explain how the assumptions and measurements underlying the test have changed since the last financial reports (annual and half-year financial statements) and how the current uncertainties are reflected in those assumptions
- financial instruments (IFRS 7 and IFRS 9) – need for complete disclosure about the risks deriving from financial instruments (especially liquidity risk and sensitivity to market risks) and emphasis on the requirement for precise disclosure about the models used to calculate expected loss and the macroeconomic scenarios used, highlighting the changes since the last financial reports (annual and half-year financial statements)
- leasing contracts (IFRS 16) – general reference to the information required by the standard and, in particular, to application of the amendment issued by the IASB to make it easier for lessees to account for rent concessions

and non-financial information:

- impact of the Covid-19 pandemic on non-financial topics and the principal mitigation actions taken
- social and employment matters, with particular reference to the policies adopted, the operational procedures implemented and the tools used to measure the progress made. With regard to the spread of working from home, emphasis must be placed on the resilience of the IT infrastructure and the ability to prevent and manage IT risks
- business model and value creation explaining, in particular, how the business model affects and is affected by non-financial matters, considering the short-, medium- and long-term objectives of the bank
- issuers are invited to present information on climate change risks in accordance with the guidelines (currently not binding) issued by the European Commission in June 2019, highlighting in particular the mitigation actions taken in the context of their business model, the environmental policies adopted and any objectives and milestones being pursued in this sector.

Lastly, on 6 January 2021, ESMA published a public statement requesting transparent accounting for the third series of Targeted Longer-Term Refinancing Operations (TLTRO III).

Public disclosures

With its communication of 30 June 2020, the Bank of Italy implemented the Guidelines of the European Banking Authority (EBA) on reporting and public disclosure requirements for exposures subject to measures applied in light of the Covid-19 crisis (EBA/GL/2020/07). The Guidelines require provision of the following half-yearly information, with 30 June 2020 as the first reporting date:

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

Changes to Circular 262 – Bank financial statements: schedules and rules for preparation

The communication issued on 15 December 2020 supplemented the instructions governing the financial statements of banks (Circular 262/2005) to include information for the market about the effects that Covid-19 and the support measures for the economy have had on the strategies, objectives and risk management policies of intermediaries, and on their economic and financial positions.

The principal risks and uncertainties faced by the bank as a result of Covid-19 must be described, together with the related considerations made by the intermediary in accordance with IAS 1.

Necessary information must be provided about any changes in accounting estimates linked to Covid-19 with a significant effect on the current and/or future years, so that their nature can be understood (e.g. effects on credit risk and the impairment of financial assets (IFRS 9), leasing contracts (IFRS 16), non-financial assets (IAS 36), actuarial gains/losses on the provision for severance indemnities (IAS 19) and the vesting conditions for share-based payments (IFRS 2)), as well as their impact in absolute and relative terms on the principal captions of the balance sheet and income statement.

Additional information about the changes made to the models used to determine expected losses pursuant to IFRS 9 must be provided in PART E - Information on risks and related hedging policy, in the section on credit risk.

With regard to contractual changes and accounting derecognition (IFRS 9), a brief description must be provided about any contractual changes linked to the Covid-19 measures adopted by the government, trade associations and individual banks, specifying the criteria used to assess the materiality of those changes for possible derecognition purposes, as well as the related impacts.

Banco Desio Group initiatives

Safety of employees

Consistent with the instructions received from the governmental authorities, the actions taken at Group level have focused constantly on protecting the health and safety of employees and ensuring business continuity.

To handle the epidemic, a collegial body called the Operational Prevention Committee was set up immediately. It oversaw all stages of event assessment and definition of the prevention and operational measures to be implemented by reconciling the emergency regulatory framework established by the competent Authorities and the technical-organisational measures that were necessary, also in terms of Safety and Prevention to protect workers' health. For the entire duration of the emergency, Group companies operated seamlessly for each service provided by the bank.

In relation to "231 risks", the action taken has been reported to the Supervisory Body - SB 231 - and to the Compliance Function regarding compliance with the provisions contained in the Consolidated Law on Occupational Health and Safety (Legislative Decree no. 81/2008).

The Board of Directors of the Parent Company has been kept constantly updated, receiving specific communications about developments concerning the pandemic and the management of the emergency.

From an operational point of view, as of February 2020, a Healthcare Unit was set up by the Company Doctor to follow the development of the emergency and coordinate the necessary countermeasures. The Doctor kept the Bank constantly informed through daily updates and analyses, sharing proposals to cope with the emergency.

The Healthcare Unit's main areas of intervention were as follows:

- definition of guidelines on the action to be taken in the event of contact with people who test positive for coronavirus;
- study of the effectiveness of the various protective devices and identification of the proper devices to be given to workers;
- definition of guidelines on the management of pregnant women and immunosuppressed colleagues or chronic pathologies, also through the study and evaluation of specific cases;
- analysis of the international epidemiological emergency in order to implement specific action for employees returning from foreign countries.

The Company Doctor also participates in meetings with the Workers' Representatives for Safety, the Employer, the Head of the Prevention and Protection Service, the Real Estate Function, in order to provide immediate support with regard to any reports of critical health issues that may emerge during the meetings.

In the particularly difficult and complex circumstances linked to the continuing spread of Covid-19, commencing from 1 November the Bank has made available a free swab service managed by two leading healthcare operators with almost complete coverage. This can be used by employees who find themselves in the following situations:

- tested positive for Covid-19,
- "direct" contact with persons who have tested positive for Covid-19.

This opportunity is also available to colleagues who work in multiple locations, so-called "floaters", who will be mapped by HR with reference to their specific activities and the indications received from the various function managers concerned.

During the period, insurance cover was arranged for the employees and financial advisors of Banco di Desio e della Brianza Spa, providing a range of services to persons testing positive for Covid-19 after activation of the cover. In particular:

- an indemnity of € 100 for each day of hospitalisation after the 7th due to infection by Covid-19, for a maximum of another 10 days;
- an indemnity for convalescence (after discharge from hospital) of € 3,000 for those who received intensive care following infection by Covid-19.

In relation to the strategic initiatives adopted, the key measures introduced are listed below.

- Remote work: working from home was introduced for Banco Desio Group Head Office Personnel and also for certain people in the Commercial Network, taking care to safeguard the continuity of service to customers, calibrating times and methods of service to the public, taking into account the prescriptions and limitations introduced by national and local provisions introduced during the lockdown; this way of working from home, which was promptly adopted, did much to mitigate the risk of contagion.

  Remote work was made possible by strengthening the technology infrastructure.

  The results obtained are remarkable:

  - for the corporate centre, the weekly average of personnel who worked from home was over 85%; this figure is currently lower as some of the staff are now working in the office on a shift basis. The company protocols comply with the regulations currently in force in terms of distancing, measuring body temperature and monthly supplies of DPI devices;
  - for the distribution network, in addition to the use of remote working, remote methods of interaction were introduced with customers who, in cases of need, had access to the branches only by appointment and in compliance with the measures to prevent the risk of contagion (including the use of PPE or distancing).

- Branch closures: the time limit for the provision of services to customers was communicated to customers from time to time through notices outside branches and information posted on the home page of the parent company's institutional website, reminding them that there were alternative channels to the traditional branch, such as ATMs and Web Banking service.
- Answers to employees and customers: In the most critical phase of the epidemic, an additional telephone service was set up to serve customers and Group employees. The service included a support plan through a dedicated team that provided answers on corporate procedures, information and customer services. Support was provided through a dedicated e-mail address for colleagues' requests and a special telephone number for customers.
- Information to branches: Group personnel were constantly updated on any developments in the emergency and on how to adopt the prevention protocols. Signs were also prepared as required to be placed in branches for the benefit of colleagues and customers.
- Procurement and cleaning: cleaning has been and is still carried out on a more rigorous basis than usual (every day, with the use of specific sanitizing products); protection masks, hand sanitizing gel and disposable gloves are distributed in all Head Office and Network structures. Plexiglass protection screens have been installed at cash desks.
- Information for staff: with the evolution of the health emergency and the containment measures ordered by the national and regional authorities as a result, detailed indications on company provisions were made available to all staff and kept constantly updated; the attention to internal communication was also highlighted through a dedicated newsletter.

Commercial activity

In compliance with the operating restrictions imposed by measures to combat the spread of the virus and in an effort to remain close to all our customers, the Covid-19 emergency was dealt with by the Group on a reactive basis, placing the resources involved in a safe environment and allowing commercial activities to continue, also through remote working.

In compliance with the Prime Ministerial Decree of 11 March 2020, the provision of cashier services in the morning was limited and the Group continued to make every effort to reduce the need for colleagues to move from home.

From March, the bank's operations were guaranteed with no more than 30% of colleagues at head office and no more than 50% at then network structures, guaranteeing basic services which was our responsibility to customers; on the same date, the new opening hours of the branches came into force and, in compliance with the Decree, they were communicated to customers through the Bank's website in the "Covid -19 Coronavirus emergency" section and via email to those who had given their consent to receive information. In the communication, customers were reminded not to go to the branch except for transactions that could not be postponed and it was emphasised that almost all banking operations could be performed via the internet and mobile banking, as well as at ATM points. We also suggested calling branches for information.

Given that we understood the strong economic impact of the epidemic on people and companies and in line with our values as a territorial bank, close to households and businesses, we took the following action to support our customers: extension of the "ABI Credit Agreement 2019" in favour of companies, steps to support corporate and retail customers such as suspension of the principal portion of mortgages for 6 or 12 months, free renegotiation fees where applicable, no change in the rates and charges applied, non-compulsory extension of the explosion-fire insurance coverage for mortgage and land loans.

The Group then shared and promoted the support measures introduced by the "Cure Italy" Decree of 17 March 2020 and the "Liquidity" Decree of 8 April 2020.

In order to facilitate and not hinder this process and at the same time to protect the health of customers and colleagues, an innovative procedure was activated, a remote service for the collection of requests in a simplified manner by certified e-mail (PEC) and subsequently by digital signature (Osiride).

The digital signature is a precious, innovative service for the bank and customers, the use of which was promoted during the height of the Covid-19 emergency in order to exchange on-line documents and obtain the (digital) signature of customers with full legal validity; this approach has contributed significantly to the automation and simplification of operational processes, with higher standards of security, by eliminating printed documents and making "remote" relations with customers more streamlined and secure.

From 20 March, a plan was implemented which provided for the formation of a team to support all colleagues involved in customer relationships to facilitate procedures, information and services offered. The support was provided through:

- an email address (distantimauniti@bancodesio.it) for colleagues' requests;
- a dedicated telephone number (0362 613999) for customers' requests.

Via these dedicated channels, the team has replied to questions, requests for information and details about the changes introduced by the various decrees addressing the Covid-19 emergency.

During the same period, another measure was implemented to guarantee the provision of essential services to our customers and the operational continuity of our bank, authorising - on an exceptional basis and only for ninety days - the possibility to communicate stock market trading orders by telephone.

Following the agreement reached with the Bank's trade union representatives, a staff attendance plan was organised at the end of March for April, which was then extended for the months of May and June. In light of this protocol and the state of the emergency, a further reduction in cashier and advisory services at the branch was decided.

In this way, colleagues' presence at branches was reduced to 50% on Monday and Wednesday, and to 40% on Tuesday, Thursday and Friday.

Credit and loans

With reference to the disbursement of loans, the social and economic emergency brought about by Covid-19 led to the need for proactive credit risk management. To this end, a series of initiatives were put in place to provide support to customers and to monitor requests and their stage of processing on a daily basis.

In particular, the Bank:

- launched certain measures in advance of the government's initiatives, allowing customers to suspend repayment of long-term loans for up to 12 months;
- adopted automated processes for the management of the moratoria envisaged by the Cure Italy Decree as well as dedicated task forces to allow a faster and more adequate response to customers. This commitment meant that:
  - as of 30 April, 21 thousand applications for a moratorium on loans for a total of Euro 2.6 billion had already been processed for households and businesses and 5 thousand applications for micro-loans of less than Euro 25 thousand had been approved with simplified procedures for a total value of approximately Euro 100 million;

 - as of 31 December, 23 thousand applications for loan moratoria totalling Euro 3 billion have been processed for households and businesses, together with approval of 19 thousand loan applications guaranteed by Mediocredito Centrale totalling Euro 2 billion, of which 14 thousand totalling Euro 280 million relate to loans of up to Euro 30 thousand.

- dedicated company policies were developed for loans of up to Euro 30 thousand, as provided for in article 13, m) and m-bis) of the Liquidity Decree, with a more streamlined approval process than the normal one, while respecting the credit merit analysis and regulatory obligations (e.g. anti-money laundering, privacy, etc.).
- With regards to loans for an amount greater than Euro 30 thousand, lines of strategy have been drawn up in order to support customers with new finance or renegotiations.

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/suspensions carried out by 30 September, pursuant to the "Covid-19" legislation and at the request of customers, were not classified as forborne (in accordance with the instructions given by the Supervisory Authorities). The legal suspensions arranged subsequent to 30 September were analysed to determine whether the forbearance criteria were met. Commencing from the final quarter, a series of detailed checks were carried out on counterparties with the largest exposures and applying portfolio logic to those of lower amount, to look for evidence that they should be classified as forborne or, in the case of significant anomalies, as UTP. 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 regards the management of non-performing loans, the expected performance levels were reviewed and closer monitoring was begun on all the main exposures. Attention was given to developments relating to the difficulties of the period in the operational management of the unlikely to pay (UTP) portfolio with an estimate of the impact on the recovery of doubtful loans due to the deferral of court proceedings and the suspension of procedural deadlines. The time required for court cases was updated with reference to the most recent statistics of the T.S.E.I. Association. These updated timings were applied to the recovery actions planned plans from January 2021.

Particular attention was paid to recoveries from private individuals, also in order to mitigate potential reputational risks that in this context can derive from the credit recovery action and from the steps involved in reclassifying the loan to doubtful (letter of formal notice, etc.).

Another aspect to which particular attention has been paid concerns the management of requests for suspension of payments (and remodelling requests) of "unlikely to pay" customers (excluded from the

"Cure Italy" decree). In this context, the decision was made to consider suspension requests in relation to the UTP portfolio, even if beyond the scope of the legislation.

Overall, as of 31 December, the Banco Desio Group decided:

a) legislative moratoria with reference to approximately 11 thousand instalment financing relationships with a total exposure of Euro 1.3 billion,

b) ABI and Assofin moratoria with reference to over 1,000 relationships for a total exposure of Euro 0.2 billion,

c) moratoria granted by the Bank outside the ambit of the decree and ABI for more than 11 thousand relationships with a total exposure of approximately Euro 1.5 billion (of which over 8 thousand for Euro 0.7 billion of exposure to retail customers with the remainder being to non-financial companies),

d) loans of up to Euro 30 thousand backed 100% by the Guarantee Fund for SMEs (art.13 of the Liquidity Decree) equal to approximately 14 thousand relationships for a total of approximately Euro 0.3 billion,

e) loans of more than Euro 30 thousand backed 90% by the Guarantee Fund for SMEs (art.13 of the Liquidity Decree) equal to approximately 6 thousand relationships for a total of approximately Euro 1.7 billion.

f) Sace guarantee backed loans for Corporate businesses of Euro 90 million.

Business Continuity Management

Business continuity management ensured in particular, the operational continuity of critical and systemic processes through:

- the creation of separate teams to handle the core treasury and operational liquidity processes, working at the usual location, remotely from home and in the recovery room (at the Desio headquarters);
- the progressive use of remote working based on the evolution of the emergency and government instructions;
- progressive implementation of laptops and smartphone for all other employees involved in critical processes.

The following steps were also carried out:

- 200 new laptops for remote working have been activated;
- the recording of financial orders from mobile phones activated;
- internal call centre "Distanti ma Uniti" activated;
- video conferencing system (MS Teams) and directory system federation (MS Active Directory Federation Service) activated;
- the crisis management process envisaged by corporate regulations has been activated - the emergency level was raised to 3 (defined as "extraordinary");
- the Crisis Management Committee (CMC) was convened and activated for emergency management;
- periodic participation in institutional discussions of CODISE (COmitato DI SErvizio for the management of crises in the banking system chaired by the Bank of Italy), ABI, COBAN, BCM Observatory.

Logical Safety and Physical Safety Management

In response to the extraordinary needs in connection with the Covid-19 emergency, the Group has:

- increased by 1,500 the number of user authentication licences (RADIUS system) in remote connection, considerably increasing the possibility of remote working;
- enhanced the perimeter of the Company's virtual private network (VPN) (around 500 users connected remotely so that they can work from home); in particular, licences were acquired to extend the number of users and systems were duplicated to increase performance and ensure that the service had a high level of reliability;
- introduced VDI (Virtual Desktop Infrastructure) solutions for the activation of virtual workstations, thus avoiding the installation of physical workstations, reducing maintenance and management costs, and introducing operational flexibilities consistent with the various forms of smart working;
- strengthened security measures against cyber attacks, with the definition of a specific investment plan;
- enhanced monitoring of extraordinary activities (sanitisation, ATM loading, etc.) on days that branches were closed;
- adopted extraordinary security measures for the management of customer flows in branches at peak periods (e.g. pension payments);
- started a pilot project (branches with sliding doors) concerning the use of "anti-theft" technology for active management of the daily flow of customers (to prevent situations not complying with the rules laid down by the DPCM, etc.);
- access and attendance at the Desio and Spoleto offices are monitored on a daily basis;
- revised the policy rules present in firewall systems using advanced analysis tools;
- developed further synergies with the SOC (Security Operation Center) for the activation of cloud systems that protect users on the move:
- revised the anti-spam policies through the activation of domain configurations and their monitoring;
- reviewed the organisational structure and the Fraud Management processes;
- strengthened the tools and procedures for protecting against DDoS (Distributed denial of service) attacks, drawing in part on the experience accumulated when tackling and overcoming the attacks that took place during the year;
- strengthened the internal IT security and fraud management team, with the addition of new professional roles staffed by experienced personnel.

4 – Regional market presence and corporate issues

4.1 - The distribution network

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

In order to release significant cost and revenue synergies, as well as simplify and rationalise the organisational structure, the following branches were closed during 2020: 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.

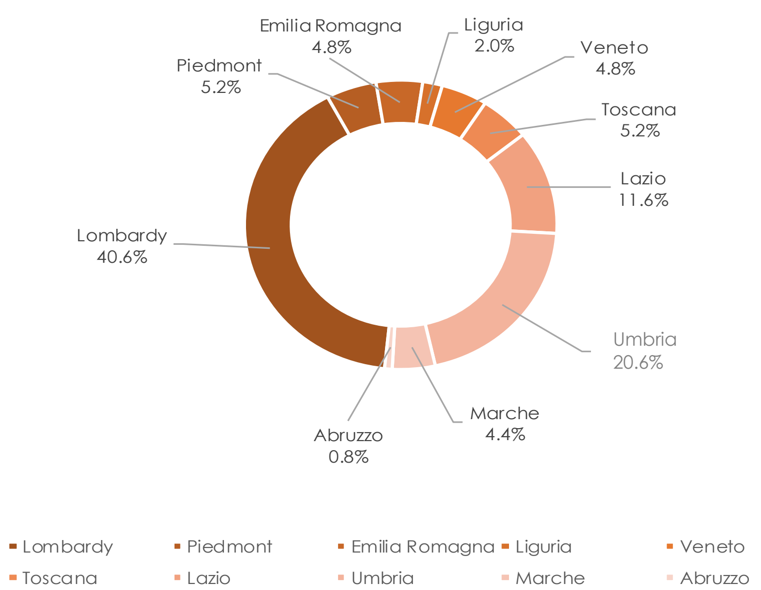
As a result, a further 6 branches - Rome La Storta, Collazzone Collepepe, Terni Borgo Rivo, Perugia Briganti, Foligno La Paciana and Bologna Santa Viola - will be closed during the first quarter of 2021.

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

The 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.

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



4.2 - Significant events

Amendments to the Articles of Association of the Parent Company 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 Parent Company's 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 [3]	Deputy Chairman
Alessandro DECIO	Chief Executive Officer and General Manager (E)[4]
Graziella Bologna	(E)
Valentina CASELLA	(I)[5]
Ulrico DRAGONI	(I) (M)[6]
Cristina Finocchi Mahne	(I)
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

[3] 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.

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

[5] 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.

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

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

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

Remuneration Committee
Valentina CASELLA (Chairwoman)
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 of the Parent Company

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

Directors and officers of the subsidiary 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 of the subsidiary 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 Group 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 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, 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 Parent Company 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%). The new Business Plan will strengthen the economic sustainability of the Bank, 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 Group'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 about Euro 0.9 million were 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 Euro 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 no. 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 Group 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 of the Parent Company 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.

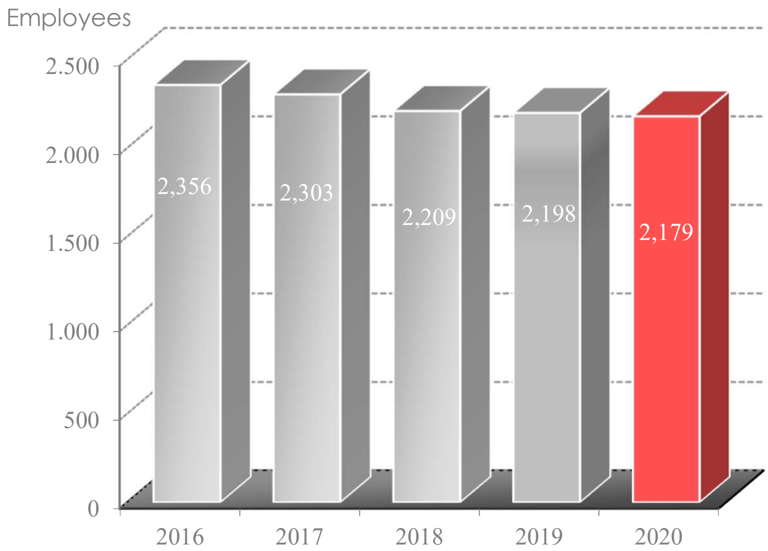
The principal HR management activities carried out during 2020 are described below, with particular reference to the update of the organisational structure:

- 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 Parent Company 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.

At 31 December 2020, the Group had 2,179 employees, a decrease of 19 since the end of the prior year.

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

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



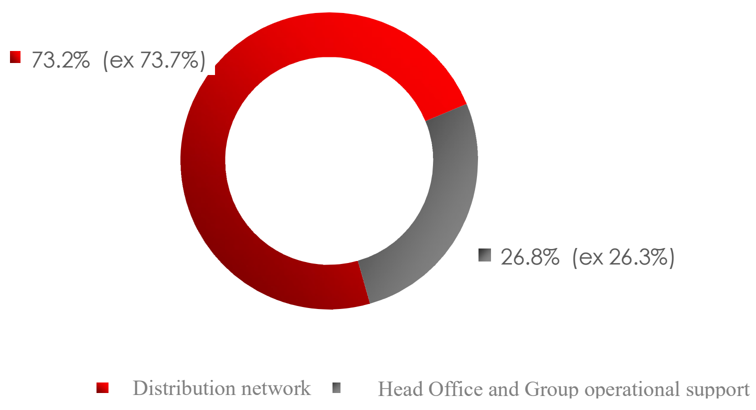
The following table provides a breakdown of employees by level at the end of 2020, compared with the previous year.

