



BASEL III PILLAR 3
PUBLIC DISCLOSURES
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BANCO DI DESIO E DELLA BRIANZA S.p.A.
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of Milan, Monza and Brianza and Lodi
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Introduction

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

In this regard, the Third Pillar legislation includes an obligation to publish information concerning capital adequacy, exposure to risks and the general characteristics of the systems designed for the identification, measurement and management of such risks. In particular, Public Disclosures are regulated by Regulation EU 575/2014 (CRR), Part Eight and Part Ten, Title I, Chapter 3 and by the regulatory technical or implementing standards issued by the European Commission to regulate:

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

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

- general preparation criteria (publications of 23 December 2014 and 4 August 2017);
- disclosure of encumbered and unencumbered assets (document of 27 June 2014);
- liquidity coverage ratio (reference to what was published on 21 June 2017);
- transitional arrangements for the mitigation of the impact of IFRS 9 (reference made to guidance of 16 January 2018).

In addition, starting from this disclosure to the public, the Group provides specific information regarding its non-performing and forborne exposures according to the standard compilation schemes required by the EBA 2018/10 guidelines, which came into force on 31 December 2019, for the part directly applicable to non-significant entities.

The information must be published on the bank's website at least annually and, in any case, at the time of publication of the financial statements.

The information contained in the Public Disclosures document at 31/12/2019 is that expressly required by the CRR.

The Public Disclosures are prepared with the collaboration of various bodies and functions involved in the governance and execution of processes, in accordance with the duties set out in the Group's internal regulations. In particular, supervision of the bank's public information and communication process is the responsibility of the Board of Directors.

Banco Desio Group has drawn up a formal policy to comply with the disclosure requirements, aimed at formalising the processes used for the preparation and publication of Public Disclosures.

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

Further information on risks and capital adequacy is disclosed in the report on operations and in the explanatory notes to the consolidated financial statements for the year ended 31 December 2019; in particular, information on the Group's risks is included in Part E of the explanatory notes.

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

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

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

Introduction

Generally, risk, in economic-financial terms, may be defined as the possibility that the result of any transaction carried out by an economic entity may differ from what was expected ex-ante. It is thus implicit that risk is an integral part of the performance of banking activities and that the medium/long-term stability of the Credit Institution and of its competitiveness depend on risk/return decisions concerning transactions carried out. In order to cover the risks to which it is exposed, the bank has appropriate corporate governance arrangements and adequate management and control mechanisms in place. The controls cover all types of corporate risk assumed consistent with the characteristics, the size and the complexity of the activities carried out by the intermediary. In compliance with Bank of Italy Circular no 285/2013, the Banking Group has designed a Risk Appetite Framework (RAF), which is updated annually, in line with the evolution of the bank's risk objectives and strategies. The methodology adopted by the Group provides for quantitative assessment based on three different types of indicators (indicators of first level risk, indicators of second level risk and key-risk indicators) and a qualitative assessment concerning organisational controls. Additionally, specific policies are in place for various types of risk that provide the criteria for the operational management thereof from a group and individual perspective.

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

The Internal Control and Risk Management System consists of a set of rules, procedures and organisational structures designed to permit the identification, measurement, management and monitoring of major risks. This system has been integrated into the Group's organisational and corporate governance structures. The system's guidelines have been set out in specific internal regulations. The operational instructions and detailed information regarding the controls in place, at various levels, over business processes are included in specific function regulations and Internal Procedures. The bodies and functions involved in the Internal Control System are as follows:

1. Control and Risk Committee, which takes the form of a board sub-committee, has consultative and investigatory functions to provide support to the Board of Directors, particularly as regards assessments and decisions relating to the internal control and risk management system;
2. Director in charge of the internal control and risk management system (ICS officer), who is responsible for maintaining an effective system of internal control and risk management;
3. General Manager, in his capacity as a member of the management body, who is responsible for conducting, in his capacity as person in charge of personnel management and organisation and operation of corporate structures, the bank's day-to-day affairs, in accordance with the general policy guidelines laid down by the Board of Directors and by the Executive Committee and by those provided by the ICS officer in connection with the system of internal control and risk management linked to the bank's operations;
4. Chief Audit Officer, who is responsible for the performance of testing aimed at ensuring that the Group's Internal Control System as a whole is adequate and functional;
5. Compliance, which has been assigned responsibility for the management and oversight, at Group level, of the risk of non-compliance with regulations;

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

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

The Group's risk appetite

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

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

The methodology adopted by the Group provides for quantitative assessment based on three different types of indicators (indicators of first level risk, indicators of second level risk and key-risk indicators) and a qualitative assessment concerning organisational controls.

Additionally, specific policies are in place for various types of risk that provide the criteria for the operational management thereof from a group and individual perspective. Set out below is a description of the three types of indicators used and of the qualitative assessment of organisational controls for the purpose of the measurement, monitoring and management of various types of risk.

Indicators of first level risk (RAF): these relate to specific macro-areas concerning the Group's risk exposure consisting of capital adequacy, financial structure, liquidity, earnings and business. Each indicator is calibrated to take account of the concepts of risk appetite, risk tolerance and risk capacity, as well as risk limits (warning thresholds) which, if exceeded, would activate specific corporate escalation processes.

Top level indicators are not calibrated for the individual legal entities making up the Group.

Indicators of second level risk (Corporate risk management policy - Banco Desio Group): these relate to individual types of risk deemed to be particularly significant for banking operations. Each indicator is calibrated to take account of risk limits structured in accordance with two different types of threshold, which, if exceeded, and depending on how serious it is (with respect to the alert and warning thresholds), would activate specific corporate escalation processes. The above thresholds are designed to promptly report any indicators of second level risk that are close to triggering a situation deemed to be particularly critical. The values of the thresholds are described in the document "Operational limits for monitoring the corporate risk management policy" specific for each legal entity.

Key-risk indicators: these are defined as part of the "Corporate risk management policy - Banco Desio Group" in relation to individual types of risk related to specific operational and management aspects deemed to be particularly significant for banking operations. Accordingly, they provide further information, from a different perspective, on changes to the Group's risk exposures. There are no alert or warning thresholds linked to these indicators, although they are monitored periodically in order to identify any abnormal data or potentially unusual trends and, accordingly, to determine any corrective actions needed.

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

In this context, there is also the self-assessment activity carried out, on an annual basis, by the Anti-Money Laundering Office on the subject of money laundering and terrorist financing risks. The methods for analysing these risks are carried out in line with the provisions of Banca d'Italia¹ and implemented in the Anti-Money Laundering Policy.

The implementation of the RAF requires an effective monitoring and reporting process capable of analysing and assessing the bank's risk profile. The escalation processes differ depending on whether first level or second level risk indicator thresholds have been exceeded.

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

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

Risks

Credit risk

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

Credit risk management strategies and processes

As far as the Group Credit Policy is concerned and with regard to businesses, it is worth expressly mentioning the following general principles to be complied with in the granting of credit: a) risk diversification among various businesses operating in different industries and market sectors; b) the appropriateness of the credit facility granted to each borrower based on the independent creditworthiness thereof as well as the technical form of the facility and the collateral capable of being offered.

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

Structure and organisation of pertinent credit risk management function

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

The Director in charge of the internal control and risk management system (ICS Officer) is responsible for monitoring and coordinating the system of internal control and risk management, with the assistance of the internal control functions, without interfering with the powers of the Board of Directors, the Control and Risk Committee and the Board of Statutory Auditors.

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

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

supervises activities carried out regarding Subsidiaries' structures by providing guidance and necessary assistance.

Within the Credit Department, the Credit Office performs the following tasks: a) it monitors the granting and management of retail loans and assists General Management in ensuring careful and informed assumption of risks in line with the corporate policy on credit quality; b) it monitors internal controls designed to ensure the legal certainty of collateral; c) it contributes, together with the Resources Department, to the development of knowledge and technical-specialist skills of internal resources and of the distribution network; d) it collaborates with the development of organisational projects, by providing a necessary contribution and by ensuring there is a link between the project management centre and the Department/Office; e) it assists with training, with respect to relevant specialist aspects, via the identification of training needs and contributes to the planning, realisation and update of training modules as well as teaching activities.

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

Credit and Reporting Processes Performance Monitoring Office this manages performing/past due positions identified by the tools in use, for which the conditions do not yet exist for the initiation of out-of-court recovery proceedings or legal action. The main activities carried out, via the Monitoring Office, are as described below: a) it monitors the performance of individual risk positions identified by periodic, accurate testing, in accordance with predefined criteria, or flagged by other organisational units (Credit Department, Chief Risk Officer, Chief Audit Officer, etc.); b) it contacts the distribution network to highlight signs of anomalies in order to request the normalisation of the risk position and, if the outcome is negative, it draws up a classification of the various categories of anomalous risk and determines expected losses; c) it manages, in collaboration with the distribution network, risks positions classified as "past due" and "under control", by monitoring changes in individual positions and by coordinating the risk management activities of the entire distribution network; d) it provides support to the branches for the review of critical issues and problems related to risk management; e) it approves positions "under control" and past due, within the limits of the powers granted and expresses opinions on approvals beyond its powers; f) it estimates expected losses related to mortgage positions to be classified as "Unlikely to pay" and commissions "drive-by" appraisals; g) it manages forborne performing positions; h) it assesses and analyses performing and past due positions together with extended non-performing loans; i) it arranges for reminder letters to be sent and, in the event of urgent notification of default, the termination of contracts and the enforcement of pledges; l) it conducts checks of the network to ensure the correct management of the phenomenon and of collateral.

The NPL Department handles the recovery of positions classified as non-performing or unlikely to pay, both directly and via specialised external companies. The NPL Department reports directly to the General Manager and is structured as follows: UTP Office, Litigation Office and Outsourced Recovery Office and Special Projects, which also manages the post-sale phase of the sales and acts as an interface for the Chief Risk Officer. The NPL Department manages credit recovery both in and out of court, it manages restructured loans and relevant exposures, it addresses positions classified as unlikely to pay and it handles the management of non-performing positions by taking all necessary steps for the recovery thereof. The NPL

Department submits for assessment by parties interested in the purchase of NPLs, both individual positions and unsecured and mortgage portfolios and handles information gathering for the potential purchaser.

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

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

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

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

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

Solely for managerial purposes, the Group uses an internal rating system - developed at consortium level and adapted to the Group's portfolio - that classifies each counterparty in risk classes that reflect their homogeneous and increasing probability of default. The Logit statistical model provides for the determination of PD (probability of default) by means of a combined analysis and assessment of trends and fundamental factors. Application of this model makes it possible to assign a rating based on the sources of information used and the segment to which the borrower belongs. In particular, the criteria for the segmentation of counterparties are chosen taking into account the counterparty's sector of economic activity (SEA) and size (revenue or total

assets). There are ten rating classes for performing counterparties (on a scale from 1 to 10 based on the assigned probability of default). Finance-sector companies, institutions and associations (residual portfolio components of the consortium banks) continue to be analysed according to the criteria used for a previous rating model based on 8 performing rating classes from AAA to CC. The changes that have recently affected the rating system have expanded the information set, also by providing a further contribution of qualitative assessments in determining the rating classes.

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

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

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

A prudent spread is applied to the collateral based on the variability over time of the market value thereof; the collateral is subjected to constant monitoring in order to verify its actual value compared to its initial value and to permit measures to be taken in the event of a fall in value. On the acquisition of mortgage collateral a spread is applied as envisaged by internal regulations. Unsecured guarantees mainly consist of guarantees provided by individuals and companies. Their valorisation is based on an assessment of the guarantor's estate during the investigation process or for the purpose of the renewal of credit. Guarantees received by the Group are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions.

Market risk

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

Market risk management strategies and processes

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

Management of the trading portfolio mainly consists of the implementation of financial investment policies based on strategic policies established by the Board of Directors and of the operational management of trading portfolios and of short-term liquidity, in euro and foreign currencies, with the aim of optimising of the risk/return ratio. Under these circumstances, the Group implements its investment policy in a manner consistent with its capital objectives and with the desired risk profile in order to ensure efficient, prudent management of liquidity with respect to the current situation and to the strategic forecasts made. This results in the fruitful management of cash flows in order to satisfy liquidity needs and to maximize earnings. In addition to this ability to use liquid funds, the Group seeks and use tools to source and invest them with institutional, supranational counterparties (e.g. European Central Bank).

Structure and organisation of pertinent market risk management function

The Group's organisational structure provides for monitoring and management of credit risk, in a logic of separation between business and control functions. The Board of Directors approves the strategic direction and policies for risk management. The Board verifies that, at corporate and Group level, the Director in charge of the internal control and risk management system (ICS officer) promotes and guarantees, within the scope of his work, clear and widespread knowledge of the risk management policies approved by the Board of Directors and determines the structure of the internal control and risk management system (to be submitted for approval by the Board) in line with the RAF (Risk Appetite Framework) and that the control functions have autonomy within the structure and are equipped with adequate resources for the conduct of their duties. In particular:

- Parent Company Risk Management guarantees an integrated risk management process, by checking and monitoring significant risks, by systematically identifying and analysing the sources of such risks, by coordinating project activities for the determination and implementation of models, methodologies and assessment and measurement tools and by developing an integrated reporting system to monitor risks;
- the Parent Company's Finance Department conducts the activities within its competence within the limits and the powers assigned thereto.

