2021

Annual Financial Report at 31 December 2021

Gruppo Banco Desio

Consolidated financial statements of the Banco Desio Group at 31 December 2021

Financial statements of Banco di Desio e della Brianza S.p.A. at 31 December 2021

This is a translation of the Italian original "Relazione Finanziaria Annuale 2021" and has been prepared solely for the convenience of international readers. In the event of any ambiguity, the Italian text will prevail.

Directors and officers

Board of directors

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

** Members of the Executive Committee*
*** from 4 October 2021*

Board of Statutory Auditors

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

General Management

Chief Executive Officer and General Manager	Alessandro Maria Decio

Financial Reporting Manager as per art. 154-bis CFA

Financial Reporting Manager	Mauro Walter Colombo

Independent Auditors

Independent Auditors	KPMG S.p.A.

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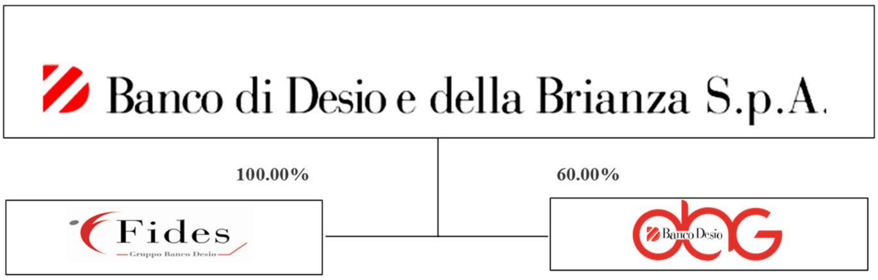
Consolidated Report on Operations

The Banco Desio Group

The scope of consolidation of the Banco Desio Group at 31 December 2021 includes the following companies:



1 - Introduction

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

The content of the explanatory notes takes account of the instructions contained in Consob Note 1/21 dated 16 February 2021, which is still applicable, the ESMA document entitled "European common enforcement priorities for 2021 annual financial reports" dated 29 October 2021, as well as the 7th update on 29 October 2021 of the Bank of Italy's Circular 262 "Bank financial statements: schedules and rules for preparation" and subsequent communication of 21 December 2021, which are discussed in "Part A – Accounting policies" and "Part E - Information on risks and related hedging policy" of the Explanatory notes.

The specific disclosure dedicated to describing the context in which this financial report was prepared, still feeing the effects of the Covid-19 pandemic, together with the related uncertainties and significant risks, is presented in section 3.3 "Covid-19" (on page 14); the consequences on the economy in general and on financial performance in future years deriving from the resurgence of the pandemic and the long-term impacts of the support policies by the regulators, remain uncertain, as is the possible evolution of future scenarios.

Banco Desio

2 - Key figures and ratios

Balance sheet

Amounts in thousands of Euro	31.12.2021	31.12.2020	Change amount	%
Total assets	17,804,781	15,663,522	2,141,259	13.7%
Financial assets	3,797,711	3,543,697	254,014	7.2%
Due from banks [1]	2,115,119	1,034,768	1,080,351	104.4%
Loans to customers [1]	11,127,757	10,473,228	654,529	6.2%
Property, plant and equipment [2]	218,420	222,483	-4,063	-1.8%
Intangible assets	19,119	18,513	606	3.3%
Non-current assets and disposal groups held for sale [3]	13,080		13,080	
Due to banks	3,815,695	2,412,244	1,403,451	58.2%
Due to customers [4]	10,926,600	10,203,490	723,110	7.1%
Debt securities in issue	1,522,265	1,608,927	-86,662	-5.4%
Shareholders' equity (including Net profit/loss for the period)	1,088,741	995,071	93,670	9.4%
Own funds	1,131,495	1,057,064	74,431	7.0%
Total indirect deposits	18,018,035	16,520,360	1,497,675	9.1%
of which: Indirect deposits from ordinary customers	*11,033,464*	*10,160,527*	*872,937*	*8.6%*
of which: Indirect deposits from institutional customers	*6,984,571*	*6,359,833*	*624,738*	*9.8%*

[1] based on Circular 262, the balance on this item includes debt securities held to collect (HTC) recognised at amortised cost, which in these summary figures are shown under financial assets; the balance does not include current accounts and demand deposits (with the exception of the reserve requirement account with central banks) shown under Cash.
[2] the balance of this item at 31 December 2021 includes the right of use ("RoU Assets") equal to Euro 50.7 million for operating lease contracts falling within the scope of application of IFRS 16 Leases, which came into effect on 1 January 2019
[3] the balance on this item is made up of NPL credits for which, at the reference date, the sale contracts have been signed but not yet finalised.
[4] the balance of this item does not include the liability recognised in Due to customers for operating lease contracts falling within the scope of application of IFRS 16, which came into effect on 1 January 2019

Income statement [5]

Adjustments

Amounts in thousands of Euro	31.12.2021	31.12.2020	Change amount	%
Operating income	458,177	402,270	55,907	13.9%
of which: Net interest income	*245,106*	*214,352*	*30,754*	*14.3%*
Operating costs	267,755	266,650	1,105	0.4%
Result of operations	190,422	135,620	54,802	40.4%
Charges relating to the banking system	13,498	8,343	5,155	61.8%
Profit (loss) from continuing operations after tax	53,780	34,117	19,663	57.6%
Non-recurring profit (loss) after tax	1,121	-10,427	11,548	n.s.
Net profit (loss) for the period	54,901	23,690	31,211	131.7%

[5] from the reclassified income statement.

Banco Desio

Key figures and ratios

	31.12.2021	31.12.2020	Change amount
Capital/Total assets	6.1%	6.4%	-0.3%
Capital/Loans to customers	9.8%	9.5%	0.3%
Capital/Due to customers	10.0%	9.8%	0.2%
Capital / Debt securities in issue	71.5%	61.8%	9.7%
Common Equity Tier 1 (CET 1)/Risk-weighted assets *(Common Equity Tier 1 ratio)* [(6) (7)]	15.6%	14.7%	1.0%
Core Tier 1 capital (T1)/Risk-weighted assets (Tier 1 ratio) [(6) (7)]	15.6%	14.7%	0.9%
Total Own Funds / Risk-weighted assets *(Total capital ratio)* [(6) (7)]	15.7%	15.1%	0.6%
Financial assets / Total assets	21.3%	22.6%	-1.3%
Due from banks / Total assets	11.9%	6.6%	5.3%
Loans to customers / Total assets	62.5%	66.9%	-4.4%
Loans to customers / Direct customer deposits	89.4%	88.7%	0.7%
Due to banks / Total assets	21.4%	15.4%	6.0%
Due to customers / Total assets	61.4%	65.1%	-3.7%
Debt securities in issue / Total assets	8.5%	10.3%	-1.8%
Direct customer deposits / Total assets	69.9%	75.4%	-5.5%
	31.12.2021	**31.12.2020**	**Change amount**
Cost/Income ratio	58.4%	66.3%	-7.9%
(Operating costs + Charges relating to the banking system)/Operating income (Cost/Income ratio)	61.4%	68.4%	-7.0%
Net interest income / Operating income	53.5%	53.3%	0.2%
Result of operations / Operating income	41.6%	33.7%	7.9%
Profit (loss) from operations after tax / Capital[(8)]	5.2%	3.5%	1.7%
Profit (loss) from operations after tax / Capital[(8)] (R.O.E.)	5.3%	2.4%	2.9%
Profit (loss) from operations before tax / Total assets (ROA)	0.5%	0.3%	0.2%
	31.12.2021	**31.12.2020**	**Change amount**
Net bad loans / Loans to customers[(9)]	0.8%	1.1%	-0.3%
Net non-performing loans / Loans to customers[(9)]	2.1%	2.9%	-0.7%
% Coverage of bad loans[(9)]	63.3%	61.0%	2.2%
% Coverage of bad loans, gross of write-offs[(9)]	64.3%	62.2%	2.1%
% Total coverage of non-performing loans[(9)]	50.8%	47.5%	3.3%
% Coverage of non-performing loans, gross of write-offs[(9)]	51.5%	48.4%	3.1%
% Coverage of performing loans	0.94%	0.72%	0.22%

Structure and productivity ratios

	31.12.2021	31.12.2020	Change amount	Change %
Number of employees	2,141	2179	-38	-1.7%
Number of branches	232	249	-17	-6.8%
Amounts in thousands of Euro				
Loans and advances to customers per employee [(10)]	5152	4786	366	7.6%
Direct deposits from customers per employee [(10)]	5763	5397	366	6.8%
	31.12.2021	**31.12.2020**	**Change amount**	**%**
Operating income per employee [(10)]	212	184	28	15.2%
Result of operations per employee [(10)]	88	58	30	51.7%

[(6)] Consolidated capital ratios for Banco Desio. The ratios for the scope of consolidation for regulatory purposes at Brianza Unione level at 30 September 2021 are: Common Equity Tier1 11.6%; Tier 1 12.4%; Total Capital Ratio 13.5%.

[(7)] Capital ratios at 31.12.2021 are calculated in application of the transitional arrangements introduced by EU Regulation 2017/2395; the ratios calculated without application of these arrangements are the following: Common Equity Tier1 14.8%; Tier 1 14.8%; Total capital ratio

[(8)] net of the result for the period;

[(9)] net of assets held for sale

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

Alternative Performance Measures

The alternative performance measures (APMs) shown in this consolidated management report have been chosen to facilitate understanding of the performance of the Banco Desio Group. APMs are not envisaged by international accounting standards. They represent additional information with respect to the measurements defined in the IAS/IFRS and are in no way a substitute for them.

The method of calculating each APM is provided and the figures used have been taken from the tables or from the reclassified financial statements contained in the "Results" section of this Report.

These APMs are based on the guidelines of the European Securities and Markets Authority (ESMA) of 5 October 2015 (ESMA/2015/1415), incorporated in Consob Communication no. 0092543 of 3 December 2015. Following the instructions contained in the update of the document entitled "ESMA 32-51-370 - Questions and answers - ESMA Guidelines on Alternative Performance Measures (APMs)", published on 17 April 2020, no changes have been made to the APMs nor have new ad hoc measures been introduced to highlight separately the effects of the Covid-19 epidemic.

3 - Underlying scenario

3.1 - The macroeconomic scenario

International scenario

After a 2020 severely impacted by the pandemic, the world economy has ended 2021 with a decisive rebound that is manifesting itself in all countries, albeit with a varying intensity due to diverse specificities, the intensity of government interventions in support of the economy and the different diffusion of vaccination campaigns, an important factor in mitigating the pandemic. This trend can be seen not only between industrialised and emerging countries, but also within advanced economies, primarily the Euro Area, where there are also substantially different rates of vaccination.

This aspect will inevitably affect the growth rates expected in 2022, a year when the prospects of further growth will still find an important factor of uncertainty linked to the occurrence of Covid-19 variants and the means of contrast available to governments.

In this context, the continuing dependence on the pandemic will make it difficult to manage the normalisation of markets and economic policies, also by virtue of the growing importance of the processes involved in the energy transition and decarbonisation, which households and businesses are already beginning to reckon with.

With regard to inflation, the pandemic has in fact given rise to a series of bottlenecks in world production and value chains that are quickly being reflected in inflation expectations that are higher than those foreseen by Central Banks.

In this scenario, the Fed and the ECB may find themselves forced to review monetary policy by raising their interest rates during the course of 2022, while the ECB may not renew the PEPP (pandemic emergency purchase programme of public debt) beyond its scheduled expiry in March. However, there is still the sentiment that this is a temporary phase of price increases that could last for the whole of 2022 and then stabilise at a lower level.