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

No. Employees	**31.12.2020**	**%**	**31.12.2019**	**%**	**Change Amount**	**%**
Managers	35	1.6%	34	1.5%	1	2.9%
3rd and 4th level middle managers	467	21.4%	467	21.2%	0	0.0%
1st and 2nd level middle managers	566	26.0%	579	26.3%	-13	-2.2%
Other personnel	1,111	51.0%	1,118	50.9%	-7	-0.6%
Group employees	**2,179**	**100.0%**	**2,198**	**100.0%**	**-19**	**-0.9%**

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

Chart no. 3 - **BREAKDOWN OF GROUP 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 smart working has accelerated the use of "distance learning" tools, which are known for their flexibility in terms of when courses are taken and 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 95,907 man-hours (compared with 121,193), corresponding to an average of 5.9 days per employee (compared with 7.4). This represent an overall reduction of about 20.9% with respect to 2019.

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, 74.2% (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.

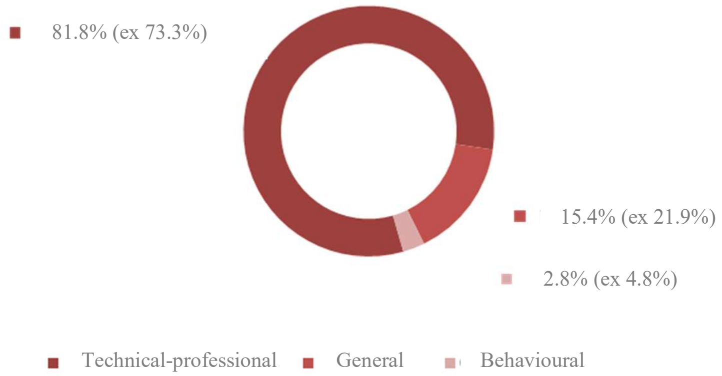
There has also been a significant rise in the recourse made to webinars (virtual classrooms), which always deliver quality communications in many cases with support from internal teachers. This ensures the provision of structured and complete courses designed to achieve predetermined objectives.

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.

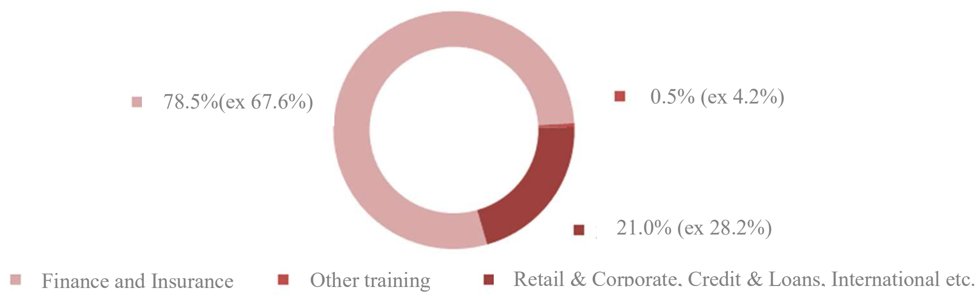
Webinar sessions were also held on the 231 Model for the managers of the various organisational units, covering in particular the "Direct and indirect administrative responsibility of banks in commitment of the specified offences". This training will be extended to all employees during 2021.

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 81.8% of total activities (formerly 73.3%), 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 3 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, Banco di Desio e della Brianza S.p.A., in its capacity as Parent Company, uses a triple level of control over subsidiaries, in order to put into effect the specific "coordination model" that has been chosen, taking into account the nature and the size of the activities performed by each company, as well as its specific location, and by identifying the competent in-house functions for the specific control mechanisms.

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

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

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

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 Group'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 Group's website www.bancodesio.it, pursuant to art. 123-bis of the CFA, along with this report on operations, to which reference should be made.

7.3 - Risk measurement and management

As regards the specific activities performed by the Parent Company's Risk Management function, whose objective is to ensure adequate controls over the management of various types of risk by adopting integrated processes, reference should be made to Part E of the explanatory notes – Information on risks and the related hedging policy.

With reference to the initiatives carried out during the year to take Environmental, Social and Governance ("ESG") aspects into consideration in company policies, and therefore for the integration of the assessment of these risks into the overall Enterprise Risk Management system, reference should be made to the "Banco Desio Group Sustainability Report". The same document should also be referred to for the specific issue of climate change.

8 - Results of operations

The following detailed tables and related comments relate to the consolidated balance sheet and income statement aggregates. Information about the individual companies in the Banco Desio Group is provided in chapter "9 – Performance of consolidated companies".

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, with changes during the period, are shown in the following table.

Table no. 2 - **TOTAL CUSTOMER DEPOSITS**

					change	
Amounts in thousands of Euro	**31.12.2020**	**%**	**31.12.2019**	**%**	**Amount**	**%**
Due to customers	10,203,490	36.0%	9,445,899	35.2%	757,591	8.0%
Debt securities in issue	1,608,927	5.7%	1,749,103	6.5%	-140,176	-8.0%
Direct deposits	**11,812,417**	**41.7%**	**11,195,002**	**41.8%**	**617,415**	**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	**28,332,777**	**100.0%**	**26,757,377**	**100.0%**	**1,575,400**	**5.9%**

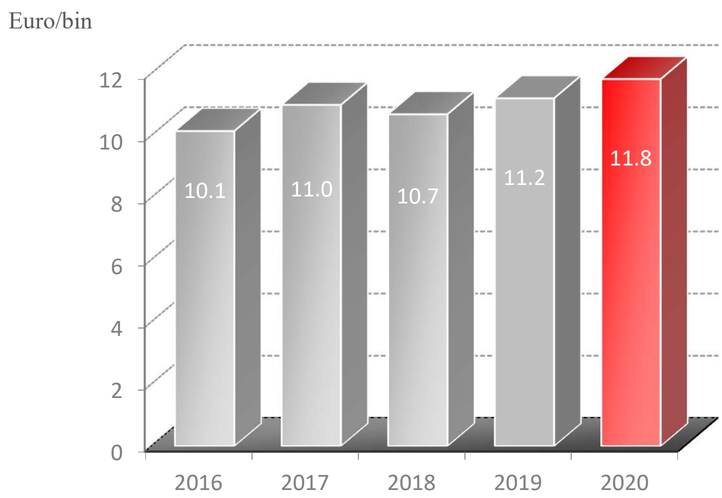
Direct deposits

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.

The trend in direct deposits in recent years is shown in the following chart.

Graph no. 6 - **TREND IN DIRECT DEPOSITS IN RECENT YEARS**



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.

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

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**	**19.8%**	**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(1)	**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 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**

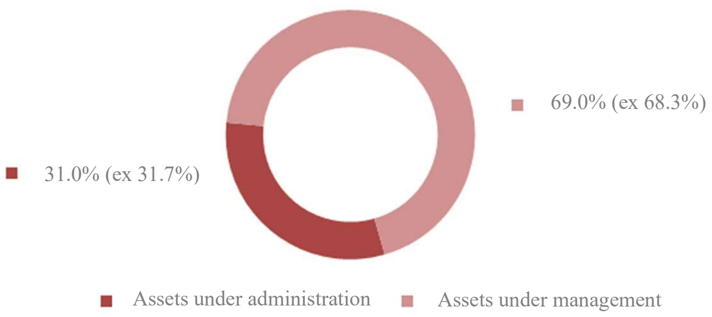
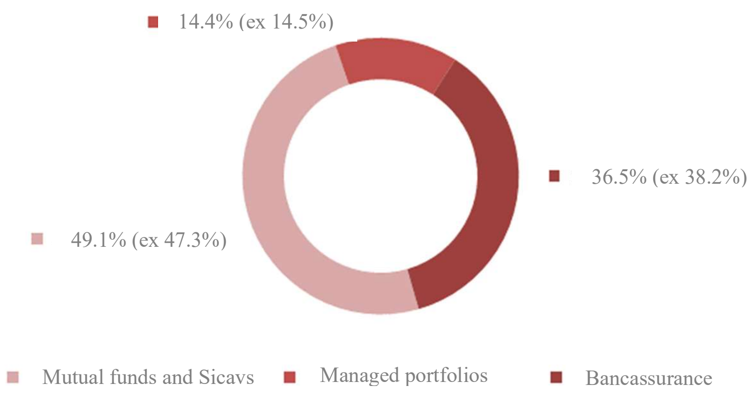


Chart no. 8 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2020**



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 10.5 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.

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

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

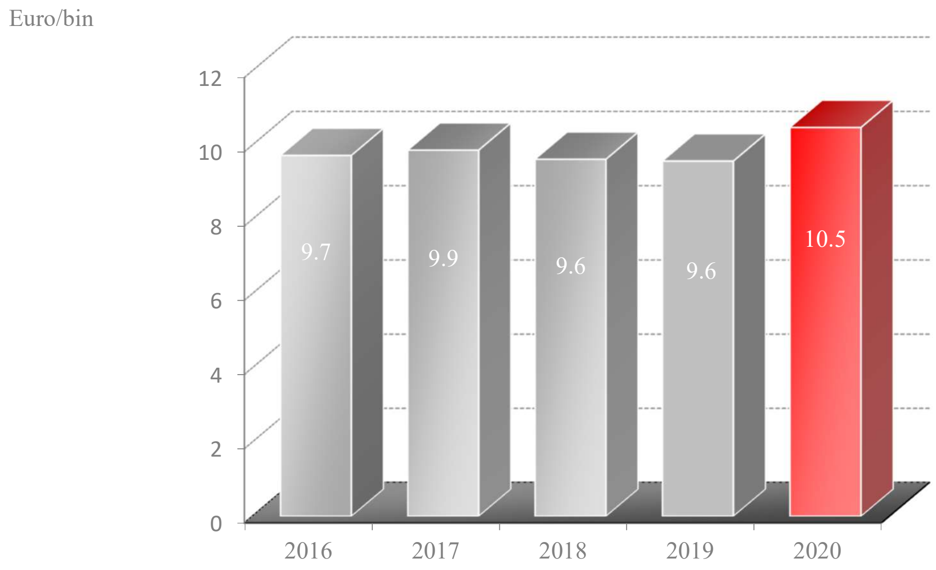


Table no. 4 - LOANS TO CUSTOMERS

Amounts in thousands of Euro	31.12.2020	%	31.12.2019	Change Amount	Change %
Current accounts	948,828	9.1%	1,418,691	-469,863	-33.1%
Mortgages and other long-term loans	8,751,801	83.6%	7,091,759	1,660,042	23.4%
Other	772,599	7.3%	1,057,236	-284,637	-26.9%
Loans to customers	**10,473,228**	**100.0%**	**9,567,686**	**905,542**	**9.5%**
- of which non-performing loans	*305,020*	*2.9%*	*340,179*	*-35,159*	*-10.3%*
- of which performing loans	*10,168,208*	*97.1%*	*9,227,507*	*940,701*	*10.2%*

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. 5 - **RATIOS OF CONCENTRATION OF CREDIT ON LARGEST CUSTOMERS**

Number of customers	**31.12.2020**	**31.12.2019**
First 10	1.16%	1.07%
First 20	1.90%	1.82%
First 30	2.55%	2.46%
First 50	3.61%	3.57%

None of the customers are "Large Exposures" for supervisory purposes; the four positions classified as "Large Exposures" are attributable to balances with the Bank of Italy, the Treasury Ministry, Two Worlds S.r.l. and the Guarantee Fund under Law no. 662 of 23.12.1996, for a total nominal amount of approximately Euro 5.8 billion, corresponding to around 0.2 billion in terms of total weighted amount.

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 305.0 million, net of adjustments for Euro 275.7 million, with a decrease of Euro 35.2 million compared with Euro 340.2 million at the end of 2019. In particular, net doubtful loans totalled Euro 117.4 million (formerly 120.0 million), unlikely to pay loans Euro 186.0 million (formerly 217.1 million) and non-performing past due and/or overdrawn exposures Euro 1.6 million (formerly Euro 3.1 million).

The following table summarises the gross and net indicators of credit risk and the related coverage level, where due to the above mentioned sales of non-performing loans, there has been a reduction in the ratio of "gross non-performing loans/gross loans" to 5.4% and "net non-performing loans/net loans" to 2.9%.

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

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

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	311,378	3.1%	(191,360)	61.5%	120,018	1.3%
Unlikely to pay	309,618	3.2%	(92,556)	29.9%	217,062	2.3%
Past due impaired loans	3,503	0.0%	(404)	11.5%	3,099	0.0%
Total non-performing loans	**624,499**	**6.3%**	**(284,320)**	**45.5%**	**340,179**	**3.6%**
Exposures in stage 1	8,234,918	83.2%	(22,059)	0.3%	8,212,859	85.8%
Exposures in stage 2	1,038,195	10.5%	(23,547)	2.3%	1,014,648	10.6%
Performing exposures	**9,273,113**	**93.7%**	**(45,606)**	**0.49%**	**9,227,507**	**96.4%**
Total loans to customers	**9,897,612**	**100.0%**	**(329,926)**	**3.3%**	**9,567,686**	**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. 7 - **INDICATORS OF COVERAGE OF LOANS TO CUSTOMERS**

% Coverage of performing and non-performing loans	**31.12.2020**	**31.12.2019**
% Coverage of doubtful loans	60.97%	61.46%
% Coverage of doubtful loans, gross of cancellations	62.23%	63.11%
% Total coverage of non-performing loans	47.48%	45.53%
% Coverage of non-performing loans, gross of cancellations	48.37%	46.72%
% 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, Assofin, internal of general scope), which at the reporting date express an overall EAD for performing exposure of approximately 2,606 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 reporting date, the securities portfolio of the Bank amounts to about Euro 3.5 billion, up slightly over the 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.

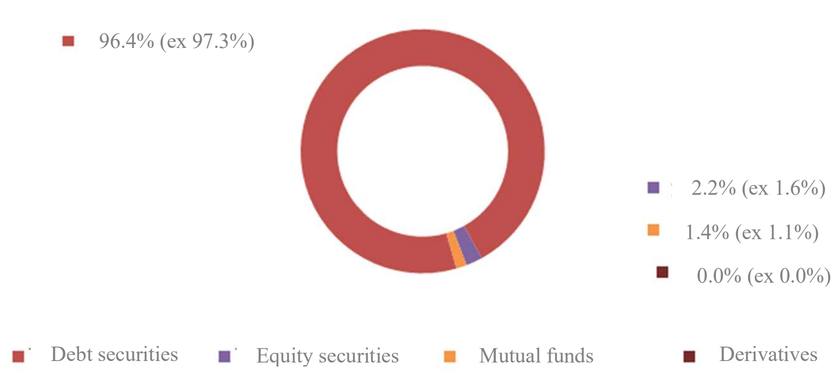
The duration of the HTC portfolio, which was only 1.63 at the end of 2019, has risen to 2.32 following reinvestment that favoured the medium/long-term end of the curve. The duration of the HTCS portfolio has also been increased, from 0.74 to 1.80. In particular with regard to the HTCS portfolio, new 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 – Accounting 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.

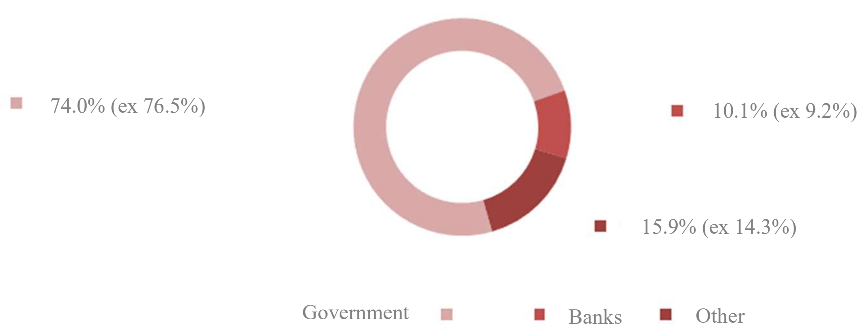
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (96.4%) of the investments still consist of debt securities.

Chart no. 10 - **% 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. 11 - **% 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. 8 - **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 held for trading	Nominal value			-		-
	Book value			-		-
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. 9 - **SOVEREIGN DEBT: BREAKDOWN BY PORTFOLIO, ISSUER AND MATURITY**

Amounts in thousands of Euro				31.12.2020	
		Italy	**Spain**	**Nominal value**	**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	15,000.00	556,790	562,159
	Total	2,020,711	15,000.00	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**	**15,000.00**	**596,790**	**604,152**
	Total	**2,585,711**	**15,000.00**	**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

The consolidated shareholders' equity of the banking group

Shareholders' equity pertaining to the Parent Company at 31 December 2020, including net profit for the period, amounts to Euro 995.1 million, compared with Euro 965.1 million at the end of the previous year. The positive change of Euro 30.0 million is due to the positive trend in comprehensive income for the period of Euro 44.4 million, partly offset by the payment of the 2019 dividend of Euro 14.4 million.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 31 December 2020, also explaining the financial and economic effects related to the consolidation of subsidiaries and associated companies.

Table no. 10 - **RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES AT 31.12.2020**

Amounts in thousands of Euro	Shareholders' equity	*of which: net profit (loss) for the period*
Balances of the Parent Company Banco Desio	***987,046***	***23,895***
Effect of consolidation of subsidiaries	8,025	1,420
Dividends declared during the period	-	-1,625
Consolidated balance of the Banco Desio Group	**995,071**	**23,690**

Own Funds and consolidated prudential requirements

The elements included in Own Funds, as the basis of the capital adequacy requirements that banks must satisfy, are defined in accordance with the harmonised rules for banks and investment companies contained in the EU Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) of 26/06/2013 that transpose into EU law the standards defined by the Basel Committee for banking supervision (Basel 3 framework).

The applicable regulation, in compliance with EU directives, indicates the method for the calculation of capital for supervisory purposes. The latter is the sum of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital.

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

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

ii. Additional Tier 1 capital - AT1 – The components of Additional Tier 1 capital are the following: a) equity instruments, where they comply with the conditions set out in art. 52, paragraph 1 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point. The instruments included under a) do not qualify as components of common equity tier 1 or tier 2.

iii. Tier 2 capital - T2 – The components of Tier 2 are the following: a) equity instruments and subordinated debt, where they comply with the conditions set out in article 63 of EU Regulation no. 575/2013; b) share premium reserves relating to the instruments indicated in the foregoing point; c) for entities that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 2 of EU Regulation no. 575/2013, general loan provisions, gross of the related tax effect, up to 1.25 % of the risk-weighted exposure amounts computed in compliance with part three, title II, chapter 2 of the Regulation; d) for entities that compute risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of EU Regulation no. 575/2013, the positive amounts, gross of the related tax effect, resulting from the computation in accordance with articles 158 and 159 up to 0.6 % of the risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of the Regulation.

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

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

The solidity of the Banco Desio Group is confirmed, even with respect to the new requirements[7].

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

On 25 January 2018, the Bank's Board of Directors resolved to adopt the transitional arrangements introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of IFRS9 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:

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

7 Based on the Bank of Italy's previous communication on this matter, which was sent to the Parent Company Banco Desio on 27 June 2019, concerning the minimum capital requirements at consolidated level to be respected as a result of the SREP: CET1 ratio of 7.25%, binding for 4.75% (minimum regulatory requirement of 4.5% and additional requirements of 0.25%) with the difference represented by the capital conservation buffer, Tier1 ratio of 8.85%, binding for 6.35% (minimum regulatory requirement of 6.0% and additional requirements of 0.35%) with the difference represented by the capital conservation buffer, and Total Capital Ratio of 11.0%, binding for 8.5% (minimum regulatory requirement of 8% and additional requirements of 0.5%) with the difference represented by the capital conservation buffer.

- the replacement of the previous prudential regime of total advance deduction of investments in software, in favour of a simple approach based on prudent amortisation of software over a maximum of three years.

At the board meeting on 30 July 2020, the Board of Directors of the Parent Company also resolved to make use of the option provided for by Regulation 2020/873 i.e. the temporary treatment of unrealised profits and losses measured at fair value recognised in other comprehensive income for Government debt securities for the period 2020-2022 (exclusion factor of 1 in 2020, 0.70 in 2021 and 0.40 in 2022).

Own funds and consolidated supervisory requirements of the financial Parent Company

Under the provisions of articles 11, paragraphs 2 and 3 and 13, paragraph 2 of the CRR Regulation, the banks controlled by a "financial parent company" have to comply with the requirements established by the aforementioned regulation on the basis of the consolidated situation of the financial parent company. As a result, capital ratios have been calculated at the level of Brianza Unione di Luigi Gavazzi and Stefano Lado S.A.p.A., which is the company that controls 49.88% of Banco di Desio e della Brianza S.p.A., of which it holds 50.44% of the ordinary shares and 44.69% of the savings shares outstanding.

From 30 June 2018, the calculation of Own Funds and of the consolidated prudential requirements, which are transmitted to the Bank of Italy in relation to the prudential supervisory reports (COREP) and statistical reports (FINREP), is made with reference to Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. as it is the financial parent company of the banking group according to European legislation. This paragraph therefore presents the results of this calculation, relating to the regulatory scope of the consolidated financial statements drawn up by Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. (the “CRR” Brianza Unione Group).

The consolidated own funds calculated by the financial parent company amount to Euro 927.1 million at 31 December 2020 (CET1 + AT1 of Euro 844.1 million, T2 of Euro 83.0 million).

The following table shows the consolidated regulatory requirements of the “CRR” Brianza Unione Group calculated with and without applying the transitional arrangements.

	31.12.2020		
	Application of the transitional arrangements	Without IFRS 9 transitional provisions	Fully loaded
OWN FUNDS			
Common Equity Tier 1 - CET 1	787,417		
Common Equity Tier 1 - CET1 without application of the transitional arrangements		*750,839*	*751,302*
Tier 1 capital	844,089		
Tier 1 capital without application of the transitional arrangements		*806,759*	*806,843*
Total own funds	927,097		
Total own funds without application of the transitional arrangements		*889,301*	*889,464*
RISK ASSETS			
Risk-weighted assets	7,020,179		
Risk-weighted assets without application of the transitional arrangements		*6,926,402*	*6,926,402*
CAPITAL RATIOS			
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	11.216%		
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional arrangements		*10.840%*	*10.847%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	12.024%		
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional arrangements		*11.648%*	*11.649%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.206%		
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional arrangements		*12.839%*	*12.842%*

At 31 December 2020 the consolidated ratios of the "CRR" Brianza Unione Group are above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority through the SREP procedure previously referred to, with a SREP buffer on CET1 of 3.9% and Total Capital Ratio of 2.1%.