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

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

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

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

For the quantification of the exposure to market risk pertaining to the "banking book", the specific model adopted is parametric of a variance-covariance type for linear tools with the approximation of the delta-gamma type for optional instruments, and uses a confidence interval of 99% with a period of 10 days, in line with the recommendations set out by the Basel Committee and with best market practice. As regards volatility, the model applies exposures matrices to the banking book that contain standard deviations of each risk factor (interest rates, exchange rates and prices) and their correlations. The calculation of the volatilities and correlations is based on the modelling assuming normality in the daily logarithmic returns of the risk factors, using an exponential weighting based on a decay factor with a time interval of 250 observations. The application used to calculate the VaR is Ermas3 (Prometeia), while the financial information needed to determine VaR (volatility, correlations, term structure of interest rates, exchange rates, equity indices and benchmark indices) are provided by RiskSize.

Operational risk

Operational risk is the risk of incurring losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events. This last type includes losses deriving from fraud, human error, systems interruption, contractual non-performance and natural catastrophes. Operational risk includes legal risk, but not strategic or reputation risks.

Operational risk management strategies and processes

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

The operational risk management model (ORM) governs the roles and responsibilities involved in risk management. This assigns specific monitoring limits for each loss event and for the total amount of gross operational losses reported per year. These limits are assigned at Group level and to each Group legal entity.

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

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

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

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

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

Structure and organisation of pertinent operational risk management function

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

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

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

As regards the management of risks impacting business continuity, a Business continuity plan has been prepared: measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), a Business Continuity site was prepared and maintained in Bologna, as an alternative to that for normal business operations, to be used in the event of an emergency and for testing purposes. The measures adopted for business continuity management and for the oversight of the IT provider were updated.

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

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

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

- monitoring of total limit of gross operational losses reported;
- analysis of gross and net losses by event;
- analysis of the number of occurrences by event;
- analysis of the key events recorded/counted since the beginning of the year;
- analysis of changes in total losses and events recorded/counted;
- monitoring of events that have exceeded the limit in the quarter in question;
- analysis of trend in losses per quarter;
- analysis of DIPO feedback;
- analysis of Risk Self Assessment process findings;

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

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

ICT risk

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

ICT risk management strategies and processes

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

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

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

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

Structure and organisation of pertinent IT risk management function

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

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

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

- Security Policy;
- Procedure for Accident Management;
- IT Risk Assessment methodology
- Performance monitoring methodology and IT risk reporting (KRI IT risk)

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

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

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

- monitoring of the summary IT risk indicator deriving from the analysis and aggregation of the individual IT risk indicators (KRI).

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

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

Other risks

Concentration risk

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

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

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

Interest rate risk in the banking book

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

As far as management policies and processes for the entire Group are concerned, Risk Management conducts current and prospective interest rate risk identification, measurement, control and management processes. The Finance Department is involved in the risk management process via a general analysis of financial markets and the potential effects on the securities portfolio. From time to time, the Finance Department assesses the opportunity to hedge both asset and liability balance sheet components through the use of derivative financial instruments. To the extent of their powers, Risk Management and the Finance Department carry out monitoring activities and report to senior management. Risk Management monitors the interest rate risk to which the entire Group is exposed by performing sensitivity, maturity gap and economic value analysis.

For internal purposes, in order to monitor the whole of the Group's business associated with the transformation of maturities of assets and liabilities, treasury operations and the respective hedging derivatives, the Group has adopted an internal Asset and Liability Management (ALM) model using ERMAS5. This model allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the

economic value of assets and net interest income. The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of several variants of GapAnalysis in order to achieve more accurate estimates. The changes in the economic value of assets and liabilities are analysed by applying Duration Gap and Sensitivity Analysis approaches. The analyses are 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.

The ALM Model is used every month to estimate internal indicators of expected risk. The findings are included in periodic reports.

Liquidity risk

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

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

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

Specific risk policies include a description of the risk management process, which consists of a set of rules, procedures and organisational structures designed to permit the identification, measurement, management and monitoring of liquidity risk originating from both market factors and internal Group factors. The Group provides for adequate monitoring and management of liquidity risk, in a logic of separation between business and control functions. The Board of Directors approves the strategic direction and policies for risk management. The Board verifies that the Director appointed as head of the internal control and risk management system (ICS officer) promotes and guarantees, within the scope of his work, clear and widespread knowledge of the risk management policies approved by the Board of Directors and determines the structure of the internal control and risk management system (to be submitted to the Board) in line with the risk appetite framework and that the control functions have autonomy within the structure and are equipped with adequate resources for the conduct of their duties. The Risk Management Department guarantees an integrated risk management process, by checking and monitoring significant risks, by systematically identifying and analysing the sources of such risks, by coordinating project activities for the determination and implementation of models, methodologies and assessment and measurement tools and by developing an integrated reporting system to monitor risks. The Finance Department conducts the activities within its competence and within the limits and the powers assigned thereto for the management of daily liquidity, the liquidity reserve and the counterbalancing capacity. The General Manager of "Corporate Affairs" conducts the activities within his competence for the management of structural liquidity and the diversification of funding sources.

The overall model for the management and monitoring of liquidity risk is divided into distinct areas, which vary based on the scope of reference, the timescale and the frequency of analysis, in compliance with the threshold of tolerance for the risk in question:

- i. management of the *liquidity reserve* (counterbalancing capacity), being the management of an adequate stock of high-quality, unrestricted liquid assets that are eligible with the central bank and which can be promptly converted into cash to meet liquidity needs;
- ii. management of *short-term liquidity*, being the management of all the events that impact the Group's overall liquidity position over a time horizon of less than 30 days, with the objective of maintaining an adequate ratio of high-quality assets immediately capable of being converted into cash to the difference between cash outflows and inflows;
- iii. management of *operational liquidity*, being the management of resources that ensure the Group is capable of meeting expected and unexpected payment commitments in the context of the "normal course of business" (going concern) over a short term time horizon that does not exceed 3 months;
- iv. management of *structural liquidity*, being the management of all the banking book events that impact the Group's overall liquidity position over a time horizon in excess of 1 year, with the

- objective of maintaining an adequate amount of interdependent assets and liabilities with a restriction on the possibility of funding medium/long term assets with short term liabilities;
- v. management of the *diversification of funding sources*, being the management of particular sources and/or channels of funding focused on a subdivision of funding sources, with a preference for retail as opposed to wholesale customers, as well as on a significant number of counterparties and thus ensuring an adequate diversification of the residual maturities of liabilities.

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

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

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

The Group has also adopted a *Contingency Funding Recovery Plan (CFRP)* that facilitates the determination of intervention strategies in the event of liquidity tension, of the exogenous or endogenous nature of the tension and of specific skills and responsibilities of corporate functions in emergency situations. The CFRP is approved by the Board of Directors of the Parent Company, is revised periodically and is applied to the legal entities that fall within the scope for monitoring of the liquidity risk.

The first line of defence against liquidity risk, to allow the Group to prepare itself for liquidity stress situations over a time horizon of 1 month, is the maintenance of an adequate liquidity reserve, consisting of financial assets that can be easily and promptly converted to cash or offered as collateral for refinancing with the European Central Bank. With this in mind, and for the purpose of strengthening its short term liquidity risk profile, the Group holds a reserve consisting solely of high quality liquid asset (HQLA).

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

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

The funding plan is the tool used to determine funding objectives and activities in accordance with short term (12 months – budget) or medium term (3 years – business plan) needs along with the maintenance

of structural balance. The primary aim of the funding plan and of the related process for its determination and management over time is the specification of initiatives aimed at guaranteeing the availability to the Group of funding sources in order to support its activities. The funding plan is prepared each year as part of the overall budgeting process and is monitored and updated on a monthly basis in order to verify the maintenance of operational and structural balance along with adequate levels of liquidity.

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

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

The following table sets out quantitative information concerning the LCR measured in accordance with the regulatory rules (Bank of Italy Circular no 285 – Part Two, Chapter 13, Section II) where the figures relate to the simple average of the last 12 monthly observations commencing with the LCR recorded in December 2019.

Scope of application (consolidated basis)	Total Weighted Amount			
Currency and units (Euro million)				
Reference quarter	31 Dec 19	30 Sep 19	30 Jun 19	31 Mar 19
Number of data points used in calculating the average figures	12	12	12	12
21 LIQUIDITY RESERVE	2,306	2,131	1,947	2,014
22 TOTAL NET CASH OUTFLOWS	1,282	1,268	1,247	1,239
23 LIQUIDITY COVERAGE RATIO (%)	179.77%	167.77%	156.02%	162.07%

The net stable funding ratio (NSFR), an indicator of medium to long term liquidity required by the Basel III regulatory rules and which remains subject to an observation period, has already been complied with as far as the minimum that will be required upon implementation is concerned. The policy applied by the Group is aimed at promoting greater recourse to stable deposits in order to avoid medium/long term assets generating imbalances to be funded with short term liabilities, by establishing an adequate minimum amount of stable funding.

Residual risk

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

The purpose of collateral is to strengthen the principle of patrimonial responsibility of the principal debtor given that it aims to provide greater certainty of fulfilment, or greater effectiveness of enforcement actions in the event of breach. It constitutes, from an economic point of view, a subsidiary element of secured credit and, as such, it should be taken account of when assessing the person to whom a credit facility has to be granted; it is thus essential to bear in mind that the principal debtor is the primary source of repayment of the credit granted. To be useful for the recovery of the credit, collateral must meet the requirements of legal impeccability and adequate economic substance; to this end, the collateral deeds must strictly comply with specific relevant regulations, while, as far as the economic substance of the collateral is concerned, the adequacy thereof should be verified during the entire term of the relationship. As part of the credit granting process to customers, the proposing bodies submit the collateral requested from the borrower to the decision-

makers. The decision-makers perform an overall assessment of the position and evaluate whether the collateral is marketable and not difficult to enforce.

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

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

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

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

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

Strategic risk

Strategic risk is the current or prospective risk of a decline in earnings or capital arising from changes in the operating environment or from adverse business decisions, improper implementation of decisions or a lack of responsiveness to changes in the competitive environment. As far as management policies and processes are concerned, the boards of directors of the Parent Company and its subsidiaries, as established by relevant regulations and by their articles of association, set guidelines that have an impact on the running of the affairs of the Group and the individual companies as well as their respective strategic policies. Multi-year strategic plans and annual budgets are prepared; these documents are periodically analysed by senior management. In order to ensure careful monitoring and control of this type of risk, the Group has established

a process that combines business management needs with those pertinent to prudent, conscientious risk management.

Reputational risk and non-compliance risk

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

Risk of excessive leverage

The risk of excessive leverage is the risk that a particularly high level of borrowing compared with the bank's own funds makes it vulnerable, requiring corrective measures in its business plan, including the sale of assets at a loss, which could lead to writedowns of other assets. The Group computes and reports the leverage ratio as required by current regulations (Regulation 575/2013).

Further details are provided in paragraph 15 of this document.

Non-financial risk

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

- Environmental risk and risk linked to climate change: connected to direct impacts such as the use of energy resources (renewable and non-renewable sources), greenhouse gas emissions, the production of waste and its disposal, the consumption of raw materials instrumental to one's own activity (paper and toner) and the violation of environmental and sector legislation.
At European level, the action plan to finance sustainable growth places particular emphasis on the systemic importance of the banking/financial sector in enabling the transition to a low carbon system and a climate resilient economy. The banking sector is in fact involved in potential indirect climate-related risks to the extent that the loans granted and the investments made are aimed at economic activities that contribute to climate change (for example in terms of greenhouse gas emissions). The banking sector itself can however play a proactive role in promoting the transition to a low carbon and climate resilient economy by raising awareness of its role in the transition by integrating an assessment of the potential impact on climate change related to the credit and investment policies implemented.
- Social risk: linked to the relationship aspects with customers and more generally with the community, with particular regard to the economic and social development of local communities, towards which the Group wants to be a reliable and authoritative interlocutor through an integral and rigorous conduct, attentive to the needs of its stakeholders, aimed at maintaining a profitability-solidity inspired by sustainability issues and therefore lasting over time, to create shared value with which to contribute to the well-being and progress of the community. Risk also linked to the granting of loans, investments and supply with counterparties characterised by non-resilient economic models with social vulnerability profiles, the possibility of offering inadequate financial products or services according to the evolution of the socio-economic or regulatory context, etc.;

- Risk related to personnel: related to the management of collaborators and assimilated subjects, including actions taken to protect health and safety in the workplace, ensuring gender equality, implementing specific talent attraction programmes, limiting situations of inadequate professional profiles, preventing loss of key figures, as well as measures aimed at implementing the conventions of international and supranational organisations on the matter, and the ways in which dialogue with the social partners is carried out, also related to the granting of loans, investments and supply with counterparties characterised by non-resilient economic models with vulnerability profiles in personnel management;
- Risk of non-respect of human rights: related precisely to the failure to respect human rights, including workers' rights, and/or related to attitudes and actions that are in any case discriminatory, also due to the granting of loans, investments and supply with counterparties characterized by non-economic models resilient with vulnerability profiles related to respect for human rights. In this context, the risk of violation of personal data is also considered, for which illegal use of the data provided by the various categories of subjects must be prevented by adopting suitable technical and organisational solutions for their protection;
- Risk in the fight against bribery and corruption: i.e. relating to the possible occurrence of events and/or circumstances of active and passive corruption, fraud, money laundering or terrorist financing (e.g. for updates to new legislation or for inadequate staff training) also in relation to the granting of loans, investments and supply relationships with counterparties characterised by non-resilient economic models with vulnerability profiles in the fight against bribery and corruption.