United States

The wave of contagions that hit the United States and the consequent restrictions imposed by some states led to a slowdown in GDP in the third quarter of 2021. In fact, on a quarterly basis, despite an important contribution from inventories (0.5 pp), private consumption suffered a sharp slowdown (0.4%, vs 2.9% in the previous quarter), while investment in residential property decreased (-2%). Inflation is at its highest since the early 1980s: the latest survey in November shows a rate that is already close to 7% (6.9%) with core inflation at 5%. The improvement in the labour market continues, but with an increase in employment that is lower than expected. Despite an unemployment rate of 4.2% in November, there are still 3.5 million jobs needed to return to pre-crisis levels. After the extraordinary liquidity measures implemented in 2020-2021 (of which 1.8 billion in 2021), the exceptional measures to deal with the effects of the pandemic will see a downsizing. In fact, overcoming the most critical phase of the health emergency makes it possible that the exceptional measures taken in favour to help businesses and families will not be renewed. Budgetary support will therefore be significantly lower and the previous measures are likely to be financed out of higher taxes. In 2021, GDP should close with growth of +5.6% compared with 2020, with confirmation of a deceleration due to the reduction in support for budgetary and monetary policies, while average inflation should settle at around 4.7%.

Japan

The fourth cycle of restrictions adopted to deal with the Covid-19 emergency and the impact they had on consumption (-1.3% quarterly) led to a cyclical decrease in GDP in the third quarter of 0.9%. The uncertainty deriving from the health situation and the difficulties being experienced by international trade also affected capital investment, which was in decline. Despite the increase in the cost of raw materials, however, consumer prices have not increased significantly for now, with a negative impact on companies' profits. Wages are also weak due to the decrease in hours worked and the failure to pay productivity bonuses. As regards monetary and economic policies, they are expected to continue in their expansionary mode. The year-end estimates of GDP will therefore depend on the evolution of the health situation and on the impact that fiscal and monetary policies in the fourth quarter of 2021 will have. The latter will remain ultra-expansionary but, as seen in the past, the impact on economic growth should remain weak. As regards fiscal policy, a far-reaching plan (equal to 6.7% of GDP) was approved in November, while a new package of fiscal measures should be approved in 2022 for a total of 10% of GDP. In 2021, GDP should close with annual growth of 1.5%, while average inflation should settle at around 1.5%.

Emerging Economies

The closing figures for 2021 confirm the rebound made by Emerging Economies after 2020. China is expected to grow by 8%, even if it is slowing down on a quarterly basis. Inflation is expected to rise sharply for Brazil and Russia.

As regards China, GDP at the end of 2021 is expected to grow by 8.1%, despite the slowdown in the second half of the year (starting from the third quarter, GDP grew on a cyclical basis by only 0.2%). The Authorities' response to the resumption of the pandemic (albeit localised and promptly halted) has had a negative impact on production capacity, capital investment and the confidence of households and consumers. The new rules for access to credit and Evergrande's real estate bankruptcy did the rest. The real driving force of the Chinese economy remains exports with almost double-digit growth. As for inflation, production prices rose by around 13% in October and November, due to the increase in raw material prices and the government's energy policies that impacted coal prices, although the rise in consumer prices has stopped at 2.3%. Average inflation in 2021 is expected to be 1.1%, while in 2022 it may rise to 1.8%. After the 2021 rebound, GDP will continue to grow, but at a slower pace with a target of 4.0%.

In India, GDP is expected to grow by 8.6% in 2021. Despite the outbreak of the pandemic in the second quarter, the rebound seen in the third quarter allowed Indian GDP to close the year with considerable growth compared with 2020. The reforms that increased the country's attractiveness also contributed to this growth: continuing in this direction is the liberalisation of sectors such as insurance and ports, or other actions such as the sale of airlines and the reform of bankruptcy law to resolve the bottleneck in the banking system caused by non-performing loans. Industrial production continues to recover, while international trade will enjoy sustained growth thanks to exports. Less brilliant is the service sector, which still has to completely recover. Average inflation in 2021 at the end of the year stands at 5.2%, while for 2022 it is expected to rise to 5.7%. After rebounding in 2021, GDP will continue to grow steadily in 2022 as well (+7.0%).

As for the other BRIC countries, in Brazil GDP decreased by 0.1% in the third quarter of 2021, mainly due to the difficulties in trade, with a consequent reduction in exports of 9.8% and imports of 8.3%. The Brazilian economy's recovery is rather slow, as it has to deal with inflation at 10.7% and policy rates that have reached 7.75%. GDP growth of less than 1.5% is forecast for 2022. In Russia, GDP is substantially stable year-on-year, whereas the headline rate is up by 4.3%. There is a particular slowdown in manufacturing, freight transport and construction, but also in wholesale and retail sales. To this must be added the poor vaccination coverage, which damages the health situation. Inflation in October peaked at 8.1%. For this reason, the Central Bank brought the policy rate (reference rate) to 7.5% and began a restrictive monetary policy. All of this places severe limits on the country's growth prospects.

Europe

In the third quarter of 2021, the Euro Area's GDP posted an increase of 2.2%, in line with the previous quarter. Within the Area, economic activity has been expanding, driven by internal demand, spending on services and tourism. Italy, in particular, recorded a level of economic activity 4pp higher than that of Germany, France and Spain.

In Germany, GDP growth continues, albeit with a less sustained push than in the previous quarter (1.7% vs 2.0%). Against the decrease in foreign demand (-0.2pp) and inventories (-0.2pp), domestic demand recorded a strongly positive contribution (+2.2pp). The negative trend in the manufacturing sector continues, registering its third consecutive decline (-8pp compared with the end of 2019), while the services sector is seeing significant growth (+3.7% on the second quarter). In France, GDP put in its best performance among the 4 major countries of the Euro Area in the third quarter of 2021, registering +3% on the previous quarter. This performance is due to a positive contribution from domestic demand (+3.3pp) and foreign demand (0.7pp), against a negative one from inventories (-1pp). As for Germany, there has been strong growth in the private services sector (+4.4%), whereas the manufacturing and construction sectors are contracting.

In Spain, the economic trend is accelerating. GDP in the third quarter was up by 2% compared with the previous quarter (vs 1.1%). The growth is mainly thanks to a positive contribution from foreign demand (+1.9pp), while the trend in inventories and domestic demand remains unchanged. Capital investment is up, especially for machinery. The country has made a distinct improvement in both private services and the manufacturing sector, with the latter recovering what was lost in the first half of the year.

Overall, the Euro Area's GDP is expected to grow by 5.2% in 2021 and by 4.1% in 2022: Germany by 2.8% in 2021 and 3.8% in 2022, France by 6.7% in 2021 and 4.1% in 2022 and Spain by 4.3% in 2021 and 4.7% in 2022. Growth in the Area will be supported by the National Recovery and Resilience Plans (NRRPs) which amount to Euro 448 billion (3.3% of GDP, of which 296 billion in grants). These support measures are mainly reflected in an acceleration of public spending for capital investment and manufacturing. Up to now, 22 of the 26 EU countries that presented the plan have already obtained approval from the EU institutions and pre-financing of 13% of the amount requested. Thanks to the growth in GDP, the EU's deficit could fall below 4% in 2022 (having been 6.7% in 2021). On the other hand, average inflation will continue to rise and is expected to reach 2.4% in 2022, while remaining lower than that of the United States (4.6%) mainly because of the increase in the prices of energy and certain commodities.

However, situations of political and economic uncertainty deriving from the tensions between Russia and Ukraine, with which 2022 began, are still to be evaluated.

Italy

Italian GDP in the third quarter of 2021 shows cyclical growth of +2.6% (+3.8% on an annual basis). Domestic demand contributes positively to GDP (2.1pp), as does foreign demand (0.5pp). The increase in domestic demand is driven by the growth in household consumption (+1.7pp of GDP). On the supply side, as also observed for the other European countries, services recorded significant growth (+4% on a cyclical basis). In particular, among the trade sectors, the repair of motor vehicles and motorcycles, transport and warehousing and accommodation and restaurant services provided a positive contribution to GDP (1.7pp). Construction continued to grow in the third quarter of the year, which evidently benefited from the various government grants available for refurbishment that increases energy efficiency, as did manufacturing. The rate of unemployment has fallen and now seems to have passed the high reached with the crisis, during which it remained below expectations thanks to a widening of the social safety nets. The balance between new hires and terminations turned positive again.

For 2022, GDP is expected to grow by 4% (6.3% at the end of 2021), while average inflation is forecast at 2.1% in 2022 (1.8% in 2021).

3.2 - Capital markets and the banking system in Italy

Financial and monetary markets

On 28 October 2021, the ECB confirmed its interest rates (a reference rate of zero, -0.50% on deposits). The Governing Council confirmed the endowment of the PEPP at 1,850 billion euro, together with a forecast that it will continue net purchases "at least until the end of March 2022 and, in any case, until the critical phase of the pandemic is deemed concluded". Inflation at an all-time high since 2013 could push market participants to anticipate the rise in reference rates, but the ECB is currently confirming a "patient" monetary policy. The Federal Reserve decided to change its monetary policy at its November 2021 meeting. The rates have remained unchanged between 0 and 0.25%, but the pace at which government bonds are purchased will be reduced by $10 billion a month, up to $70 billion. Purchases of ABS securities will also be reduced by $5 billion to $35 billion a month. However, it cannot be excluded that the exit from the bond purchase programme may be speeded up if such a high rate of inflation turns out not to be transient.

The 3-month Euribor in the first week of December was still in negative territory and falling further to -0.57% (-0.55% the previous month); the 10-year IRS rate, on the other hand, in the first week of December was 0.11% (vs 0.23% in October). On the bond markets, the 10-year benchmark rate was substantially stable in the USA (1.55%, vs 1.61% in June 2021), while in the Euro Area it was down in Germany where the benchmark rate settled at -0.25% (vs -0.17% in June 2021), while in Italy it was up to 0.93% (vs 0.71% in the middle of the year). The spread therefore rose to 119 basis points (106 the previous month, the highest level seen in 2021).

International share prices continue to rise month on month. The Dow Jones Euro Stoxx index rose by +4% m/m (+25.9% y/y), the Standard & Poor's 500 index by +4.7% (+31.4% y/y) and the Nikkei 225 index by +2.8% (+16.2% y/y). Similarly, the major European stock market indices showed positive monthly performances; the FTSE Mib rose by +3.8% (+29.9% y/y), in France the CAC40 rose by +5.4% (+31.4% y/y), while in Germany the DAX30 rose by +3.5% (+23% y/y). With reference to the main banking indices, the European indicators have undergone a slight deceleration in the last month, but the comparison on an annual basis is largely positive: the Italian FTSE Banks Index has decreased by -2.4% m/m, but is growing strongly y/y, +58%; the Dow Jones Euro Stoxx Banks Index also fell by -0.4% m/m (+49.8% y/y), while the S&P 500 Banks Index grew by 0.5% m/m (+58% y/y).

Banking markets

With reference to the banking market, customer deposits continue to grow; even in November 2021, they grew by 4.9% y/y. Within them, short-term deposits continued to grow (with a headline rate of +6%), while bonds continued to slide (-3.9%). The growth in volumes was accompanied by a slight decrease in the overall remuneration (0.44%, vs 0.47% at mid-year). On the lending front, the latest available data confirm a positive trend in the private sector, thanks to the continuation of the economic measures under the Liquidity Decree, albeit with less sustained growth in the latter part of the year (+1.2% in November, vs 3.5% in mid-2021). The sector is driven by loans to households (+3.7%, vs +4.0% in June 2021), while companies tended to lose the momentum of the first half of the year, coming in at +0.6% y/y in November (vs +4.0% in the first half, though conditioned by the lockdown in the comparative period). Lending to the business sector continues to be influenced by the trend in investments and the economic cycle which remains muted and discontinuous, despite government support. In November, rates on new loans continued to decline, reaching 2.16% (vs 2.20% at the end of the first half). Within them, the rate on home purchase loans to households was equal to 1.43% (stable trend), while loans to businesses stood at 1.04% (vs 1.14% the previous month) with a declining trend.