Own funds and consolidated supervisory requirements of the banking group

The Consolidated Own Funds of the Banco Desio Group, after a pay-out that takes account of the proposed allocation of the net profits of Group companies, subject to authorisation by their respective shareholders' meetings, amounted to Euro 1,057.1 million (CET1 + AT1 at 1,030.5 million + T2 of Euro 26.6 million), a rise of Euro 19.0 million at 31 December 2020 compared with the final balance at the end of the previous year of Euro 1,038.1 million.

The following table shows the consolidated regulatory requirements of the Banco Desio Group calculated with and without applying the transitional arrangements.

	31.12.2020		
	Application of the transitional arrangements	**Without IFRS 9 transitional provisions**	**Fully loaded**
OWN FUNDS			
Common Equity Tier 1 - CET 1	1,029,760		
Common Equity Tier 1 - CET1 without application of the transitional arrangements		*963,826*	*964,754*
Tier 1 capital	1,030,519		
Tier 1 capital without application of the transitional arrangements		*964,586*	*964,754*
Total own funds	1,057,064		
Total own funds without application of the transitional arrangements		*991,131*	*991,300*
RISK ASSETS			
Risk-weighted assets	7,022,110		
Risk-weighted assets without application of the transitional arrangements		*6,928,334*	*6,928,334*
CAPITAL RATIOS			
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	14.665%		
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional arrangements		*13.911%*	*13.925%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	14.675%		
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional arrangements		*13.922%*	*13.925%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	15.053%		
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional arrangements		*14.305%*	*14.308%*

At 31 December 2020 the Banco Desio Group ratios are therefore above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority through the SREP procedure.

	SREP	**With transitional regime**	**Without transitional regime**	**Fully loaded**
Common Equity Tier 1 ratio (CET 1 ratio)	7.35%	**14.665%**	13.911%	13.925%
Tier 1 ratio	8.95%	**14.675%**	13.922%	13.925%
Total capital ratio	11.10%	**15.053%**	14.305%	14.308%

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 *consolidated financial statements*, which forms the basis of the specific comments.

The presentation criteria for this table are as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- breakdown of profit (loss) for the period between "Current result after tax" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 230 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers, flat-rate tax on long-term loans and recoveries of legal expense, as well as depreciation of leasehold improvements, reclassified respectively as a reduction to caption 180b) "Other administrative expenses" and as an increase in caption 220 "Net adjustments to intangible assets" included in "Operating expenses";
- the time value components of non-performing financial assets (calculated on the basis of the original effective interest rate) and impairment losses on interest on non-performing loans are reclassified from the item "Net interest income" to "Cost of credit";
- the net trading fees relating to consumer credit were transferred from "Net commission income" to "Net interest income";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of financial assets valued at amortised cost" of "Operating income" is reclassified, net of the component of gains (losses) on debt securities at amortised cost, to "Cost of credit" (which also includes caption 130a) "Net impairment adjustments to loans and advances") after "Operating profit";
- the expected loss on securities at amortised cost included in caption 130a) "Net impairment adjustments to financial assets at amortised cost", has been reclassified to caption 130b) "Net adjustments to securities owned" (which also includes the balance of net adjustments for credit risk on securities at fair value with impact on overall profitability);
- costs for operating leases falling within the scope of IFRS 16 "Leases", which came into force on 1 January 2019, booked to item "20. Interest and similar expense" and to item "210. Net adjustments to property, plant and equipment", have been reclassified to item "190 b) Other administrative costs", where the charges incurred on these contracts were recorded in the prior period;
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 200 "Net provisions for risks and charges - other" to caption "Cost of credit", both captions coming after the "Result of operations";
- provisions, expenses and revenue of an extraordinary nature or which are "one-off" are reclassified to "Extraordinary provisions for risks and charges, other provisions, "one-off" revenues and expenses; 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 300 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

Net profit is around Euro 23.7 million, down by 41.0% on the prior period figure of Euro 40.2 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				Change	
Amounts in thousands of Euro		**31.12.2020**	**31.12.2019**	**Amount**	**%**
10+20	Net interest income	214,352	210,870	3,482	1.7%
70	Dividends and similar income	1,765	1,096	669	61.0%
40+50	Net commission income	169,114	169,310	-196	-0.1%
80+90+100 +110	Net result of financial assets and liabilities	13,861	8,056	5,805	72.1%
230	Other operating income/expense	3,178	10,118	-6,940	-68.6%
	Operating income	**402,270**	**399,450**	**2,820**	**0.7%**
190 a	Payroll costs	-169,635	-171,347	1,712	-1.0%
190 b	Other administrative costs	-95,781	-99,664	3,883	-3.9%
210+220	Net adjustments to property, plant and equipment and intangible assets	-9,577	-10,597	1,020	-9.6%
	Operating costs	**-274,993**	**-281,608**	**6,615**	**-2.3%**
	Result of operations	**127,277**	**117,842**	**9,435**	**8.0%**
130a+100a	Cost of credit	-77,055	-54,659	-22,396	41.0%
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.
200 a	Net provisions for risks and charges - commitments and guarantees given	-2,234	-368	-1,866	507.1%
200 b	Net provisions for risks and charges - other	-3,838	337	-4,175	n.s.
	Profit (loss) from operations before tax	**45,359**	**66,160**	**-20,801**	**-31.4%**
300	Income taxes on continuing operations	-11,242	-20,395	9,153	-44.9%
	Profit (loss) from continuing operations after tax	**34,117**	**45,765**	**-11,648**	**-25.5%**
260	Net result of the measurement at fair value of property, plant and equipment and intangible assets	0	-627	627	-100.0%
	Provisions for risks and charges, other provisions, one-off expenses and revenue	-13,815	-7,857	-5,958	75.8%
	Non-recurring result before tax	**-13,815**	**-8,484**	**-5,331**	**62.8%**
	Income taxes from non-recurring items	3,388	2,875	513	17.8%
	Non-recurring profit (loss) after tax	**-10,427**	**-5,609**	**-4,818**	**85.9%**
330	**Net profit (loss) for the period**	**23,690**	**40,156**	**-16,466**	**-41.0%**
340	Net profit (loss) pertaining to minority interests	0	0	0	n.s.
350	**Parent Company net profit (loss)**	**23,690**	**40,156**	**-16,466**	**-41.0%**

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	Fides brokerage commission	Tax/expense recoveries	Expected loss on securities at amortized cost	Depreciation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions, one-off expenses and revenue	Reclassifications IFRS16 - Leases	Income taxes	31.12.2020
10+20	Net interest income	222,379	-5,012	-3,027					-1,029	1,041		214,352
70	Dividends and similar income	1,765										1,765
40+50	Net commission income	166,087		3,027								169,114
80+90+100 +110	Net result of financial assets and liabilities	5,010						9,211	-360			13,861
230	Other operating income/expense	34,729			-33,118		1,567					3,178
	Operating income	**429,970**	**-5,012**	**0**	**-33,118**	**0**	**1,567**	**9,211**	**-1,389**	**1,041**	**0**	**402,270**
190 a	Payroll costs	-181,662							12,027			-169,635
190 b	Other administrative costs	-120,577			33,118				3,177	-11,499		-95,781
210+220	Net adjustments to property, plant and equipment and intangible assets	-18,468					-1,567			10,458		-9,577
	Operating costs	**-320,707**	**0**	**0**	**33,118**	**0**	**-1,567**	**0**	**15,204**	**-1,041**	**0**	**-274,993**
	Result of operations	**109,263**	**-5,012**	**0**	**0**	**0**	**0**	**9,211**	**13,815**	**0**	**0**	**127,277**
130a+100a	Cost of credit	-71,723	5,012			-751		-9,211	-382			-77,055
130 b	Net adjustments to securities owned	191				751						942
140	Profit/losses from contractual changes without write-offs	267										267
200 a	Net provisions for risks and charges - commitments and guarantees given	-2,234										-2,234
200 b	Net provisions for risks and charges - other	-4,220							382			-3,838
	Profit (loss) from operations before tax	**31,544**	**0**	**0**	**0**	**0**	**0**	**0**	**13,815**	**0**	**0**	**45,359**
300	Income taxes on continuing operations	-7,854									-3,388	-11,242
	Profit (loss) from continuing operations after tax	**23,690**	**0**	**0**	**0**	**0**	**0**	**0**	**13,815**	**0**	**-3,388**	**34,117**
260	Net result of the measurement at fair value of property, plant and equipment and intangible assets	0				0						0
	Provisions for risks and charges, other provisions, one-off expenses and revenue		0			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**
330	**Net profit (loss) for the period**	**23,690**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23,690**
340	Net profit (loss) pertaining to minority interests	0										0
350	**Parent Company net profit (loss)**	**23,690**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23,690**

Captions		As per financial statements	Reclassifications									Reclassified income statement
	Amounts in thousands of Euro	31.12.2019	Measurement effects on non-performing loans	Fides brokerage commission	Tax/expense recoveries	Expected loss on securities at amortized cost	Depreciation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions, one-off expenses and revenue	Reclassifications IFRS16 - Leases	Income taxes	31.12.2019
10+20	Net interest income	218,171	-6,359	-2,187						1,245		210,870
70	Dividends and similar income	1,096										1,096
	Profit (loss) from equity investments in associates											0
40+50	Net commission income	167,123		2,187								169,310
80+90+100+110	Net result of financial assets and liabilities	3,395	0					4,661				8,056
230	Other operating income/expense	41,591			-32,099		2,076		-1,450			10,118
	Operating income	**431,376**	**-6,359**		**-32,099**	**0**	**2,076**	**4,661**	**-1,450**	**1,245**	**0**	**399,450**
190 a	Payroll costs	-172,039							692			-171,347
190 b	Other administrative costs	-121,862			32,099				2,004	-11,905		-99,664
210+220	Net adjustments to property, plant and equipment and intangible assets	-19,181					-2,076			10,660		-10,597
	Operating costs	**-313,082**	**0**		**32,099**	**0**	**-2,076**	**0**	**2,696**	**-1,245**	**0**	**-281,608**
	Result of operations	**118,294**	**-6,359**		**0**	**0**	**0**	**4,661**	**1,246**	**0**	**0**	**117,842**
130a+100a	Cost of credit	-52,876	6,359			-3,321		-4,661	-160			-54,659
130 b	Net adjustments to securities owned	99				3,321						3,420
140	Profit/losses from contractual changes without write-offs	-412										-412
200 a	Net provisions for risks and charges - commitments and guarantees given	-368										-368
200 b	Net provisions for risks and charges - other	-6,434							6,771			337
	Profit (loss) from continuing operations before tax	**58,303**	**0**		**0**	**0**	**0**	**0**	**7,857**	**0**	**0**	**66,160**
300	Income taxes on current operations	-17,520									-2,875	-20,395
	Profit (loss) from continuing operations after tax	**40,783**	**0**		**0**	**0**	**0**	**0**	**7,857**	**0**	**-2,875**	**45,765**
250+280	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								-7,857			-7,857
	Non-recurring profit (loss) before tax	**-627**	**0**		**0**	**0**	**0**	**0**	**-7,857**	**0**	**0**	**-8,484**
	Income taxes from non-recurring items										2,875	2,875
	Non-recurring profit (loss) after tax	**-627**	**0**		**0**	**0**	**0**	**0**	**-7,857**	**0**	**2,875**	**-5,609**
330	**Net profit (loss) for the period**	**40,156**	**0**		**0 0**	**0**	**0**	**0**	**0**	**0**	**0**	**40,156**
340	Net profit (loss) pertaining to minority interests	0										0
350	**Parent Company net profit (loss)**	**40,156**	**0**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**40,156**

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

Operating income

Core revenue have increased by about Euro 2.8 million on the comparative period (+0.7%) to Euro 402.3 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 3.5 million (+1.7%) and *dividends* for Euro 0.7 million (+61.0%), partially offset by the decrease in *other operating income/expense* of Euro 6.9 million (-68.6%) and *net commission income* of Euro 0.2 million (-0.1%).

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	Change %
Collection and payment serv ices	23,175	13.7%	26,182	15.5%	-3,007	-11.5%
Placement of securities	2,956	1.8%	857	0.5%	2,099	244.9%
Managed portfolios and order taking	13,222	7.8%	12,750	7.5%	472	3.7%
Distribution of insurance products	22,058	13.0%	19,744	11.7%	2,314	11.7%
Maintenance and management of current acco	70,382	41.6%	73,381	43.3%	-2,999	-4.1%
Placement of mutual funds	25,691	15.2%	23,245	13.7%	2,446	10.5%
Other commission	11,630	6.9%	13,151	7.8%	-1,521	-11.6%
Net commission income	**169,114**	**100.0%**	**169,310**	**100.0%**	**-196**	**-0.1%**

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 275.0 million and have decreased with respect to the comparative period by Euro 6.6 million (-2.3%).

In particular, other administrative expenses have decreased by Euro 3.9 million (-3.9%) mainly thanks to lower postal, telephone and data transmission costs, professional consultancy fees and advertising costs, and despite Covid-19 related charges for Euro 3.0 million. 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 (-1.0%); The balance of net adjustments to property, plant and equipment and intangible assets came to Euro 9.6 million (-9.6%).

Result of operations

The result of operations at 31 December 2020 therefore amounts to Euro 127.3 million, up by Euro 9.4 million compared with the prior year (+8.0%).

Net profit (loss) from operations after tax

The result of operations of Euro 127.3 million leads to a *net profit (loss) from operations after tax* of Euro 34.1 million, 25.5% down on Euro 45.8 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 77.1 million, compared with Euro 54.7 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 6.1 million euro (Euro 31 million in the comparative period);
- income taxes on current operations of Euro 11.2 million (formerly Euro 20.4 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, including Euro 1.2 million relating to the tax benefit of the so-called "Patent Box").

For the comparison period, the *result of non-recurring items after tax* was a loss of Euro 5.6 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 provision for operating risks of Euro 6.6 million linked to the situation of particular legal uncertainty which emerged at the end of the year on operations with customers in the consumer credit sector,
- 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 2.9 million).

Parent Company net profit/(loss)

The total of the *profit from operations after tax* and the *non-recurring profit after tax*, as well as the *result attributable to minority interests*, leads to a net profit for the Parent Company at 31 December 2020 of Euro 23.7 million.

9 - Performance of consolidated companies

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

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

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.

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 and net adjustments to securities due to the change in the economic scenario, as well as higher non-recurring charges (in particular the charge of Euro 12.0 million recognised during the year for the staff redundancy plan).

Loans to customers increased from Euro 9,515.7 million at the end of 2019 to Euro 10,419.4 million at the reference date, which is 2.9% of the NPL portfolio (formerly 3.5%).

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. This increase of Euro 30.2 million was essentially attributable to the net profit for the year of Euro 44.6 million, as partially offset by the 2019 dividend of Euro 14.2 million that will be distributed to the shareholders on satisfaction of the condition precedent of compliance with the related legal/regulatory requirements.

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.

The Total Capital Ratio, consisting of total Own Funds as a ratio of risk-weighted assets, comes to 16.1%.

9.2 - Fides S.p.A.

Balance sheet

Amounts in thousands of Euro	31.12.2020	31.12.2019	change amount	change %
Total assets	878,254	803,893	74,361	9.3%
Financial assets	15	15	0	0.0%
Due from banks	5,298	4,569	729	16.0%
Loans to customers	865,398	793,523	71,875	9.1%
Property, plant and equipment	948	1,218	-270	-22.2%
Intangible assets	1,215	1,216	-1	-0.1%
Due to banks	811,720	741,748	69,972	9.4%
of which: Due to Group Banks	*811,720*	*741,748*	*69,972*	*9.4%*
Due to customers	3,931	3,729	202	5.4%
Shareholders' equity (including Net profit/loss for the period)	48,937	47,814	1,123	2.3%
Own Funds	45,977	44,982	995	2.2%

Income statement [1]

Amounts in thousands of Euro	31.12.2020	31.12.2019	change amount	change %
Operating income	12,267	16,417	-4,150	-25.3%
of which: Net interest income	16,844	15,305	*1,539*	*10.1%*
Operating costs	-7,495	-6,935	-560	8.1%
Result of operations	4,772	9,482	-4,710	-49.7%
Profit (loss) from continuing operations after tax	2,755	6,456	-3,701	-57.3%
Non-recurring profit (loss) after tax	0	-4,425	4,425	n.s.
Net profit for the year	2,755	2,031	724	35.6%

[1] from the reclassified income statement

Key figures and ratios

	31.12.2020	31.12.2019	change amount
Capital/Total assets	5.6%	5.9%	-0.3%
Capital/Loans to customers	5.7%	6.0%	-0.3%
Capital/Due to Banks	6.0%	6.4%	-0.4%
Total Own Funds/Risk-weighted assets (Total capital ratio)	10.9%	6.9%	4.0%
Loans to customers/Total assets	98.5%	98.7%	-0.2%
Due to banks/Total assets	92.4%	92.3%	0.1%
	31.12.2020	**31.12.2019**	**Change amount**
Cost/Income ratio	61.1%	42.2%	18.9%
Net interest income/Operating income	137.3%	93.2%	44.1%
Result of operations/Operating income	38.9%	57.8%	-18.9%
Profit (loss) from operations after tax/Capital (2)	6.0%	14.1%	-8.1%
ROE (2)	6.0%	4.4%	1.6%
Profit (loss) from operations before tax/Total assets (ROA)	0.2%	0.6%	-0.3%
	31.12.2020	**31.12.2019**	**Change amount**
Net doubtful loans/Loans to customers	0.1%	0.1%	0.0%
Net non-performing loans/Loans to customers	0.4%	0.4%	0.0%
% Coverage of doubtful loans	59.4%	63.7%	-4.3%
% Total coverage of non-performing loans	38.5%	37.6%	0.9%
% Coverage of performing loans	0.08%	0.06%	0.01%

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

Structure and productivity ratios

	31.12.2020	31.12.2019	change amount	change %
Number of employees	50	50	0	0.0%
Amounts in thousands of Euro	**31.12.2020**	**31.12.2019**	**change amount**	**%**
Loans and advances to customers per employee (3)	17,308	16,833	475	2.8%
Amounts in thousands of Euro	**31.12.2020**	**31.12.2019**	**change amount**	**%**
Operating income per employee (3)	245	349	-104	-29.8%
Result of operations per employee (3)	95	202	-107	-53.0%

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

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

The profit for the year ended 31 December 2020 was around Euro 2.8 million, a rise from the comparative period (Euro 2.0 million); operating income amounted to Euro 12.3 million, down by Euro 4.1 million compared with 31 December 2019, mainly due to the inclusion in the effective interest rate of income components recognised entirely to the income statement at the time of subscription. Operating costs come in at Euro 7.5 million (vs Euro 6.9 million). The result of operations was Euro 4.8 million (vs Euro 9.5 million). The cost of credit, amounting to approximately Euro 0.5 million, and taxes for Euro 1.3 million (vs Euro 2.7 million) lead to the result for the period. The result of the previous year was affected by provisions for operating risks of Euro 6.6 million linked to the situation of particular legal uncertainty which emerged at the end of the year on operations with customers in the consumer credit sector.

Loans to customers increased from Euro 793.5 million at the end of 2019 to Euro 865.4 million at the reference date, an incidence of 0.4% of the NPL portfolio (formerly 0.4%).

Shareholders' equity has increased from Euro 47.8 million at 31 December 2019 to Euro 48.9 million at the reporting date (due to the result for the year, partly offset by the distribution of dividends), while *Own Funds* have gone from Euro 45.0 million at the end of 2019 to Euro 46.0 million. The *Total capital ratio*, being the ratio of *Total Own Funds* to *Risk-weighted assets*, is 10.9% (6.9% at 31 December 2019) due to the effect of new regulations that calibrate salary/pension-backed loans more correctly, with a weighting of 35%.

10 - Other information

10.1 - Treasury shares and shares of the Parent Company

At 31 December 2020, as was the case at the previous year end, the Parent Company Banco di Desio e della Brianza S.p.A. did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi & C. S.a.p.A. and it did not trade in treasury share or shares of its parent company, directly or through a trustee or other person.

10.2 - RATINGS

On 19 May 2020, Fitch Ratings completed its annual ratings review and lowered by one notch the ratings previously assigned to Banco di Desio e della Brianza S.p.A.. 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. Banco di Desio e della Brianza S.p.A. notes that coverage exceeds the average for the less significant institutions (LSI), considering also the composition of NPL portfolio, and that the resilience of the territorial bank model is confirmed by both significant financial strength 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”

10.3 – Transactions with related parties and/or 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.

10.4 - Information on incentive plans

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

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

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

10.6 - Research and development activities

The Banco Desio Group 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.

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

The Parent Company 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 above Consob Regulation for significant mergers, demergers, increases in capital by contribution in kind, acquisitions and disposals.

No special transactions were carried out during 2020.

10.8 - 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.

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

In view of the financial strength of the Group 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 consolidated financial statements at 31 December 2020 have been prepared on a going concern.

In the paragraph on the macroeconomic scenario of the Consolidated Report on Operations, 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 Group'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 Group, 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 Parent Company 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.