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

Internal planning, also launched in 2018, is closely linked to these project initiatives, which led the Banco Desio Group to develop in 2019 an initial organic mapping of the risks envisaged by Legislative Decree 254/2016 within the corporate risk management policies in accordance with the provisions of the prudential supervisory regulations, taking into account the specific sustainability policies with which the Parent Company has adopted, or which are nearing completion, as better described in the following chapter "Sustainability for the Banco Desio Group".

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

- updating of taxonomies already in use as part of the assessment and measurement of operational risks with ESG events;
- the identification of KRI/KPI in order to integrate the synthetic reputational risk indicator with the ESG area.

These indicators must be monitored for a suitable period of time to verify their validity and reliability (test phase). ESG risk identification and assessment model will then be integrated into the updating of the corporate risk management policy which will be submitted for approval by the Parent Company's Board of Directors.

In the sector in which it operates and in relation to the specific issue of climate change, in the next reporting the Banco Desio Group is considering integrating its analyses and, consequently, its disclosure with respect to the main impacts generated and suffered which it faces due to its credit and investment policies, also taking into account the current evolution in legislation on the subject.

Strategic decisions at Group level regarding risk management are in fact left to the corporate bodies of the Parent Company; As far as the other Group companies are concerned, the corporate bodies are aware of the risk profile and of the risk management policies established by the Parent Company and are responsible

for the implementation of these policies in a manner appropriate to their businesses. With a view to an effective and efficient risk management and control system, the Group assigns specific responsibilities relating thereto to its organisational structure: With this in mind, the Group applies the principle of separation of functions involved in the risk control process in accordance with regulations for the prudential supervision of banks.

Governance systems

The Board of Directors of Banco Desio in office, composed of 12 directors, was appointed at the Shareholders' Meeting held on 6 April 2017 and its term of office expires on the date of the general meeting held to approve the financial statements for the year ending 31 December 2019. Based on special legislation for banks with listed shares, the directors must meet, under penalty of forfeiture of office, specific integrity and professionalism requirements; in particular, in terms of professionalism, at least three years' experience is required in at least one of the following: business administration, control or executive positions; professional activities in fields pertaining to the banking, financial or insurance sector or related to banking activities; university teaching experience in law or economics; public administrative or managerial functions related to the credit sector or involving the management of economic and financial resources. For the position of Chairman, at least five years' of the above experience is required; for the position of General Manager, specific expertise is required in fields pertaining to the credit sector, gained in suitably responsible positions over a period of at least five years. Verification of the requirements for corporate office is performed by the Board of Directors within 30 days of appointment, under a procedure established by the Supervisory Regulations of the Bank of Italy; in a nutshell, compliance with the requirements is specifically verified and approved by the Board of Directors after having sought the opinion of the Board of Statutory Auditors (after the latter has verified compliance), for each officer, with the abstention of the interested party, based on appropriate documentation produced by the officers in question (e.g. certificates, attestations, CVs, declarations in lieu of notarial deeds or certification, former employment references, etc.).

Information about Directors' personal and professional characteristics, as well as information about compliance with the requirements set out in this paragraph, is published at the time of submission of the lists for the reappointment of directors and officers, in compliance with Consob regulations; it is also available on the website www.bancodesio.it in the "Bank/Governance/Corporate Governance" section.

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

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

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

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

Without prejudice to the provisions of the CFA that require a member of the Board of Directors and the Chairman of the Board of Statutory Auditors to be elected from a "minority list", regulations concerning so-called "gender quotas" (Law 120/2011 and Law 160/2019) have also to be taken into account. Due to applicable regulations, for the 2017-2019 mandate, at least 1/3 of the members of the Board of Directors (4 out of 12) and of the Board of Statutory Auditors (1 acting member and 1 alternate) must be female; for six consecutive mandates from the first renewal of the offices following 1 January 2020, these quotas are raised

to at least 2/5 of the members of the Board of Directors (i.e. 5 out of 12 members) and of the Board of Statutory Auditors (i.e. 1 Statutory Auditor and 1 alternate Statutory Auditor, rounding down in this case by default as established by Consob for boards made up of only three members).

The Board of Directors has approved Internal Regulations for Self-assessment of Corporate Bodies to govern the related process in compliance with Circular n. 285 that set out, in particular, the methodologies to be used (primarily based on the compilation of a questionnaire by each Director, as well as the conduct of an interview to supplement the compilation of the questionnaire) and the profiles subject to analysis - at aggregate level - regarding the composition (professionalism, independence, etc.) and functioning (operating practices, information flows, etc.) of the Board and of its subcommittees.

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

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

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

The Board of Directors has set up a **Control and Risk Committee**,² which is currently composed of 3 non-executive directors (the Director who serves as head of the internal control and risk management system (AISCI) and 2 independent directors, one of whom is the Committee Chairman). Those who take part in Committee meetings are the Chairman of the Board of Statutory Auditors or an Acting Statutory Auditor designated thereby and the other Acting Statutory Auditors may also participate; one of the members thereof is the Director in charge of the internal control and risk management system and others who may be invited to participate are the General Manager, the Deputy General Managers, the Chief Auditing Officer, the Chief Risk Officer, the Head of Compliance and Anti-Money Laundering and any other employees/ collaborators/ consultants, depending on the specific topics to be discussed. The Control and Risk Committee, which takes the form of a board sub-committee, has a consultative role and provides support to the Board of Directors regarding supervision of the proper functioning of the internal control and risk management system, as well as the assessment of the correct use of accounting standards. The Committee reports every six months to the Board of Directors on the activities carried out and on the adequacy of the internal control and risk management system.

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

² As of the next renewal of the offices, the Member who holds the position of AISCI will no longer be among the members of the Control and Risk Committee.

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

In the same Report on Corporate Governance and the attachments thereto, it is also possible to consult all the other information required by art. 435, paragraph 2 of the CRR in relation to directors, to the related requirements and criteria laid down by applicable legislation, to multi-directorships held thereby and to the procedure for their selection, as well as to the diversity policy and information flows.

2. Scope of application (art. 436 CRR)

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

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

Entities consolidated for accounting and regulatory purposes

Name	Head office	Type of relationship	% Held at 31.12.2019	% Held at 31.12.2018	Treatment for accounting purposes	Treatment for regulatory purposes	Description of the entity
Companies fully consolidated							
Banco di Desio e della Brianza S.p.A.	Desio				Full consolidation	Full consolidation	Bank
Fides S.p.A.	Rome	1	100,000	100,000	Full consolidation	Full consolidation	Financial
Banca Popolare di Spoleto (*)	Spoleto	1	n.d.	81,673	Full consolidation	Full consolidation	Bank
Desio OBG S.r.l. (**)	Conegliano	1	60,000	60,000	Full consolidation	Full consolidation	SPV

Key

Type of relationship:

1 = majority of votes at the ordinary shareholders' meeting

Note (*) - The absorption of the former subsidiary Banca Popolare di Spoleto by its Parent Company Banco Desio took effect for accounting purposes on 1 January 2019.

Note (**) - Covered bond transaction

For the purpose of determining the scope of consolidation, account has been taken of the requirements for effective control under IFRS10.

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

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

The calculation of Own Funds and of the consolidated prudential requirements at 31 December 2019, which are transmitted to the Bank of Italy in relation to the prudential supervisory reports (COREP) and statistical reports (FINREP), was therefore made with reference to Brianza 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 document therefore presents the results of this calculation, relating to the regulatory scope of the consolidated financial statements drawn up by Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. (the financial parent company).

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

Qualitative information

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

1. Common Equity Tier 1 - CET 1

The components of Common Equity Tier 1 are the following: a) equity instruments, as long as they comply with the conditions set out in art. 28 or, where applicable, in article 29 of EU Regulation no. 575/2014 (see paragraph "Introduction"); b) share premium reserves relating to the instruments indicated in the foregoing point; c) profit not distributed; d) accumulated other comprehensive income; e) other reserves; f) provisions for general banking risks. Components c) to f) are recognised as common equity tier 1 only if they can be used without restriction and without delay by an entity to cover risks or losses as and when the risks or losses arise.

2. Additional Tier 1 - AT1

The components of Additional Tier 1 are the following: a) equity instruments, where they comply with the conditions set out in art. 52, paragraph 1 of EU Regulation no. 575/2014; b) share premium reserves relating to the instruments indicated in the foregoing point. The instruments included under a) do not qualify as components of common equity tier 1 or tier 2.

3. Tier 2 - T2)

The components of Tier 2 are the following: a) equity instruments and subordinated debt, where they comply with the conditions set out in article 63 of EU Regulation no. 575/2014; 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. 575/2014, 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. 575/2014, the positive amounts, gross of the related tax effect, resulting from the computation in accordance with articles 158 and 159 up to 0.6 % of the risk-weighted exposure amounts in compliance with part three, title II, chapter 3 of the Regulation.

On 23 January and 25 January 2018, the Boards of Directors of the former subsidiary Banca Popolare di Spoleto and Banco di Desio e della Brianza, taking account of a best estimate of the higher adjustments for expected losses on performing and non-performing loans on first-time adoption of IFRS9, resolved to apply the transitional arrangements introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of the new standard on own funds and capital ratios, with reference to both the increase in adjustments for expected losses on performing and non-performing loans on first-time adoption of the standard and to the increase in expected losses on performing loans compared with the date of first-time adoption of the standard.

In accordance with the harmonised rules for banks and investment companies contained in the EU Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) of 26/06/2013 that transpose into EU law the standards defined by the Basel Committee for banking supervision (Basel 3 framework), which became effective on 1 January 2014, the Group's consolidated own funds calculated with reference to Brianza Unione at 31 December 2019 are as follows:

Composition of Own funds with and without application of the transitional arrangements

	31.12.2019 With transitional arrangements	31.12.2019 Without transitional arrangements
A. Common Equity Tier 1 (CET 1) prior to application of prudential filters	747.521	744.488
of which: CET 1 capital instruments subject to transitional arrangements	-	-
B. CET 1 prudential filters (+/-)	-	-
C. CET 1 gross of amounts to be deducted and the effects of transitional arrangements (A +/- B)	747.521	744.488
D. Items to be deducted from CET 1	28.947	17.615
E. Transitional arrangements – Impact on CET 1 (+/-)	-	-
E.1 Adjustments due to IFRS 9 transitional arrangements	39.738	-
F. Total Common Equity Tier 1 (CET 1) (C – D +/- E)	758.312	726.873
G. Additional Tier 1 (AT1) gross of amounts to be deducted and the effects of transitional arrangements	56.029	55.361
of which: AT1 capital instruments subject to transitional arrangements	-	-
H. Items to be deducted from AT1	-	-
I. Transitional arrangements – Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 (AT1) (G - H +/- I)	56.029	55.361
M. Tier 2 (T2) gross of amounts to be deducted and the effects of transitional arrangements	94.223	94.279
of which: T2 capital instruments subject to transitional arrangements	-	-
N. Items to be deducted from T2	-	-
O. Transitional arrangements – Impact on T2 (+/-)	-	-
P. Total Tier 2 (T2) (M - N +/- O)	94.223	94.279
Q. Total Own Funds (F + L + P)	908.564	876.513

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

Capital instruments main features template		1	2	3
1	Issuer	Banco di Desio e della Brianza	Banco di Desio e della Brianza	Banco di Desio e della Brianza
2	Unique identifier (1)	IT0001281374	IT0005107880	IT0005136335
3	Governing law (s) of instrument	Italian	Italian	Italian
Regulatory treatment				
4	Transitional CRR rules	Additional Tier 1 capital	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules		Tier 2 capital	Tier 2 capital
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo and sub-consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (2)	Savings shares representing share capital	Bond - art. 62 CRR	Bond - art. 62 CRR
8	Amount recognised in regulatory capital (in thousands of euro) (3)	1.139	35.909	16.708
9	Nominal amount of instrument (in thousands of euro)	6.865	80.000	50.000
9a	Issue price	N/A	100	100
9b	Redemption price	N/A	100	100
10	Accounting classification	P180 - Share capital	Liabilities at fair value	Liabilities at fair value
11	Original date of issuance	N/A	28:05:2015	16:10:2015
12	Perpetual or dated	PERPETUAL	DATED	DATED
13	Original maturity date	N/A	28:05:2022	16:10:2021
14	Early redemption at discretion of issuer subject to prior approval by Supervisory Authority	N/A	NO	NO
15	Optional early redemption date, early redemption date and redemption amount	N/A	N/A	N/A
16	Subsequent early redemption dates, when relevant	N/A	N/A	N/A
Coupons/dividends				
17	Fixed or floating dividend/coupon	FLOATING	FLOATING	FLOATING
18	Coupon rate and any related index	N/A	3M EURIBOR +200 bps	3M EURIBOR +200 bps
19	Existence of a dividend stopper	N/A	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	N/A	N/A	N/A
20b	Fully discretionary, partially discretionary or mandatory - in terms of amount	N/A	N/A	N/A
21	Existence of step up or other incentive to redeem	N/A	NO	NO
22	Non-cumulative or cumulative	N/A	NON-CUMULATIVE	NON-CUMULATIVE
23	Convertible or non-convertible	N/A	NON-CONVERTIBLE	NON-CONVERTIBLE
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	N/A	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (4)	N/A	SENIOR	SENIOR
36	Non-compliant transitioned features	N/A		
37	If yes, specify non-compliant features	N/A		
Insert "N/A" if the information is not applicable				

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

The following table provides details of the elements included in own funds at 31/12/2019 using the format required by Attachment VI to the Commission Implementing Regulation (EU) No 1423/2014.