3.3 - Covid-19

Institutional picture

In the first few months of 2020, the Covid-19 pandemic unleashed its negative effects on the production and aggregate demand of all economies. The deterioration in growth prospects translated into a hefty decline in stock market indices and a sharp rise in volatility and risk aversion. The monetary and fiscal authorities in all principal countries implemented strong expansionary measures to support household and business income, credit for the economy and market liquidity. The European institutions (European Commission, European Council and European Parliament), the European and Italian Supervisory Authorities (EBA, BCE/SSM, Bank of Italy, ESMA, Consob) and the international bodies (IASB, Basel Committee) have adopted a series of measures and guidance intended to help banks to mitigate the economic impact of the Covid-19 pandemic. For further information on the instructions received from the authorities and the specific national provisions on the economic support measures mentioned above, please refer to the 2020 financial statements.

During 2021, the initiatives of governments and central banks in support of households and businesses continued, which proved able to contain the negative social and economic effects of the pandemic. As regards the legislative and regulatory measures taken in relation to the pandemic, during the year there were no further interventions by regulators and standard setters. They therefore kept the general framework defined in 2020 substantially unchanged.

Banco Desio Group initiatives

Safety of employees

The initiatives undertaken at Group level, always in line with the indications coming from the Government Authorities, have been striving constantly since last year to protect the health and safety of employees and to safeguard operational continuity. It is worth remembering that to handle the epidemic, a collegial body called the Operational Prevention Committee was set up immediately in 2020. It oversaw all stages of event assessment and definition of the prevention and operational measures to be implemented by reconciling the emergency regulatory framework established by the competent Authorities and the technical-organisational measures that were necessary, also in terms of Safety and Prevention to protect employees' health. For the entire duration of the emergency, Group companies operated seamlessly for each service provided by the bank.

For the Bank, 2021 was the first moment of a significant post-pandemic recovery which also affected the company's management decisions, both as regards the organisation of the branch network and that of the head office, where remote working was introduced in light of the legislative and regulatory changes that had occurred. For further information, please refer to what is written in section 5 "Human resources".

Commercial and lending activity

The social and economic emergency caused by Covid-19 led to the need for pro-active credit risk management. To this end, a series of initiatives were undertaken to provide customer support and monitor portfolio risk.

Given that we understood the strong economic impact of the epidemic on people and companies and in line with our values as a territorial bank, close to households and businesses, the Group took the following steps to support our customers during 2020: extension of the "ABI Credit Agreement 2019" in favour of companies, steps to support corporate and retail customers such as suspension of the principal portion of mortgages for 6 or 12 months, free renegotiation fees where applicable, no change in the rates and charges applied, non-compulsory extension of the explosion-fire insurance coverage for mortgage and land loans. The Group then shared and promoted the support measures introduced by the "Cure Italy" Decree of 17 March 2020 and the "Liquidity" Decree of 8 April 2020, continuing this action during the current year.

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

Overall, as of 31 December 2021, the Banco Desio Group has granted:

a) loans of up to Euro 30 thousand backed 100% by the Guarantee Fund for SMEs (art.13 of the Liquidity Decree) equal to approximately 15 thousand relationships for a total of approximately Euro 0.3 billion,
b) loans of more than Euro 30 thousand backed 90% by the Guarantee Fund for SMEs (art.13 of the Liquidity Decree) equal to approximately 8 thousand relationships for a total of approximately Euro 2.1 billion,
c) SACE guarantee backed loans for Corporate businesses of Euro 156 million.

Banco Desio

Since the beginning of the pandemic, the Banco Desio Group has also approved moratoriums pursuant to law and ABI/Assofin agreements, as well as those granted independently by the Bank for over 2.9 billion euro (approximately 23 thousand relationships); at 31 December 2021, there are still some active moratoriums for approximately € 0.6 billion, mainly attributable to moratoriums pursuant to law (Art. 56 of the Liquidity Decree), on which regular amortisation is in most cases expected to resume in early 2022.

The concessions or suspensions carried out for "COVID" legislative purposes, requested by customers by 30 September 2020, were not classified as forborne (according to the indications provided by the supervisory authorities). Legislative suspensions received after that date were analytically assessed in order to identify the elements of forbearance. Since the last quarter of 2020, a series of detailed checks have been carried out on counterparties with the largest exposures to look for evidence that they should be classified as forborne or, in the case of significant anomalies, as UTP. These checks were also carried out in the last quarter of 2021 and the results were reported to the Board of Directors. They had limited effects on the classification of exposures as impaired.

In the case of a moratorium decided by the Bank, specific assessments are carried out only for positions with companies that already had a higher level of risk before the outbreak of the pandemic, to verify whether or not to consider renegotiation as a forbearance measure, with a consequent transfer to stage 2. To assess how the macroeconomic scenario is likely to evolve, estimates of impacts on the sector and the tools available to deal with the crisis and the new scenario that will emerge at the end of the emergency were examined in depth. This activity involved clustering the portfolio on the basis of riskiness - by rating, sector and amount - in order to identify the strategies to be adopted in terms of support and the mitigation of risk.

As better described in "Part E - Information on risks and hedging policies of the consolidated notes", in line with the approach of maximum attention applied in monitoring the performance of exposures, in determining the expected loss on performing loans, the Bank deemed it appropriate to continue to adopt a prudent approach, consistent with the requirements of ESMA in its document "European common enforcement priorities for 2021 annual financial reports" in assessing the longer-term impacts associated with Covid-19, defining post-model adjustments (management overlays) for the allocation of exposures in stage 2 and for the determination of expected losses on specific clusters.

As regards the management of non-performing loans, the pro-active monitoring of exposures continued, favouring the repayment and recovery of unlikely to pay (UTP) loans, and evaluating the hypothesis of assignment to third parties for those exposures where the intervention of investors could be an improvement on the Bank's normal risk containment measures. With regard to bad loans, steps were taken to stimulate and encourage solutions involving their elimination, where appropriate, in order to mitigate the gap accumulated due to the postponement of hearings and the suspension of procedural terms which occurred during 2020. The time required for court cases was updated with reference to the most recent statistics of the T.S.E.I. Association. Particular attention was paid to recoveries from private individuals, also in order to mitigate potential reputational risks that in this context can derive from the credit recovery action and from the steps involved in reclassifying the loan to bad (letter of formal notice, etc.).

Business Continuity Management

Actions have been intensified to tackle the impacts of the Covid-19 pandemic:

- the telephone order registration service for financial investment services was optimised by adopting new technological solutions;
- notebooks were purchased as new workstations for the Head Office and the Network in order to increase mobility;
- the Banco Desio Group model for the mobility of business continuity resources was implemented for the subsidiary Fides;
- infrastructural and network support was enhanced in order to support growing mobility.

Logical Safety and Physical Safety Management

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

- strengthened the security measures against cyber attacks with the definition of a specific investment plan with a specific Security Fund;
- revised the policy rules present in the firewall systems using advanced analysis tools that made it possible to optimise the number and complexity of the rules present in the systems;
- developed further synergies with the SOC (Security Operation Centre) for the activation of cloud systems that protect users on the move. Moreover, the monitoring and competence perimeters have been enlarged, guaranteeing 7*24 coverage on a number of major security services;
- revised anti-spam policies by activating domain configurations and monitoring them, as well as activating a specific brand monitoring service on the Internet;
- reviewed the organisational structure and fraud management procedures by adopting specific internal regulations and reviewing the management processes;
- strengthened the tools and procedures for protecting against DDoS (Distributed denial of service) attacks, drawing in part on the experience accumulated when tackling and overcoming the attacks that took place during previous years;
- strengthened the internal IT security and fraud management team, with the addition of new professional roles staffed by experienced personnel.
- developed a special section in the new MyDesio intranet called "Security" in order to spread the corporate culture on the subject of Security and establish a direct channel of communication with all users of the Group;
- developed a training programme, with the help of a specialised cloud platform, on the subject of cybersecurity aimed at all employees in order to increase awareness and disseminate knowledge on the risks and techniques used by hackers;
- carried out tests of the Incident Response and Business Continuity Plan in order to identify areas of strength and improvement in the models adopted by the Group in the management of crises, operational security incidents or simple service interruptions.

4 – Regional market presence and corporate issues

4.1 - The distribution network

The Banco has a presence in 10 regions of Italy (Lombardy, Piedmont, Veneto, Emilia Romagna, Liguria, Umbria (as Banca Popolare di Spoleto), Lazio, Tuscany, Marche and Abruzzo.

The distribution structure consists of 232 branches compared with 249 at the end of the previous year. 17 branches were closed in 2021; steps to raise the efficiency of the distribution network, a key element of the 2021-2023 Business Plan, will continue in the next coming year as well.

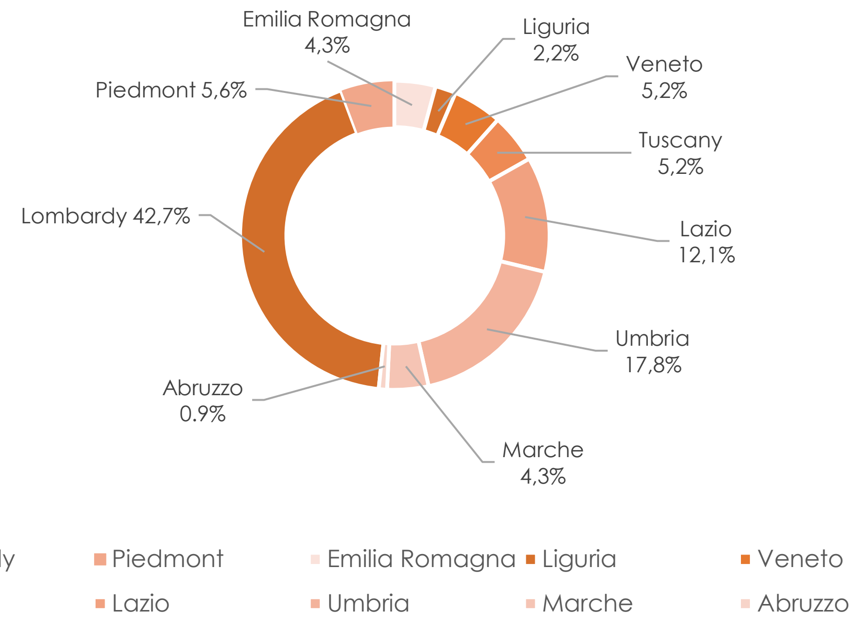
In order to respond more and more pro-actively to customers' needs, primary importance is given to the continuous evolution of the Distribution Model, to be implemented through an integrated "omnichannel" approach, offering our customers each product/service through the desired channel and with increasingly flexible methods. The organisational model envisages:

- the organisation of a distribution network divided into Territorial Areas, each of which is supervised by an Area Manager, who acts as the principal commercial representative in the area, with clearer hierarchical and functional reporting lines by Business Account Managers (formerly Corporate Account Managers) and the Branch Network;
- Private Bankers reporting hierarchically and functionally to the Wealth Management Area.

The most characteristic event of 2021 was the review of the organisational structure and service model of the Bank's Commercial Network which led not only to a reduction in the Bank's territorial areas from 13 to 8, but also the definition of new roles at Territorial Area level (Head of the Business Area, Retail Specialists, Personal Account Manager) and at branch level, with the launch of the segment represented by the Small Business Account Manager and a review of the role of the Individuals Account Manager; in particular, the "renewed" segment represented by the Individuals Account Manager involved - from a professional development perspective - the appointment of about 60 new Individuals Account Manager.

The following chart shows the breakdown of the Company's distribution network by region at the end of 2021.

Chart no. 1 - **BREAKDOWN OF THE DISTRIBUTION NETWORK BY REGION**



4.2. Significant events

Sale of the investment in Cedacri S.p.A.

On 5 March 2021, the shareholders of Cedacri, the main Italian operator in the IT services outsourcing market for banks and financial institutions, signed a binding agreement which provides for the sale of their respective shareholdings to ION. Considering that the shareholding was sold on 3 June, the buyer (the newco Cedacri Mergeco S.p.A.) paid the Bank the agreed sum of Euro 114.7 million, the final sale price used for the valuation of the shares held (stake of 10.072%) as a contra-entry to the valuation equity reserve before turning the latter into a specific reserve of retained earnings due to the realization event with simultaneous cancellation of the shareholding. The following entries were made as a result of this disposal i) reversal of the valuation reserve at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result compared with the initial book value, equal to Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve shown under retained earnings.