Desio, 11 February 2021 The Board of Directors

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

ASSETS

Assets	31.12.2020	31.12.2019	change Amount	%
10. Cash and cash equivalents	56,525	60,816	(4,291)	-7.1%
20. Financial assets at fair value through profit or loss	56,702	44,063	12,639	28.7%
a) Financial assets held for trading	6,239	5,807	432	7.4%
c) Other financial assets mandatorily at fair value	50,463	38,256	12,207	31.9%
30. Financial assets at fair value through other comprehensive income	662,646	559,634	103,012	18.4%
40. Financial assets at amortised cost	14,332,345	12,949,705	1,382,640	10.7%
a) Due from banks	1,365,759	915,019	450,740	49.3%
b) Loans to customers	12,966,586	12,034,686	931,900	7.7%
60. Adjustment to financial assets with generic hedge (+/-)	563	624	(61)	-9.8%
90. Property, plant and equipment	222,483	226,305	(3,822)	-1.7%
100. Intangible assets	18,513	18,194	319	1.8%
of which:				
- goodwill	15,322	15,322		
110. Tax assets	205,131	202,765	2,366	1.2%
a) current	18,306	7,812	10,494	134.3%
b) deferred	186,825	194,953	(8,128)	-4.2%
130. Other assets	108,614	129,956	(21,342)	-16.4%
Total assets	**15,663,522**	**14,192,062**	**1,471,460**	**10.4%**

LIABILITIES

Liabilities and shareholders' equity	31.12.2020	31.12.2019	change Amount	%
10. Financial liabilities at amortised cost	14,276,954	12,850,498	1,426,456	11.1%
a) Due to banks	2,412,244	1,603,208	809,036	50.5%
b) Due to customers	10,255,783	9,498,187	757,596	8.0%
c) Debt securities in issue	1,608,927	1,749,103	(140,176)	-8.0%
20. Financial liabilities held for trading	7,527	8,138	(611)	-7.5%
40. Hedging derivatives	1,540	2,157	(617)	-28.6%
60. Tax liabilities	13,491	15,816	(2,325)	-14.7%
b) deferred	13,491	15,816	(2,325)	-14.7%
80. Other liabilities	297,233	289,279	7,954	2.7%
90. Provision for termination indemnities	24,740	25,480	(740)	-2.9%
100. Provisions for risks and charges	46,962	35,582	11,380	32.0%
a) commitments and guarantees given	4,947	2,734	2,213	80.9%
c) other provisions for risks and charges	42,015	32,848	9,167	27.9%
120. Valuation reserves	66,096	45,373	20,723	45.7%
150. Reserves	818,447	792,741	25,706	3.2%
160. Share premium reserve	16,145	16,145		
170. Share capital	70,693	70,693	-	0.0%
180 - Treasury shares (-)	-	-	-	0.0%
190. Minority interests (+/-)	4	4	-	0.0%
200. Net profit (loss) for the period (+/-)	23,690	40,156	(16,466)	-41.0%
Total liabilities and shareholders' equity	**15,663,522**	**14,192,062**	**1,471,460**	**10.4%**

CONSOLIDATED INCOME STATEMENT

Captions		31.12.2020	31.12.2019	change Amount	%
10.	Interest and similar income	259,999	263,509	(3,510)	-1.3%
20.	Interest and similar expense	(37,620)	(45,338)	7,718	-17.0%
30.	**Net interest income**	**222,379**	**218,171**	**4,208**	**1.9%**
40.	Commission income	182,496	183,206	(710)	-0.4%
50.	Commission expense	(16,409)	(16,083)	(326)	2.0%
60.	**Net commission income**	**166,087**	**167,123**	**(1,036)**	**-0.6%**
70.	Dividends and similar income	1,765	1,096	669	61.0%
80.	Net trading income	2,290	2,814	(524)	-18.6%
90.	Net hedging gains (losses)		(551)	551	-100.0%
100.	Gains (losses) on disposal or repurchase of:	6,454	903	5,551	614.7%
	a) financial assets measured at amortised cost	(1,747)	(706)	(1,041)	147.5%
	b) financial assets designated at fair value through other comprehensive income	8,218	1,765	6,453	365.6%
	c) financial liabilities	(17)	(156)	139	-89.1%
110.	Net result of other financial assets and liabilities designated at fair value through profit or loss	(3,734)	229	(3,963)	n.s.
	b) other financial assets that have to be measured at fair value	(3,734)	229	(3,963)	n.s.
120.	**Net interest and other banking income**	**395,241**	**389,785**	**5,456**	**1.4%**
130.	Net value adjustments/write-backs for credit risk relating to:	(71,532)	(52,777)	(18,755)	35.5%
	a) financial assets measured at amortised cost	(71,723)	(52,876)	(18,847)	35.6%
	b) financial assets designated at fair value through other comprehensive income	191	99	92	92.9%
140.	Profit/losses from contractual changes without write-offs	267	(412)	679	n.s.
150.	**Net profit from financial activities**	**323,976**	**336,596**	**(12,620)**	**-3.7%**
180.	**Net profit from financial and insurance activities**	**323,976**	**336,596**	**(12,620)**	**-3.7%**
190.	Administrative costs:	(302,239)	(293,901)	(8,338)	2.8%
	a) payroll costs	(181,662)	(172,039)	(9,623)	5.6%
	b) other administrative costs	(120,577)	(121,862)	1,285	-1.1%
200.	Net provisions for risks and charges	(6,454)	(6,802)	348	-5.1%
	a) commitments for guarantees given	(2,234)	(368)	(1,866)	507.1%
	b) other net provisions	(4,220)	(6,434)	2,214	-34.4%
210.	Net adjustments to property, plant and equipment	(17,109)	(17,927)	818	-4.6%
220.	Net adjustments to intangible assets	(1,359)	(1,254)	(105)	8.4%
230.	Other operating charges/income	34,729	41,591	(6,862)	-16.5%
240.	**Operating costs**	**(292,432)**	**(278,293)**	**(14,139)**	**5.1%**
260.	Net result of the measurement at fair value of property, plant and equipment and intangible assets	-	(627)	627	-100.0%
290.	**Profit (loss) from current operations before tax**	**31,544**	**57,676**	**(26,132)**	**-45.3%**
300.	Income taxes on current operations	(7,854)	(17,520)	9,666	-55.2%
310.	**Profit (loss) from current operations after tax**	**23,690**	**40,156**	**(16,466)**	**-41.0%**
330.	**Net profit (loss) for the period**	**23,690**	**40,156**	**(16,466)**	**-41.0%**
350.	**Parent Company net profit (loss)**	**23,690**	**40,156**	**(16,466)**	**-41.0%**

	31.12.2020	31.12.2019
Basic earnings per share (Euro)	0.17	0.29
Diluted earnings per share (Euro)	0.17	0.29

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Captions	31.12.2020	31.12.2019
10.	**Net profit (loss) for the period**	**23,690**	**40,156**
	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	(273)
50.	Property, plant and equipment	-	161
70.	Defined-benefit pension plans	(326)	(494)
	Other elements of income, net of income taxes with reversal to income statement		
120.	Cash-flow hedges	423	(57)
140.	Financial assets (other than equities) designated at fair value through other comprehensive income	(744)	940
170.	**Total other elements of income (net of income taxes)**	**20,723**	**277**
180.	**Total comprehensive income (Captions 10+170)**	**44,413**	**40,433**
190.	Total comprehensive income pertaining to minority interests	-	-
200.	**Total consolidated comprehensive income pertaining to Parent Company**	**44,413**	**40,433**

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 CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31.12.2020

	Balance at 31.12.2019	Changes in opening balances	Balance at 01.01.2020	Allocation of prior year results		Changes during the year									Group shareholders' equity at 31.12.2020	Minority interests 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	Changes in equity investments	Comprehensive income at 31.12.2020		
Share capital:																
a) ordinary shares	63,828		63,828												63,828	
b) other shares	6,865		6,865												6,865	
Share premium reserve	16,145		16,145												16,145	
Reserves:																
a) from profits	768,080		768,080	44,887		(14,450)									798,517	
b) other	24,665		24,665	(4,731)											19,930	4
Valuation reserves:	45,373		45,373											20,723	66,096	
Equity instruments																
Treasury shares																
Net profit (loss) for the perioc	40,156		40,156	(40,156)										23,690	23,690	
Group shareholders' equity	**965,108**		**965,108**			**(14,450)**								**44,413**	**995,071**	
Minority interests	**4**		**4**													**4**

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 the Parent Company'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 CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31.12.2019

	Balance at 31.12.2018	Changes in opening balances	Balance at 01.01.2019	Allocation of prior year results		Changes during the year									Group shareholders' equity at 31.12.2019	Minority interests 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	Changes in equity investments	Comprehensive income at 31.12.2019		
Share capital:																
a) ordinary shares	60,840		60,840				2,988								63,828	
b) other shares	6,865		6,865												6,865	
Share premium reserve	16,145		16,145												16,145	
Reserves:																
a) from profits	748,003		748,003	19,810		267									768,080	
b) other	22,982		22,982	4,840			(2,988)						(169)		24,661	4
Valuation reserves:	44,927		44,927										169	277	45,373	
Equity instruments																
Treasury shares																
Net profit (loss) for the period	36,558		36,558	(24,650)	(11,908)									40,156	40,156	
Group shareholders' equity	**892,054**		**892,054**		**(11,908)**	**267**							**44,262**	**40,433**	**965,108**	
Minority interests	**44,266**		**44,266**										**(44,262)**			**4**

CONSOLIDATED CASH FLOW STATEMENT

	31.12.2020	31.12.2019
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**147,796**	**142,057**
- interest received (+)	253,822	254,181
- interest paid (-)	(36,824)	(44,051)
- dividends and similar income (+)	1,765	1,096
- net commission income (+/-)	160,083	167,123
- payroll costs (-)	(169,662)	(172,039)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(96,657)	(90,906)
- other revenues (+)	43,123	44,173
- taxation (-)	(7,854)	(17,520)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(1,539,018)**	**(606,291)**
- financial assets held for trading	(1,031)	1,823
- financial assets designated at fair value through profit and loss		
- other financial assets that are necessarily measured at fair value	(16,817)	12,134
- financial assets at fair value through other comprehensive income	(79,484)	(261,217)
- financial assets at amortised cost	(1,462,073)	(386,145)
- other assets	20,387	27,114
3. Cash generated (absorbed) by financial liabilities	**1,388,593**	**470,485**
- financial liabilities at amortised cost	1,426,447	475,270
- financial liabilities held for trading	(611)	2,092
- financial liabilities designated at fair value through profit and loss		
- other liabilities	(37,243)	(6,877)
Net cash generated/absorbed by operating activities (A)	**(2,629)**	**6,251**
B. INVESTING ACTIVITIES		
1. Cash generated by	**12**	**23**
- sale of equity investments		
- dividends collected on equity investments		
- sale of property, plant and equipment	12	23
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	**(4,885)**	**(5,959)**
- purchase of equity investments		
- purchase of property, plant and equipment	(3,207)	(4,212)
- purchase of intangible assets	(1,678)	(1,747)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	**(4,873)**	**(5,936)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations		(11,908)
- sale/purchase of third party control		
Net cash generated/absorbed by financing activities (C)		**(11,908)**
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(7,502)**	**(11,593)**

RECONCILIATION

	31.12.2020	31.12.2019
Cash and cash equivalents at beginning of period	**60,816**	**69,219**
Net increase (decrease) in cash and cash equivalents	(7,502)	(11,593)
Cash and cash equivalents: effect of changes in exchange rates	3,211	3,190
Cash and cash equivalents at end of period	**56,525**	**60,816**

Consolidated explanatory notes

PART A – ACCOUNTING POLICIES

A.1 GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

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

Section 2 - Basis of preparation

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

For the preparation of the consolidated 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 consolidated financial statements have been prepared in a clear manner to give a true and fair view of the balance sheet, financial position and result for the 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 individual financial statements used in preparing these consolidated financial statements are those prepared by the subsidiaries as of the same reporting date, adjusted - where necessary - to comply with the IAS/IFRS adopted by the Parent Company.

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

Section 3 – Scope of consolidation and methodology

1. Investments in subsidiaries

Name	Head office	Type of relationship	Nature of holding	
			Parent company	% held
Fides S.p.A.	Rome	1	Banco Desio	100.000
Desio OBG S.r.l.	Conegliano	1	Banco Desio	60.000

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

The scope of consolidation did not change with respect to the previous year.

2. Significant assessments and assumptions in determining the scope of consolidation

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

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

3. Investments in subsidiaries with significant minority interests

3.1 Minority interests, voting rights of third parties and dividends paid to third parties

Name	Minority interests %	Dividends paid to third parties
Desio OBG S.r.l.	40.000	-

3.2 Investments with significant minority interests: accounting information

Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Net interest and other banking income	Operating costs	Profit (loss) from current operations before tax	Profit (loss) from current operations after tax	Profit (loss) after tax on non-current assets held for sale	Net profit (loss) for the period (1)	Other elements of income, net of income taxes (2)	Comprehensive income (3) = (1) + (2)
Desio OBG S.r.l.	55	-	-	-	-	10	-	80	(79)	1	-	-	-	-	-

4. Significant restrictions

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

5. Other information

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

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

Section 4 – 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 4.2 "Significant events" of the Consolidated Report on Operations.

Section 5 - 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 Group 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 Group will have to operate are undoubtedly conditioned by the adverse effects on the Italian and global economies deriving, directly or indirectly, from the spread of the Covid-19 pandemic.

The 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 Group, 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 of the Parent Company approved changes to the lending policy in the following main areas:

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

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 Group'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)

Pursuant to IAS 36 "Impairment of assets", all intangible assets with an indefinite useful life 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 Group 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 the Group 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**		
CGU	BDB	Fides	Group	BDB	Fides	Group	BDB	Fides	Group
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%	11.90%	-0.30%	1.37%	-2.07%	1.07%	0.71%	-0.64%	0.63%
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	BDB	Fides	Group	BDB	Fides	Group	BDB	Fides	Group
% decrease in net future results (RN)	22.60%	20.80%	13.36%	29.47%	40.42%	24.92%	17.42%	47.33%	14.06%
Increase in p.p. of discount rate used for future cash flows (FCFE)	391	302	132	435	779	239	265	> 1,000	135

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 "Intangible assets – caption 100" contained in "Part B – Information on the consolidated 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 110", contained in "Part B – Information on the consolidated 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 consolidated 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 the Group 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 consolidated 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 of the Group 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 a reasonable expectation that the Group will continue to operate for the foreseeable future and, therefore, have prepared the financial statements on a going concern basis. They therefore believe that the risks and uncertainties faced by the Group in the course of its operations, including the effects of Covid-19 addressed in the 2021-23 Plan, will not raise concerns about the continuity of the business.

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 Consolidated 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 Group, the performing positions affected by the moratorium measures based on legislation or decided independently by the Group 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 Group 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 Parent 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 Group 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 consolidated 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 Banco Desio Group takes advantage of the possibility, envisaged at the time of the introduction of IFRS 9, to continue to fully apply the provisions of accounting standard IAS 39 on the subject of "hedge accounting" (in the carved out version approved by the European Commission) for each type of coverage (both for specific hedges and for macro hedges).

Classification

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

The type of hedge used may be:

– fair value hedges (microhedging of fair value): the objective is to hedge the risk of changes in the fair value of the hedged instrument (assets, liabilities or irrevocable commitment not recognised subject to changes in fair value attributable to a particular risk that may affect the income statement, including exchange rate risk);

– Cash-Flow Hedges: the objective is to hedge the change in cash flows attributable to specific risks of the instrument (assets, liabilities or highly probable scheduled transaction exposed to changes in cash flows attributable to a particular risk that may affect the income statement).

Recognition

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

The recognition of hedging transactions assumes:

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

Measurement

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

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

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

Recognition of items affecting the income statement – Fair value hedges

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

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

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

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

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

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

Derecognition

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

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

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

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

16 – 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. These involved in particular:

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

  a) hedging assets and liabilities that generate interest;

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

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

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

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

- dividends are recognised in the income statement when 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[8] 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.

[8] 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	1,021,268	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 1,045,956 thousand), including the cumulative OCI valuation reserve at 30 September 2018, negative for Euro 51,173 thousand (originally Euro 51,458 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 Group'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 Group'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.) and, as a consequence, amendments/integrations 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).[9]

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 1,093 million. The relative accumulated loss on the reclassification date of Euro 51.5 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

[9] 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.

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 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 Parent Company 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

	31.12.2020			31.12.2019		
Financial assets/liabilities designated at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets at fair value through profit or loss	18,657	3,790	34,255	22,255	860	20,948
a) Financial assets held for trading	2,662	2,930	647	4,457	-	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	574,458	23,893	64,295	509,364	47,267	3,003
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**593,115**	**27,683**	**98,550**	**531,619**	**48,127**	**23,951**
1. Financial liabilities held for trading	-	6,935	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				Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	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				
1. Opening balance	**20,948**	**1,350**	**-**	**19,598**	**3,003**	**-**	**-**	**-**
2. Increases	**22,293**	**647**	**-**	**21,646**	**61,480**	**-**	**-**	**-**
2.1. Purchases	21,227	-	-	21,227	1,020	-	-	-
2.2. Profits posted to:	1,066	647	-	419	-	-	-	-
2.2.1. Income statement	1,066	647	-	419	-	-	-	-
- of which: capital gains	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 statement	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**	**64,295**	**-**	**-**	**-**

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

	Financial liabilities held for trading	Financial liabilities designated at fair value through profit	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	14,332,345	2,099,602	7,970,888	4,780,775	12,949,705	2,082,037	6,438,674	4,727,585
2. Investment property	1,758	-	-	1,920	1,787	-	-	1,936
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**14,334,103**	**2,099,602**	**7,970,888**	**4,782,695**	**12,951,492**	**2,082,037**	**6,438,674**	**4,729,521**
1. Financial liabilities at amortised cost	14,276,954	-	1,601,142	12,676,375	12,850,498	-	1,736,955	11,205,271
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**14,276,954**	**-**	**1,601,142**	**12,676,375**	**12,850,498**	**-**	**1,736,955**	**11,205,271**

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 the Banco Desio Group 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 CONSOLIDATED 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	56,525	60,816
b) Demand deposits with central banks	-	-
Total	**56,525**	**60,816**

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	120	-	1,350
1.1 for trading	109	-	647	120	-	1,350
1.2 connected with the fair value	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**109**	**-**	**647**	**120**	**-**	**1,350**
Total (A+B)	**2,662**	**2,930**	**647**	**4,457**	**-**	**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	1,470
Total (B)	**756**	**1,470**
Total (A+B)	**6,239**	**5,807**

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 instruments.
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**

Section3 - 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	186	10,000	64,295	-	47,267	3,003
3. Loans	-	-	-	-	-	-
Total	**574,458**	**23,893**	**64,295**	**509,364**	**47,267**	**3,003**

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	**74,481**	**50,270**
a) Banks	10,000	10,000
b) Other issuers:	64,481	40,270
- other financial companies	2,503	2,363
of which: insurance companies	-	-
- non-financial companies	61,978	37,907
- 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	**662,646**	**559,634**

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

		Gross value				Total write-downs			
		First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Total partial write-offs
Debt securities		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	**528,866**	**-**	**-**	**-**	**337,229**	**199,675**	**579,186**	**-**	**-**	**-**	**297,880**	**283,961**
1. Loans	197,875	-	-	-	-	197,875	283,961	-	-	-	-	283,961
1.1 Current accounts and demand deposits	63,817	-	-				43,779	-	-			
1.2. Time deposits	43,172	-	-				30,155	-	-			
1.3. Other loans:	90,886	-	-				210,027	-	-			
- Repurchase agreements	-	-	-				-	-	-			
- Loans for leases	-	-	-				-	-	-			
- Other	90,886	-	-				210,027	-	-			
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	**1,365,759**	**-**	**-**	**-**	**337,229**	**1,036,568**	**915,019**	**-**	**-**	**-**	**297,880**	**619,794**

Key

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

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

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 originated	L1	L2	L3
1. Loans	**10,168,208**	**305,020**	**10,702**	**-**	**7,196,337**	**3,739,218**	**9,227,507**	**340,179**	**10,510**	**-**	**5,754,613**	**4,107,791**
1.1. Current accounts	875,940	72,888	311	-	-	-	1,327,752	90,939	386	-	-	-
1.2. Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
1.3. Mortgage loans	7,501,000	211,712	10,235	-	-	-	5,898,077	227,515	9,994	-	-	-
1.4. Credit cards, personal loans and assignments of one-fifth of salary	869,098	3,666	35	-	-	-	800,223	3,684	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	724,875	4,401	121	-	-	-	1,019,992	7,195	96	-	-	-
2. Debt securities	**2,493,358**	**-**	**-**	**2,099,602**	**437,322**	**4,989**	**2,467,000**	**-**	**-**	**2,082,037**	**386,181**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	2,493,358	-	-	2,099,602	437,322	4,989	2,467,000	-	-	2,082,037	386,181	-
Total	**12,661,566**	**305,020**	**10,702**	**2,099,602**	**7,633,659**	**3,744,207**	**11,694,507**	**340,179**	**10,510**	**2,082,037**	**6,140,794**	**4,107,791**

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

Gross loans amount to a total of Euro 10,823,025 thousand (Euro 9,897,612 thousand at the end of last year), of which Euro 10,242,303 thousand relate to performing loans and Euro 580,722 thousand to non-performing loans.

Total write-downs on the same loans amount to Euro 349,797 thousand (Euro 329,926 thousand), of which Euro 275,702 thousand relate to non-performing loans (Euro 284,320 thousand at the end of the previous year) and Euro 74,095 thousand to performing loans (Euro 45,606 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 5 – 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 amounted to Euro 1,473,441 thousand (Euro 1,291,557 thousand at 31 December 2019).

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 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).

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:	**10,168,208**	**305,020**	**10,702**	**9,227,507**	**340,179**	**10,510**
a) Public administrations	67,062	319	-	36,503	377	-
b) Other financial companies	134,043	5,208	-	120,593	4,480	-
of which: insurance companies	5,076	-	-	3,676	-	-
c) Non-financial companies	5,790,542	192,279	4,511	5,136,836	222,429	4,060
d) Households	4,176,561	107,214	6,191	3,933,575	112,893	6,450
Total	**12,661,566**	**305,020**	**10,702**	**11,694,507**	**340,179**	**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		8,914,986	31,218	2,362,235	580,722	17,461	56,784	275,702	9,039
Total	**31.12.2020**	**11,740,685**	**2,856,917**	**2,362,235**	**580,722**	**18,811**	**56,784**	**275,702**	**9,039**
Total	**31.12.2019**	**11,609,689**	**2,754,758**	**1,047,762**	**624,500**	**24,367**	**23,558**	**284,321**	**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". 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 forbearance complying with GL*	1,253,802	553	1,352,147	58,768	1,985	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	**2,782,760**	**553**	**1,638,370**	**60,921**	**4,031**	**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 the reference date, 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

At the reporting date, the Banco Desio Group does not hold equity investments in associates or companies under joint control.

Section 9 - Property, plant and equipment - caption 90

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

Assets/Amounts	31.12.2020	31.12.2019
1. Own assets	**169,207**	**172,775**
a) land	52,778	52,778
b) property	99,107	101,605
c) furniture	4,230	4,627
d) electronic systems	3,285	3,551
e) other	9,807	10,214
2. Rights of use acquired under lease	**51,518**	**51,743**
a) land	-	-
b) property	50,621	50,623
c) furniture	-	-
d) electronic systems	-	-
e) other	897	1,120
Total	**220,725**	**224,518**
of which: obtained through enforcement of the guarantees	-	-

Land and buildings are measured at the amount revalued as of 1 January 2004 on the first-time adoption of IFRS. Otherwise, the policy method is cost: this criterion is also adopted for all other tangible fixed assets, except on the initial recognition of tangible assets acquired through business combinations, which are recorded in the consolidated financial statements at fair value pursuant to IFRS 3 Business Combinations.

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.

9.2 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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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.

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

As at the balance sheet date, the Banco Desio Group does not have any revalued property, plant and equipment for business purposes.

9.4 Investment property: breakdown of assets carried at fair value

At the reference date, the Banco Desio Group has no investment property measured at fair value.