	Common Equity Tier 1 (CET1) capital: instruments and reserves	(A) Amount at disclosure date	(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
1	Capital instruments and the related share premium accounts	64.835	
	of which: ordinary shares	54.026	
	of which: instrument type 2	-	
	of which: instrument type 3	-	
2	Retained earnings	-	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	393.740	
3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	
	Public capital contributions benefiting from grandfathering clause up to 1 January 2018	-	
5	Minority interests (amount allowed in consolidated CET1)	274.458	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	14.488	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	747.521	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-	
8	Intangible assets (net of related tax liability) (negative amount)	- 17.615	
9	Empty set in the EU	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	- 11.332	-
11	Fair value reserves related to gains or losses on cash flow hedges	-	
12	Negative amounts resulting from the calculation of expected loss amounts	-	
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
20	Empty set in the EU	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	
20c	of which: securitisation positions (negative amount)	-	
20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	
22	Amount exceeding the 15% threshold (negative amount)	-	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities' equity instruments	-	
24	Empty set in the EU	-	
25	of which: deferred tax assets arising from temporary differences	-	
25a	Losses for the current financial year (negative amount)	-	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	

26	Regulatory adjustments applied to Common Equity Tier 1 (CET1) capital in relation to amounts subject to pre-CRR treatment	-	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-	
	of which: unrealised gains on exchange differences	-	
	of which: unrealised gains on equity instruments	-	
	of which: unrealised gains on debt securities issued by European Union central administrations	-	
	of which: unrealised gains on debt securities relating to issuers other than European Union central administrations	-	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required	39.738	
	of which: adjustments due to IFRS 9 transitional provisions	39.738	
27	Eligible deductions from Additional Tier 1 capital that exceed the entity's Additional Tier 1 capital (negative amount)	-	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	10.791	
29	Common Equity Tier 1 (CET1)	758.312	
	Additional Tier 1 capital (AT1): instruments		
30	Capital instruments and the related share premium accounts	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	
	Public capital contributions benefiting from grandfathering clause up to 1 January 2018	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	56.029	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Common Equity Tier 1 (AT1) capital: before regulatory adjustments	56.029	
	Additional Tier 1 capital (AT1): regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
41	Regulatory adjustments applied to AT1 in relation to amounts subject to pre-CRR treatment and transitional treatment, subject to phase out pursuant to Regulation (EU) No 575/2013 (residual CRR amounts)	-	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	
	of which: items to be detailed line by line, e.g. significant net losses for the period, intangible assets, lack of provisions to cover expected credit losses, etc.	-	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	
	of which: items to be detailed line by line, e.g. reciprocal cross-holdings in Tier 2 capital instruments, insignificant direct holdings in other financial sector entities, etc.	-	
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-	
	of which: ... any filter for unrealised losses	-	
	of which: ... any filter for unrealised gains	-	
	of which: ...	-	
42	Eligible deductions from Tier 2 capital that exceed the entity's Tier 2 capital (negative amount)	-	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	
44	Additional Tier 1 capital (AT1)	56.029	
45	Tier 1 capital (T1 = CET1 + AT1)	814.341	
	Tier 2 capital (T2): instruments and provisions		
46	Capital instruments and the related share premium accounts	-	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	
	Public capital contributions benefiting from grandfathering clause up to 1 January 2018	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	94.223	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	-	
51	Tier 2 capital (T2): before regulatory adjustments	94.223	
	Tier 2 capital (T2): regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	33
54a	of which: new holdings not subject to transitional arrangements	-	
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements	-	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	

56	Regulatory adjustments applied to T2 in relation to amounts subject to pre-CRR treatment and transitional treatment, subject to phase out pursuant to Regulation (EU) No 575/2013 (residual CRR amounts)	-	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	
	of which: items to be detailed line by line, e.g. significant net losses for the period, intangible assets, lack of provisions to cover expected credit losses, etc.	-	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	
	of which: items to be detailed line by line, e.g. reciprocal cross-holdings in Additional Tier 1 capital instruments, insignificant direct holdings in other financial sector entities, etc.	-	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	-	
	of which: any filter for unrealised losses	-	
	of which: unrealised gains on AFS securities subject to additional national filter	-	
	of which: unrealised gains on exchange differences subject to additional national filter	-	
	of which: minority interests subject to additional national filter	-	
57	Total regulatory adjustments to Tier 2 (T2) capital	-	
58	Tier 2 capital (T2)	94.223	
59	Total capital (TC = T1 + T2)	908.564	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
	of which: ... items not deducted from Common Equity Tier 1 capital (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line e.g. deferred tax assets based on future profitability net of any related tax liability, indirect holdings of own CET1 instruments, etc.)	-	
	of which: ... items not deducted from Common Equity Tier 1 capital (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line e.g. reciprocal cross-holdings in Tier 2 capital instruments, insignificant direct holdings in other financial sector entities, etc.)	-	
	Items not deducted from Tier 2 capital (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line e.g. indirect holdings of own Tier 2 instruments, insignificant indirect holdings in other financial sector entities, significant indirect holdings in other financial sector entities, etc.)	-	
60	Total risk weighted assets	7.590.001	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	9,991%	
62	Tier 1 (as a percentage of total risk exposure amount)	10,729%	
63	Total capital (as a percentage of total risk exposure amount)	11,971%	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer (G-SII or O-SII buffers) expressed as a percentage of risk exposure amount)	7,250%	
65	of which: capital conservation buffer requirement	2,500%	
66	of which: countercyclical buffer requirement	-	
67	of which: systemic risk buffer requirement	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) (1)	3,64%	
69	[non relevant in EU regulation]	-	
70	[non relevant in EU regulation]	-	
71	[non relevant in EU regulation]	-	
	Capital ratios and buffers		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	5.233	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	795	
74	Empty set in the EU	-	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	16.780	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

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

Banco Desio Group's Own Funds, computed in accordance with the foregoing regulatory requirements, include Common Equity Tier 1 capital that accounts for 83.46% of the Group's Own Funds, while Additional Tier 1 capital and Tier 2 capital account for 6.17% and 10.37%, respectively, of Own Funds.

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

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

Assets	Amounts reported	Amounts recognised as own funds
70. Equity investments	0	0
100. Intangible assets, of which:	18.194	
- Goodwill	15.322	-14.750
- Other intangible assets	2.872	-2.865
110. Non-current assets and disposal groups held for sale	0	0
- equity investments	0	0
Total assets		-17.615

Liabilities and shareholders' equity	Amounts reported	Amounts recognised as own funds
10. Debt securities in issue	1.749.103	
- of which: Subordinated liabilities included in computation of Tier 2 capital	130.005	0
120. Valuation reserves consisting mainly of	22.632	
- Valuation reserves relating to financial assets measured at fair value through other	13.476	13.476
- Property, plant and equipment	80	80
- Actuarial gains (losses) on defined-benefit pension plans	-1.753	-1.753
- Special revaluation laws	11.505	11.505
- Cash-flow hedges	-676	0
- Portion of valuation reserves relating to investments carried at equity	0	0
150. Reserves	371.317	370.432
160. Share premium reserve	10.809	10.809
170. Share capital	54.026	54.026
- of which: Ordinary shares	54.026	54.026
- of which: Savings shares	0	0
190. Minority interests (+/-)	483.697	424.710
200. Net profit (loss) for the period (+/-)	19.194	14.488
Total liabilities and Shareholders' equity		897.773

Other reconciling items to arrive at own funds	Amounts recognised as own funds
Total other items recognised as own funds	28.406
Total Own Funds	908.564

(1) The amount includes the following items recognised as own funds:

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

(2) The reduced amount is due to an allocation to "Charity reserve and to the higher dividend distributed with respect to the profit.

4. Capital requirements (art. 438 CRR)

Qualitative information

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

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

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

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

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

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

- identification of the risks to be submitted for assessment, with reference to regulatory or first pillar risks, as well as second pillar risks (single-name and sectoral/geographic concentration risk, interest rate risk arising from non-trading book activities, liquidity risk, residual risk, risks arising from securitisations, strategic risk, reputational risk and any other types of risk associated with the Group's specific operations);

- measurement/assessment of each risk and related internal capital. Internal capital is calculated for regulatory risks and for quantifiable second pillar risks, but solely for those for which the Bank of Italy has indicated simplified methodologies for the determination of internal capital. For other types of risks, which are difficult to quantify, qualitative assessments are made and adequate control and mitigation systems are adopted;

- assessment of total internal capital. The Group determines total internal capital by using a simplified building block approach, which consists of adding to regulatory requirements for first pillar risks (or to internal capital relating to these risks calculated based on internal methodologies, where present) any internal capital relating to other significant risks. As required by supervisory regulations, the measurement of total internal capital is conducted based on normal business conditions and based on stressed conditions.

Quantitative information

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

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

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

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

Following the periodic Supervisory Review and Evaluation Process (SREP), on 27 June 2019, the Bank of Italy notified Banco di Desio e della Brianza and the financial parent company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. its decision regarding capital, ordering that, from the notification about own funds at 30 June 2019, the "CRR" Brianza Unione Group was to adopt the capital ratios that presuppose compliance with the minimum limits indicated below, taking into account the capital conservation buffer of 2.5% applicable to Italian banking groups in 2019:

- **7.25%** for the Common Equity Tier 1 ratio, binding - pursuant to art. 67-ter of the CBA - to the extent of 4.75% (of which 4.5% for the minimum regulatory requirements and 0.25% for additional requirements resulting from SREP) and for the remainder from the capital conservation buffer;
- **8.85%** for the Tier 1 ratio, binding - pursuant to art. 67-ter of the CBA - to the extent of 6.35% (of which 6.0% for the minimum regulatory requirements and 0.35% for additional requirements resulting from SREP) and for the remainder from the capital conservation buffer;
- **11.00%** for the Total Capital ratio, binding - pursuant to art. 67-ter of the CBA - to the extent of 8.5% (of which 8.0% for the minimum regulatory requirements and 0.50% for additional requirements resulting from SREP) and for the remainder from the capital conservation buffer.

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

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

The following table compares the consolidated capital requirements at 31 December 2019³ with the minimum requirements at that date in accordance with current regulations (with regard to the Banking Group and with reference to the regulatory consolidation at Brianza Unione level).

	Banco Desio Group (A)	Brianza Unione Group (B)	SREP (C)	difference (A-C)	difference (B-C)
CET 1	12.966%	9.991%	7.25%	5.716%	2.741%
TIER 1	12.981%	10.729%	8.85%	4.131%	1.879%
TOTAL CAPITAL RATIO	13.674%	11.971%	11.00%	2.674%	0.971%

For the purpose of calculating "Risk assets and capital ratios" the EU regulation provides for a facilitated weighting (with a support factor of 0.7619) for Small and Medium-sized Enterprises (SMEs).

On 23 January and 25 January 2018, the Boards of Directors of Banca Popolare di Spoleto and Banco di Desio e della Brianza, taking account of a best estimate of the higher adjustments for expected losses on performing and non-performing loans on first-time application of IFRS 9, resolved to apply the transitional arrangements for the determination of own funds and capital ratios, introduced by Regulation (EU) 2395 of 12 December 2017 with a view to reducing the impact of first-time application, with reference to both the increase

³ In accordance with the transitional arrangements introduced to mitigate the impact of IFRS 9

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.

In accordance with the uniform disclosure requirements relating to the transitional arrangements introduced to mitigate the impact of IFRS 9 on own funds pursuant to art. 473-bis of the CRR (EBA Guidelines 2018/01), set out below are the capital requirements calculated at Brianza Unione level (regulatory consolidation) with and without the application of the transitional provisions:

	31.12.2019		30.09.2019		30.06.2019		31.03.2019		31.12.2018	
	Application of the transitional arrangements	Without application of the transitional arrangements	Application of the transitional arrangements	Without application of the transitional arrangements	Application of the transitional arrangements	Without application of the transitional arrangements	Application of the transitional arrangements	Without application of the transitional arrangements	Application of the transitional arrangements	Without application of the transitional arrangements
OWN FUNDS										
Common Equity Tier 1 - CET 1	758.312	726.873	734.812	702.426	743.412	715.867	752.155	724.637	732.550	701.057
Tier 1 capital	814.341	782.234	791.591	758.536	804.200	776.287	816.844	788.954	799.843	767.935
Total own funds	908.564	876.513	890.559	857.788	922.214	876.145	943.731	892.784	934.021	887.068
RISK ASSETS										
Risk-weighted assets	7.590.001	7.506.550	7.640.867	7.577.343	7.649.637	7.618.529	7.645.423	7.613.455	7.781.387	7.726.290
CAPITAL RATIOS										
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	9,991%	9,683%	9,592%	9,270%	9,718%	9,396%	9,838%	9,518%	9,414%	9,074%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	10,729%	10,421%	10,333%	10,011%	10,513%	10,189%	10,684%	10,363%	10,279%	9,939%
Total Own Funds/Risk-weighted assets (Total capital ratio)	11,971%	11,677%	11,625%	11,320%	12,056%	11,500%	12,344%	11,726%	12,003%	11,481%
LEVERAGE RATIO										
Leverage ratio measure of exposure	14.680.989	14.680.989	15.059.210	15.059.210	14.554.530	14.554.530	14.209.440	14.209.440	14.083.347	14.083.347
Leverage ratio	5,5%	5,3%	5,3%	5,0%	5,5%	5,3%	5,7%	5,6%	5,7%	5,5%

At 31 December 2019, the consolidated ratios calculated at financial holding company level are above the regulatory thresholds, taking account of the limits imposed by the Supervisory Authority through the SREP procedure previously referred to, with and without the application of the transitional arrangements introduced to mitigate the impact of IFRS 9.