As regard the costs incurred for completion of the sale, charges of Euro 1 million were recognised under caption "190.b Other Administrative Costs".

Participation in TLTRO 3

During the year, the European Central Bank continued to stimulate bank lending by confirming the favourable conditions of TLTRO 3. In March and December 2021, Banco participated in TLTRO III auctions for 1.0 billion euro and 0.45 billion euro respectively, bringing total TLTRO III loans in place to 3.85 billion euro.

By overcoming of the benchmark for net disbursements and consequent achievement of the bonus rate, at 31 December 2021 the interest accrued during the year for Euro 35.7 million has been recognised in interest income, which together with the accrued interest already recognised last year for Euro 3.4 million, brings the total accrued interest to be collected to Euro 39.1 million.

Approval of the Parent Company's financial statements and allocation of the 2020 result (Ordinary Shareholders' Meeting of 15 April 2021)

The Parent Company's Ordinary Shareholders' Meeting held on 15 April approved the financial statements at 31 December 2020. The Meeting approved the distribution to shareholders of a dividend of Euro 0.0603 for each of the 122,745,289 ordinary shares and of Euro 0.0724 for each of the 13,202,000 savings shares. Taking into account the Recommendation of the Bank of Italy of 16 December 2020, payment was suspended until after 30 September 2021 and subsequently reconsidered positively by the Shareholders' Meeting on 4 October 2021 in compliance with the legislative/regulatory framework of reference.

Payment of part of the dividend for 2019 (Shareholders' Meeting of 15 April 2021)

In compliance with the maximum limit on the payment of dividends referred to in the Bank of Italy's Recommendation equal to the lower of 15% of cumulative profits made in 2019-20 or 20 basis points of the CET1 ratio, the Shareholders' Meeting on 15 April passed a resolution, based on the net profit for 2019 destined to the shareholders (as resolved by the Shareholders' Meeting of 23 April 2020), the payment to shareholders of a total dividend of Euro 9,410,368.12 (equal to Euro 0.0679 for each of the 122,745,289 ordinary shares and Euro 0.0815 for each of the 13,202,000 savings shares), with an ex-coupon date (coupon no. 29) of 19 April 2021, a record date of 20 April 2021 and a payment date of 21 April 2021.

Payment of the residual amount of the net profit for 2019 allocated to the shareholders (as resolved by the Shareholders' Meeting of 23 April 2020), equal to Euro 4,948,372.62 (Euro 0.0357 for each of the 122,745,289 ordinary shares and Euro 0.0429 for each of the 13,202,000 savings shares), taking into account the Recommendation of the Bank of Italy of 16 December 2020, was suspended until 30 September 2021 and subsequently reconsidered positively by the Ordinary Shareholders' Meeting on 4 October 2021 in compliance with the legislative/regulatory framework of reference.

Dividend payment for 2019 (residual) and 2020 (Ordinary Shareholders' Meeting of 4 October 2021)

The Ordinary Shareholders' Meeting held on 4 October 2021 approved the payment of dividends for 2019 (for the residual part) and for 2020 in accordance with the Recommendations of the Bank of Italy, as detailed below.

- 2019: Euro 4,948,372.62 (equal to Euro 0.0357 for each of the 122,745,289 ordinary shares and Euro 0.0429 for each of the 13,202,000 savings shares).
- 2020: Euro 8,357,365.73 (equal to Euro 0.0603 for each of the 122,745,289 ordinary shares and Euro 0.0724 for each of the 13,202,000 savings shares).

The total amount of these dividends, Euro 13.3 million, was already shown in a liability item ("Sundry creditors"), so this payment has not had any impact on the capital ratios. The dividends were paid with a coupon date of 11 October 2021; the record date was 12 October 2021 and the payment date 13 October 2021.

Appointment of a new director of the Parent Company (Ordinary Shareholders' Meeting of 4 October 2021)

The Ordinary Shareholders' Meeting of the Parent Company approved the appointment of Gerolamo Gavazzi as the new Director of Banco Desio (replacing Egidio Gavazzi, a director on the majority list who died). His candidacy was proposed on 17 September by the majority shareholder Brianza Union of Luigi Gavazzi and Stefano Lado SApA and announced publicly on the same date. The Board of Directors, which met at the end of the Shareholders' Meeting, also approved the appointment of Gerolamo Gavazzi as a member of the Executive Committee.

Settlement of the liability action against officers of the former subsidiary Banca Popolare di Spoleto S.p.A. (Ordinary Shareholders' Meeting of 4 October 2021)

The Ordinary Shareholders' Meeting of the Parent Company approved settlement of the liability action brought by the Extraordinary Commissioners against the former officers of the former subsidiary Banca Popolare di Spoleto S.p.A. The amount due for the settlement, a total of Euro 380,000, has already been set aside by the defendants, who have made their proposals and paid the entire sum by the 31 August 2021 deadline. Note that, as envisaged, the agreements do not concern or preclude the Bank's right to reclaim the amounts paid as jointly and severally liable for payment of the penalties imposed by the Supervisory Authority.

Conversion of savings shares of the Parent Company (Extraordinary Shareholders' Meeting and Special Shareholders' Meeting of 4 October 2021)

The Extraordinary Shareholders' Meeting and the Special Meeting of the Savings Shareholders on 4 October approved the proposals made in the respective Explanatory Reports regarding the mandatory conversion of the non-convertible savings shares of Banco di Desio and Brianza S.p.A. into ordinary shares at an ex-dividend conversion ratio of 0.88 ordinary shares for each savings share in line with the resolutions passed by the Board of Directors on 17 June, 3 August and 23 September 2021 and, lastly, by the Ordinary Shareholders' Meeting.

Previously, the Bank's share capital of Euro 70,692,590.28 is divided into 135,947,289 shares with a par value of Euro 0.52 each, of which: (i) 122,745,289 ordinary shares and (ii) 13,202,000 savings shares. Following the mandatory conversion and elimination of the par value, the share capital of Euro 70,692,590.28 has been split into 134,363,049 ordinary shares without par value at a conversion ratio of 0.88.

Given that the resolution to convert the savings shares into ordinary shares entailed an amendment of the Company's Articles of Association with regard to the voting and participation rights of the holders of savings shares, those savings shareholders who were not involved in approving the resolution of the Special Shareholders' Meeting are entitled to exercise their right of withdrawal pursuant to article 2437, paragraph 1 (g) of the Italian Civil Code, as explained in the specific Reports. The outcome of exercising the right of withdrawal was communicated with a specific notice pursuant to the law.

The mandatory conversion was completed following the statutory procedure explained in the documentation for the Shareholders' Meeting made public in accordance with the law. In detail:

- the last day of trading of the registered and bearer savings shares on the Stock Exchange was 26 November 2021;
- the mandatory conversion became effective on 29 November 2021; therefore, from that date only the ordinary shares, including the ordinary shares resulting from the mandatory conversion, with the same characteristics as those in circulation at the effective date, are traded on Euronext Milan of the Italian Stock Exchange;
- after the mandatory conversion of the 13,202,000 savings shares into ordinary shares had taken effect, the share capital, fully subscribed and paid up, equal to Euro 70,692,590.28, is split into 134,363,049 ordinary shares with no par value;
- as a result of the conversion and subsequent trading, the Bank does not hold any treasury shares at 31 December 2021.

Amendments to the Articles of Association (Extraordinary Shareholders' Meeting and Special Shareholders' Meeting of 4 October 2021)

The Extraordinary and Special Meetings of the Bank approved the elimination of articles 6, 14 and 29 of the Articles of Association, which meant renumbering the subsequent articles and the references in articles 4, 12, 13, 19, 20, 23, 27 and 33 and amending articles 4, 5, 31 and 32 of the Articles of Association in order to reflect the mandatory conversion and simultaneous elimination of the shares' par value of Euro 0.52.

The Extraordinary Shareholders' Meeting also approved other amendments to the Articles of Association, including those summarised below:

- amendments relating to the identification of shareholders pursuant to art. 83-duodecies of Legislative Decree no. 58 of 24 February 1998, as amended by Legislative Decree no. 49/2019 implementing Directive 2007/36/EC on shareholder rights as amended by Directive 2017/828/EU, the so-called "SRD II";
- amendments to aspects of corporate governance specifically aimed at allowing flexibility in how the system of powers is structured (making it possible to appoint either a Chief Executive Officer or a General Manager, or both, in which case the two roles must be played by the same person);
- the introduction of “whitewashing” rules for transactions with related parties in the event of a contrary opinion by the Committee for Transactions with Related Parties in line with what is laid down in the Procedure for Transactions with Related Parties;
- the possibility for those entitled to attend board or shareholders' meetings to do so through remote audio/video links and without the Chairman and Notary being present in the same place, in line with the practice that took hold during the pandemic and as expressly permitted by the latest rules issued by the Council of Notaries;
- simplification of the references to the independence requirements of directors, to the provisions of law, including self-regulatory and supervisory provisions, as well as codes of conduct that are applicable and pro tempore in force, in order to have more flexibility in adapting to any changes in the rules.

These amendments have all been subject to assessment by the Bank of Italy, pursuant to articles 56 and 61 of Legislative Decree 385/1993 and subsequent updates, which issued its approval on 14 September 2021. The statutory procedure was concluded with the registration in the register of companies on 14 October 2021.

Step-up of carrying amounts of goodwill and property

Art. 110, para. 8 and para. 8-bis, of Legislative Decree 104/2020 (the so-called "August Decree") provided for the possibility of realigning the tax values to the higher statutory carrying amounts of business assets, by subjecting the difference to a 3% substitute tax for Ires, the Ires surcharge and Irap.

The Bank did all that was necessary to exercise the option to step up the tax values of goodwill and property to their higher carrying amounts as approved by the Board of Directors on 24 June. The effects were recognised in June with the payment of the substitute tax. The Shareholders' Meeting of 4 October established the restriction on the reserves at the first possible meeting. The realignment of goodwill and property resulted in the overall recognition in the income statement of revenue of Euro 9.4 million under item 300 (Income taxes on current operations).

The Ordinary Shareholders' Meeting of 4 October 2021 approved application of the tax suspension on the legal reserve, which at 4 December 2021 came to Euro 102,800,368, for an amount of Euro 31,640,200.

Outcome of the Bank of Italy's inspection

On 30 July 2021, the Bank of Italy completed its inspection of the Bank to assess compliance with the anti-money laundering legislation, with specific reference to customers benefiting from loans backed by a State guarantee, which the Bank of Italy had commenced on 28 June 2021 as part of the 2021 inspection campaign on this particular topic.

The results were notified to the Board of Directors on 19 November 2021 and, in summary, revealed areas for improvement in the assessment of the higher risks of money laundering caused by the pandemic, especially with reference to those involved in the granting of loans with a State guarantee to companies pursuant to the Liquidity Decree.

During the inspection, the Bank prepared an action plan to strengthen the anti-money laundering measures and remove the malfunctions that emerged. This plan was approved by the Board of Directors on 3 August 2021 and is expected to be implemented mostly during the first quarter of 2022, monitoring that the deadlines are met.

Partnership agreements with Anthilia Capital Partners SGR S.p.A.

In the context of a wider project involving a commercial partnership between Banco Desio and Anthilia Capital Partners SGR S.p.A. ("Anthilia" or "SGR") in the field of services to SMEs and in the asset and wealth management area, on 4 November 2021 an Investment Agreement between Banco Desio, Anthilia and its parent company Anthilia Holding S.r.l. was signed for Banco Desio's entry into the share capital of Anthilia.

The Investment Agreement provides, among other things, for the subscription of an increase in capital of € 4.6 million, reserved for Banco Desio to buy 15% of the SGR's share capital, subject to the favourable outcome of the authorisation procedure by the Bank of Italy pursuant to art. 15 CFA, which is still in progress. At the same time, Anthilia will issue warrants in favour of Banco Desio, conversion of which will be subject to achieving certain commercial objectives by 2024. If exercised, Banco Desio will be able to reach 30% of the SGR's capital.