9.6 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**	**195,187**	**39,916**	**30,008**	**56,867**	**374,756**
A.1 Total net write-downs	-	(42,959)	(35,289)	(26,457)	(45,533)	(150,238)
A.2 Net opening balance	**52,778**	**152,228**	**4,627**	**3,551**	**11,334**	**224,518**
B. Increases:	**-**	**17,548**	**347**	**1,041**	**2,268**	**21,204**
B.1 Purchases	-	13,262	232	1,041	1,826	16,361
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	-	442	4,843
C. Decreases:	**-**	**20,048**	**744**	**1,307**	**2,898**	**24,997**
C.1 Sales	-	-	121	-	594	715
C.2 Depreciation	-	12,862	623	1,307	2,288	17,080
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	-	7,186	-	-	16	7,202
D. Net closing balance	**52,778**	**149,728**	**4,230**	**3,285**	**10,704**	**220,725**
D.1 Net total write-downs	-	(60,821)	(35,797)	(27,765)	(47,388)	(171,771)
D.2 Gross closing balance	**52,778**	**210,549**	**40,027**	**31,050**	**58,092**	**392,496**
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".

9.7 Investment property: changes during the year

	Total	
	Land	Buildings
A. 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 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**

9.9 Commitments to purchase property, plant and equipment

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

Section 10 - Intangible assets - caption 100

10.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2020		31.12.2019	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		**15,322**		**15,322**
A.1.1 pertaining to the Group		15,322		15,322
A.1.2 pertaining to minority interests		-		-
A.2 Other intangible assets	**3,191**	**-**	**2,872**	**-**
A.2.1 Carried at cost	3,191	-	2,872	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	3,191	-	2,872	-
A.2.2 Carried at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**3,191**	**15,322**	**2,872**	**15,322**

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

Other intangible assets are amortised on a straight-line basis over their useful lives. For compensation for abandonment of leasehold premises, the useful life is the length of the lease agreement, while for computer software it is four years and for application software it is 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 5 – 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 from them, 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) Criterion to estimate the recoverable amount (impairment)

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

"Explicit" time period for the determination of future cash flows

The time 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 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% (*)
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 write-down 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
Fides S.p.A.	20.80%	302

Second level impairment tests

In consideration of the fact that the market capitalisation of Banco Desio's shares (ordinary shares plus savings shares) during the year was less than consolidated shareholders' equity, impairment testing of Banco Desio Group (2nd level impairment) was done on the Group as a whole.

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 Consolidated Own Funds, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing

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

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco Desio Group	DDM	2021-23 Business Plan extended to 2025	-0.3%	8.09%	1.50%	Net results	Tier1 8.95% (*)

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

An amount arose from impairment testing that was higher than the average capitalisation of Banco Desio's shares (ordinary shares plus savings shares). Since the latter was higher than the carrying amount of consolidated shareholders' equity at the measurement date, there was no need to write down any of the Group's assets.

It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets and could be subject to changes, 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 consolidated shareholders' equity match the carrying amount at the measurement date.

CGU	% decrease in net future results (RN)	Increase in percentage points of discount rate used for future cash flows (FCFE)
Banco Desio Group	13.36%	132

10.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		LIM	UNLIM	LIM	UNLIM	
A. Opening balance	**35,963**	**-**	**-**	**23,370**	**-**	**59,333**
A.1 Total net write-downs	20,641	-	-	20,498	-	41,139
A.2 Net opening balance	15,322	-	-	2,872	-	18,194
B. Increases	**-**	**-**	**-**	**1,678**	**-**	**1,678**
B.1 Purchases	-	-	-	1,678	-	1,678
- of which: business combinations	-	-	-	-	-	-
B.2 Increases in internally generated intangible assets	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	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**1,359**	**-**	**1,359**
C.1 Sales	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Write-downs	-	-	-	1,359	-	1,359
- Amortisation	X	-	-	1,359	-	1,359
- 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	**15,322**	**-**	**-**	**3,191**	**-**	**18,513**
D.1 Total net write-downs	20,641	-	-	21,857	-	42,498
E. Gross closing balance	**35,963**	**-**	**-**	**25,048**	**-**	**61,011**
F. Measurement at cost	-	-	-	-	-	-

Key
LIM: limited duration
UNLIM: unlimited duration

10.3. Other information

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

Section 11 - Tax assets and liabilities - Asset caption 110 and Liability caption 60

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

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

Deferred tax assets are recognised when their recovery is probable.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	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	133,762	18,645	152,407	175,945
General allowance for doubtful accounts	305		305	305
Statutory depreciation of property, plant and equipment	283		283	351
Provision for guarantees and commitments and country risk	1,360		1,360	752
Provisions for personnel costs	4,804	765	5,569	3,700
Provision for lawsuits	2,725		2,725	2,704
Provision for claw-backs	196	40	236	243
Provision for sundry charges	2,910	490	3,400	2,739
Tax provision for termination indemnities	7		7	7
Other	1,249	488	1,737	1,320
Total A	**163,140**	**21,115**	**184,255**	**192,545**
B) With contra-entry to shareholders' equity:				
Cash-flow hedges	1,082	219	1,301	1,301
Tax provision for termination indemnities	1,119		1,119	995
Write-down of securities classified as FVOCI	38	13	51	7
Other	82	17	99	105
Total B	**2,321**	**249**	**2,570**	**2,408**
Total (A+B)	**165,461**	**21,364**	**186,825**	**194,953**

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2020	31.12.2019
A) With contra-entry to the income statement:				
Gains on disposal of property, plant and equipment				
Tax depreciation of buildings	6,685	870	7,555	7,557
Tax depreciation of property, plant and equipment	0	16	16	16
Tax amortisation of goodwill	475	96	571	571
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
Tax provision for termination indemnities				
Other	548	21	569	742
Total A	**8,554**	**1,168**	**9,722**	**12,255**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	699	142	841	632
Revaluation of securities valued at FVOCI	524	106	630	951
Revaluation of equity investments	696	1523	2,219	1,899
Revaluation of artworks	66	13	79	79
Total B	**1,985**	**1,784**	**3,769**	**3,561**
Total (A+B)	**10,539**	**2,952**	**13,491**	**15,816**

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

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

	31.12.2020	31.12.2019
1. Opening balance	**192,545**	**195,124**
2. Increases	**7,954**	**6,535**
2.1 Deferred tax assets recognised during the year	7,471	6,150
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	7,471	6,150
2.2 New taxes or increases in tax rates		
2.3 Other increases	483	385
3. Decreases	**16,244**	**9,114**
3.1 Deferred tax assets cancelled in the year	16,244	8,824
a) reversals	16,244	8,824
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases:		290
a) conversion to tax credits as per Law 214/2011		
b) other		290
4. Closing balance	**184,255**	**192,545**

The deferred tax assets recognised during the year mainly comprised:

– Euro 6,202 thousand relating to non-deductible provisions to risks and charges and employee related provisions;
– Euro 730 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 8,356 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 3,037 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 3,803 thousand relating to the use of taxed provisions.

The closing balance comprises the credit for the current-year tax loss of the Parent 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.

11.4 Changes in deferred tax assets under Law 214/2011

	31.12.2020	31.12.2019
1. Opening balance	**151,027**	**151,027**
2. Increases		
3. Decreases	**8,428**	
3.1 Reversals	8,428	
3.2 Conversion to tax credits		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other decreases		
4. Closing balance	**142,599**	**151,027**

"3.1 Reversals" refers to:

- Euro 8,356 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 Parent 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 142,599 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.

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

	31.12.2020	31.12.2019
1. Opening balance	**12,255**	**13,692**
2. Increases	**63**	**8**
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		
3. Decreases	**2,596**	**1,445**
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		
3.2 Reduction in tax rates		
3.3 Other decreases	2	289
4. Closing balance	**9,722**	**12,255**

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 reported in the balance sheet on the absorption of Banca Popolare di Spoleto by the Parent Company;
- 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).

11.6 Changes in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2020	31.12.2019
1. Opening balance	**2,408**	**2,186**
2. Increases	**172**	**242**
2.1 Deferred tax assets recognised during the year	172	242
a) relating to prior years		
b) due to changes in accounting policies		
c) other	172	242
2.2 New taxes or increases in tax rates		
2.3 Other increases		
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		
4. Closing balance	**2,570**	**2,408**

Deferred tax assets recognised during the year are attributable to:
- Euro 124 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).

11.7 Changes in deferred tax liabilities (with matching entry to shareholders' equity)

	31.12.2020	31.12.2019
1. Opening balance	**3,561**	**9,620**
2. Increases	**1,104**	**936**
2.1 Deferred tax liabilities recognised during the year	1,104	936
a) relating to prior years		
b) due to changes in accounting policies		
c) other	1,104	936
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**896**	**6,995**
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		6,604
4. Closing balance	**3,769**	**3,561**

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 due to the valuation of securities classified as Financial assets valued at fair value through other comprehensive income (FVOCI).

Section 13 - Other assets - caption 130

13.1 Other assets: breakdown

	31.12.2020	31.12.2019
Tax credits		
- capital	2,948	10,565
- interest		
Amounts recoverable from the tax authorities for advances paid	30,016	26,523
Withholding tax credits		
Cheques negotiated to be cleared	15,808	19,490
Guarantee deposits		
Invoices issued to be collected	304	630
Debtors for securities and coupons to be collected by third parties		
Printer consumables and stationery		
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	8,202	9,721
Accrued income and prepaid expenses	3,290	2,317
Other items	28,465	39,116
Total	**108,614**	**129,956**

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

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 18,781 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.

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	**2,396,583**	X	X	X	**1,579,967**	X	X	X
2. Due to banks	**15,661**	X	X	X	**23,241**	X	X	X
2.1 Current accounts and demand deposits	1,376	X	X	X	10,948	X	X	X
2.2 Time deposits	14,285	X	X	X	3,444	X	X	X
2.3 Loans	-	X	X	X	8,849	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	-	X	X	X	8,849	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Finance lease payables	-	X	X	X	-	X	X	X
2.6 Other payables	-	X	X	X	-	X	X	X
Total	**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 Parent 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	9,555,338	X	X	X	8,369,625	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	52,293	X	X	X	52,288	X	X	X
6. Other payables	63,488	X	X	X	33,698	X	X	X
Total	**10,255,783**	**-**	**-**	**10,255,783**	**9,498,187**	**-**	**-**	**9,498,187**

Key
BV = book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The "3.2 Loans: Other" caption represents loans received from Cassa Depositi e Prestiti that were used to grant reconstruction loans to customers following the 2009 earthquake in Abruzzo.

The main components of "Other payables" relate to: cashier's cheques for Euro 59,837 thousand and cheques for Euro 543 thousand (cashier's cheques for Euro 30,480 thousand and cheques for Euro 546 thousand respectively at the end of the previous year).

The heading "5. Finance lease payables" shows, in application of IFRS 16 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 reporting 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.

"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**

During the period, no subordinated bonds were issued by the Group.

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.

2.2 Details of "Financial liabilities held for trading": subordinated liabilities

At the reference date, the Group did not have subordinated financial liabilities held for trading.

2.3 Details of "Financial liabilities held for trading": subordinated loans

At the reference date, the Group did not have subordinated loans included in financial liabilities 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 during the year of tax liabilities are disclosed in Section 11, 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	2,788	630
Amounts payable to tax authorities on behalf of third parties	27,218	26,380
Social security contributions to be paid	6,529	6,634
Dividends due to shareholders	12	14
Suppliers	20,984	23,999
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	12,231	13,599
Sundry creditors	90,023	67,713
Provisions for guarantees given and commitments		
Accrued expenses and deferred income	6,951	4,660
Total	**297,233**	**289,279**

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 Group 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,
- to 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 (Euro 11,238 thousand at the end of last year) and the amount due for untaken holiday of Euro 1,846 thousand (Euro 1,813 thousand at the end of last year).

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 the Parent Company 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	**25,481**	**25,175**
B. Increases	**535**	**8,408**
B.1 Provision for the year	85	217
B.2 Other changes	450	8,191
C. Decreases	**(1,276)**	**(8,103)**
C.1 Payments made	(1,275)	(656)
C.2 Other changes	(1)	(7,447)
D. Closing balance	**24,740**	**25,480**
Total	**24,740**	**25,480**

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 Group, 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 11,417 thousand (Euro 10,955 thousand last 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 Group at year end amounts to Euro 22,233 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

Captions/Amounts	**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	42,015	32,848
4.1 Legal and tax disputes	10,620	10,394
4.2 Personnel expenses	17,450	11,921
4.3 Other	13,945	10,533
Total	**46,962**	**35,582**

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 9,908 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 2019).

"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 This caption also includes the provision of 6,616 thousand euro for operational risks linked to legal uncertainties regarding transactions with customers in the consumer credit sector, given the absence of national level regulations on the matter.

For further details of disputes, reference should be made to "Information on risks and hedging policies".

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**	**32,848**	**35,582**
B. Increases	**2,213**	**21,105**	**23,318**
B.1 Provision for the year	2,213	21,101	23,314
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		**11,938**	**11,938**
C.1 Utilisations during the year		11,844	11,844
C.2 Changes due to changes in the discount rate			
C.3 Other changes		94	94
D. Closing balance	**4,947**	**42,015**	**46,962**

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

There are nil balances at year end.

10.6 Provisions for risks and charges: other provisions

Details of "Other provisions for risks and charges" are provided in Section 10.1.

Section 13 - Group Shareholders' equity - captions 120, 130, 140, 150, 160, 170 and 180

13.1 "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.

13.2 Share capital - Number of shares: changes in the year

	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		

13.3 Share capital: other information

There is no other information to be disclosed at the reference date.

13.4 Revenue reserves: other information

	31.12.2020	31.12.2019
Legal reserve	102,800	98,312
Statutory reserves	592,375	566,386
Retained earnings (losses)	3,475	3,468
Other FTA reserves	99,784	99,784
Other reserves	83	130
Total	**798,517**	**768,080**

Section 14 - Minority interests - caption 190

14.1 Details of caption 190 "Minority interests"

Company name	31.12.2020	31.12.2019
Equity investments in consolidated companies with significant minority interests	**4**	**4**
Desio OBG S.r.l.	4	4
Other equity investments		
Total	**4**	**4**

14.2 Equity instruments: breakdown and changes during the year

None.

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	**3,221,099**	**65,403**	**28,809**	**3,315,311**	**2,922,539**
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	2,818,142	60,363	28,309	2,906,814	2,585,777
f) Households	216,529	4,700	490	221,719	203,837
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. Asset management	**1,558,021**
a) individual	1,558,021
b) collective	-
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 CONSOLIDATED INCOME STATEMENT

Section 1 - Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2020	31.12.2019
1. Financial assets at fair value through profit or loss:	**40**	**-**	**-**	**40**	**416**
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**	**232,942**	**X**	**250,195**	**254,603**
3.1 Due from banks	4,004	200	X	4,204	3,362
3.2 Loans to customers	13,249	232,742	X	245,991	251,241
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**334**	**334**	**8**
6. Financial liabilities	**X**	**X**	**X**	**8,397**	**6,400**
Total	**18,326**	**232,942**	**334**	**259,999**	**263,509**
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 5 - Other aspects" in subsection "A.1. General information" of "Part A - Accounting policies").

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

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2020	31.12.2019
1. Financial liabilities at amortised cost	(21,376)	(14,986)	X	(36,362)	(43,766)
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(1,092)	X	X	(1,092)	(1,089)
1.3 Due to customers	(20,284)	X	X	(20,284)	(25,512)
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	**(21,376)**	**(14,986)**	**(1,229)**	**(37,620)**	**(45,338)**
of which: interest expense relating to lease payables	(1,041)	-	-	(1,041)	(1,245)

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)

1.5 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:	69,953	65,949
1. trading in financial instruments	-	-
2. trading in foreign exchange	905	1,009
3. portfolio management	7,777	7,358
3.1 individual	7,777	7,358
3.2. collective	-	-
4. custody and administration of securities	1,544	1,519
5. custodian bank	-	-
6. placement of securities	2,956	857
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	51,326	49,814
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	22,058	19,744
9.3. other products	3,182	6,426
d) collection and payment services	26,371	29,232
e) servicing related to securitisation	80	119
f) services for factoring transactions	923	114
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) maintenance and management of current accounts	70,382	73,381
j) other services	12,442	11,793
Total	**182,496**	**183,206**

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.

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

Commissions for "other services" include commission income for transactions for the assignment of one fifth of salary and loans with delegation of payment for Euro 4,843 thousand (Euro 4,044 thousand at the end of the previous year), recoveries of expenses on customer collection and payments for Euro 2,115 thousand (Euro 2,168 thousand at the end of the previous year), fees for the Internet banking service of Euro 2,123 thousand (Euro 1,637 thousand at the end of the previous year) and recoveries of expenses on mortgage instalments for Euro 1,343 thousand (Euro 1,482 thousand at the end of the previous year).

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:	(11,938)	(9,885)
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	(10,529)	(8,456)
d) collection and payment services	(3,196)	(3,050)
e) other services	(1,072)	(2,690)
Total	**(16,409)**	**(16,083)**

The caption "offer of financial products and services through financial promoters" shows the balance of fees relating to remuneration of the network of financial advisors for Euro 10,529 thousand.

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 that have to be measured 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	0	0	0	0
Total	**1,765**	**0**	**1,096**	**0**

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 Group – 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)	8,375	(9,081)	(706)
1.1 Due from banks	-	-	-	148	-	148
1.2 Loans to customers	6,502	(8,249)	(1,747)	8,227	(9,081)	(854)
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**	**10,412**	**(9,353)**	**1,059**
Financial liabilities at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	43	(60)	(17)	29	(185)	(156)
Total liabilities	**43**	**(60)**	**(17)**	**29**	**(185)**	**(156)**

Caption "1.2 Loans to customers" reports the net gain of 2,431 thousand on disposal of financial assets, excluding those held for trading and those designated at fair value through profit and loss. This caption also includes the net gain (loss) on disposal of non-performing loans carried out by 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 - Result of financial assets and liabilities designated at fair value through profit and loss - caption 110

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**1,037**	**878**	**(5,648)**	**(1)**	**(3,734)**
1.1 Debt securities	-	360	-	-	360
1.2 Equity instruments	-	-	-	-	-
1.3 Mutual funds	1,037	518	(5,648)	(1)	(4,094)
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**1,037**	**878**	**(5,648)**	**(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	**(34,019)**	**(3,718)**	**(56,716)**	**6,120**	**16,585**	**(71,748)**	**(53,664)**
- loans	(34,019)	(3,718)	(56,716)	5,327	16,585	(72,541)	(56,445)
- debt securities	-	-	-	793	-	793	2,781
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
Total	**(34,072)**	**(3,718)**	**(56,716)**	**6,198**	**16,585**	**(71,723)**	**(52,876)**

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 19,917 thousand (versus Euro 40,143 thousand);
- unlikely to pay loans Euro 36,661 thousand (formerly Euro 39,177 thousand);
- past due loans Euro 138 thousand (formerly Euro 314 thousand);

"Write-backs of first and second stage" are calculated on the performing loan portfolio.

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

- doubtful loans amortised in previous years and with actual recoveries higher than expected for Euro 717 thousand (formerly Euro 1,152 thousand);
- collections of loans previously written down for Euro 8,465 thousand (formerly Euro 12,237 thousand);
- measurement write-backs for Euro 7,403 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 Group.

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 5 – 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)		Total	Total
	First and second stage	Third stage		First and second stage	Third stage	31.12.2020	31.12.2019
		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 12 - Administrative costs - caption 190

12.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2020	31.12.2019
1) Employees	(178,149)	(168,120)
a) wages and salaries	(114,582)	(113,456)
b) social security charges	(30,707)	(30,118)
c) termination indemnities	-	-
d) pension expenses	-	-
e) Provision for termination indemnities	(95)	(337)
f) provision for post-retirement benefits and similar commitments:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) Payments to external supplementary pension funds:	(11,417)	(10,955)
- defined contribution	(11,417)	(10,955)
- defined benefit	-	-
h) Equity-based payments	-	-
i) other personnel benefits	(21,348)	(13,254)
2) Other active employees	(464)	(470)
3) Directors and auditors	(3,049)	(3,449)
4) Retired personnel	-	-
Total	**(181,662)**	**(172,039)**

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

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

12.2 Average number of employees by level

	31.12.2020	31.12.2019
1) Employees	**2,190**	**2,204**
a) managers	36	34
b) middle managers	1,038	1,047
c) other employees	1,116	1,123
2) Other personnel	**5**	**6**

12.3 Defined post-employment benefit obligations: costs and revenues

Balances were zero at the reporting dates.

12.4 Other personnel benefits

	31.12.2020	**31.12.2019**
Provision for sundry charges	(4,884)	(6,610)
Contributions to healthcare fund	(2,340)	(2,080)
Training and instruction costs	(341)	(1,269)
Rent expense of property used by employees	(164)	(325)
Cost for redundancy incentives	(12,027)	(692)
Other	(1,592)	(2,278)
Total	**(21,348)**	**(13,254)**

“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.

12.5 Other administrative costs: breakdown

	31.12.2020	31.12.2019
Indirect taxes and duties:		
- Stamp duty	(27,613)	(28,377)
- Other	(6,074)	(4,102)
Other costs:		
- IT expenses	(21,042)	(21,939)
- Lease of property and other assets	(1,670)	(1,520)
- Maintenance of buildings, furniture and equipment	(8,661)	(7,554)
- Post office and telegraph	(1,428)	(2,292)
- Telephone and data transmission	(6,042)	(7,022)
- Electricity, heating, water	(3,566)	(4,021)
- Cleaning services	(3,242)	(1,356)
- Printed matter, stationery and consumables	(655)	(1,144)
- Transport costs	(926)	(1,196)
- Surveillance and security	(2,172)	(2,034)
- Advertising	(1,154)	(2,784)
- Information and surveys	(2,533)	(1,660)
- Insurance premiums	(988)	(1,022)
- Legal fees	(2,683)	(3,366)
-Professional consulting fees	(9,591)	(10,636)
- Various contributions and donations	(94)	(286)
- Sundry expenses	(20,443)	(19,551)
Total	**(120,577)**	**(121,862)**

"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 Group, summarised below by type of service provided.

Type of services	Party which provided the service	Recipient	Fees (in thousands of euro)
Audit	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	353
		Fides	49
		Desio OBG	14
Attestation services	Deloitte & Touche S.p.A.	Banco di Desio e della Brianza	99
		Fides	1
Other services:			
Risk Management Methodological Support	*Deloitte Risk Advisory S.r.l.*	*Banco di Desio e della Brianza*	*820*
CSR methodological support	*Deloitte & Touche S.p.A.*	*Banco di Desio e della Brianza*	*58*
Total			**1,394**

The fees are shown net of expenses, the CONSOB contribution (where due) and VAT.

Section 13 - Net provisions for risks and charges - caption 200

13.3 Other 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	(4,415)	1,909	(2,506)	(5,950)
Other	(3,088)	1,374	(1,714)	(484)
Total	**(9,737)**	**3,283**	**(6,454)**	**(6,802)**

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, including tax litigation.