Credit and counterparty risk: capital requirement by asset class

Regulatory portfolio	Amount at 31.12.2019				Amount at 31.12.2018			
	Credit risk		Counterparty risk		Credit risk		Counterparty risk	
	RWA	Capital requirement	RWA	Capital requirement	RWA	Capital requirement	RWA	Capital requirement
1. Exposures to or guaranteed by central governments and central banks	222.358	17.789	-	-	166.448	13.316	-	-
2. Exposures to or guaranteed by regional governments or local authorities	2.515	201	-	-	3.365	269	-	-
3. Exposures to or guaranteed by public sector bodies	19	2	-	-	194	15	-	-
4. Exposures to or guaranteed by multilateral development banks	1.209	97	-	-	979	78	-	-
5. Exposures to or guaranteed by international organisations	-	-	-	-	-	-	-	-
6. Exposures to or guaranteed by supervised intermediaries	220.024	17.602	1.300	104	231.757	18.541	3.917	313
7. Exposures to or guaranteed by companies	2.375.431	190.034	444	36	2.531.734	202.539	5.742	459
8. Retail exposures	1.818.902	145.512	-	-	1.862.193	148.975	-	-
9. Exposures secured by property	1.159.040	92.723	-	-	1.105.863	88.469	-	-
10. Exposures in default	443.245	35.460	-	-	530.088	42.407	21	2
11. High risk exposures	105.337	8.427	-	-	133.673	10.694	-	-
12. Exposures in the form of guaranteed bank bonds	-	-	-	-	-	-	-	-
13. Current exposures to companies or supervised intermediaries	-	-	-	-	-	-	-	-
14. Exposures to Collective Investment Undertakings (UCITS)	35.956	2.876	-	-	49.691	3.975	-	-
15. Exposures in equity instruments	88.590	7.087	-	-	89.528	7.162	-	-
16. Other exposures	331.217	26.497	-	-	287.406	22.992	-	-
17. Securitisation positions	10.754	860	-	-	10.643	851	-	-
Total standardised approach	6.814.598	545.168	1.743	139	7.003.562	560.285	9.681	774

Credit and counterparty risk	Capital requirement 31.12.2019	Capital requirement 31.12.2018
Total credit risk	6,814,598	7,003,562
Total counterparty risk	1,743	9,681
Total credit and counterparty risk	6,816,341	7,013,243

Market risk: capital requirement

Market risk - Standardised approach	Capital requirement 31.12.2019	Capital requirement 31.12.2018
- position risk on debt instruments	628	313
- position risk on equity instruments	840	360
- exchange rate risk	-	-
Total market risk	1,468	673

Operational risk: capital requirement

Operational risk	Capital requirement 31.12.2019	Capital requirement 31.12.2018
Basic approach	60,367	60,499
Total operational risk	60,367	60,499

Specific risks: capital requirement

Credit rating downgrade risk	Capital requirement 31.12.2019	Capital requirement 31.12.2018
Standardised approach	58	280
Total credit rating downgrade risk	58	280

Capital ratios

Capital ratios	Brianza Unione Group		Banco Desio Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Common Equity Tier 1 Ratio	9.99%	9.41%	12.97%	12.15%
Tier 1 ratio	10.73%	10.28%	12.98%	12.27%
Total capital ratio	11.97%	12.00%	13.67%	13.58%

As regards risk-weighted assets (RWA) that have decreased in comparison with those at the end of 2018, in line with the strategic objectives set out in the 2018-2020 business plan, there has been an improvement in the CET 1 and Tier 1 ratios, while the Total Capital ratio is substantially in line with that of the previous year due to the decrease in Tier 2 capital instruments.

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

Qualitative information

For the determination of capital requirement for credit risk, the Group uses the standardised approach required for the determination of regulatory requirements for this risk (Circ. 285/13 Part Two – Chapter 3, Section I). In the use of this approach, the Group has adopted, for the calculation of the amount of the exposure, the mark-to-market method as required by the relevant regulations (Circ. n. 285/13 Part Two – Chapter 7, Section I).

Quantitative information

Derivatives held in the trading book: period end notional values

Underlying assets/Type of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With compensation arrangements	Without compensation arrangements	
1. Debt securities and interest rates	-	-	15,227	-	-	-	10,954	-
a) Options	-	-	-	-	-	-	1,180	-
b) Swap	-	-	15,227	-	-	-	9,774	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	120	-	-	-	41	-
a) Options	-	-	120	-	-	-	41	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	279,939	-	-	-	973,037	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	279,939	-	-	-	973,037	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	295,286	-	-	-	984,032	-

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

Type of derivatives	31/12/2019				31/12/2018			
	Over the counter				Over the counter			
	Central counterparties	Without central counterparties		Organised markets	Central counterparties	Without central counterparties		Organised markets
		With netting arrangements	Without netting arrangements			With compensation arrangements	Without compensation arrangements	
1. Positive fair value								
a) Options	-	-	120	-	-	-	41	-
b) Interest rate swaps	-	-	-	-	-	-	1,438	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	1,350	-	-	-	2,978	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	1,470	-	-	-	4,457	-
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	6,874	-	-	-	3,221	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	1,264	-	-	-	2,825	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	8,138	-	-	-	6,046	-

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

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of compensation arrangements				
1) Debt securities and interest rates				
- notional value	X	15,227	-	-
- positive fair value	X	-	-	-
- negative fair value	X	6,874	-	-
2) Equities and equity indices				
- notional value	X	-	2	118
- positive fair value	X	-	2	118
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	140,257	124,709	14,973
- positive fair value	X	1,174	6	170
- negative fair value	X	163	1,059	42
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of compensation 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	-	-	-	-

Residual life of OTC financial derivatives: notional values

Underlying/Residual life		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives linked to debt securities and interest rates		713	2,653	11,861	15,227
A.2 Financial derivatives linked to equities and stock indices		-	120	-	120
A.3 Financial derivatives linked to currencies and gold		279,939	-	-	279,939
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	31.12.2019	280,652	2,773	11,861	295,286
Total	31.12.2018	970,802	5,532	7,698	984,032

Financial derivatives used for hedging: period end notional values

Underlying assets/Type of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements	With compensation arrangements		Without compensation arrangements		
1. Debt securities and interest rates	-	-	130,000	-	-	-	143,498	-
a) Options	-	-	-	-	-	-	5,599	-
b) Swap	-	-	130,000	-	-	-	137,899	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	130,000	-	-	-	143,498	-

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

Type of derivatives	Positive and negative fair value								Change in amount used to determine hedge effectiveness	
	Total 31/12/2019				Total 31/12/2018				Total 31/12/19	Total 31/12/18
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
With compensation arrangements		Without netting arrangements	With compensation arrangements	Without compensation arrangements						
Positive fair value										
a) Options	-	-	-	-	-	-	1	-	-	1
b) Interest rate swaps	-	-	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	1	-	-	1
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	2,157	-	-	-	5,175	-	2,157	5,175
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	-	2,157	-	-	-	5,175	-	2,157	5,175

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

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of compensation arrangements				
1) Debt securities and interest rates				
- notional value	X	130,000	-	-
- positive fair value	X	-	-	-
- negative fair value	X	2,157	-	-
2) Equities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of compensation 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

- - - -

Residual life of OTC derivatives used for hedging: notional values

Underlying/Residual life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives linked to debt securities and interest rates	-	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	31/12/2019	130,000	-	-
Total	31/12/2018	382	131,289	11,827
				143,498

Counterparty risk – credit equivalent (standardised approach)

Regulatory portfolio	SFT transactions	Derivatives and long-term settlement transactions
1. Exposures to or guaranteed by central governments and central banks	-	-
2. Exposures to or guaranteed by regional governments or local authorities	-	-
3. Exposures to or guaranteed by public sector bodies	-	-
4. Exposures to or guaranteed by multilateral development banks	-	-
5. Exposures to or guaranteed by international organisations	-	4,671
6. Exposures to or guaranteed by supervised intermediaries	-	-
7. Exposures to or guaranteed by companies	-	559
8. Retail exposures	-	-
9. Exposures secured by property	-	-
10. Exposures in default	-	-
11. High risk exposures	-	-
12. Exposures in the form of guaranteed bank bonds	-	-
13. Current exposures to companies or supervised intermediaries	-	-
14. Exposures to Collective Investment Undertakings (UCITS)	-	-
15. Exposures in equity instruments	-	-
16. Other exposures	-	-
Total	-	5,230

6. Credit risk adjustments (art. 442 CRR)

Qualitative information

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

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

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

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

IFRS 9 Financial instruments, which is effective from 1 January 2018, has introduced an impairment model based on expected losses using reasonable and supportable information, available without unreasonable charges and efforts, including historic, current and future data. The standard requires, in particular, financial instruments to be classified in three categories with an increasing degree of risk (known as stages or buckets), each of which has specific procedures for defining and measuring write-downs.

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

Performing Exposures

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

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

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

The calculation of impairment is based on expected losses, determined on the basis of past events, current and reasonable conditions and "supportable" future forecasts; the calculation horizon of the expected

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

The expected loss mainly depends on parameters reported below:

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

For performing exposures, a record is kept of positions under control, being those positions for which there is a precautionary observation period that may last between 6 and 12 months, during which monitoring is performed of one or more anomalies attributable to internal and external risk triggers. The proposed classification may also be formulated by the Credit Office, by the Area Head or by the branch. The classification of a position under control may be made by the Credit and Reporting Processes Performance Monitoring Office and by Internal Audit by communicating the change in customer master status to the branch.

Non-Performing Exposures

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

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

1. Past due or overdrawn exposures: included in this category are all exposures to debtors (other than those reported as doubtful or unlikely to pay), which, at the reporting date, are more than 90 days past due or overdrawn, with an absolute materiality threshold of Euro 500 for corporate customers and private individuals. Individual past due or overdrawn exposures must be determined with reference to individual borrower criteria (applied by the Group) and to individual transaction criteria.
2. Unlikely to pay loans: exposures for which the debtor is assessed as unlikely to pay its credit obligations in full without enforcement of collateral. This categorisation applies regardless of the existence of any amounts (or instalments) past due and unpaid. Accordingly, it is not necessary to wait for explicit signs of an anomaly, such as failure to repay, if there are elements that imply a situation of risk of default on the part of the debtor.

Exposures to retail customers may be classified in the "unlikely to pay" category at the individual transaction level, rather than at individual customer level, if the Group does not believe that the conditions exist for classifying the entire exposure to that customer in that category.

3. Doubtful loans: this category includes all exposures to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations. Loans are classified as doubtful when, in the light of objective evidence collected by the NPL Department, the customer proves unable to meet its commitments.

Doubtful loans are loans for which there is objective evidence of impairment, measured as the difference between the book value and the present value of future estimated cash flows, discounted using the effective interest rate. This valuation, based on internal policy, is analytical, and takes account of the estimated likelihood of recovery, the expected timing of collection and any guarantees that are in place. Receivables for interest on arrears accrued on impaired assets are only recorded in the financial statements once it has been collected.

The analysis of impaired assets is reflected by the amount of impairment recognised for the deterioration in credit quality in question, defined as the expected credit loss (ECL).

For accounting purposes, the impairment loss is recognised as an increase to loan provisions and the corresponding cost is recognised in the income statement. The ratio of the provision associated with each balance sheet asset to the nominal value of the asset is known as the coverage ratio.

More analytically, the provision associated with each asset is determined as the difference between the nominal value of the asset and the present value of the estimated future cash flows arising from the recovery thereof. In the event that, with the passage of time, the prospective recovery is revised upwards, or the recovery occurs early, the associated provision is recognised in the income statement as income under the form of a write-back.

The quality of an asset and its evolution over time influence the costs relating to the loan in terms of capital absorption (risk-weighted assets - RWA) and in income statement terms (expected credit losses - ECLs).

Forborne exposures

The forborne category applies to all existing risk classes and may include both performing and non-performing exposures.

Credit exposures that qualify as forborne exposures are those for which a modification of the terms and conditions of the contract or its refinancing have been granted to a counterparty in financial difficulties that could have led to a loss for the lender.

There is a rebuttable presumption that forbearance has taken place when the positions are past due by more than a month at least once during the three months prior to the contractual modification, thus lowering the past-due threshold with respect to the 90 days stated in the definition of default.

The time required to exit forborne performing status is a period of at least two years. The conditions for discontinuance of the forbearance classification are verified when a minimum 2 year probation period has passed from the date the forborne exposure was considered as performing. If the conditions are not met, the conditions shall be assessed on at least a quarterly basis or when the forborne exposure is newly considered to be performing. As regards exit from forborne non-performing status, art. 157 of the EBA ITS applies and, accordingly, if one year has passed since the renegotiation, payments have been regular and there is an absence of concerns about the debtor's solvency, an exposure may once again be classified as performing even though it remains classified as forborne for a two year probation period.

Quantitative information

Quantitative information at 31 December 2019 relates to the classification of exposures based on Bank of Italy regulations (Circular 272) in force at the reference date of this document.