From Banco Desio's point of view, together with the process of reorganising the sales and marketing side of the business that the Bank is currently doing, the partnership with Anthilia forms part of a specific strategy move to enrich the Bank's sources of revenue and increase the range of services made available to its customers, also through qualified partnerships.

At 31 December 2021 the following commitments were recognised from an accounting point of view:

(a) Euro 4,644,719.80 ("Subscription Price of the First Increase in Capital") against the resolution by the Extraordinary Shareholders' Meeting of the SGR of an indivisible cash increase in capital, with the issue of 947,902 shares with entitlement from 1 January 2022, with exclusion of the option right of the shareholders pursuant to art. 2441, paragraph 5, of the Civil Code, entirely reserved for subscription by Banco Desio at a price of € 4.90 per Share;
(b) Euro 13,541.44 (the "Warrant Assignment Price") for the issue of 1,354,144warrants by the SGR (the "Warrants"), the adoption of the Warrant Regulation and the assignment of the Warrants to Banco Desio at a price of Euro 0.01 for each Warrant convertible into ordinary shares of the Company under the terms and conditions of the Warrant Regulation.

Resignation of the Deputy Chairman of the Parent Company

On 21 December 2021, the Board of Directors of Banco Desio acknowledged the resignation presented for personal reasons by the Deputy Chairman, Tommaso Cartone, with effect from 17 December 2021.

For the sake of completeness, it should be noted that Mr. Cartone held the position of Deputy Chairman, qualifying as a non-executive director and no longer belonging to any Board Committees. On the basis of the information available to the Company, at the date of his resignation he held 27,500 Banco Desio shares.

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

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

- the standard contribution to the SRM of about Euro 6.8 million. The contribution was paid in May;
- the additional contribution requested by the Bank of Italy in May, as required by Law 208/2015, for approximately Euro 2.2 million. The contribution was paid in May;
- the contribution to the Deposit Guarantee Scheme (DGS) of about Euro 8.9 million of which Euro 2.2 million as an additional contribution. The contribution was paid in December.

Sale of the non-performing loan (NPL) portfolios

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

- loans with a gross book value (GBV) of Euro 75.0 million sold to closed-end investment funds accompanied against an investment of Euro 24.3 million in fund units;
- loans with a GBV of Euro 22.1 million to a securitisation vehicle against the subscription of senior, junior and mezzanine securities (backed by GACS) for an equivalent of Euro 4.0 million already net of the regulation of the sales to institutional investors of approximately 95% of the mezzanine and junior notes;
- loans with a GBV of Euro 9.6 million sold for cash totalling Euro 1.4 million.

As a result of these sales, taking account of all doubtful items identified since last year, pre-tax losses of about Euro 11.1 million were realized overall.

At 31 December 2021, two NPL sale transactions with a GBV of Euro 24.4 million had already been signed for an amount of Euro 13.5 million, completion of which took place when the conditions precedent no longer existed at the beginning of 2022. The receivables being sold are therefore classified at 31 December 2021 under financial assets held for sale.

As a result of these sale transactions, the gross NPL ratio of the Bank's customer loan portfolio came to 4.1% (vs 5.3% at 31 December 2020).

Tax credits purchased from a financial intermediary

As part of the operations linked to the "Cura Italia" and "Rilancio" Decrees, the Bank signed a contract with a financial intermediary to buy a package of tax credits worth approximately Euro 46.5 million, which had been sold to the intermediary by the SGAI Consortium (general contractor in private property restructuring contracts). It is involved in an investigation which resulted in the confiscation of this amount in January 2022, despite the fact that it had already been recognized by the Revenue Agency and inserted in the so-called "fiscal drawer" of the Bank in 2021.

In the urgent preventive confiscation order, which was sent to various financial intermediaries for a total of approximately Euro 85 million[1], express reference is made to the fact that the Bank is among the transferees who are "unsuspecting third parties... misled... as to the existence of the tax credit". In light of the regulatory provisions as well as the interpretative circulars issued by the Revenue Agency[2], the Bank,

[1] Including the credits purchased by the Bank

[2] In particular, in its Circular 24/E of 8 August 2020, the Revenue Agency said that "transferees are liable only if the tax credit is used irregularly or to a greater extent than tax credit received. Therefore, if the subject acquires a tax credit, but during the checks by ENEA or the Agency it is found that the taxpayer was not entitled to the deduction, the transferee who purchased the credit in good faith does not lose the right to use the tax credit." In its Circular 30/E of 22 December 2020 the Revenue Agency reiterated that: "If a subject acquires a tax credit, but during the checks by ENEA or the Agency it is found that the

believing that it had legitimately acquired full ownership of the credits by having purchased them in good faith, promptly initiated contacts with the competent Authorities for a timely resolution of the matter.

While reaffirming its legitimacy to offset the credit subject to confiscation by virtue of the above provisions regarding the rights of transferees in good faith, the Bank assessed with the utmost care the contingent situation linked to the possibility of being unable to use its share (one fifth) of the tax credit by 31 December 2022. It therefore charged Euro 9.3 million to the P&L for 2021, which is of a precautionary nature due to the confiscation and the time required by the investigations and legal actions in progress. It has no value as an assessment of the existence and validity of the credit that the Bank will defend in all appropriate courts of law.

5 - Legislative Decree no. 231/2001

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

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

6 - Human resources

6.1 - Management and breakdown of resources

For the Bank, but also for the Group, 2021 was the first moment of a significant post-pandemic recovery which also affected the company's management decisions as regards the organisation of the Branch Network as well as that of the Head Office, where remote working was introduced in light of the legislative and regulatory changes that had taken place. Again with reference to the organisational measures to limit the risk of contagion from COVID-19, as part of the HR management activity, in 2021 cash operations were again closed in the afternoon at almost all branches of the Bank in order to comply with the rules for safeguarding the health of employees and customers.

The most characteristic event of 2021 in the HR area in terms of content, as well as for its impact at an organisational level, was the review of the organisational structure of the Bank's Commercial Network; this led not only to a reduction in the Bank's geographical areas from 13 to 8, but also the definition of new roles at Territorial Area level (Head of the Business Area, Retail Specialist, Personal Account Manager) and at branch level, with the launch of the segment represented by the Small Business Account Manager and a review of the role of the Individuals Account Manager; in particular, the "renewed" segment represented by the Individuals Account Manager involved - from a professional development perspective - the appointment of around 60 new Individuals Account Managers, coming from experience gained - up to the previous year - in branch administrative roles.

taxpayer was not entitled to the deduction, the transferee who purchased the credit in good faith does not lose the right to use the tax credit." According to the provisions of the law, therefore, even in the event of a transfer, the responsibility for the existence of the tax credit and entitlement to it rests exclusively with the beneficiary (as well as, possibly, on the professionals who assisted them during the access phase, if they have certified something that is false), while the purchaser is exempt, unless they are liable for using the credit irregularly or to a greater extent than the amount that was purchased.

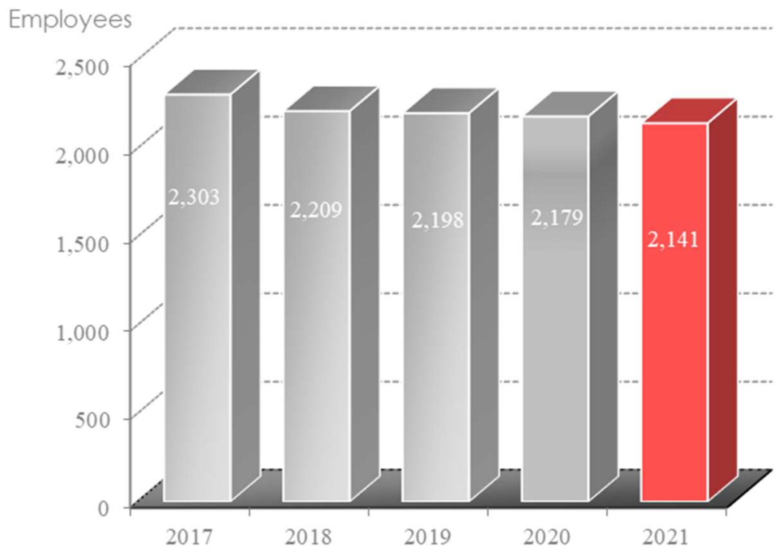
Furthermore, in order to proceed with the implementation of plans to ensure increasingly timely service in certain specialised sectors, various professionals have been hired externally for the Planning, Finance and Control Department, for the Credit Department, for the Risk Management Department, for the Human Resources Department and for the Business, Bancassurance, Marketing Areas as well as, in the second half of the year, for the Wealth Management Department with a view to strengthening this line of business as well, as foreseen by the Plan.

Lastly, during the course of 2021, in application of the terms of the Trade Union Agreement of 26 November 2020, 40 employees who qualified for pension benefits by 1 March 2023 were able to resign voluntarily and access the Sector Solidarity Fund.

As a result of the above, at 31 December 2021, the Bank had 2,141 employees, 38 fewer (-1.7%) than at the end of the previous year.

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

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



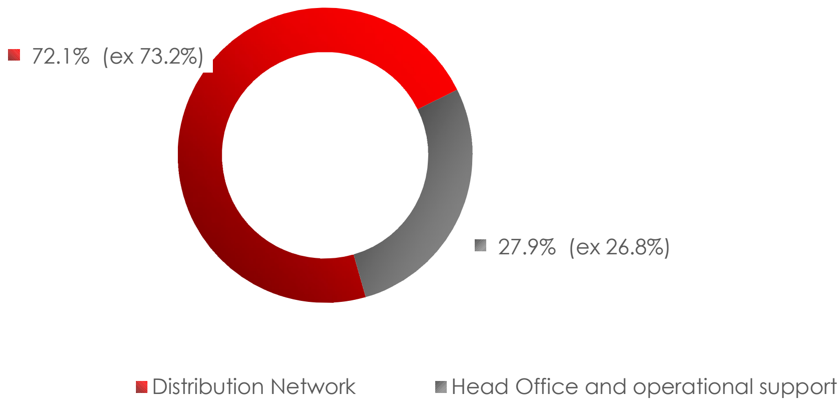
The following table provides a breakdown of employees by level at the end of 2021, compared with the previous year.

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

No. Employees	**31.12.2021**	**%**	**31.12.2020**	**%**	**Change Amount**	**%**
Managers	31	1.4%	35	1.6%	-4	-11.4%
3rd and 4th level middle managers	455	21.3%	467	21.4%	-12	-2.6%
1st and 2nd level middle managers	572	26.7%	566	26.0%	6	1.1%
Other employees	1,083	50.6%	1,111	51.0%	-28	-2.5%
Group employees	**2,141**	**100.0%**	**2,179**	**100.0%**	**-38**	**-1.7%**

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

Chart no. 3 - **BREAKDOWN OF GROUP EMPLOYEES BY AREA**



6.2 - Training

The training provided in 2021 assumed considerable importance in the context of professional development, accompanying the evolution of new expertise and further enhancing employees' existing skills. The different training programmes were structured with the aim of providing resources with technical and behavioural tools, in line with the need to strengthen the technical knowledge and behavioural skills needed in the exercise of the various organisational roles, in an investment perspective that will continue in 2022.

This investment is also confirmed by the significant increase in training hours recorded compared with the previous year, resulting in a total of 132,275 man/hours provided (vs 95,907), which corresponds to an average of 8.2 days per employee (vs 5.9). In quantitative terms, the percentage increase was 38% compared with the previous year.

This increase is attributable to various factors; the elements that have contributed the most to this result are listed below:

1) the acceleration recorded in the definition of multidisciplinary programmes created through micro-learning sequences that have made it possible to facilitate the use of the contents using different multimedia tools;
2) the partial rescheduling of different initiatives initially planned for the second half of 2020 and subsequently postponed to the first half of 2021;
3) intensification of the different me on the subject of "Health and safety in the workplace", in order to ensure and update the knowledge of all the different roles defined within the regulatory context;
4) intense training activity in the insurance sector, which - in accordance with the regulatory extension introduced by IVASS - saw the concentration in 2021 of two programmes to maintain professional qualification, i.e. completion of the 2020 programme and provision of the 2021 programme;
5) enrichment of the technical-professional training on offer in the context of the initiatives that belong to the various topics being taught.