Section 14 - Net adjustments to property, plant and equipment - caption 210

14.1. 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	(17,080)	-	-	(17,080)
- Owned	(6,622)	-	-	(6,622)
- Rights of use acquired under lease	(10,458)	-	-	(10,458)
2 Investment property	(29)	-	-	(29)
- Owned	(29)	-	-	(29)
- Rights of use acquired under lease	-	-	-	-
3 Inventory	X	-	-	-
Total	**(17,109)**	**-**	**-**	**(17,109)**

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

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

Details, by asset categories, of the impact on the income statement of adjustments to property, plant and equipment are shown in caption "C.2 Depreciation" of tables "9.6 Property, plant and equipment for business purposes: changes during the year" and "9.7 Investment property: changes during the year" of Part B, Section 9.

Section 15 - Net adjustments to intangible assets - caption 220

15.1 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	(1,359)	-	-	(1,359)
- Generated internally	-	-	-	-
- Other	(1,359)	-	-	(1,359)
A.2 Rights of use acquired under lease	-	-	-	-
Total	**(1,359)**	**-**	**-**	**(1,359)**

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

Section 16 - Other operating charges/income - caption 230

16.1 Other operating charges: breakdown

	31.12.2020	31.12.2019
Depreciation of leasehold improvements	(1,578)	(2,086)
Losses on disposal of property, plant and equipment	(168)	(24)
Charges on non-banking services	(475)	(1,105)
Total	**(2,221)**	**(3,215)**

16.2 Other operating income: breakdown

	31.12.2020	31.12.2019
Recovery of taxes from third parties	30,701	29,469
Recharge of costs of current accounts and deposits	2,776	4,342
Rental and leasing income	77	102
Other expense recoveries	2,359	8,230
Gains on disposal of property, plant and equipment	12	4
Other	1,025	2,659
Total	**36,950**	**44,806**

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 26,903 thousand (Euro 26,263 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 6,518 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 18 - Net gains (losses) arising from the far value measurement of property, plant and equipment and intangible assets - caption 260

18.1. 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 (a)	Write-downs (b)	Exchange differences Positive (c)	Exchange differences Negative (d)	Net result (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 - Goodwill impairment - Caption 270

The results of the testing of the recoverability of goodwill recognised in the consolidated financial statements did not indicate the need for any write-downs.

Section 21 - Income taxes on current operations - caption 300

21.1 Income taxes on current operations: breakdown

Income items/Amounts	31.12.2020	31.12.2019
1. Current taxes (-)	(1,717)	(16,166)
2. Change in prior period income taxes (+/-)	105	172
3. Reduction in current taxes (+)	-	-
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(8,773)	(2,674)
5. Change in deferred tax liabilities (+/-)	2,531	1,148
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	**(7,854)**	**(17,520)**

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 higher amount of loans recorded in the balance sheet by the Parent Company after the merger of Banca Popolare di Spoleto for a total of Euro 7,120 thousand.
The positive effect on net profit for the year is Euro 931 thousand, due to the difference between the substitute tax paid of Euro 1,424 thousand (shown in caption 1) and the change in deferred tax assets of Euro 2,355 thousand (shown in caption 5).

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 Parent Company 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 this agreement, the Parent Company has credited 1,174 thousand euro against current taxes in the 2020 financial statements, reflecting 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 105 thousand, refers to the recalculation of taxes as of 31.12.2019.

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).

21.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	31,544		31,544	
Costs not deductible for IRAP purposes			29,142	
Revenue not taxable for IRAP purposes			(7,602)	
Sub total	31,544		53,084	
Theoretical tax charge **24% Ires - 3.5% Ires surcharge - 5.57% Irap**		**(8,675)**		**(2,957)**
Temporary differences taxable in subsequent years	(230)		-	
Temporary differences deductible in subsequent years	23,470		15,980	
Reversal of prior year temporary differences	(45,713)		(61,659)	
Differences that will not reverse in subsequent years	(9,071)		(4,458)	
Taxable income	-		(2,947)	
Current taxes for the year **24% Ires - 3.5% Ires surcharge - 5.57% Irap**		**(128)**		**(164)**

The tax of Euro 128 thousand refers to current taxes for Ires surcharge pertaining to Fides S.p.A.

The "Current taxes for the year" reported in this table total Euro 292 thousand (negative). The difference compared with the amount reported in caption "1. Current taxes" of table 21.1 is due to the flat-tax paid of Euro 1,424 thousand, following the franking of reserves by the Parent Company pursuant to art. 15, para. 11, of Decree 185/2008, as stated at the foot of table "21.1 Income taxes on current operations: breakdown".

Section 25 - Earnings per share

	31.12.2020		31.12.2019	
	Ordinary shares	**Savings shares**	**Ordinary shares**	**Savings shares**
Net profit of the Group attributable to the various classes of shares (thousands of euro)	20,981	2,709	35,565	4,591
Average number of shares outstanding	122,745,289	13,202,000	122,745,289	13,202,000
Average number of potentially dilutive shares	-	-	-	-
Average number of diluted shares	122,745,289	13,202,000	122,745,289	13,202,000
Earnings per share (Euro)	**0.17**	**0.21**	**0.29**	**0.35**
Diluted earnings per share (Euro)	**0.17**	**0.21**	**0.29**	**0.35**

25.1 Average number of ordinary shares (fully diluted)

There were no operations on share capital during the year and nor were there any issues of financial instruments that could lead to the issue of shares; accordingly, the average number of shares used to calculate diluted earnings per share is equal to 122,745,289 ordinary shares and 13,202,000 savings shares.

25.2 Other information

There is no other information to be disclosed.

PART D - CONSOLIDATED COMPREHENSIVE INCOME

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Captions		31.12.2020	31.12.2019
10.	**Net profit (loss) for the period**	**23,690**	**40,156**
	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**	**(450)**	**(681)**
100.	Taxes on other elements of income without reversal to profit or loss	**(1,477)**	**108**
	Other elements of income, with reversal to income statement		
130.	**Cash-flow hedges:**	**632**	**(85)**
	a) changes in fair value		(85)
	b) reversal to income statement	632	
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**	**(437)**
190.	**Total other elements of income**	**20,723**	**277**
200.	**Total comprehensive income (Captions 10+190)**	**44,413**	**40,433**
210.	**Total comprehensive income pertaining to minority interests**	**-**	**-**
220.	**Total consolidated comprehensive income pertaining to Parent Company**	**44,413**	**40,433**

PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

The Internal Control and Risk Management System consists of a set of rules, procedures and organisational structures designed to permit the identification, measurement, management and monitoring of major risks. This system has been integrated into the Group's organisational and corporate governance structures.

The system's guidelines have been set out in specific internal regulations. The operational instructions and detailed information regarding the controls in place, at various levels, over business processes are included in specific "Consolidated Texts" by function and Internal Procedures.

The organisational model adopted by the Group envisages that the 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 control process over capital adequacy (ICAAP) also forms part of the risk management system and of the liquidity risk governance and management system (ILAAP).

SECTION 1 – RISKS OF THE ACCOUNTING CONSOLIDATION

Quantitative information

A. Credit quality

A.1 Non-performing and performing loans: amounts, adjustments, trends and economic and territorial 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		117,442	186,010	1,568	100,641	13,926,684	14,332,345
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**	**117,442**	**186,010**	**1,568**	**100,641**	**14,515,709**	**14,921,370**
Total	**31.12.2019**	**120,018**	**217,062**	**3,100**	**169,506**	**12,951,683**	**13,461,369**

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

Portfolio/Quality	Non-performing				Performing			Total (Net exposure)
	Gross exposure	Total write-downs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs	Net exposure	
1. Financial assets at amortised cost	580,722	275,702	305,020	9,039	14,102,920	75,595	14,027,325	14,332,345
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	**580,722**	**275,702**	**305,020**	**9,039**	**14,691,257**	**75,767**	**14,616,350**	**14,921,370**
Total 31.12.2019	**624,500**	**284,321**	**340,179**	**12,155**	**13,167,178**	**48,288**	**13,121,190**	**13,461,369**

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**

SECTION 2 – RISKS OF THE CONSOLIDATION FOR REGULATORY PURPOSES

1.1 Credit risk

Qualitative information

1. *General aspects*

The Bank's lending activity has developed according to the guidelines of the Business Plan, addressed to local economies primarily in the retail, small business and small SME markets. To a lesser extent, our lending activity is directed towards the corporate market.

The activities aimed at individual customers, small businesses (artisans, family businesses and professionals), SMEs and Corporates, and customers in the financial sector, mainly include the following products: loans and deposits; financial, banking and payment services; documentary credit; lease; factoring; financial, insurance and asset management products; debit and credit cards.

Commercial policy is mainly pursued through the Bank's branch network based on credit policies geared to supporting local economies. Particular attention is paid to maintaining relationships established with customers and their development in the geographic areas where the Bank has traditionally been present and in new markets with the aim of acquiring new market shares and facilitate growth in business volumes. The subsidiary Fides S.p.A, which makes to private customers in the form of salary/pension-backed loans, advances on termination pay and personal loans, also makes use of agents that are external to the Parent Company's sales network when placing its products. The Bank also operates under agreements with the Italian Banking Association and with trade and business associations, signing conventions aimed at providing support to corporate borrowers while carefully monitoring asset quality.

2. Credit risk management policies

2.1. Organisational aspects

Factors that generate credit risk involve the possibility that an unexpected change in the creditworthiness of a counterparty in respect of which there is an exposure, might generate a corresponding unexpected change in the market value of the credit position. It follows that not only the possibility of a counterparty's insolvency, but also a simple deterioration of its creditworthiness has to be considered a manifestation of credit risk.

The Group's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Parent Company's Board of Directors has exclusive power to lay down guidelines that have an impact on the running of the Group's affairs and, in this context, to make decisions on strategic lines and operations, business and financial plans as well as those relating - again at the level of strategic supervision - to the Internal Control and Risk Management System in compliance with the Capital Requirements in force at the time. In line with the provisions of Bank of Italy circular 285/2013, the Parent Company has granted to the Risk Management Department the activities of verification and supervision of the monitoring and debt collection activities carried out by the competent company departments, providing for the right to intervene, where necessary, with regard to the classification of anomalous credit and provisional accruals and postings.

2.2 Systems for managing, measuring and monitoring credit risk

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

During the fact finding stages of the lending process, the bank performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer's financial standing from what is known of the customer and of the customer's economic environment.

During the process of granting credit, the Group operates according to guidelines based on risk diversification among various customers operating in different industries and market sectors and on the appropriateness of the credit facility depending on the independent creditworthiness of the borrower, the technical form and the collateral that could be acquired.

The analysis and monitoring of risk associated with the lending process is performed with the support of specific operating procedures. The aim of a prompt monitoring system is to identify, as soon as possible, signs of deterioration of exposures in order to intervene with effective corrective measures. To this end, credit exposures are monitored by means of an analysis of relationship trends and by central oversight of risk by means of dedicated procedures. This review facilitates the identification of customers with anomalies in the conduct of their relationship as opposed to those with a regular trend.

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

The concessions or suspensions carried out for legislative "Covid" 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 Group uses an internal rating system that classifies each counterparty in risk classes that reflect their probability of default. The classification of performing counterparties is on a scale from 1 to 10. Non-performing loans (past due and/or overdrawn exposures, unlikely-to-pay and doubtful loans) are excluded from the rating assignment.

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

2.3 Methods of measuring expected losses

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

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

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

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

Accordingly, consistent with the approach taken to prepare the consolidated financial report at 30 June 2020, the Group 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 the Group 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 the Group, the lifetime PD curves were constructed by multiplying the 12-month rating migration matrices, divided by segments conditioned by prospective macroeconomic scenarios, with a Markovian approach. The relevant lifetime PD curve is associated with each rating class assigned to counterparties using internal models. The main methodological steps used to estimate lifetime PD are listed below:

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

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

Estimate of the LGD parameter

The LGD values are assumed equal to the regulatory recovery rates calculated over the economic cycle (TTC), suitably adapted in order to remove some elements of prudence represented by indirect costs and by the component linked to the adverse economic cycle (so-called "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 Group 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 of loans granted to businesses and individuals by the Bank,

- Bank analyses of the attractiveness of sectors using the sector studies carried out by Prometeia,
- clusters suitable identified for monitoring purposes.

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

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

Sensitivity analysis of expected losses

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.

The Group therefore 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, the Group acquires real and/or personal guarantees in order to mitigate risk, even if the requirements appear to be satisfied.
For all loans, the main type of real guarantee is the mortgage, primarily related to the technical form of mortgage loans (particularly on residential properties). Substantial loans are sometimes also assisted by public guarantees, such as the guarantees and counter-guarantees given by the Guarantee Fund for SMEs pursuant to Law 662/96, SACE or the European Investment Fund, as well as by the pledge of securities and/or cash.
Guarantees received are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions. The process of collateral management provides for monitoring and specific controls to check their eligibility, in line with the requirements of supervisory regulations.

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

3. Non-performing loans

3.1 Management strategies and policies

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

- Doubtful loans: exposure to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations, regardless of the loss forecasts made by the intermediary.
- Unlikely to pay: exposures for which the intermediary considers full compliance by the debtor unlikely without recourse to actions such as collection of guarantees, regardless of the presence of amounts due and/or overdrawn.
- Non-performing past due and/or overdrawn exposures: exposures, other than those classified as doubtful or unlikely to pay, with amounts that are past due and/or overdrawn continuously for more than 90 days.

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

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

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

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

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

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

In execution of its capital management strategy, the Parent Company completed a programme of sales of NPLs, particularly significant in recent years, with reference to loans classified as "doubtful" and loans classified as "unlikely-to-pay" (UTP). The additional disposals carried out in November and December further reduced the NPL Ratio (Gross non-performing loans/Gross loans) to 5.37%, 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):

1. prevention of inflows to UTP;
2. 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 the Parent Company's senior management and the Network, makes it possible to interpret, process and age the data coming from various certified sources, in order to detect the credit quality of the Parent Company, of the Territorial Areas and of the Branches.

3.2 Write-offs

Non-performing exposures for which there is no possibility of recovery (either total or partial) are subject to cancellation from the accounting records ("write-offs") in accordance with the policies in force from time to time, subject to approval by the Parent Company'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 Group has adopted specific analytical assessment policies for non-performing loans which provide for specific percentages of adjustment, distinguishing the presence and type of underlying guarantees (secured or unsecured), the submission of customers to a specific procedure (agreed in advance, settlement liquidators, agreed upon in continuity, crisis due to over-indebtedness, as per art. 67 or art. 182 of the Bankruptcy Law).

3.3 Impaired financial assets acquired or originated

As indicated in "IFRS 9 – Financial Instruments", in some cases, a financial asset is considered non-performing at the time of initial recognition as the credit risk is very high and, in the case of purchase, is purchased at a significant discount (compared with the initial value). In the event that the financial assets in question, based on the application of classification drivers (i.e. SPPI test and business model), are classified among assets valued at amortised cost or at fair value through other comprehensive income, they qualify as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to a specific treatment. Adjustments equal to the lifetime expected credit loss (ECL) are recorded against them, from the date of initial recognition and throughout their life. In light of the above, POCI financial assets are initially registered in stage 3, without prejudice to the possibility of being subsequently transferred to performing loans, in which case a lifetime ECL (stage 2) will continue to be recorded. A "POCI" therefore qualifies as such in the reporting processes and in the calculation of the expected loss.

4. Financial assets subject to commercial renegotiations and exposures subject to forbearance

In the face of financial difficulties on the part of the debtor, exposures may be subject to changes in the contractual terms in favour of the debtor in order to make their repayment sustainable. Depending on the subjective characteristics of the exposure and the reasons for the debtor's financial difficulties, the changes may act in the short term (temporary suspension from payment of the loan principal or an extension of a due date) or in the long term (lengthening the duration of a loan, revision of the interest rate) and lead to classification of the exposure (both performing and non-performing) as "forborne". "Forborne" exposures are subject to specific forecasts with a view to classification, as indicated in the ITS EBA 2013-35 implemented by the Group's credit policies; if the forbearance measures are applied to performing exposures, these are taken into account in the process of assigning the internal management rating and are part of the exposures in stage 2. All exposures classified as "forborne" are included in specific monitoring processes by the relevant company departments.

To be more specific, with the help of suitable IT procedures, these functions monitor the effectiveness of the forbearance measures granted, detecting whether the customer's financial situation is subsequently getting better or worse. If at the end of the monitoring period the position complies with all the criteria required by regulations, it is no longer considered as a forborne loan; otherwise, it remains under forborne exposures.

If considered opportune, the branches have the right to review the conditions applied to customer exposures, even when there are no signs of financial difficulty, within the limits of their current decision-making autonomy.

In this case, the exposure does not fall into the category of forborne exposures.
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 5 – 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 Regulatory consolidation - 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		10,273	4,537	33,989	20,407	21,178	10,257	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**	**10,273**	**4,537**	**33,989**	**20,407**	**21,178**	**10,257**	**9,737**	**13,037**	**196,976**
Total	**31.12.2019**	**36,534**	**656**	**41,862**	**49,337**	**19,560**	**18,638**	**15,230**	**26,217**	**229,561**

A.1.2 Regulatory consolidation - 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
Opening balance	**24,355**	**363**	**-**	**24,718**	**23,558**	**-**	**-**	**23,558**
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 (+/-)	(9,235)	(191)	-	(9,426)	32,985		-	32,985
Contractual changes without write-offs	-	-	-	-	-		-	-
Changes in the method of making estimates	-	-	-	-	-		-	-
Write-offs		-	-	-	-		-	-
Other changes	-	-	-	-	-		-	-
Closing balance	**18,811**	**172**	**-**	**18,983**	**56,784**		**-**	**56,784**
Recoveries of financial assets subject to write-off	-	-	-	-	-		-	-
Write-offs booked directly to the income statement	-	-	-	-	-		-	-

A.1.2 Regulatory consolidation - 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					Of which: impaired financial assets acquired or originated				
	Financial assets at amortised cost	Financial assets at fair value through other	Financial assets being sold	of which: individual write-downs	of which: collective write-downs		First stage	Second stage	Third stage	
Opening balance	**284,321**	**-**	**-**	**284,321**	**-**	**3,384**	**375**	**467**	**1,892**	**335,331**
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 (+/-)	43,394	-	-	43,394	-	(435)	1,566	40	106	68,665
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)
Closing balance	**275,703**	**-**	**-**	**275,703**	**-**	**5,456**	**2,196**	**766**	**1,985**	**356,417**
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.1.3 Regulatory Consolidation - 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		1,902,858	336,004	50,122	12,265	26,815	2,502
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	**31.12.2020**	**1,958,738**	**374,618**	**52,985**	**17,300**	**38,672**	**2,615**
Total	**31.12.2019**	**461,592**	**383,854**	**59,732**	**29,888**	**56,386**	**3,483**

A.1.3a 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.1.4 Regulatory consolidation – On- and off-balance sheet exposures to banks: gross and net amounts:

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. Cash exposures					
a) Doubtful loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
c) Past due non-performing loans	-	X	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-
d) Past due performing loans	X	-	-	-	-
- of which: exposures subject to forbearance	X	-	-	-	-
e) Other performing exposures	X	1,383,079	497	1,382,582	-
- of which: exposures subject to forbearance	X	-	-	-	-
Total (A)	**-**	**1,383,079**	**497**	**1,382,582**	**-**
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)	**-**	**1,396,681**	**498**	**1,396,183**	**-**

"Cash exposure" includes all on-balance sheet financial assets due from banks, regardless of the portfolio they are allocated to for accounting purposes (valued at fair value through profit or loss, valued at fair value through other comprehensive income, valued at amortised cost).

"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.1.5 Regulatory consolidation – On- and off-balance sheet credit exposures to customers: gross and net amounts

Types of exposure/Amounts	Gross exposure		Total write-downs and provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. Cash exposures					
a) Doubtful loans	300,886	X	183,444	117,442	9,039
- of which: exposures subject to forbearance	29,740	X	15,288	14,452	-
b) Unlikely to pay	278,106	X	92,096	186,010	-
- of which: exposures subject to forbearance	138,128	X	37,711	100,417	-
c) Past due non-performing loans	1,730	X	162	1,568	-
- of which: exposures subject to forbearance	339	X	47	292	-
d) Past due performing loans	X	102,536	1,895	100,641	-
- of which: exposures subject to forbearance	X	6,001	408	5,593	-
e) Other performing exposures	X	13,204,425	73,363	13,131,062	-
- of which: exposures subject to forbearance	X	122,527	7,055	115,472	-
TOTAL A	**580,722**	**13,306,961**	**350,960**	**13,536,723**	**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	**613,571**	**16,879,174**	**355,895**	**17,136,850**	**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 (valued at fair value through profit or loss, valued at fair value through other comprehensive income or valued at amortised cost). "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.1.5a 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	**4,404,536**	**43,287**	**4,361,249**	**-**
a) Subject to forbearance complying with GL	2,589,790	38,888	2,550,902	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	1,814,746	4,399	1,810,347	-
TOTAL (A+B)+C+D+E)	**4,482,049**	**58,495**	**4,423,554**	**-**

A.1.6 Regulatory consolidation – On-balance sheet credit exposures to banks: changes in gross non-performing loans

There are no such credit exposures at the reporting date.