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

	Doubtful loans			Unlikely to pay loans			Past due non-performing loans			Other assets			TOTAL		
	Gross	Net	Average gross (*)	Gross	Net	Average gross (*)	Gross	Net	Average gross (*)	Gross	Net	Average gross (*)	Gross	Net	Average gross (*)
1. Financial assets measured at amortised cost	311.378	120.018	294.381	309.618	217.062	346.423	3.504	3.100	4.134	12.657.450	12.609.525	12.591.282	13.281.950	12.949.705	13.236.219
2. Financial assets designated at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	509.364	509.364	376.699	509.364	509.364	376.699
3. Financial assets designated at fair value	-	-	-	-	-	-	-	-	-	X	-	X	X	-	X
4. Other financial assets that have to be measured at fair value	-	-	-	-	-	-	-	-	-	X	2.300	X	X	2.300	X
5. Financial assets being sold	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	311.378	120.018	294.381	309.618	217.062	346.423	3.504	3.100	4.134	13.166.814	13.121.189	12.967.981	13.791.314	13.461.369	13.612.918
Total	277.384	122.451	644.105	383.228	274.780	412.912	4.763	4.141	7.202	12.525.113	12.471.808	12.495.732	13.190.488	12.873.180	13.559.950

* annual average of data at 31.12.18 and at 31.12.19

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

Exposures/Geographical areas	ITALY			OTHER EUROPEAN COUNTRIES			AMERICA			
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	
A. On-balance sheet exposures										
A.1 Doubtful loans	311.277	191.305	119.972	101	55	46	-	-	-	
A.2 Unlikely to pay	308.986	92.480	216.506	632	76	556	-	-	-	
A.3 Past due non-performing loans	3.503	404	3.099	1	-	1	-	-	-	
A.4 Performing loans	12.130.984	47.599	12.083.385	93.686	153	93.533	20.842	17	20.825	
TOTAL A	12.754.750	331.788	12.422.962	94.420	284	94.136	20.842	17	20.825	
B. Off-balance sheet exposures										
B.1 Non-performing loans	26.516	1.892	24.624	-	-	-	-	-	-	
B.2 Performing loans	3.161.290	839	3.160.451	2.946	-	2.946	223	-	223	
TOTAL B	3.187.806	2.731	3.185.075	2.946	-	2.946	223	-	223	
TOTAL (A+B)	31/12/2019	15.942.556	334.519	15.608.037	97.366	284	97.082	21.065	17	21.048
TOTAL (A+B)	31/12/2018	15.643.988	349.940	15.294.048	137.591	282	137.309	46.303	42	46.261

ASIA			REST OF THE WORLD			TOTAL		
Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
-	-	-	-	-	-	311.378	191.360	120.018
-	-	-	-	-	-	309.618	92.556	217.062
-	-	-	-	-	-	3.504	404	3.100
202	1	201	104	1	103	12.245.818	47.771	12.198.047
202	1	201	104	1	103	12.870.318	332.091	12.538.227
-	-	-	-	-	-	26.516	1.892	24.624
4	-	4	4	-	4	3.164.467	839	3.163.628
4	-	4	4	-	4	3.190.983	2.731	3.188.252
206	1	205	108	1	107	16.061.301	334.822	15.726.479
396	1	395	141	2	139	15.828.419	350.267	15.478.152

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

Exposures/Geographical areas	ITALY			OTHER EUROPEAN COUNTRIES			AMERICA		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
A. On-balance sheet exposures									
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-
A.3 Past due non-performing loans	-	-	-	-	-	-	-	-	-
A.4 Performing loans	818.236	446	817.790	96.083	55	96.028	1.100	1	1.099
TOTAL A	818.236	446	817.790	96.083	55	96.028	1.100	1	1.099
B. Off-balance sheet exposures									
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-
B.2 Performing loans	11.545	1	11.544	5.971	2	5.969	-	-	-
TOTAL B	11.545	1	11.544	5.971	2	5.969	-	-	-
TOTAL (A+B)	31/12/2019	829.781	447	829.334	102.054	57	101.997	1.100	1.099
TOTAL (A+B)	31/12/2018	465.627	1.180	464.447	109.069	130	108.939	815	813

	ASIA			REST OF THE WORLD			TOTAL		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	760	1	759	3.336	1	3.335	919.515	504	919.011
	760	1	759	3.336	1	3.335	919.515	504	919.011
	-	-	-	-	-	-	-	-	-
	3.500	-	3.500	500	-	500	21.516	3	21.513
	3.500	-	3.500	500	-	500	21.516	3	21.513
	4.260	1	4.259	3.836	1	3.835	941.031	507	940.524
	3.384	1	3.383	3.772	2	3.770	582.667	1.315	581.352

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

Exposures/Counterparties	Public administrations			Financial companies			Financial companies (of which: insurance companies)		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
A. On-balance sheet exposures									
A.1 Doubtful loans	-	-	-	11.849	9.765	2.084	-	-	-
- of w hich: exposures subject to forbearance	-	-	-	46	46	-	-	-	-
A.2 Unlikely to pay	659	282	377	3.404	1.008	2.396	-	-	-
- of w hich: exposures subject to forbearance	-	-	-	2.413	700	1.713	-	-	-
A.3 Past due non-performing loans	-	-	-	1	-	1	-	-	-
- of w hich: exposures subject to forbearance	-	-	-	-	-	-	-	-	-
A.4 Performing loans	2.614.302	1.855	2.612.447	483.330	1.375	481.955	790	-	790
- of w hich: exposures subject to forbearance	-	-	-	2.011	69	1.942	-	-	-
Total A	2.614.961	2.137	2.612.824	498.584	12.148	486.436	790	-	790
B. Off-balance sheet exposures									
B.1 Non-performing loans	-	-	-	6	-	6	-	-	-
B.2 Performing loans	17.448	-	17.448	64.528	13	64.515	-	-	-
Total B	17.448	-	17.448	64.534	13	64.521	-	-	-
Total (A+B)	31/12/2019	2.632.409	2.137	2.630.272	563.118	12.161	550.957	790	-
Total (A+B)	31/12/2018	2.291.728	4.299	2.287.429	661.255	11.938	649.317	1.685	-

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

Exposures/Counterparties	Non-financial companies			Households			Total		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
A. On-balance sheet exposures									
A.1 Doubtful loans	227.368	144.545	82.823	72.161	37.050	35.111	311.378	191.360	120.018
- of w hich: exposures subject to forbearance	36.519	20.286	16.233	14.018	6.304	7.714	50.583	26.636	23.947
A.2 Unlikely to pay	206.347	68.359	137.988	99.208	22.907	76.301	309.618	92.556	217.062
- of w hich: exposures subject to forbearance	96.830	24.733	72.097	51.587	11.008	40.579	150.830	36.441	114.389
A.3 Past due non-performing loans	1.837	221	1.616	1.666	183	1.483	3.504	404	3.100
- of w hich: exposures subject to forbearance	175	23	152	149	20	129	324	43	281
A.4 Performing loans	5.205.533	35.464	5.170.069	3.942.653	9.077	3.933.576	12.245.818	47.771	12.198.047
- of w hich: exposures subject to forbearance	79.145	3.072	76.073	45.580	422	45.158	126.736	3.563	123.173
Total A	5.641.085	248.589	5.392.496	4.115.688	69.217	4.046.471	12.870.318	332.091	12.538.227
B. Off-balance sheet exposures									
B.1 Non-performing loans	25.611	1.844	23.767	899	48	851	26.516	1.892	24.624
B.2 Performing loans	2.855.750	717	2.855.033	226.741	109	226.632	3.164.467	839	3.163.628
Total B	2.881.361	2.561	2.878.800	227.640	157	227.483	3.190.983	2.731	3.188.252
Total (A+B)	31/12/2019	8.522.446	251.150	8.271.296	4.343.328	69.374	16.061.301	334.822	15.726.479
Total (A+B)	31/12/2018	8.808.464	265.410	8.543.054	4.066.972	68.620	15.828.419	350.267	15.478.152

Distribution of financial assets and liabilities by residual contractual duration

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
Cash assets	1.705.115	32.187	210.737	181.901	1.056.572	580.208	1.289.522	4.960.603	3.316.020	335.833
A.1 Government securities	219	-	946	-	71.143	54.132	519.183	1.615.921	309.790	-
A.2 Other debt securities	62	-	-	204	63.242	18.514	15.703	299.550	301.483	-
A.3 Mutual funds	37.238	-	-	-	-	-	-	-	-	-
A.4 Loans	1.667.596	32.187	209.791	181.697	922.187	507.562	754.636	3.045.132	2.704.747	335.833
- Banks	253.822	-	30.201	-	-	-	-	-	135	335.833
- Customers	1.413.774	32.187	179.590	181.697	922.187	507.562	754.636	3.045.132	2.704.612	-
Cash liabilities	8.440.993	32.171	55.722	91.278	368.218	1.061.436	276.136	2.021.986	543.355	-
B.1 Deposits and current accounts	8.396.139	30.682	55.145	90.867	283.048	224.244	191.309	114.791	(0)	-
- Banks	10.947	3.445	-	-	-	-	-	-	-	-
- Customers	8.385.192	27.237	55.145	90.867	283.048	224.244	191.309	114.791	(0)	-
B.2 Debt securities	731	1.489	577	394	84.798	28.395	73.562	1.068.955	502.595	-
B.3 Other liabilities	44.123	-	-	17	372	808.797	11.265	838.240	40.760	-
Off-balance sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	6.947	2.658	259.805	6.469	4.761	4.148	43	-	-
- Short positions	-	6.970	2.654	259.742	6.463	4.759	4.146	137	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	6.874	-	-	99	151	241	489	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance	-	-	-	-	-	-	-	-	-	-
- Long positions	12.791	-	-	204	3.416	186	651	15.392	42.070	-
- Short positions	74.710	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

A.1.9 On-balance sheet credit exposures to customers: changes in gross doubtful loans

Description/Categories	Doubtful loans	Unlikely to pay loans	Past due non-performing loans
A. Opening gross exposure	277,384	383,228	4,763
- of which: exposure sold but not derecognised	-	4,846	-
B. Increases	137,437	161,980	23,956
B.1 transfers from performing loans	364	117,069	23,229
B.2 transfers from impaired financial assets acquired or originated	-	538	24
B.3 transfers from other categories of doubtful exposures	108,824	10,727	688
B.4 contractual changes without write-offs	-	-	-
B.5 other increases	28,249	33,646	15
C. Decreases	103,443	235,590	25,215
C.1 transfers to performing loans	304	41,471	10,614
C.2 write-off	14,478	534	-
C.3 collections	29,184	73,525	3,854
C.4 proceeds from disposal	14,711	6,778	-
C.5 losses on disposal	44,717	3,839	-
C.6 transfers to other categories of doubtful exposures	49	109,443	10,747
C.7 contractual changes without write-offs	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposure	311,378	309,618	3,504
- of which: exposure sold but not derecognised	-	7,629	-

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

Table 1 - Credit quality of exposures subject to forbearance

	Gross carrying amount/Nominal amount of exposures subject to forbearance				Cumulative adjustments, cumulative negative changes in fair value due to credit risk and provisions	Collateral received and financial guarantees received on exposures subject to forbearance		
	Performing exposures subject to forbearance	Non-performing exposures subject to forbearance		On performing exposures subject to forbearance		On non-performing exposures subject to forbearance	Of which collateral and financial guarantees received on impaired exposures subject	
		of which in default	of which impaired					
Loans and advances	126.737	201.737	201.737	201.737	3.563	63.118	242.531	131.625
<i>Central banks</i>	-	-	-	-	-	-	-	-
<i>Public administrations</i>	-	-	-	-	-	-	-	-
<i>Banks</i>	-	-	-	-	-	-	-	-
<i>Other financial companies</i>	2.012	2.457	2.457	2.457	69	745	3.260	1.318
<i>Non-financial companies</i>	79.145	133.524	133.524	133.524	3.072	45.042	149.441	83.660
<i>Households</i>	45.580	65.756	65.756	65.756	422	17.331	89.830	46.647
Debt securities								
Commitments to grant credit								
Total	126.737	201.737	201.737	201.737	3.563	63.118	242.531	131.625

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

	Gross carrying amount/Nominal amount									
	Performing exposures				Non-performing exposures					
	Not yet due or past due by < 30 days	Past due by > 30 days and < 90 days	Unlikely to pay exposures not yet due or past due by < 90 days	Past due by > 90 and < 180 days *	Past due by > 180 and < 1 year *	Past due by > 1 year and < 5 years *	Past due by > 5 years *	Of which in default		
Loans and advances	9.888.116	9.805.691	82.425	624.500	142.419	38.747	60.988	267.523	114.823	624.500
<i>Central banks</i>	335.833	335.833	-	-	-	-	-	-	-	-
<i>Public administrations</i>	36.503	36.503	-	659	-	-	-	659	-	659
<i>Banks</i>	284.177	284.177	-	-	-	-	-	-	-	-
<i>Other financial companies</i>	116.690	115.880	810	15.254	1.583	1.212	43	12.275	141	15.254
<i>Non-financial companies</i>	5.172.262	5.161.311	10.951	435.553	79.619	21.658	45.891	198.164	90.221	435.553
- of which SMEs	3.309.700	3.300.304	9.396	329.591	57.029	18.458	39.032	145.482	69.590	329.591
<i>Households</i>	3.942.651	3.871.987	70.664	173.034	61.217	15.877	15.054	56.425	24.461	173.034
Debt securities	2.764.325	2.764.325	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-
<i>Public administrations</i>	2.070.623	2.070.623	-	-	-	-	-	-	-	-
<i>Banks</i>	295.513	295.513	-	-	-	-	-	-	-	-
<i>Other financial companies</i>	364.918	364.918	-	-	-	-	-	-	-	-
<i>Non-financial companies</i>	33.271	33.271	-	-	-	-	-	-	-	-
Commitments to grant credit	2.725.300	-	-	20.033	-	-	-	-	-	20.033
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-
<i>Public administrations</i>	17.393	-	-	-	-	-	-	-	-	-
<i>Banks</i>	-	-	-	-	-	-	-	-	-	-
<i>Other financial companies</i>	61.436	-	-	6	-	-	-	-	-	6
<i>Non-financial companies</i>	2.446.709	-	-	19.298	-	-	-	-	-	19.298
<i>Households</i>	199.762	-	-	729	-	-	-	-	-	729
Total	15.377.741	12.570.016	82.425	644.533	142.419	38.747	60.988	267.523	114.823	644.533