Particular attention was paid to the methods of delivery, ensuring training proposals developed through flexible training methodologies, combining different tools in blended solutions (classroom, e-learning, webinar), so as to support a diversified learning experience through courses that are modular and multidisciplinary.

Classroom activity was resumed for some specific courses, which became an opportunity for discussion between participants and sharing views with the lecturers, triggering reflections and facilitating the search for solutions to be applied their respective areas of work.

Even though training restarted in the classroom, during 2021 it confirmed a massive use of remote delivery tools, such as e-learning and the virtual classroom (webinar), given the persistence of the constraints imposed by the health emergency.

The use of "remote" delivery methods has facilitated the structure of working from home and the use of "training pills" ensured flexible use of the course contents.

There was also significant growth in the initiatives delivered in webinar mode: a method that proved effective, as it facilitated the interaction between teachers and participants.

The tools used include a method of identifying training needs in specific areas, prior to designing the contents, as well as the use of assessments on particular technical-professional knowledge, considered essential to provide training in a more targeted way. Gamification was also introduced, encouraging employees' involvement.

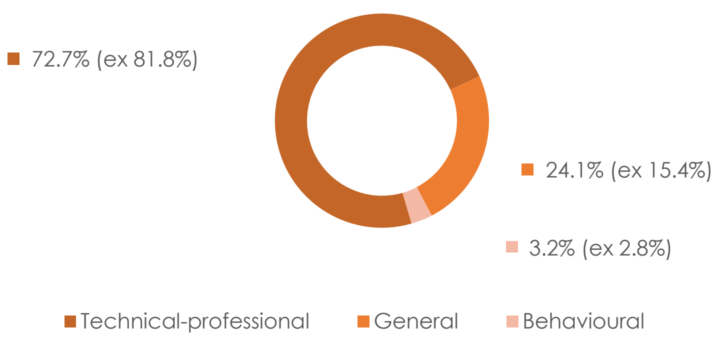
In particular, these methodologies found application in the context of the "DevelUP" project which has become the only point of reference for the provision of multiple training programmes aimed at different job positions. Within DevelUP, the training courses offered consist of various modules, which made it possible to maximise the correspondence of the training to the needs of the resources in the positions concerned. The main lines of development have been oriented according to the following three guidelines: "Service Model Training", "Product Training" and the "Talent Enhancement Project".

The following are the main activities that characterised the training on offer, by category:

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

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

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



Of the main initiatives belonging to the "General" training, which saw an increase of 17,122 hours provided compared with the previous year, the main programmes are listed below.

"General" training.

- **Regulatory Area**

The main initiatives belonging to this area are described below:

- The "Organisation & Governance (O&G) Model 231 module, with a focus on the "Direct and insolvency liability of credit institutions in the commission of predicate offences", used by approximately 1360 resources to complete the programme launched in 2020 through webinar sessions;
- the "Privacy and GDPR" pills created through a sequence of micro-learning addressed to both Network and Head Office resources through two different paths, with the aim of updating knowledge on the regulatory context and looking deeper into the different areas of application through specific situational cases;
- the "Banking PO&G (Product Oversight & Governance)" video-lesson addressed to the entire network population as guidance in the use of a questionnaire to gather information that might help orientate commercial negotiations with customers;
- the "Anti-money laundering" programmes with a specific focus on the topic connected to the identification of the "Main risks associated with the pandemic" which initially involved around 450 resources through webinar sessions; it was then extended to the entire network population, according to the relevance of the subject matter. With a view to continuously strengthening the monitoring of the risk of money laundering and terrorist financing, the e-learning module was created on the subject of "Customer due diligence: risk factors", which was used by around 1000 resources;
- the "Operational Risks" module proposed in continuity with the previous years to all the new resources included in the organisational structure of the Network, with the aim of providing colleagues with the tools to guide effective risk management;
- the programmes on "Health and Safety in the workplace" aimed at the appointment of "firefighters" rather than "first aid" and the programmes for "workers" and "supervisors", which involved about 850 resources in different training activities. As part of the five-year refresher programme, the provision of training pills on "Restart in Safety" was addressed to the entire company population, which provided indications on the behaviour to be adopted in the current situation of health emergency and information on the main individual safety devices.

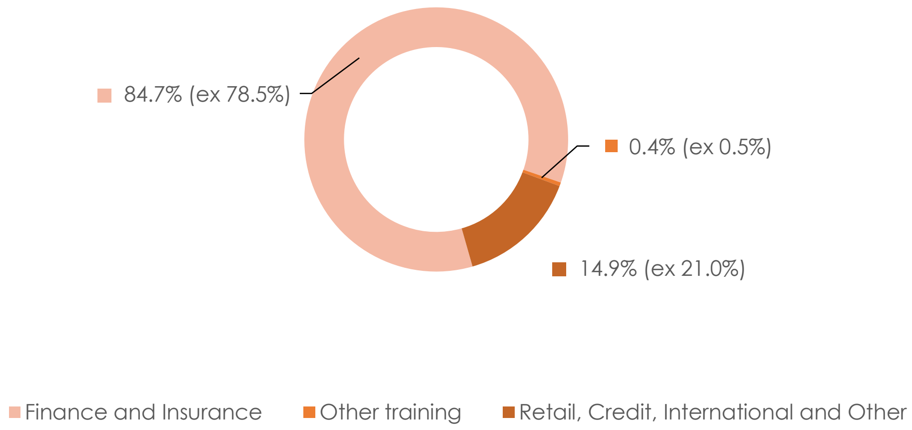
- **Other training**

With reference to the initiatives aimed at enhancing sustainability issues, "Recognizing the Bias" is aimed at specific roles, drawing attention to the importance of behavioural mechanisms in accompanying the processes of inclusion in which the Bank is investing.

Within this area, reference is also made to the inter-company specialist programmes addressed to the Head Office Functions, with the aim of supporting the acquisition and consolidation of the technical-professional knowledge required in the exercise of certain roles.

"Technical-Professional" training accounted for 72.7% of total activities (vs 81.8%), an increase in percentage terms compared with the total hours of the previous year. The following chart represents the distribution of training activities in the areas that belong to "Technical-Professional" training:

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



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

- **Credit & Loans Area** (2.8%)

All of the initiatives for the Credit & Loans Area were designed and delivered by internal lecturers an approach that made it possible to contextualize the course contents with respect to the specific company situation.

In particular, the following are worth mentioning:

- the e-learning programme on the 3 segments of the "AIRB Rating System" and the 4 modules on the subject of "Real estate credit to consumers" proposed in continuity with the previous year and addressed to various professional figures of the Distribution Network;
- the webinar sessions on the "New AIRB Model: PD Retail Companies and Private Individuals v2.2" which involved about 460 resources and on the "New ROF Probable Default Trigger" addressed to about 380 resources with the aim of updating their knowledge of the mechanisms and the criteria for measuring the indicators for assessing credit positions;
- the blended programme on the subject of "Credit merit assessment" aimed at acquiring or consolidating knowledge about the logic and processes of credit management by the various professional figures in the Network. This programme was divided into two different paths: the first - addressed to about 100 resources - with a focus on the "Mortgage loan disbursement process" and the second - involving around 60 resources - through a first preparatory phase delivered in webinar and a second phase delivered in the classroom, with a specific focus on "Financial statement analysis". The course provided qualitative and quantitative analysis tools which were used to assess a company's ability to create value.

- **Commercial Area** (12%)

Within this area, there is the path on the "Service Model and Role Evolution", which has become a training ground for skills to develop behaviour that is consistent with the new service model and the growth path of the Business Plan, while strengthening the skills required by Network personnel as their roles evolve. This programme involved approximately 270 resources, including Branch Managers and Corporate Account Managers and will be extended to other Network roles during the course of 2022.

Within this area, the use of the "Digital Payments" on-line module for about 440 resources is also worth highlighting. It explains the products and services that the Bank has to offer and is aimed at enriching the knowledge of customers' digital habits.

In addition, there are the webinars addressed to Network resources, which deal with topical issues, such as "Sustainable Finance and ESG Investments" as well as "Behavioural Finance".

- **The Finance and Insurance Areas** (84.7%)

Efforts were made to increase the number the resources to be directed towards acquisition of the knowledge required to perform investment services (ESMA) and to place insurance products (IVASS) through participation in specific training courses certified by means of "remote" knowledge assessment tools.

In the ESMA context, a specific project was introduced to acquire the authorisation for information purposes for OTC derivatives, as well as an initiative included in the qualification programme and provided by webinar on the "Model adopted by the bank: the customer profiling questionnaire".

The process of maintaining the ESMA professional qualification - aimed at around 700 resources - was, on the other hand, structured according to the results of the assessment: a tool that made it possible to direct the training activity on the basis of the gaps detected. Furthermore, in order to optimise investments and reduce the impact of overall training activities for resources, some contents belonging to this programme have also become valid for the maintenance of the IVASS qualification: these are issues considered to be of particular importance, such as "Behavioural finance and investor decisions" and the "Impact of ESG factors on the rules of conduct of the intermediary".

As for the route to maintain the IVASS qualification - addressed to over 1300 resources - structured contents were proposed in line with the nature of the insurance products on offer, focusing on particular elements that are useful for managing the negotiation with the customer, thereby combining communication techniques and how to handle feedback. Furthermore, within these two areas of competence, other different e-learning activities are also referred to, such as the module "Insurance solutions to protect business risks", which describes the solutions offered by the Bank for the protection of company assets, and the "Asset Management" module - used by around 600 resources - which explores the technical characteristics in terms of commercial benefits for an effective value proposition, focused on the needs and requirements of the customer.

As part of the "Behavioural" training, in continuity with 2020, the "learning" path on Soft Skills continued, proposed to the entire company population with the aim of stimulating reflection on specific skills. the following capabilities were made explicit in this second phase: "Decision Making", "Problem Solving" and "Time Management", and - in particular to all Head Office staff - tools on "Project and business process management" were provided. The contents were delivered using different multimedia tools, such as: cartoons, fiction, infographics and tutorials, in order to ensure variety of content and respond to different learning styles.

To complete the course dedicated to Branch Managers on the "New Service Model and Role Evolution", an in-depth pill was provided on the topic "Assigning and communicating objectives to your team", with the aim of strengthening the macro-responsibilities of role related to managing your own team.

6.3 - Industrial relations

During 2021, in addition to the usual occasions to meet and discuss legal and contractual issues, industrial relations with the Trade Union Organisations present in the group also provided for exchanges of information on the measures adopted for the prevention of COVID-19, as happened in 2020, in line with the provisions of the current protocol signed by ABI and the Trade Unions.

Furthermore, in defining employment policies in line with the best practices in the sector, specific agreements were signed with the trade unions on 26 November 2021. representing the majority of registered employees, aimed at introducing important and innovative work-life balance tools to the Group, to expand the sustainability and corporate welfare initiatives that favour the well-being of people and the development of a positive and flexible work environment. In particular:

- access to remote working (i.e. working from home) for Head Office personnel, in line with the provisions of the national collective labour agreement and with sector best practices, starting with overcoming of the deadline of the emergency phase set by COVID-19 by current regulations;
- access for 2022 to remote training courses, also outside the assignment work place (e-learning) in favour of all Group Resources;
- establishment, for 2022, of the so-called "time bank", fed by the company and by the solidarity of the Resources who decide to join the initiative. The time bank aims to offer access to additional paid leave on top of ordinary leave, for the benefit of employees affected by particular personal or family needs.

Furthermore, in application of the agreements defined in the Trade Union agreement of November 26 2020, in 2021 the first window of access to the Solidarity Fund was opened in favour of member employees who met the requirement of being eligible for pension benefits to take effect from 1 March 2023.