A.1.6 bis Regulatory consolidation – 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.1.7 Regulatory consolidation – 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	**311,378**	**309,618**	**3,504**
- of which: exposure sold but not derecognised	-	7,629	-
B. Increases	**57,636**	**118,053**	**20,417**
B.1 transfers from performing exposures	121	80,218	19,500
B.2 transfers from impaired financial assets acquired or originated	-	357	140
B.3 transfers from other categories of non-performing exposures	57,180	6,959	262
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	335	30,519	515
C. Decreases	**68,128**	**149,565**	**22,191**
C.1 transfers to performing exposures	4	16,788	14,344
C.2 write-offs	14,743	188	-
C.3 collections	17,496	52,988	757
C.4 proceeds from disposal	7,912	16,179	-
C.5 losses on disposal	27,885	6,199	-
C.6 transfers to other categories of non-performing exposures	88	57,223	7,090
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposure	**300,886**	**278,106**	**1,730**
- of which: exposure sold but not derecognised	-	8,962	55

A.1.7bis Regulatory consolidation - 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	**201,737**	**126,736**
- of which: exposure sold but not derecognised	3,348	15,445
B. Increases	**13,505**	**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	883	13,885
C. Decreases	**47,035**	**59,644**
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	24,890
C.6 proceeds from disposal	-	3
C.7 losses on disposal	30,486	-
C.8 other decreases	366	2,815
D. Closing gross exposure	**168,207**	**128,528**
- of which: exposure sold but not derecognised	5,260	24,232

A.1.9 Regulatory consolidation – 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	**191,360**	**26,636**	**92,556**	**36,441**	**404**	**43**
- of which: exposure sold but not derecognised	-	-	1,165	551	-	-
B. Increases	**56,968**	**10,868**	**40,546**	**16,020**	**151**	**42**
B.1 write-downs of impaired assets acquired or originated	-	X	-	X	-	X
B.2 other write-downs	27,511	4,783	39,898	15,723	145	42
B.3 losses on disposal	7,469	185	546	276	-	-
B.4 transfers from other categories of non-performing exposures	21,271	5,900	102	-	6	-
B.5 contractual modifications without derecognition	-	-	-	21	-	-
B.6 other increases	717	-	-	-	-	-
C. Decreases	**64,884**	**22,216**	**41,006**	**14,945**	**393**	**38**
C.1 measurement write-backs	7,065	1,201	7,609	5,438	228	16
C.2 write-backs on collection	5,354	1,691	3,776	1,476	53	1
C.3 gains on disposal	2,390	417	1,443	412	-	-
C.4 write-offs	14,720	5,386	167	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	21,267	5,900	112	21
C.6 contractual changes without write-offs	-	-	-	-	-	-
C.7 other decreases	35,355	13,521	6,744	1,719	-	-
D. Total closing adjustments	**183,444**	**15,288**	**92,096**	**37,516**	**162**	**47**
- of which: exposure sold but not derecognised	-	-	1,525	895	7	7

A.2 Classification of exposures on the basis of external and internal rating

A.2.1 Regulatory consolidation – Distribution of financial assets, commitments to disburse funds and financial guarantees given for external rating classes (gross values)

Exposures	External rating class						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
a) financial assets measured at amortised cost	**16,450**	**454,631**	**2,878,294**	**393,442**	**39,287**	**12,423**	**10,884,110**	**14,678,637**
- First stage	16,450	425,203	2,812,362	301,938	31,343	11,471	8,136,913	11,735,680
- Second stage	-	29,428	64,795	88,621	7,944	952	2,170,495	2,362,235
- Third stage	-	-	1,137	2,883	-	-	576,702	580,722
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	-	-	-	-	-	-	-	-
C. Financial assets being sold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total financial assets	**16,450**	**454,631**	**3,462,067**	**393,442**	**39,287**	**12,423**	**10,888,502**	**15,266,802**
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	14,332	14,332
D. Commitments to disburse funds and financial guarantees issued								
- First stage	-	241,011	281,079	97,886	5,386	577	2,890,589	3,516,528
- 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**	**2,994,632**	**3,630,869**
Total (A+B+C+D)	**16,450**	**696,750**	**3,747,624**	**496,040**	**44,673**	**13,000**	**13,883,134**	**18,897,671**

The attribution of external ratings refers to the positions of the Group proprietary securities portfolio and to loans for which Cerved, an external credit assessment institution (or ECAI) has assigned a credit risk rating.

The following table gives a reconciliation between the rating classes indicated in table A.2.1 and those provided by the ECAIs Moody's and Cerved, the agencies that the Group 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 and below	C12 or less

A.2.2 Regulatory Consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given for external rating classes

Regulatory Consolidation – Distribution of financial assets, commitments to disburse funds and financial guarantees given for internal rating classes (gross values)

The Group does not use internal rating models for the determination of capital requirements.

The Group uses a rating model to assess individual consumer customers and corporate customers (Retail, Corporate and Financial Businesses and Institutions)

The following table shows performing loans belonging to the above categories with the proportion of each rating class to the overall exposure.

Exposures 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 Regulatory consolidation – Guaranteed credit exposures to banks

There are no such contractual arrangements at the reporting date.

A.3.2 Regulatory consolidation - Guaranteed on- and off-balance sheet credit exposures to customers

			Secured guarantees (1)				Unsecured guarantees (2)										Total (1)+(2)
							Credit derivatives					Endorsement credits					
								Other derivatives									
	Gross exposure	Net exposure	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. Regulatory consolidation - Distribution and concentration of credit exposures

B.1 Regulatory consolidation - Distribution by sector of on- and off-balance sheet credit exposures to customers (book value)

Exposures/Counterparties		Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures											
A.1 Doubtful loans		-	-	2,168	9,751	-	-	77,672	134,769	37,602	38,924
- of which: exposures subject to forbearance		-	-	-	-	-	-	7,982	10,581	6,470	4,707
A.2 Unlikely to pay		319	289	3,038	1,220	-	-	114,198	65,251	68,455	25,336
- of which: exposures subject to forbearance		-	-	2,989	1,070	-	-	56,908	23,324	40,520	13,317
A.3 Past due non-performing loans		-	-	3	-	-	-	409	63	1,156	99
- of which: exposures subject to forbearance		-	-	-	-	-	-	157	26	135	21
A.4 Performing loans		2,689,428	725	546,918	1,420	5,076	-	5,818,516	45,576	4,176,841	27,537
- of which: exposures subject to forbearance		-	-	402	13	-	-	67,162	4,365	53,501	3,085
Total A		**2,689,747**	**1,014**	**552,127**	**12,391**	**5,076**	**-**	**6,010,795**	**245,659**	**4,284,054**	**91,896**
B. Off-balance sheet exposures											
B.1 Non-performing loans		-	-	10	-	-	-	30,248	1,938	606	47
B.2 Performing loans		15,912	-	115,019	10	-	-	3,152,477	2,705	244,632	180
Total B		**15,912**	**-**	**115,029**	**10**	**-**	**-**	**3,182,725**	**4,643**	**245,238**	**227**
Total (A+B)	**31.12.2020**	**2,705,659**	**1,014**	**667,156**	**12,401**	**5,076**	**-**	**9,193,520**	**250,302**	**4,529,292**	**92,123**
Total (A+B)	**31.12.2019**	**2,630,272**	**2,137**	**550,957**	**12,161**	**790**	**-**	**8,271,296**	**251,150**	**4,273,954**	**69,374**

B.2 Regulatory consolidation - Territorial distribution of on- and off-balance sheet credit exposures to customers

Exposures/Geographical areas		ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures											
A.1 Doubtful loans		117,393	183,375	49	69	-	-	-	-	-	-
A.2 Unlikely to pay		185,482	92,025	528	71	-	-	-	-	-	-
A.3 Past due non-performing loans		1,567	162	1	-	-	-	-	-	-	-
A.4 Performing loans		13,097,658	75,089	112,559	150	20,912	18	167	1	407	-
TOTAL A		**13,402,100**	**350,651**	**113,137**	**290**	**20,912**	**18**	**167**	**1**	**407**	**-**
B. Off-balance sheet exposures											
B.1 Non-performing loans		30,864	1,985	-	-	-	-	-	-	-	-
B.2 Performing loans		3,522,815	2,895	4,751	-	465	-	4	-	5	-
TOTAL B		**3,553,679**	**4,880**	**4,751**	**-**	**465**	**-**	**4**	**-**	**5**	**-**
TOTAL (A+B)	**31.12.2020**	**16,955,779**	**355,531**	**117,888**	**290**	**21,377**	**18**	**171**	**1**	**412**	**-**
TOTAL (A+B)	**31.12.2019**	**15,608,037**	**334,519**	**97,082**	**284**	**21,048**	**17**	**205**	**1**	**107**	**1**

B.3 Regulatory consolidation – Territorial distribution of on- and off-balance sheet credit exposures to banks

Exposures/Geographical areas		ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
		Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs	Net exposure	Total write-downs
A. Cash exposures											
A.1 Doubtful loans		-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-	-	-	-	-	-
A.4 Performing loans		1,249,797	433	128,650	57	3,018	2	317	-	800	5
TOTAL		**1,249,797**	**433**	**128,650**	**57**	**3,018**	**2**	**317**	**-**	**800**	**5**
B. Off-balance sheet exposures											
B.1 Non-performing loans		-	-	-	-	-	-	-	-	-	-
B.2 Performing loans		11,031	1	2,505	-	-	-	-	-	-	-
TOTAL		**11,031**	**1**	**2,505**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**31.12.2020**	**1,260,828**	**434**	**131,155**	**57**	**3,018**	**2**	**317**	**-**	**800**	**5**
TOTAL	**31.12.2019**	**829,334**	**447**	**101,997**	**57**	**1,099**	**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	5,841,252	187,775	4

The four positions indicated relate to exposures to the Bank of Italy, the Treasury Ministry, Two Worlds S.r.l. and the Guarantee Fund as per Law 662 of 23.12.1996.

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 (or "derecognition") of the NPLs concerned.

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

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

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

The 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 mezzanine and junior securities held, recorded under financial assets that are mandatorily at fair value.

C.2 Regulatory consolidation - Exposures arising from principal "third party" securitisations, broken down by type of securitised asset and by type of exposure

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

D. Asset disposals

D.4 Regulatory consolidation - 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%).

D.5 Financial assets sold and fully derecognised

<u>Qualitative information</u>

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 Parent Company 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).

E. Regulatory consolidation – Credit risk measurement models

The Bank does not use internal portfolio models for measuring credit risk exposure.

1.2 Market risk

1.2.1 Interest rate risk and price risk - trading portfolio reported for supervisory purposes

<u>**Qualitative information**</u>

A. General aspects

Unexpected changes in market interest rates, in the presence of differences in maturities and in the timing of interest rate reviews for assets and liabilities, result in a change in the net interest flow and therefore in net interest income (or "interest margin"). In addition, these unexpected fluctuations expose the Group to changes in the economic value of assets and liabilities.

The information in this section refers only to the Group, given the fact that Fides does not hold any assets.

The Group adopted a strategy to consolidate a return in line with budget, while maintaining a low risk profile through a low portfolio duration.

B. Management and measurement of interest rate risk and price risk

In carrying out its responsibilities for management and coordination, the Parent Company's Board of Directors issued specific rules on controls.

Trading by the Parent Company's Finance Department is subject to operating limits as set out in the "Risk policy" and in internal regulations; in order to mitigate market risk, specific limits have been set for size, duration and Value at Risk (VaR). A specific reporting system is the tool used to provide adequate information to the organisational units involved.

The content and frequency of reports depend on the objectives assigned to each participant in the process. Together with the above controls, the Group also uses internal models, assigning the monitoring and measurement of interest rate and price risk to the risk management function, which operates in complete autonomy from both the operational areas and the subsidiaries.

For the quantification of generic and specific risks, the Group has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum probable loss of a static portfolio with reference to a specific time horizon and at a specific confidence level under normal market conditions. This method has the advantage of allowing the aggregation of positions involving heterogeneous risk factors; it also provides a summary number which, being a monetary expression, is easily used by the organisational structure involved. The VaR model uses involves the Monte Carlo simulation technique which, after appropriate assumptions and correlations, estimates the value of the portfolio by calculating a number of possible revaluations and, given the vector of expected portfolio returns, determines the ideal percentile for distribution. The model uses a confidence interval of 95% with a period of 1 day. The application used to calculate the VaR is provided by Bloomberg.

The internal model is not used in the calculation of capital requirements for market risk.

Quantitative information

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	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	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.

1.2.2 Interest rate risk and price risk - banking book

Qualitative information

A. General aspects, management and measurement of interest rate risk and price risk

The measurement of interest rate risk is performed by the risk management function. This activity is carried out for the Parent Company's, which covers almost all of the banking book. The whole of the Group's business associated with the transformation of maturities of assets and liabilities, portfolio securities, treasury operations and the respective hedging derivatives are monitored with Asset and Liability Management (ALM) methods using ERMAS5.

The static analysis currently performed allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income. In this context, the results of the banking book for financial statement purposes are also presented, excluding analysis of financial instruments in the trading portfolio for supervisory purposes.

The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of Gap Analysis. The changes in the economic value of assets and liabilities are analysed by applying a Sensitivity Analysis approach.

The analyses are carried out also considering non-parallel shifts in the yield curve and the application of behavioural models for 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	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	**951,019**	**6,049,923**	**1,616,298**	**530,531**	**3,047,133**	**1,837,423**	**781,290**	**-**
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	117,957	836,893	-	-	-	341	-	-
1.3 Loans to customers	833,062	4,558,527	302,812	436,441	2,424,544	1,177,029	712,636	-
- current accounts	560,005	351,100	2,578	3,792	28,934	2,472	-	-
- other loans	273,057	4,207,427	300,234	432,649	2,395,610	1,174,557	712,636	-
- with early redemption option	80,177	3,530,645	221,149	371,740	1,924,692	863,058	712,455	-
- other	192,880	676,782	79,085	60,909	470,918	311,499	181	-
2. Cash liabilities	**9,508,024**	**359,854**	**245,466**	**138,655**	**3,291,349**	**532,617**	**34,469**	**-**
2.1 Due to customers	9,506,088	151,686	164,770	115,908	98,952	31,676	34,469	-
- current accounts	9,361,770	114,821	124,426	71,021	49,212	-	-	-
- other payables	144,318	36,865	40,344	44,887	49,740	31,676	34,469	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	144,318	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	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								
+ Long positions	-	3	-	-	-	-	-	-
+ Short positions	-	3	-	-	-	-	-	-

2. Banking book - internal models and other methodologies for the sensitivity analysis

The Group's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value of own funds.

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date has, however, some peculiarities arising from the current market environment, which sees an increase in demand and short-term deposits; this has led to a physiological decrease in the average duration of liabilities, whereas assets have not undergone any substantial changes in terms of average duration.

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

Risk ratios: parallel shifts in the yield curve at 31.12.2020

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

In terms of economic value, the effect of the change, estimated with the help of measurement models in a static perspective, shows a risk exposure at levels that do not have a significant impact on total capital.

The following table shows the changes in the 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	-10.03%	2.32%

1.2.3. EXCHANGE RATE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

The Group is exposed to exchange risk as a result of its trading activities in foreign exchange markets and investment activities and fundraising with instruments denominated in a currency other than the domestic one.

The exposure to exchange risk is marginal. As regards only the Italian banks, forex operations are managed by the Parent Company's Finance Department.

Exchange rate risk is managed through operating limits, both by currency areas and by concentration on each currency. In addition, daily and yearly stop-loss operating limits have been set.

B. Hedging of exchange risk

The Group's main objective is to manage exchange risk in a prudent manner, always taking into consideration the possibility of taking advantage of any market opportunities. Transactions that involve taking on exchange risk are managed through appropriate hedging strategies.

Quantitative information

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 Group's exchange risk profile is not particularly significant, given the limited foreign currency exposure of the main asset and liability items and the related hedges put in place through the use of financial derivatives.

1.3 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

1.3.1 Trading derivatives

A. Financial derivatives

A.1 Financial trading derivatives: period-end notional values

Underlying assets/Type of derivatives	Total at 31.12.2020				Total at 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) Swaps	-	-	14,514	-	-	-	15,227	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	109	-	-	-	120	-
a) Options	-	-	109	-	-	-	120	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	142,278	-	-	-	279,939	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	142,278	-	-	-	279,939	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**156,901**	**-**	**-**	**-**	**295,286**	**-**

A.2 Banking book: period-end notional values

A.2 Financial trading derivatives: positive and negative gross fair value - breakdown by product

Type of derivative	31.12.2020				31.12.2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With compensation arrangements	Without compensation arrangements			With compensation arrangements	Without compensation arrangements	
1. Positive fair value								
a) Options	-	-	109	-	-	-	120	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	647	-	-	-	1,350	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**756**	**-**	**-**	**-**	**1,470**	**-**
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 netting 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	1	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 netting arrangements				
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	-	-	-	-

1.3.2 Accounting hedges

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**	**2,773**	**11,861**	**295,286**

<u>Qualitative information</u>

A. Fair value hedges

To date, the Group did not take out any fair value hedges.

B. Cash flow hedges

The Group uses cash flow hedges to reduce exposure to adverse changes in expected cash flows; the objective is to stabilise the cash flows of the hedged instrument with the flows of the hedging instrument.

D. Hedging instruments

For hedging, we use derivatives represented by interest rate swaps, but only to hedge interest rate risk.

E. Hedged items

To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges.

For hedging, we use derivatives represented by interest rate swaps, but only to hedge interest rate risk.

The Group has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards. The method used for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

Quantitative information

A. Hedging financial derivatives

A.1 Hedging financial derivatives: period-end notional values

Underlying assets/Type of derivatives	Total at 31.12.2020				Total at 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) Swaps	-	-	130,000	-	-	-	130,000	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**130,000**	**-**	**-**	**-**	**130,000**	**-**

A.2 Hedging financial derivatives: positive and negative gross fair value - breakdown by product

Type of derivative	Positive and negative fair value								Change in the value used to calculate the effectiveness of the hedge	
	31.12.2020				31.12.2019					
	Over the counter			Organised markets	Over the counter			Organised markets	31.12.2020	31.12.2019
	Central counterparties	Without central counterparties: With compensation arrangements	Without central counterparties: Without compensation arrangements		Central counterparties	Without central counterparties: With compensation arrangements	Without central counterparties: 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 netting arrangements				
1) Debt securities and interest rates				
- notional value	X	130,000	-	-
- positive fair value	X	-	-	-
- negative fair value	X	1,450	-	-
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 netting arrangements				
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**

1.3.3 Other information on trading and hedging instruments

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	1	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	-	-	-	-

1.4. Banking Group - Liquidity risk

Qualitative information

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Parent Company's Finance Department with the aim of verifying the Group's ability to meet liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market.

The 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 Group would have to cope with the crisis before commencing structural interventions.

Given the current economic and financial situation, the funding policy adopted by the Group seeks to stabilise the short-term deposits from ordinary customers, giving preference to retail over wholesale customers, with increased recourse to TLTRO operations and structural medium/long-term funding via the issue of covered bonds.

The Group's liquidity at 31 December 2020 is largely under control with a LCR indicator of 206.74%.

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	3 to 6 months	From 6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
Cash assets	**1,095,519**	**32,495**	**105,221**	**157,945**	**672,832**	**737,308**	**845,856**	**6,449,749**	**4,104,867**	**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	1,045,888	32,495	103,705	157,558	639,502	425,842	744,204	4,500,203	3,096,198	836,921
- Banks	118,046	-	-	-	-	-	-	-	342	836,921
- Customers	927,842	32,495	103,705	157,558	639,502	425,842	744,204	4,500,203	3,095,856	-
Cash liabilities	**9,573,844**	**7,162**	**7,764**	**30,040**	**178,941**	**249,582**	**197,152**	**3,374,407**	**568,774**	**-**
B.1 Deposits and current accounts	9,510,619	5,755	7,706	24,895	107,777	160,984	109,756	56,942	-	-
- Banks	1,375	-	-	-	-	-	-	-	-	-
- Customers	9,509,244	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	-
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 Irrevocable commitments to grant finance										
- Long positions	821	-	-	123	1,394	14	57	15,258	55,809	-
- Short positions	73,477	-	-	-	-	-	-	-	-	-
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	3 to 6 months	From 6 to 12 months	1 to 5 years	Over 5 years	Unspecified duration
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	-
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	-	-	-	-	-	-	-	-	-	-
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 Irrevocable commitments to grant finance										
- 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	-	-	-	-	-	-	-	-	-	-

1.5. OPERATIONAL RISK

Qualitative information

A. General aspects, management and measurement of operational risk

Operational risk is the risk of incurring losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events, inclusive of legal risk (see EU regulation 575/2013).

The Group uses the above definition of operational risk within the operational risk management model that has been approved and embodied within corporate policy.

In this regard, a specific operational risk management macro-process (ORM framework) has been designed that consists of the following phases:

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

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

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

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

IT security and data protection are priorities for the Group, 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, the Group applies:

- ✓ an ICT Risk Assessment process aimed at identifying and measuring exposure to IT risk. This process includes assessment of the risks deriving from the IT system provided to the Bank on a full outsourcing basis by Cedacri S.p.a.; a system of key risk indicators that monitor constantly exposures to the principal data security threats, including: events deriving from the violation of business rules and practices in the area of information security (i.e. IT fraud, Internet attacks, malfunctions and service outages), attempted fraud via virtual banking channels and potential malware attached to e-mail or web interactions;

- ✓ a process for assessing third parties and the technological and organisational controls established by them to ensure *inter alia* IT security and operational continuity in the context of the services provided, both in the contracting phase and throughout the entire working relationship;
- ✓ a DPIA (Data Protection Impact Assessment) that considers the need for and proportionality of the processing of confidential data, considers and manages any risks for the rights and freedoms of the data subjects concerned, and identifies and implements mitigation measures for any weaknesses found in the existence and effectiveness of adequate physical, organisational and technological controls;
- ✓ internal training on the data protection regulations and on the methods for processing and protecting data;
- ✓ pro-active anti-fraud procedures that address the dynamic changes in the techniques employed in IT attacks;
- ✓ procedures for the management of security incidents;
- ✓ threat alert systems, partly by specialist recourse to Security Operation Centres. 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, the Parent Company is working to strengthen the first level controls over IT security, via the development of a system of KPIs capable of monitoring constantly the following areas: positioning of the Group with regard to cyber security, effectiveness of fraud detection systems, exposure to vulnerabilities and management of incidents.

As regards the management of risks impacting the Group's business continuity, a Business continuity plan has been revised and integrated during the year, with a view to process: measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), new branches have identify (to replace the Bologna branches) as Business Continuity site as an alternative for personnel who cannot operate remotely and for process which still need materiality.

For risk management of criminal offences pursuant to Legislative Decree 231/2001 "Regulation of the administrative liability of legal entities, companies and associations with or without legal personality", Group companies have adopted an organisational model for the prevention thereof. The supervision of the effective implementation of the aforementioned models has been assigned to specific internal bodies.

As regards legal risk, the various corporate functions operate with standard contracts that have previously been vetted by the appropriate business structure. Accordingly, it should be noted that most of the ongoing legal disputes at the year end relate to disputes concerning compensation for damages, alleged usury, compound interest charges and early repayment.