* Bands envisaged by Finrep Supervisory reports at 31.12.2019

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

	Gross carrying amount/nominal amount						Cumulative adjustments, cumulative negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures			Non-performing exposures				On non-performing exposures
	total	of w hich stage 1	of w hich stage 2	total	of w hich stage 1	of w hich stage 2	total	of w hich stage 1	of w hich stage 2	total	of w hich stage 1	of w hich stage 2		
Loans and advances	9.888.116	8.849.922	1.038.194	624.500	-	624.500	45.811	22.264	23.547	284.320	-	284.320	290.547	
Central banks	335.833	335.833	-	-	-	-	-	-	-	-	-	-	-	
Public administrations	36.503	36.503	-	659	-	659	-	-	-	282	-	282	-	
Banks	284.177	284.177	-	-	-	-	216	216	-	-	-	-	-	
Other financial companies	116.697	96.580	20.117	15.254	-	15.254	1.098	566	532	10.773	-	10.773	2.048	
Non-financial companies	5.172.262	4.590.380	581.882	435.553	-	435.553	35.427	16.579	18.848	213.125	-	213.125	187.786	
- of which SMEs	3.309.701	2.854.580	455.121	329.591	-	329.591	27.091	11.646	15.445	156.130	-	156.130	151.734	
Households	3.942.644	3.506.449	436.195	173.034	-	173.034	9.070	4.903	4.167	60.140	-	60.140	100.713	
Debt securities	2.764.325	2.754.758	9.567	-	-	-	2.101	2.091	10	-	-	-	-	
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	
Public administrations	2.070.623	2.070.623	-	-	-	-	1.492	1.492	-	-	-	-	-	
Banks	295.513	285.946	9.567	-	-	-	288	278	10	-	-	-	-	
Other financial companies	364.918	364.918	-	-	-	-	283	283	-	-	-	-	-	
Non-financial companies	33.271	33.271	-	-	-	-	38	38	-	-	-	-	-	
Commitments to grant credit	2.725.300	2.686.971	38.329	20.033	-	20.033	125	98	27	-	-	-	11.178	
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	
Public administrations	17.393	17.393	-	-	-	-	-	-	-	-	-	-	-	
Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other financial companies	61.437	57.845	3.591	6	-	6	-	-	-	-	-	-	-	
Non-financial companies	2.446.709	2.417.573	29.135	19.298	-	19.298	115	96	19	-	-	-	10.989	
Households	199.762	194.160	5.602	728	-	728	10	3	8	-	-	-	189	
Total	15.377.741	14.291.651	1.086.090	644.533	-	644.533	48.037	24.453	23.584	284.320	-	284.320	301.725	

7. Encumbered assets (art. 443 CRR)

Qualitative information

The information shown below is based on median values of 2019 quarterly figures, as required by EBA Guidelines (EBA/GL/2014/03).

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

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

Encumbered assets consist of debt securities and loans recognised in the financial statements. Debt securities, which are mainly Italian Government bonds, are offered as collateral for short to medium term funding by means of repurchase agreements and/or for access to central bank facilities.

Loans, which account for approximately 78.7% of secured assets, have been offered as collateral for the following:

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

Collateral provided for the TLTRO II refinancing operations of Euro 1.6 billion with the European Central Bank consist of A.Ba.Co. loans and debt securities.

Quantitative information

Template A - Assets of the reporting institution				
CAPTIONS	Carrying amount of encumbered assets *	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	010	040	060	090
010 Assets of the institution	3,638,934		10,474,420	
020 Loans on demand	0	0	408,239	0
030 Equity securities	0	0	84,608	84,326
040 Debt securities	774,536	770,482	2,411,339	2,392,053
100 Loans other than loans on demand	2,864,398		6,903,633	
120 Other assets	0		666,600	

* taking into account the haircuts expected at book value

Template B - Collateral received by the reporting institution			
CAPTIONS	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal value of unencumbered collateral received or own debt securities issued
	010	040	070
130 Collateral received by the institution	500	60,762	13,702,317
140 Loans on demand	0	0	0
150 Equity securities	0	0	108,717
160 Debt securities	500	60,762	253,025
220 Loans other than loans on demand	0	0	22,806
230 Other collateral received	0	0	13,317,769
240 Own debt securities issued other than own covered bonds or ABS	0	0	0

Template C - Sources of encumbrance		
CAPTIONS	Matching liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABS
	(+)	(-)
	010	030
010 Carrying amount of selected financial liabilities	-2,449,519	3,637,894
020 Derivatives	0	645
040 Deposits	-1,626,757	2,367,815
090 Debt securities issued	-822,762	1,269,435
120 Other sources of encumbrance	0	1,540
130 Nominal value of collateral received	0	0
140 Nominal value of financial collateral received	0	0
150 Fair value of securities borrowed with non-cash collateral	0	0
160 Other sources of encumbrance	0	1,540
170 TOTAL SOURCES OF ENCUMBRANCE	-2,449,519	3,639,434

8. Use of ECAI (art. 444 CRR)

Qualitative information

For the determination of capital requirement for credit risk, the Group uses the standardised approach required for the determination of regulatory requirements for this risk (Circ. 285/13 Part Two – Chapter 3, Section I). Accordingly, the Group uses - where present - credit standing assessments issued by Moody's, the specialised rating agency, for the determination of the weighting factors for the exposures associated with the following portfolios:

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

As part of its capital management and internal controls strengthening initiatives to support the credit risk monitoring and control processes, the Group has made use of external credit assessment ratings issued by Cerved Group to obtain benefits of an internal nature (external ratings for Banco Desio Group's main business counterparts) and of a capital requirement nature (calculation of the capital requirement for credit risk).

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

Quantitative information

Distribution of exposures by credit rating class and by regulatory class

SOTTOVOCE	Classi di merito creditizio	Esposizione netta senza attenuazione del rischio di credito	Esposizione netta con attenuazione del rischio di credito
Esposizioni verso o garantite da amministrazioni centrali e banche centrali		3.134.256	3.665.875
	- 0%	2.954.807	3.485.136
	- 20%	-	1.096
	- 50%	-	194
	- 100%	151.027	151.027
	- 250%	28.421	28.421
Esposizioni verso o garantite da amministrazioni regionali o autorità locali		18.416	29.486
	- 20%	18.416	29.486
Esposizioni verso o garantite da organismi del settore pubblico		558	558
	- 50%	0	0
	- 100%	558	558
Esposizioni verso o garantite da banche multilaterali di sviluppo		2.552	13.530
	- 0%	2.552	6.874
	- 20%	-	6.656
Esposizioni verso o garantite da organizzazioni internazionali		-	4.104
	- 0%	-	4.104
Esposizioni verso o garantite da intermediari vigilati		663.511	672.394
	- 0%	-	-
	- 20%	393.785	395.090
	- 50%	178.694	186.130
	- 100%	91.032	91.174
Esposizioni verso o garantite da imprese		4.247.053	4.116.408
	- 20%	5.133	5.206
	- 50%	1.035.895	1.051.890
	- 70%	-	14.252
	- 100%	3.137.231	2.987.919
	- 150%	68.793	57.141
Esposizioni al dettaglio		4.772.059	4.483.739
	- 75%	4.772.059	4.483.739
Esposizioni garantite da immobili		3.307.890	3.282.932
	- 35%	2.524.015	2.505.313
	- 50%	783.875	777.619
Esposizioni in stato di default		430.277	422.800
	- 100%	325.852	319.274
	- 150%	104.425	103.527
Esposizioni ad alto rischio		70.224	70.224
	- 150%	70.224	70.224
Esposizioni sotto forma di obbligazioni bancarie garantite		-	-
Esposizioni a breve termine verso imprese o intermediari vigilati		-	-
Esposizioni verso organismi di investimento collettivo del risparmio (OICR)		36.106	35.956
	- 100%	36.106	35.956
Esposizioni in strumenti di capitale		86.388	88.590
	- 100%	86.388	88.590
Altre esposizioni		426.078	548.845
	- 0%	60.818	181.957
	- 20%	39.677	41.305
	- 50%	-	-
	- 75%	9.851	9.851
	- 100%	315.732	315.732
Carolarizzazioni		240.936	860
	- 0%	240.075	-
	- 1250%	860	860
TOTALE RISCHIO DI CREDITO E CONTROPARTE		17.436.303	17.436.303

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

Qualitative information

Capital requirements for market risk pertaining to the trading book are determined by using the standardised approach as required by supervisory regulations. This calculates the requirement based on a building-block approach, whereby the total requirement consists of the sum of the capital requirements for each individual risk. In the use of this approach, the Group complies with the applicable regulations (Circ. n. 285/13 Part Two – Chapter 9, Section I).

Quantitative information

Information about capital requirements is provided in paragraph 4.

10. Operational risk (art. 446 CRR)

Qualitative information

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

Quantitative information

Information about capital requirements is provided in paragraph 4.

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

Qualitative information

Definition

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

The option has the following characteristics:

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

The distinctive features of this classification are the following:

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

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

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

Accordingly, equity exposures in the banking book⁴ are recognised as “financial assets measured at fair value through other comprehensive income”. This caption includes all equity interests below 20%. The “equity investments” caption, however, includes equity interests in associates.

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

Objectives

The main objectives pursued are:

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

Accounting policies

⁴ The banking book includes all financial instrument assets and liabilities not included in the trading book.

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

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

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

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

Equity investments

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

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

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

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

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

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

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

Quantitative information

Exposures in equity instruments not included in the trading book

	Book value		Fair value		Market value		Realised gains/losses and impairment		Unrealised gains/losses recorded in the balance sheet	
	level 1	level 2/3	level 1	level 2/3	level 1	level 2/3	level 1	level 2/3	level 1	level 2/3
Financial assets available for sale										
- equity instruments		50.271		50.271			x		260	25.092
- mutual funds	17.798	18.158	17.798	18.158	17.798		x	1.835	154	(1.780)

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

- the “Realised gains and losses” line item includes the income statement impact recognised for the sale of units, gross of the related tax effect;
- the “Gains/losses on disposal” line item includes the income statement impact of the measurement of units held at 31 December 2019, gross of the related tax effect.

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

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

Qualitative information

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

As part of an active and prudent management of the risks associated with operations, the Group uses fair value hedges in order to protect the income statement from risks arising from adverse changes in fair value, consisting of cash flow hedges designed to stabilise the cash flows of the hedged instrument with the flows of the hedging instrument.

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

Quantitative information

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

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date has, however, some peculiarities arising from the current market environment. In particular, there has been an increase in demand and short-term deposits that has given rise 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 net interest income (and consequently on other financial statement aggregates) from a static perspective and in the absence of behavioural models for demand items, of the analyses carried out at 31 December 2019, assuming a parallel shift in the yield curve, and considering the time effect of repricing.

Risk ratios: parallel shifts in the yield curve at 31.12.2019

	+100 bps	-100 bps
<i>% on net interest income</i>	-3.45%	-24.83%
<i>% of net interest and other banking income</i>	-1.83%	-13.18%
<i>% of the result of the year</i>	-11.91%	-85.73%
<i>% of shareholders' equity</i>	-0.50%	-3.57%

With regard to economic value, the estimated impact of the change with the help of measurement models in a static perspective and in the absence of behavioural models for demand items, showed a risk exposure at 31 December 2019 at levels that do not result in significant impacts on total capital.

The following table shows the changes in the overall current economic value of the Group's assets and liabilities analysed by applying deterministic approaches with parallel shifts in the yield curve.

Risk ratios: parallel shifts in the yield curve at 31.12.2019.

	+100 bps	-100 bps
<i>% of the economic value</i>	-14.32%	5.23%

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

Third party securitisations

As at 31 December 2019, the Group did not hold any securities arising from third party securitisations.

Own securitisations

Qualitative information

In accordance with its capital management strategy, the Bank has carried out a securitisation last year that made use of the Italian State guarantee on the securitisation of doubtful loans on senior securities 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 2018, to which DBRS Ratings Ltd and Scope Ratings GmbH have given "BBB low" and "BBB" ratings respectively;
- mezzanine securities for Euro 30.2 million to which DBRS Ratings Ltd and Scope Ratings GmbH have given "B low" and "B" ratings respectively;
- junior securities for Euro 9.0 million, with no rating.

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

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

Methods for calculating exposures

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

Accounting impact

The accounting policy adopted by Banco Desio Group for the treatment of and accounting for the securitisation of loans complies with IFRS 9 as regards the derecognition of financial assets and liabilities.

In the event of the substantial transfer to the transferee of all risks and benefits associated with the transferred assets, the standard requires the derecognition thereof and the recognition as a contra-entry of the consideration received as well as the recognition of any gain or loss arising from the disposal.

If the requirements of IFRS 9 have not been met, then the originator may not derecognise the assets, but should recognise, as a contra-entry to the consideration received, a liability for the amount due to the transferee without accounting for any gain or loss arising from the disposal. Furthermore, there should be no derecognition of assets if the originator transfers a part of its loans to an SPV in exchange for a subscription of securities (at least of a more junior class) issued by the latter and, thus, remains exposed to the risks and benefits associated with the transferred assets.