6.4 - Future activities

The HR Department will continue to work on the professional conversion of network personnel from administrative roles to commercial/advisory roles, in order to guarantee more targeted and personalised customer service, consistent with the new structure of the commercial network designed to create additional value in each individual segment and, at the same time, the development of the technical-specialist skills of its staff. As regards Head Office personnel, the objective will be to implement the professional skills to be assigned to the private banking segment, in line with the broader industrial project to develop the Wealth Management Department.

In 2022, in addition to implementing the tools defined by the Trade Union agreement of 26 November 2021 (remote working; e-learning; time bank), new initiatives will also be put in place along with improved efficiency of the service models, both at Head Office and at the Network. This in line with the development of ESG issues by the Banco Desio Group and on the basis of corporate policies on sustainability, as well as the enhancement of gender diversity and work-life balance.

Lastly, the HR Department will continue implementing the managerial innovations regarding the organisation of work in line with the provisions of the national contract of the banking sector.

7 - Control activities

7.1 - The levels of control in the management control and coordination function

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

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

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

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

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

Further information on management control and coordination activities is included in paragraph 2.3 of the Annual Report on Corporate Governance which is available on the Bank's website www.bancodesio.it, pursuant to art. 123-bis of the CFA.

7.2 - The internal control system

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

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

7.3 - Risk measurement and management

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

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

8 - Results of operations

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

8.1 - Savings deposits: customer assets under administration

Total customer funds under management reached Euro 30.5 billion, an increase with respect to the 2020 year-end balance (+7.5%), attributable to both direct deposits (+5.4%) and indirect deposits (+9.1%).

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

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

Amounts in thousands of Euro	31.12.2021	%	31.12.2020	%	Change Amount	Change %
Due to customers	10,926,600	35.9%	10,203,490	36.0%	723,110	7.1%
Debt securities in issue	1,522,265	5.0%	1,608,927	5.7%	-86,662	-5.4%
Direct deposits	**12,448,865**	**40.9%**	**11,812,417**	**41.7%**	**636,448**	**5.4%**
Deposits from ordinary customers	11,033,464	36.2%	10,160,527	35.9%	872,937	8.6%
Deposits from institutional customers	6,984,571	22.9%	6,359,833	22.4%	624,738	9.8%
Indirect deposits	**18,018,035**	**59.1%**	**16,520,360**	**58.3%**	**1,497,675**	**9.1%**
Total Customer deposits	**30,466,900**	**100.0%**	**28,332,777**	**100.0%**	**2,134,123**	**7.5%**

Direct deposits

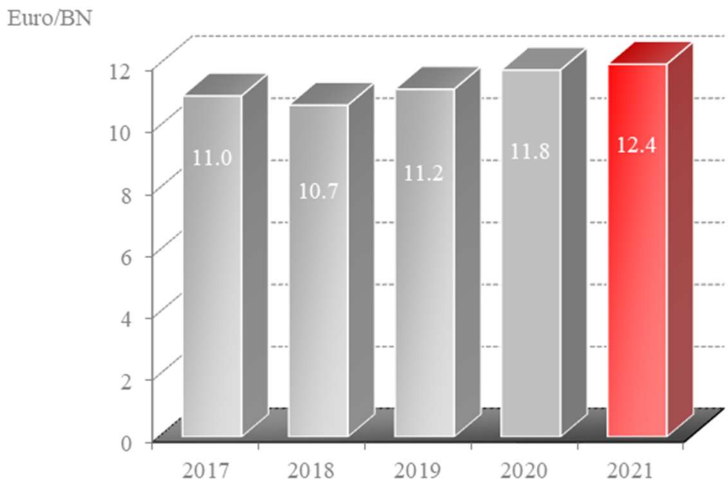
Direct deposits amounted to Euro 12.4 billion, up by 5.4% compared with 31 December 2020, due to the trend in amounts due to customers (+7.0%); debt securities in issue have decreased compared with the end of the previous year (-5.4%).

Due to customers of Euro 10.9 billion represents the most significant component as it makes up 88% of the total balance, of which some Euro 10.1 billion relates to demand deposits, that is, current accounts and savings deposits, while some Euro 0.4 billion relates to restricted deposits, 0.2 billion to repurchase agreements for deposits with the Compensation and Guarantee Fund, and the rest to other payables.

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

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

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



indirect deposits

Indirect deposits totalled Euro 18.0 billion (+9.1%). Deposits from ordinary customers amounted to Euro 11.0 billion, up 8.6% compared with the end of the previous year, attributable to the trend in assets under management (+11.7%).

Deposits from institutional customers, equal to 38.8%, reached a total of Euro 7.0 billion, an increase of Euro 0.6 billion.

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

Table no. 3 - **INDIRECT DEPOSITS**

Amounts in thousands of Euro	31.12.2021	%	31.12.2020	%	Change Amount	Change %
Assets under administration	**3,203,624**	**17.8%**	**3,150,381**	**19.1%**	**53,243**	**1.7%**
Assets under management	**7,829,840**	**43.4%**	**7,010,146**	**42.4%**	**819,694**	**11.7%**
of which: Mutual funds and Sicavs	*4,006,993*	*22.2%*	*3,444,821*	*20.8%*	*562,172*	*16.3%*
Managed portfolios	*1,185,845*	*6.6%*	*1,007,369*	*6.1%*	*178,476*	*17.7%*
Bancassurance	*2,637,002*	*14.6%*	*2,557,956*	*15.5%*	*79,046*	*3.1%*
Deposits from ordinary customers	**11,033,464**	**61.2%**	**10,160,527**	**61.5%**	**872,937**	**8.6%**
Deposits from institutional customers (1)	**6,984,571**	**38.8%**	**6,359,833**	**38.5%**	**624,738**	**9.8%**
Indirect deposits(1)	**18,018,035**	**100.0%**	**16,520,360**	**100.0%**	**1,497,675**	**9.1%**

(1) institutional customer deposits include securities of the Bancassurance segment of ordinary customers for Euro 2.5 billion (Euro 2.6 billion at 31.12.2020).

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

Chart no. 7 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2021**

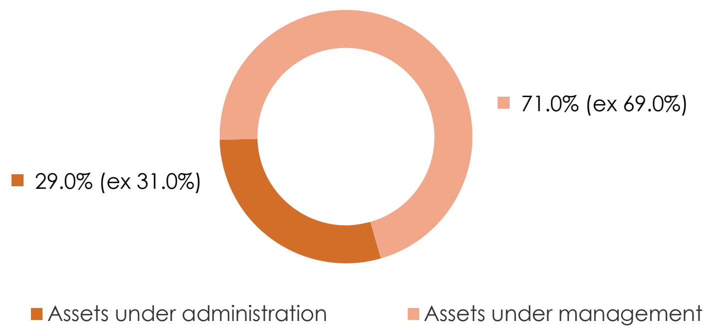
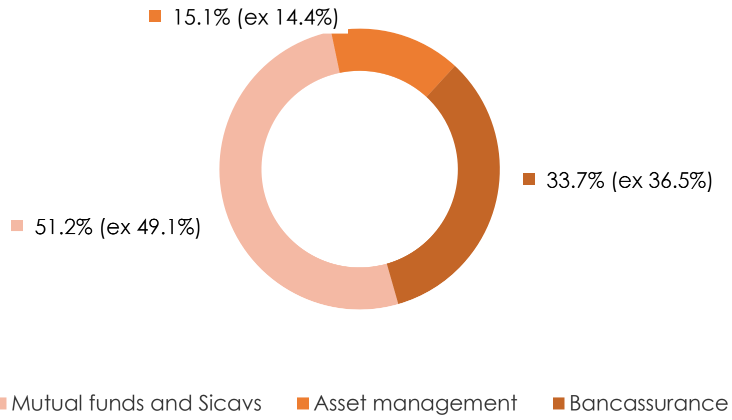


Chart no. 8 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2121**



In almost every respect, 2021 will be remembered as an extraordinary year for global risk assets and the world economy. Stocks, homes and cryptocurrencies all hit record prices before fears about increased contagiousness surrounding the new Omicron variant prompted investors to start a period of profit-taking. At the same time, energy, food and industrial metals have continued to rise, so much so that inflation has reached a high for the last few decades, while more attention is being paid to potential wage increases as a precursor of another flare-up in prices.

With regard to the Equities side of asset management, it was felt that effective vaccination campaigns would have allowed hard hit sectors such as energy, travel and leisure to catch up with the rest of the market. However, the path towards full recovery has remained uneven, with discrepancies between geographical areas and sectors. The United States was the dominant weighting in the portfolios. The overweight position on emerging markets was also maintained. At product level, preferences went to the technology sector, financials and basic resources, to the detriment of telephones, public utility services and cyclical consumption. In sympathy with investors' risk appetite, the riskiest bond asset classes are those that have delivered the most satisfying results. On the other hand, government bonds of developed countries generated negative returns, mainly influenced by the trend in inflation. On the Bond side of asset management, portfolios throughout the year maintained a lower exposure to interest rate risk than that of the reference parameter, while decorrelation strategies (Chinese issues) and exposure to the financial sector and the Asian area of emerging countries gained favour.

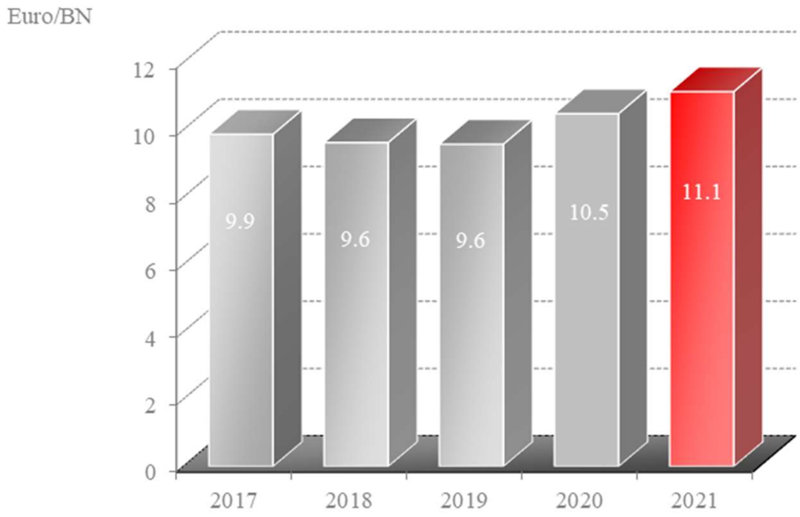
8.2 - Credit management: loans to customers [1]

Loans to ordinary customers at 31 December 2021 amounted to Euro 11.1 billion, an increase compared with the previous year (+6.2%). The Credit Department, with the support of the Risk Management Department, continued to implement the initiatives to support the financial needs of businesses and households, including the extensive public credit guarantee programmes, granting legislative moratoriums. Loans to customers classified at performing have increased by 7.2% on the previous year due to further growth in medium/long-term loans linked to the ongoing derisking of the portfolio, thanks to the disbursements of new liquidity (mortgages and medium/long-term loans) to businesses with guarantees from Medio Credito Centrale and SACE for Euro 2.4 billion (1.8 billion at the end of the previous year) and to the disbursement of mortgage loans to private customers; a boost has also been given to consumer lending.

The following chart shows the trend in loans in the last four years, reflecting an average annual compound growth rate of +5.0%, due to the rise in volumes, partly offset by the reduction in non-performing loans in previous years.

1 All of the figures and indicators in this paragraph are shown net of assets held for sale.

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



Changes in the amounts of the components of loans to customers by technical form are summarised in the following table.

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

Amounts in thousands of Euro	**31.12.2021**	**%**	**31.12.2020**	**%**	**Change Amount**	**%**
Current accounts	953,372	8.6%	948,828	9.1%	4,544	0.5%
Mortgages and other long-term loans	9,266,510	83.3%	8,751,801	83.6%	514,709	5.9%
Other	907,875	8.1%	772,599	7.4%	135,276	17.5%
Loans to customers	**11,127,757**	**100.0%**	**10,473,228**	**100.0%**	**654,529**	**6.2%**
- of which non-performing loans	*233,728*	*2.1%*	*305,020*	*2.9%*	*-71,292*	*-23.4%*
- of which performing loans	*10,894,029*	*97.9%*	*10,168,208*	*97.1%*	*725,821*	*7.1%*

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest 50 customers at the end of 2021 continues to reflect a high degree of risk diversification.