Risk related to outstanding legal disputes

The Banco Desio e della Brianza Group, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions. The following table summarises the outstanding disputes at the end of the period, together with the related provisions:

	Number	**Claim**	**Provisions**
Claw-back suits	13	€ 11.810 million	€ 0.712 million
Other lawsuits	741	€ 110.067 million	€ 9.514 million

The principal outstanding disputes, with claims in excess of Euro 1 million, are described below:

- Claim of Euro 40.0 million. Spoleto Credito e Servizi Soc. Coop. (SCS, former parent cooperative of Banca Popolare di Spoleto) as well as some shareholders of the same company notified the Bank and the members of the Board of Directors of the merged company in office in the period 2014-2016 a summons before the Court of Milan - Specialized Company Section - in order to ascertain: (i) the presumed responsibility of the defendants with regard to the transfer of no. 32 bank branches of Banco to the merged company (concluded in the first half of 2015) by virtue of the Investment Agreement concluded on 1 April 2014 between the Bank and the Extraordinary Commissioners of the merged company, on the assumption that incorrect criteria were used to estimate the value of the business unit and that there was a lack of control over the matter by the merged company's Board of Directors and the members of the Related Parties Committee; (ii) the Bank's responsibility for an alleged breach of the commitment assumed in the Framework Agreement to grant a loan of Euro 15.0 million to SCS. The Judge set the hearing for the admission of the investigative means on 8 June 2021. In addition to doubts about the legitimacy of the plaintiffs, the arguments are considered entirely instrumental and unfounded and, above all, the abnormal request for compensation is devoid of any probative support;
- Claim of Euro 12.6 million. Following the rejection of the Preventive Technical Assessment established in March 2018, the plaintiff initiated a judgement of merit at the Court of Monza (first hearing on 28 March 2019) to request the return of the amounts made available (transfers and requests for bank drafts), according to the plaintiff, based on false signatures and consequently stolen from his assets for the total of Euro 12.6. As things stand at present, the Bank's legal advisor thought that the risk of losing the case was remote, also considering the outcome of the Preventive Technical Assessment. The appraisal of the hand-writing required by the judge, concluded that all of the signatures could be traced back to the plaintiff. The hearing for the examination of the report expert witness was set for 12 February 2021;
- Claim of Euro 7.3 million. With a writ notified in 2013, the Receivership summoned Banca Popolare di Spoleto together with Banca delle Marche and Monte dei Paschi di Siena before the Court of Perugia to hear ascertained and declared invalid and/or ineffective and/or unenforceable as the receiver of the sale of the loan and, therefore, to hear them condemned, jointly and severally, to pay the sum. The application seems totally unfounded as confirmed by the counsel that we appointed to appear in court. On 2 December 2009 (about three years before the declaration of bankruptcy with judgement on 21 March 2013), the Bank, together with the two other banks, granted a line of credit to the bankrupt company, usable in the technical form of an advance on contracts to public entities and/or the public administration, for an amount of Euro 1 million for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. The Judge rejected all of the preliminary enquiries proposed by the Receivership and scheduled the hearing for 4 May 2021 for clarification of the conclusions without carrying out any investigation work;
- Claim of Euro 3.6 million. The receivership cited the merged Banca Popolare di Spoleto before the Court of Perugia - Section specialized in business matters (first hearing set for 4 November 2019) asking for verification of whether under art. 2377 of the Italian Civil Code the resolution of the shareholders'

meeting of Banca Popolare di Spoleto S.p.A. of 7 May 2019 which approved the project for the merger of BPS with Banco di Desio e della Brianza S.p.A. can be cancelled for lack of information and incongruity on the determination of the exchange ratio between the shares of the two Banks; the Court condemned BPS to reimburse the Bankruptcy for the presumed damages that it caused as a consequence of the incongruity of the exchange ratio; damages quantified by the counterparty at Euro 3.6 or a higher or lower sum that may be decided by the Court. Without prejudice to the fact that, under art. 2504 *quater* of the Italian Civil Code, since the merger deed was registered, the validity of the merger deed could no longer be questioned, the case returned to Court, which reiterated the fairness of the exchange ratio established for the transaction. The Magistrate, following resolution of the outstanding questions, allowed filing of the documents containing the expert appraisals and set 25 February 2021 as the date for the next hearing;

- Claim of Euro 3.1 million. The plaintiff has filed suit concerning a loss of capital deriving from operations in financial instruments deemed inconsistent with the risk profile thereof. The Bank appeared before the court to request that the claims be dismissed, given that the contractual documentation had been signed and that the operations appeared to be consistent with the risk profile. The case is at the preliminary stage with the completion of an expert appraisal for the accounting verification of all purchase and sale orders. the Magistrate, having received the document filed by the Court Expert and completed the investigation, retired to make a decision after the hearing held on 3 December 2020;
- Claim of Euro 3.0 million. The receivership summoned the merged Banca Popolare di Spoleto to appeal before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, given that by acting in this way it allowed the counterparty to remain on the market and delay the declaration of bankruptcy. The Court of Terni rejected the plaintiff's claim, which was challenged before the Court of Appeal of Perugia. The Court of Appeal upheld the first-instance decision. On 8 March 2018, notice was served of the appeal to the Supreme Court. The Bank is therefore waiting for the hearing to be scheduled;
- Claim of Euro 2.5 million. The plaintiff initiated a suit at the Court of Monza to request the return of the amounts made available (bank transfers and requests for banker's cheques), according to the plaintiff, based on false signatures and consequently stolen from the plaintiff's assets for the total of Euro 2.5 million in addition to a request for damages on an equitable basis. The Bank appeared before the court to request that the claim be dismissed, also in consideration of the results of the internal expert's investigations. The Judge rejected all of the preliminary enquiries proposed by the counterparty and scheduled the hearing for 25 February 2021 for clarification of the conclusions without carrying out any investigation work;
- Claim of Euro 2.0 million. By writ of summons, the counterparty brought legal proceedings against the Bank to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered the Bank to return an amount that was lower than the claim. The counterparty lodged an appeal. The Bank paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing the same arguments already submitted in first and second degree. The Supreme Court has not yet set the date for the hearing;

- Claim of Euro 1.9 million. The receivership summoned the merged Banca Popolare di Spoleto to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, so the Bank's operations allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank appeared in court to defend itself, arguing that the credit lines granted were very low (maximum Euro 60 thousand), so lacking any causal link for the allegation of abusive concession of credit. The investigation authorised by the Judge did not address conduct attributable to the Bank. With a judgement of 15 December 2017, the Court of Terni rejected the request filed against the defendant Banks, believing that the conduct of the credit institutions did not contribute to the bad management of the administrator. On 16 January 2018, an appeal against this judgement was served at the request of the receivership. The suit has been decided;
- Claim of Euro 1.5 million. By writ notified in 2015, the counterparty summoned the Bank before the Court of Prato to obtain reimbursement of the capital invested in a series of securities and, alternatively, the amount of the loss incurred during the course of the investment. The Bank appeared in the case to contest the application. Following the report of Court handwriting expert, the Magistrate suspended the hearing until 17 March 2021 for comments on the report and any clarification of the conclusions reached by the parties;
- Claim of Euro 1.4 million. The counterparty summonsed the Bank on the basis of an econometric appraisal prepared for the sole purpose of convincing the competent Court that non-contractual interest rates were applied, presumably illegitimately or in any case illegally and, allegedly, exceeding the threshold rate for the identification of usury. According to the counterparty, as a result of being reported as non-performing by the Bank, its access to credit from other banks and suppliers was progressively reduced. This economic-financial difficulty allegedly caused material losses, quantified in total by the counterparty as about.4 million euro, as well as alleged non-material losses of 85,000 euro for each in which its non-performing status was report, to be settled if appropriate on an equitable basis. The date set for the first hearing is 27 April 2021;
- Claim of Euro 1.4 million. A Cooperative Company has sued the Bank before the Court of Spoleto asking to ascertain the nullity, cancellation, termination, pre-contractual and contractual liability, the abuse of a dominant position or at least of economic dependence exercised by Banca Popolare di Spoleto S.p.A., under a contract for the provision of investment services and a contract for the purchase of shares for a total of 36,000 shares issued by Spoleto Credito e Servizi Soc. Coop. (SCS, former parent of Banca Popolare di Spoleto) for a total of Euro 1.4 million. The shares (partially pledged) were allegedly purchased by the customer through the mediation of the merged Bank, but with a bank transfer in 2001 directly to SCS. The disputed transaction is very old and the protective measures seem to be prescribed, despite the fact that the operations were used for a loan and a guarantee held with our bank which were subsequently extinguished. During the first hearing on 10 February 2020, the Judge took time to consider the Bank's objection about incompetence;
- Claim of Euro 1.2 million. A company, as well as the guarantors, sued the Bank before the Court of Spoleto in order to hear, ascertain and declare in relation to mortgages the application of usurious interest, asking the Court for payment by the Bank of Euro 338 thousand for interest allegedly not due, in addition to Euro 169 thousand by way of damages for the company and Euro 730 thousand for each guarantor in compensation for damages for breach of the principles of and fairness and good faith, pursuant to art. 1175 and 1375 of the Italian Civil Code. An expert appraisal was carried out, which

confirmed the lawfulness of the relationships involved in the lawsuit. The first-level ruling was therefore favourable to the Bank, but the counterparties have appealed the decision;

- Claim of Euro 1.1 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by the Bank and leased to the counterparty plus amounts paid into a current account. The receiver contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court, which has not yet set a date for the hearing. The receivership has served notice of an injunction for a sum of Euro 1.2 million and the Bank has opposed the injunction, mainly by reason of the legitimacy of the request, including the stance that an appeal had been made to the Supreme Court. The Judge competent to decide on the opposition to the injunction, however, pending the outcome of the Supreme Court's decision, has ordered the Bank to pay a sum of Euro 1.2 million and, at the same time, has obliged the receivership not to take delivery of the sum, until the outcome of the decision by the court of third instance (Supreme Court) concerning the appeal lodged by the Bank against the Court of Appeal's decision. The Supreme Court has not yet set the date for the first hearing;
- Claim of Euro 1.0 million. In a preventive summons, the counterparty contends that the merged company Banca Popolare di Spoleto, by exploiting its bargaining power, refused to grant a mortgage loan requested by the company in 2011 of Euro 1 million for a building project in Frascati, demanding a different form of facility be taken out, namely, a mortgage current account, with an undertaking to convert the financing to a mortgage loan on completion of the project. According to the counterparty's defence, the failure to convert the facility to a mortgage loan, in breach of the alleged agreement, would have given rise to severe financial difficulties for the company. The case presented by the adversary, which is totally unfounded, appears to be somewhat pretentious. Following the report of the Court expert, the hearing was suspended until 14 April 2021 for clarification of the conclusions of the parties.

* * *

Action for damages against former corporate officers of Banca Popolare di Spoleto S.p.A.

For completeness, it should be noted that, under article 72, paragraph 5, of the CBA, after approval has been obtained from the Bank of Italy, the Extraordinary Commissioners in charge of special administration of the subsidiary Banca Popolare di Spoleto, at the end of their mandate, had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager. On 7 April 2016, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto resolved, among other things, confirmation of the action of responsibility already taken by the Extraordinary Commissioners and its extension against the former Statutory Auditors. It should be noted that this action contains a request for the defendants to be sentenced to pay damages of approximately Euro 30.0 million, broken down according to their respective responsibilities. The proceedings relating to admission of the evidence and the case brought against the former auditors have been combined. The Judge invited the parties to file a list of the documents that they asked to exhibit. The case is under investigation and has been postponed to 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 1,866. 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	0.43%	1.73%	1.74%	0.00%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	1.93%	4.46%	3.84%	14.44%
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	0.48%	4.56%	4.59%	0.00%
RELATIONAL ACTIVITY CONNECTED TO CUSTOMERS, PRODUCTS AND CHANNELS Losses due to inability (not intentional or negligent) to fulfil professional commitments taken with customers (including fiduciary requirements and adequate information on investments)	35.96%	21.82%	21.96%	0.00%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	0.70%	50.35%	50.67%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.38%	0.17%	0.17%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	60.13%	16.91%	17.02%	0.00%
TOTAL Banco Desio e della Brianza Group	**100.00%**	**100.00%**	**100.00%**	**0.65%**

The gross operating loss comes to Euro 5,914 thousand, for which provisions were made during the period of Euro 1,768 thousand; recoveries were recorded for Euro 38 thousand; so the net operating loss amounted to Euro 5.876 thousand.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY

A. Qualitative information

The Banco Desio Group pays a great deal of attention to its own capital, being well aware both of its function as a factor in defence of the trust of external funders, as it can be used to absorb losses, and of its importance for purely operational and business development purposes.

A good level of capitalisation allows us to address the question of business development with the necessary degree of autonomy and to preserve the stability of the Group.

The policy of the Parent Company is therefore to assign a considerable priority to capital to use it in the best way possible in expanding the business.

The concept of book equity used by the Group is given by the sum of the following liability captions: share capital, valuation reserves, reserves, share premium reserve and net profit (loss) for the period.

B. Quantitative information

Captions	Group min. requirements	Insurance companies	Other businesses	Consolidation adjustments and eliminations	31.12.2020
1. Share capital	54,026				54,026
2.Share premium reserve	10,809				10,809
3.Reserves	838,636				838,636
6. Valuation reserves:	66,096				66,096
- Financial assets (other than equities) designated at fair value through other comprehensive income	1,180				1,180
- Property, plant and equipment	161				161
- Cash-flow hedges	(932)				(932)
- Actuarial gains (losses) on defined-benefit pension plans	(3,841)				(3,841)
- Special revaluation laws	23,065				23,065
Net profit (loss) of the year (+/-) pertaining to the Group and minority interests	23,419				23,419
Shareholders' equity	**992,986**				**992,986**

B.2 Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amounts	Banking Group		Insurance companies		Other businesses		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,275	(95)							1,275	(95)
2 Equity instruments	47,023	(560)							47,023	(560)
3. Loans										
Total 31.12.2020	**48,298**	**(655)**							**48,298**	**(655)**
Total 31.12.2019	**27,373**	**(356)**							**27,373**	**(356)**

B.3 Valuation reserves of financial assets designated at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Mutual funds	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**	**46,463**	-	

The changes in "Mutual funds" refer to the transfer to the revenue reserve of the "Valuation reserve" that existed on FTA of IFRS 9 on financial instruments included among the financial instruments mandatorily measured at fair value through profit or loss.

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 326 thousand (net of the related tax effect of Euro 124 thousand) 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

2.1 Scope of application and regulations

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 the Bank 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[10];
b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Group;
c) on changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Group,

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, associates and other related parties pursuant to art. 53 CBA and/or art. 2391-bis of the Italian Civil Code, included entities treated as per art 136 of CBA also in compliance with Italian laws), highlighting, in particular, the balance of current accounts and of the securities portfolio at the end of the year.

<u>I - Parent company</u>

[10] with respect to the level of significance of the transactions with related parties, the Internal Procedure refers to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised at the date of adoption of the Procedure)

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado SapA at Banco Desio 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. 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".

<u>II - Transactions with Officers and parties related to them</u>

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 Group and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 33 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 as per paragraphs I 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)
<u>Lending transactions:</u>	
Amount granted-	14.3
Amount drawn down	6.5
<u>Funding transactions:</u>	
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 L – SEGMENT REPORTING

The Banco Desio Group operates by carrying on traditional banking activities, providing asset management services and selling life and non-life bancassurance products.

Consistent with the system of internal reporting used by management to monitor the trend in results and take operating decisions about the allocation of resources, the Group's segment reporting takes account of the organisational and managerial structure described below.

The "banking" segment comprises the network bank of the Group, i.e. the Parent Company Banco di Desio e della Brianza S.p.A. and the vehicle company Desio OBG S.r.l., which was set up specifically for the guaranteed bank bond programme.

The "near-banking" segment comprises Fides S.p.A., a financial intermediary that is registered pursuant to art. 106 TUB.

The "consolidation adjustments" column includes the consolidation entries and the intercompany eliminations.

The total of the three columns described above is the amount reported in the consolidated financial statements of the Banco Desio Group.

Income statement	**Banking**	**Near-banking**	**Consolidation adjustments**	**Total 31.12.2020**
Net profit from financial and insurance activities [1]	421,085	12,267	(3,115)	430,237
Fixed costs [2]	(313,358)	(7,495)	146	(320,707)
Provisions and adjustments [3]	(77,258)	(737)	9	(77,986)
Profit (loss) from equity investments carried at equity	-		-	-
Gains (losses) on disposal of investments			-	-
Profit (loss) from current operations before tax	**30,469**	**4,035**	**(2,960)**	**31,544**

Balance sheet	**Banking**	**Near-banking**	**Consolidation adjustments**	**Total 31.12.2020**
Financial assets	3,543,682	15		3,543,697
Due from banks [4]	1,034,623	5,299	(5,154)	1,034,768
Loans to customers [4]	10,419,550	865,398	(811,720)	10,473,228
Due to banks	2,412,244	811,720	(811,720)	2,412,244
Due to customers	10,257,006	3,931	(5,154)	10,255,783
Debt securities in issue	1,608,927			1,608,927
Indirect deposits, under administration and management	**16,520,360**			**16,520,360**

Income statement	**Banking**	**Near-banking**	**Consolidation adjustments**	**Total 31.12.2019**
Net profit from financial and insurance activities [1]	421,554	16,416	(7,006)	430,964
Fixed costs [2]	(306,292)	(6,935)	145	(313,082)
Provisions and adjustments [3]	(53,308)	(6,898)		(60,206)
Profit (loss) from equity investments carried at equity	-	-		-
Gains (losses) on disposal of investments	-	-		-
Profit (loss) from current operations before tax	**61,954**	**2,583**	**(6,861)**	**57,676**

Balance sheet	**Banking**	**Near-banking**	**Consolidation adjustments**	**Total 31.12.2019**
Financial assets	3,365,907	15		3,365,922
Due from banks [4]	619,619	4,571	(4,396)	619,794
Loans to customers [4]	9,515,796	793,523	(741,633)	9,567,686
Due to banks	1,603,208	741,748	(741,748)	1,603,208
Due to customers	9,498,854	3,729	(4,396)	9,498,187
Debt securities in issue	1,749,103	-		1,749,103
Indirect deposits, under administration and management	**15,562,375**	**-**		**15,562,375**

Notes:
[1] including other operating charges/income
[2] administrative costs, net adjustments to property, plant and equipment and intangible assets
[3] net impairment adjustments to loans and financial assets, provisions for risks and charges, goodwill
[4] net of held to collect (HTC) debt securities measured at amortised cost and reported under financial assets

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, the Banco Desio Group 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 Group 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 the Banco Desio Group.

The Banco Desio Group 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 Group 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, the Banco Desio Group 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, the Banco Desio Group 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:

- an "RoU Asset" of Euro 50.6 million for properties and Euro 0.9 million for cars;
- a "Lease Liability" of Euro 51.4 million for properties and Euro 0.9 million for cars.

The charges recognised during the year in relation to lease contracts totalled Euro 11,499 thousand, comprising Euro 1,041 thousand classified as "Interest expense" and Euro 10,458 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 426 thousand to cars,
- Euro 10,032 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 52,293 thousand, a breakdown by residual maturity is shown below:

- Euro 9,611 thousand within 12 months;
- Euro 16,049 thousand from 1 to 3 years;
- Euro 11,024 thousand from 3 to 5 years;
- Euro 15,609 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.

Type of transaction	31.12.2020				31.12.2019			
	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**

Falling due	31.12.2020			31.12.2019		
	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 CONSOLIDATED 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 consolidated 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 consolidated 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 consolidated financial statements:

   a. have been prepared in accordance with the applicable IAS/IFRS recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002;

   b. agree with the books of account and accounting records;

   c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer and of the companies included in the consolidation.

   3.2 the Report on Operations includes a reliable analysis of the results of operations and of the situation of the issuer and the companies included in the consolidation, together with a description of the principal risks and uncertainties faced by them.

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 CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Banco di Desio e della Brianza S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at December 31, 2020, the consolidated income statement, the statement of consolidated comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement for the year then ended, and the consolidated explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of Banco di Desio e della Brianza S.p.A. (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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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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 Consolidated Explanatory Notes *Part B – Information on the consolidated 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 Group amount to a gross book value of Euro 579 million (Euro 621 million at the end of 2019), while allowances for impairment amount to Euro 276 million (Euro 284 million at the end of 2019); the coverage ratio is 47.6% (45.7% 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 301 million, with a coverage ratio of 61.0% (61.5% at the end of 2019) and net unlikely to pay loans for Euro 186 million, while gross value amounts to Euro 278 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 Group 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 Consolidated 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 Group 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 of the consolidated financial statements of Banco di Desio e della Brianza Group.
Audit procedures performed	As part of our audit procedures, we have preliminarily acquired information about the Group lending process which includes the understanding of the organisational and procedural controls implemented by the Group 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 Group 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 Group 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 Group;

- 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 evaluations 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 Consolidated Explanatory Notes *Part B – Information on the consolidated 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 Group amount to a gross book value of Euro 10,242 million (Euro 9,273 million at the end of 2019), while allowances for impairment amount to Euro 74 million (Euro 46 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 Consolidated 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.

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	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, 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 customers measured at amortised cost and the related impairment process represent a key audit matter of the consolidated financial statements of Banco di Desio e della Brianza Group.
Audit procedures performed	As part of the audit procedures, we have preliminarily acquired information about the Group lending process which includes the understanding of the organisational and procedural controls implemented by the Group in order to guarantee the monitoring of loan quality and the proper classification and evaluation 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 Group 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 Group, 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;

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- analysis of the management overlay implemented by the Group 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;

- 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 with recent directives issued by Supervisory Authorities following the Covid-19 pandemic emergency.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group'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 parent company Banco di Desio e della Brianza S.p.A. or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

Deloitte.

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 consolidated 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.

- 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Deloitte.

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 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.

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 the ownership structure of Banco di Desio e della Brianza Group as at December 31, 2020, including their consistency with the related consolidated 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 the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Banco di Desio e della Brianza Group 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 some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Banco di Desio e della Brianza Group 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 Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree December 30, 2016, no. 254

The Directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree December 30, 2016, no. 254.

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We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree December 30, 2016, no. 254, this statement is subject of a separate attestation issued by us.

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.

Attachment to the consolidated financial statements

DISCLOSURE COUNTRY BY COUNTRY

(pursuant to the Bank of Italy's Circular 285 of 17 December 2013 "Supervisory Provisions for Banks" – 34th update of 22 September 2020)

The information relating to points a), b), c), d), e) and f) of Attachment A to the First Part, Title III, Chapter 2 of the Supervisory Instructions for banks is presented below.

Situation taken from the consolidated financial statements at 31 December 2020

Following the corporate events that have taken place in recent years and which were disclosed to the public each time by press releases or inclusion in the periodic financial reports, at 31 December 2020 the Banco Desio Group is now based solely in Italy.

a) Name of company and nature of the activity

Banco di Desio e della Brianza S.p.A., with head office in Desio, via E. Rovagnati 1, is the Parent Company of the Banco Desio Group, register of Banking Groups no. 3440.

The Banco Desio Group consists of the Parent Company Banco di Desio e della Brianza S.p.A., Fides S.p.A., with head office in Rome, via Ombrone 2/G and the SPV Desio OBG S.r.l. based in Conegliano.

In addition to traditional banking intermediation, Banco di Desio e della Brianza also offers asset management services, life and non-life bancassurance products, payment systems, factoring, leasing and consumer credit products, in part via Fides, a financial intermediary that is registered pursuant to art. 106 TUB, which makes loans to the employees of public and private companies.

Information/Geographical Area		**Italy**
b) Turnover (1)	Euro/thousand	395,241
c) Number of employees on full-time equivalent basis (2)	Number	2,199
d) Profit (loss) before taxes	Euro/thousand	31,544
e) Income taxes	Euro/thousand	(7,854)

Notes:
(1) The figure represents caption 120 "Net interest and other banking income" of the consolidated income statement
(2) the number of employees is determined by taking the total number of hours actually worked by all employees, excluding overtime, divided by the number of hours worked per week in accordance the full-time labour contract, multiplied by 52 weeks less 25 days - as established by convention - for the holiday period.