The securitisation completed by Banco Desio Group involving the sale of doubtful loans, following the sale of 95% of the junior and mezzanine notes, meets the derecognition requirements of IAS/IFRS and it has thus been accounted for in the manner described. As a contra-entry to the derecognition of the assets transferred, the bank has recognised the senior securities guaranteed by the government (measured at amortised cost) and 5% of the junior and mezzanine notes (mandatorily measured at fair value) and has accounted for the difference between the derecognised assets and the consideration received as a loss on disposal.

Quantitative information

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

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

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

TYPE OF SECURITISED ASSETS/ EXPOSURES	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
A. Fully derecognised	240,209	177	859		1	
- financial assets measured at amortised cost	240,209	177				
B. Partially derecognised						
C. Not derecognised						

The securitisation exposure qualifies for a risk weighting of 1250% for junior and mezzanine notes retained, while a weighting factor of 0% is applied to senior notes that benefit from government guarantees.

Covered bond transactions

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

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

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

1. non-revolving sales without recourse of a residential mortgage loan portfolio;
2. disbursement of a subordinated loan to the SPV by Banco Desio;
3. issuance by Banco di Desio e della Brianza of covered bonds for institutional investors for Euro 575 million (issued in 2017) and Euro 500 million (issued in 2019) with a maturity of 7 years.
4. a liability swap on the covered bonds issued taken out by the SPV for a notional amount of Euro 300 million (for the 2017 issue) and for a notional amount of Euro 200 million (for the 2019 issue) with BNP Paribas as counterparty;
5. a back-swap taken out by Banco di Desio e della Brianza for the same notional amount with the same counterparty, as a mirror-image of the previous one.

At 31 December 2019, the loan portfolio sold by the Bank has a book value of about Euro 1,292 million.

Main characteristics of the issues

The main characteristics of the issue are summarised below:

- SPV name: Desio OBG S.r.l.
- Type of underlying loans: Residential mortgage loans;
- The value of the loans sold: total of Euro 1,588 million;
- Amount of subordinated loan: total of Euro 1,488 million;
- Nominal value of the covered bonds issued: 575 million euro series IT0005277451 issued on 12 September 2017 and 500 million euro series IT0005380446 issued on 24 July 2019;
- Interest rate on covered bonds issued: fixed rate of 0.875% (issue of 2017) equal to 0.375% (issue of 2019);
- Duration: 7 years.

Key parties involved

Issuer of the covered bonds	Banco di Desio e della Brianza S.p.A.
Guarantor of the covered bonds	Desio OBG S.r.l.
Transferor	Banco di Desio e della Brianza S.p.A.
Subordinated lender	Banco di Desio e della Brianza S.p.A.
Servicer	Banco di Desio e della Brianza S.p.A.
Corporate Servicer	Securitisation Services S.p.A.

Guarantor Calculation Agent	Securitisation Services S.p.A.
Account Bank	BNP Paribas Securities Services
Guarantor Paying Agent	BNP Paribas Securities Services
Representative of the Covered Bondholders	Securitisation Services S.p.A.
Back-Up Servicer Facilitator	Securitisation Services S.p.A.
Liability Swap Provider	BNP Paribas
Asset Monitor	BDO Italia S.p.A.
Quotaholder	Stichting Morricone
Stichting Corporate Services Provider	Wilmington Trust SP Services (London) Limited
Cash Manager	Banco di Desio e della Brianza S.p.A.
Test Calculation Agent	Banco di Desio e della Brianza S.p.A.
Issuer Paying Agent	Banco di Desio e della Brianza S.p.A.
Luxembourg Listing Agent	BNP Paribas Securities Services, Luxembourg branch.

Limits on the sale of Eligible Assets

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

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

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

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

Accounting impact

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

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

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

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

14. Remuneration policy (art. 450 CRR)

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

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

Information concerning the Group's remuneration and incentive policies is provided in the Report on Remuneration, to which reference should be made. This annual report includes all the information required by art. 450 of the CRR concerning remuneration policy and practices relating to staff categories whose professional duties have a significant impact on the bank's risk profile, including the disclosure of names (of those required by art. 450 of the CRR) and of remuneration for 2019. The report is available on the bank's website at: www.bancodesio.it

15. Leverage (art. 451 CRR)

Qualitative information

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

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

On 7 June 2019, the complex set of measures to further strengthen the resilience of the banks of the European Union was published in the Official Journal of the European Union. Furthermore, the European Parliament and Council Regulation 2019/876, which amends Regulation (EU) 575/2013 (CRR) with respect to, among other things, the leverage ratio, requires banks to meet, as from 2021, and in addition to their risk-based requirements, a leverage ratio equating to 3% of tier 1 capital.

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

Quantitative information

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

Table LRCOM: Leverage ratio common disclosure

		31.12.2019
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	14.257.651
2	(Asset amounts deducted in determining Tier 1 capital)	- 16.946
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) 16.2.2016 L 39/9 Official Journal of the European Union IT	14.240.705
Derivative exposures		
4	Replacement cost associated with derivatives transactions (net of the variation margin in eligible cash)	119
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) EU-5a Exposure determined under Original Exposure Method	960
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	1.080
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1.350
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	984
15	Agent transaction exposures EU-15a (Exempted CCP leg of client-cleared SFT exposure)	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	2.334
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	3.211.030
18	(Adjustments for conversion to credit equivalent amounts)	- 2.774.159
19	Other off-balance sheet exposures (sum of lines 17 to 18)	436.871
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
Capital and total exposures		
20	Tier 1 capital	814.341
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	14.680.989
Leverage ratio		
22	Leverage ratio	5,547%
Choice on transitional arrangements for the definition of the capital measure		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-

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

		31.12.2019
1	Total assets as per published financial statements	14.192.062
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	
4	Adjustments for derivative financial instruments	- 9.264
5	Adjustments for securities financing transactions "SFTs"	2.334
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) EU-6a (Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013) EU-6b (Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	436.871
7	Other adjustments	58.987
8	Total leverage ratio exposure	14.680.989

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

		CRR leverage ratio exposures 31.12.2019
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	14.257.651
EU-2	Trading book exposures	4.343
EU-3	Banking book exposures, of which:	14.253.308
EU-4	- Covered bonds	
EU-5	- Exposures treated as sovereigns	3.150.071
EU-6	- Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns exposures 16.2.2016 L 39/11 Official Journal of the European Union IT	4.077
EU-7	- Institutions	599.831
EU-8	- Secured by mortgages of immovable properties	3.307.890
EU-9	- Retail exposures	3.088.720
EU-10	- Corporate	2.834.848
EU-11	- Exposures in default	405.613
EU-12	- Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	862.258

The leverage ratio at the reference date, without application of the transitional arrangements under IFRS 9 "Financial instruments", is 5.3%.

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

Qualitative information

For prudential supervisory purposes, the Group takes advantage of the eligibility of mortgage and real/financial collateral. The process for the verification of the eligibility of mortgage collateral is based on a decentralised internal model; this envisages that, during census activities for collateral processing, the gathering and storage of the information needed to verify that eligibility requirements have been met (except for the analysis of the general requirements that is performed by the competent central functions) should be performed by the branch network. In order to adequately monitor the census activities, the Credit Department and the Organisational Processes Department periodically informs the network about anomalies identified by systems diagnostics during the census activities and urges the prompt removal thereof.

As regards real/financial collateral, the Group has designed a structured process for the collection and management thereof with a particular focus on eligibility aspects (general and specific requirements) and has issued specific management/operational instructions on the matter. Eligibility is thus granted to financial collateral that exceeds the control points provided for by the regulations and implemented in the Group's information systems.

Quantitative information

Credit risk mitigation techniques: protected amount

Portafoglio Regolamentare	Garanzie reali finanziarie	Garanzie personali	Garantite da immobili residenziali	Garantite da immobili commerciali
1. Esposizioni verso o garantite da amministrazioni centrali e banche centrali				
2. Esposizioni verso o garantite da amministrazioni regionali o autorità locali				
3. Esposizioni verso o garantite da organismi del settore pubblico				
4. Esposizioni verso o garantite da banche multilaterali di sviluppo				
5. Esposizioni verso o garantite da organizzazioni internazionali				
6. Esposizioni verso o garantite da intermediari vigilati				
7. Esposizioni verso o garantite da imprese	97.576	69.780	81.618	363.971
8. Esposizioni al dettaglio	109.406	178.914	2.442.397	419.904
9. Esposizioni garantite da immobili	8.145	16.813		
10. Esposizioni in stato di default	1.135	6.342		
11. Esposizioni ad alto rischio				
12. Esposizioni sotto forma di obbligazioni bancarie garantite				
13. Esposizioni a breve termine verso imprese o intermediari vigilati				
14. Esposizioni verso organismi di investimento collettivo del risparmio (OICR)	150			
15. Esposizioni in strumenti di capitale				
16. Altre esposizioni				
17. Posizioni verso la cartolarizzazione				
TOTALE	216.412	271.849	2.524.015	783.875

17. Glossary

▪ **ABS (Asset Backed Securities)**

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

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

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

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

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

▪ **AQR (Asset Quality Review)**

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

▪ **AT1 (Additional Tier 1)**

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

▪ **BIA (Basic Indicator Approach)**

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

▪ **Business Continuity**

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

▪ **Cash-flow hedges**

Hedging of exposure to the risk of variability of cash flows with the aim of stabilising the cash flows of the hedged instrument with the flows of the hedging instrument. Elements that may be hedged are future cash

flows arising from different types of transactions, such as variable rate financial receivables and variable rate loans.

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

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

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

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

- **Change Management**

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

- **Collateral**

Asset pledged as security for repayment of a loan.

- **Counterbalancy Capacity**

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

- **Coverage Ratio**

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

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

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

- **CRR (Capital Requirements Regulation)**

European Parliament and Council Regulation (EU) 575/2014 of 26 June 2014 on prudential requirements for banks and investment firms (CRR), which amends Regulation (EU) 648/2012.

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

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

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

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

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

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

- **Derecognition**

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

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

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

- **Dollar Offset Method**

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

- **Drive-by appraisals**

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

- **Duration**

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

- **Duration Gap**

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

- **EAD (Exposure at Default)**

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

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

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

- **ECL (Expected Credit Loss)**

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

LGD and EAD risk parameters, while, for stage 2 exposures, the PD, LGD and EAD parameters are calculated over the entire expected life of a financial instrument.

- **Fair Value – Fair Value Hedge**

Represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value hedges are hedges that protect the income statement from risks arising from adverse changes in fair value.

- **UFE (Unique Front End)**

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

- **Forborne exposures**

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

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

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

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

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

- **Going Concern**

Context of normal course of business.

- **G-SII**

Global systemically important institutions

- **IAS/IFRS**

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

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

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

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

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

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

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

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

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

- **Unlikely to pay loans**

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

- **ISIN**

International securities identification number.

- **ITS EBA (International Technical Standards)**

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

- **Key-Risk Indicators**

Risk indicators used to monitor and assess risks.

- **LCR (Liquidity Coverage Requirement)**

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

- **Leverage Ratio**

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

- **LGD (Loss Given Default)**

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

- **LLP (Loan Loss Provision)**

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

- **Logit - Statistical model**

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

- **Loss Data Collection**

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

- **LTV (Loan to Value)**

Ratio of the loan to the value of the collateral.

- **Maturity Gap**

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

- **Rating model**

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

- **N.A.V. (Net Asset Value)**

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

- **Entity Legal Form (ELF)**

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

- **NPL (Non Performing Loans)**

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

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

A regulatory liquidity ratio. It is the ratio of available amount of stable funding to required amount of stable funding.

- **UCITS**

Undertakings for Collective Investments in Transferable Securities.

- **SFT (Securities Financing Transactions)**

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

- **ORM (Operational Risk Management)**

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

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

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

- **OTC (Over the Counter)**

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

- **Outsourcer**

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

- **Rating Override**

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

- **Past Due**

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

- **PD (Probability of Default)**

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

- **Probation Period**

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

- **Product Approval**

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

- **RAF (Risk Appetite Framework)**

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

- **Risk Appetite**

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

- **Risk Capacity**

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

- **Risk Limits**

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

- **Risk Profile**

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

- **Risk Self Assessment**

Structured process for the measurement of operational risks designed to have complete vision of risk events in terms of the potential impact and the worst case impact.

- **Risk Tolerance**

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

- **Risk Triggers**

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

- **RON**

Representative of the Noteholders.

- **RWA (Risk Weighted Assets)**

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

- **Sensitivity Analysis**

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

- **SICAV**

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

- **SPV**

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

- **SREP**

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

- **CFA (Consolidated Finance Act)**

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

- **T1 (Tier 1)**

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

- **T2 (Tier 2)**

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

- **TC (Total Capital)**

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

- **CBA (Consolidated Banking Act)**

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

- **Unlikely to Pay**

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

- **VAR (Value At Risk)**

Measure of risk that indicates the maximum potential loss pertaining to a portfolio of financial instruments, estimated using Monte Carlo simulations, which, after appropriate assumptions and correlations, estimates the value of the portfolio by calculating a number of possible revaluations and, given the vector of expected portfolio returns, determines the ideal percentile for distribution. The model uses a confidence interval of 95% with a period of 1 day.

- **What-if Analysis**

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

Certification of the Financial Reporting Manager

The Financial Reporting Manager, Mauro Walter Colombo, declares pursuant to paragraph 2 of Article 154-bis of the Consolidated Finance Act that the accounting information contained in this document entitled "Basel III Pillar 3 at 31 December 2019" agrees with the supporting documents, books of account and accounting records.

Mauro Walter Colombo
Financial Reporting Manager