Table no. 5 - **RATIOS OF CONCENTRATION OF CREDIT ON LARGEST CUSTOMERS**

Number of customers	**31.12.2021**	**31.12.2020**
First 10	1.07%	1.16%
First 20	1.86%	1.90%
First 30	2.51%	2.55%
First 50	3.60%	3.61%

No customer is considered a "Large Exposure" for supervisory purposes: the eight positions classified as "Large Exposures" are attributable to the tax activities of the bank and Italian government securities, participation in the capital of the Bank of Italy, underwriting of junior and mezzanine securities and granting of loans to the vehicle company 2Worlds S.r.l., the counterparty of the NPL securitisation with GACS, guarantees given by the Guarantee Fund Law no.662 23.12.1996, guarantees given by SACE, exposures with Crédit Agricole for liquidity deposited as part of the covered bond transaction and for debt securities included in the proprietary portfolio, operations in repurchase agreements with Cassa di Compensazione e Garanzia, ABS securities issued by the vehicle company Lumen S.p.V. having as the underlying assets loans to SMEs guaranteed by MCC, for a total nominal amount of Euro 8.3 billion, corresponding to 0.4 billion in terms of total weighted amount.

As a result of the sales of non-performing loans carried out during the year, the total amount of net non-performing loans consisting of bad loans, unlikely to pay loans and non-performing past due and/or overdrawn exposures came to Euro 233.7 million, net of adjustments for Euro 241.4 million, with a decrease of Euro 71.3 million compared with Euro 305.0 million at the end of 2020. In particular, net bad loans totalled Euro 94.5 million (vs 117.4 million), unlikely to pay loans Euro 133.9 million (vs 186.0 million) and non-performing past due and/or overdrawn exposures Euro 5.3 million (vs Euro 1.6 million); the latter are up on the previous year as a result of applying the new definition of default for supervisory purposes from 1 January 2021.

The following table summarises the gross and net indicators relating to credit risk and the related coverage level, where due to the sales of non-performing loans, and the increase in new liquidity to companies, show a further reduction in the ratio of "gross non-performing loans/gross loans" to 4.1% and "net non-performing loans/net loans" to 2.1%.

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

	31.12.2021					
Amounts in thousands of Euro	**Gross exposure**	**% of total loans and receivables**	**Write-downs**	**Coverage ratio**	**Net exposure**	**% of total loans and receivables**
Bad loans	257,592	2.2%	(163,098)	63.3%	94,494	0.8%
Unlikely to pay loans	211,794	1.9%	(77,855)	36.8%	133,939	1.3%
Past due non-performing loans	5,696	0.0%	(401)	7.0%	5,295	0.0%
Total non-performing loans	**475,082**	**4.1%**	**(241,354)**	**50.8%**	**233,728**	**2.1%**
Exposures in stage 1	9,164,565	79.9%	(18,344)	0.2%	9,146,221	82.2%
Exposures in stage 2	1,832,402	16.0%	(84,594)	4.6%	1,747,808	15.7%
Performing exposures	**10,996,967**	**95.9%**	**(102,938)**	**0.94%**	**10,894,029**	**97.9%**
Total loans to customers	**11,472,049**	**100.0%**	**(344,292)**	**3.0%**	**11,127,757**	**100.0%**

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

All indicators show improved coverage compared with the previous year.

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

Table no. 7 - **INDICATORS OF COVERAGE OF LOANS TO CUSTOMERS**

% Coverage of non-performing and performing loans	**31.12.2021**	**31.12.2020**
% Coverage of bad loans	63.32%	60.97%
% Coverage of bad loans, gross of write-offs	64.30%	62.23%
% Total coverage of non-performing loans	50.80%	47.48%
% Coverage of non-performing loans, gross of write-offs	51.53%	48.37%
% Coverage of performing loans	0.94%	0.72%

With reference to the exposures relating to the Covid-19 loans backed by public guarantees pursuant to Law 662/96 (issued by the Guarantee Fund for SMEs through Medio Credito Centrale, MCC) and by SACE guarantees, which for the entire performing loan portfolio at the reporting date express an overall EAD of approximately Euro 2,424 million, the average coverage is approximately 0.21, of which 0.12% for exposure in stage 1 and 0.75% for exposure in stage 2.

As regards the relationships subject to Covid-19 moratoriums (pursuant to law, ABI, internal of general scope), which at the reporting date express an overall EAD for performing exposures of 2,073 million euro, the average coverage is 3.2%, which for stage 2 relationships alone (with a total EAD of 808 million euro) rises to 7.4, also in consideration of the particular attention paid to the evaluation of this type of exposure, which will be kept under close observation over the next few months to ensure that the trend remains normal.

8.3 - The securities portfolio and interbank position

Securities portfolio

The first part of the year saw the continuation of the climate of optimism that had already characterised the markets coming out of a 2020 that had shown two very different faces. The start of the vaccination campaigns in industrialised countries and the economic policies implemented by the main governments reinvigorated the monetary support already in place, leading to expectations of a rapid economic recovery. The Biden Administration launched an economic support plan of over 4 billion dollars while the European Union formalised initial distribution of funds from the Next Generation EU programme.

However, it was precisely with the recovery process that signs of tensions began to show on the supply side, which gradually led to increasing pressure on prices.

In fact, various bottlenecks arose during the year, exacerbated by the lack of capital investment in 2020 and restocking by companies to meet expected higher demand. To name only the most significant ones, the cost of transport via container hit all-time highs, the chip industry was unable to meet growing demand, with grave repercussions on various sectors, automotive most of all, and the progressive rise of raw materials, fuel in particular, a trend that culminated in the exponential growth of gas prices in Europe in the fourth quarter.

The optimism of the beginning of the year, without disappearing altogether, saw a progressive downsizing due to the growing visibility of the costs and difficulties involved in the ecological transition process, which is taking shape with greater vigour in the main economies. A strong resurgence of Covid-19 infections, coinciding with the arrival of the autumn season, also weighed heavily on the situation.

This underlying context, coupled with a recovering labour market, particularly in the United States, led to increasing pressure on prices. In the USA, inflation in December jumped to 7%, while in the Euro Area it reached 5%. Understandably, the Central Banks began to hint at a future decrease in monetary stimulus by acting primarily on quantitative easing and, in the case of the Fed, by suggesting that they may want to start gradually raising interest rates in 2022.

Equity markets still had a great year with the S&P 500 index at +26.8%, Nasdaq 100 at +26.6%, Eurostoxx 50 at +21% and Nikkei 225 at +4.9%.

Interest rates, albeit with fluctuations, saw an upward trend; the 10-year swap rate in Euro went from a low of -0.3% in January 2021 to a positive 0.3% in the last quarter of the year.

The spread between the ten-year BTP and the German Bund consolidated the recovery achieved in 2020, with a minimum of 90 bps reached the day before the swearing-in of Draghi's government in February. The latter part of the year saw the spread widen again to around 130 bps, in conjunction with the indications of less stimulus from the ECB and growing political uncertainty. In any case, it is worth noting that the volatility of the spread has decreased significantly compared with previous years.

At the reporting date, the securities portfolio of the Bank amounted to about Euro 3.8 billion, up by 7.2% over the year. Most of the portfolio, about Euro 3.1 billion, is allocated to the Held to Collect (HTC) business model.

Three quarters of the portfolio comprises government and supranational bonds, while the remainder is largely made up of corporate bonds.

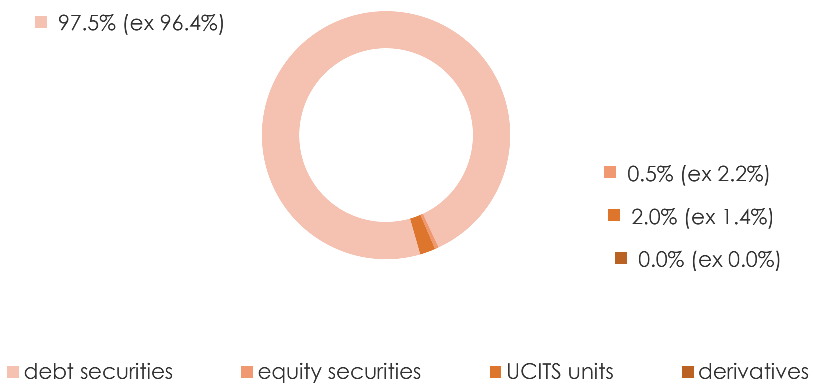
The duration of the HTC portfolio, which was only 2.32 at the end of 2020, has risen to 3.12 following reinvestment that favoured the medium/long-term end of the curve. The duration of the HTCS Portfolio has also increased slightly from 1.80 to 1.86. In particular with regard to the HTCS portfolio, new operational limits have been set up in order to improve efficiency and consistency with the business model.

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

During the year, the European Central Bank stimulated bank lending by improving the conditions of TLTRO 3. In March and December 2021, the Bank participated in TLTRO III auctions for 1.0 billion euro and 0.45 billion euro respectively, bringing total TLTRO III loans in place to 3.85 billion euro.

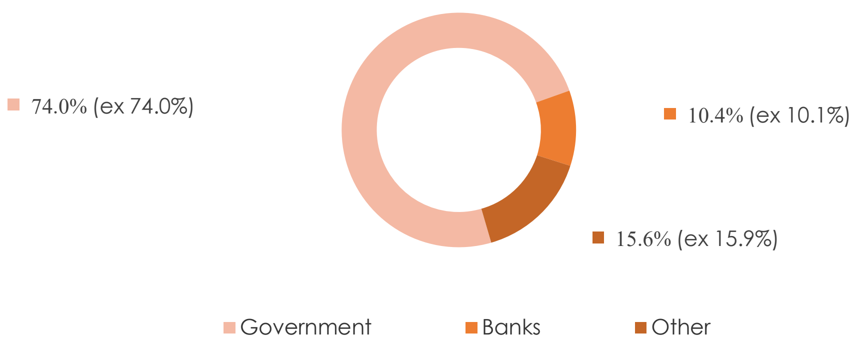
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (97.5%) of the investments still consist of debt securities.

Chart no. 10 - **% BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2121 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the year, 74.0% relates to government securities, 10.4% to securities issued by leading banks and the remainder to other issuers, as shown by the following chart.

Chart no. 11 - **% BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2121 BY TYPE OF ISSUER**



Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 31 December 2021 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

Banco Desio

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

Amounts in thousands of Euro		31.12.2021					31.12.2020		
		Italy	Spain	USA	UK	Total	Italy	Spain	Total
Financial assets at fair value through other comprehensive income	Nominal value	560,000		883	595	561,478	565,000	-	565,000
	Book value	559,591		880	589	561,060	574,272	-	574,272
Financial assets at amortised cost	Nominal value	2,160,711	65,000			2,225,711	2,020,711	15,000	2,035,711
	Book value	2,184,691	65,460			2,250,151	2,031,967	16,127	2,048,094
Sovereign debt	**Nominal value**	**2,720,711**	**65,000**	**883**	**595**	**2,787,189**	**2,585,711**	**15,000**	**2,600,711**
	Book value	**2,744,282**	**65,460**	**880**	**589**	**2,811,211**	**2,606,239**	**16,127**	**2,622,366**

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

Amounts in thousands of Euro		Italy	Spain	Usa	UK	31.12.2021 Nominal value	31.12.2021 Book value
Financial assets available for trading	up to 1 year						
	from 1 to 3 years						
	from 3 to 5 years						
	over 5 years	-				-	-
	Total	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	up to 1 year	-	-		-	-	-
	from 1 to 3 years	460,000	-	883	595	461,478	463,490
	from 3 to 5 years	-	-		-	-	-
	over 5 years	100,000	-		-	100,000	97,569
	Total	560,000	-	883	595	561,478	561,059
Financial assets at amortised cost	up to 1 year	375,000	-		-	375,000	375,610
	from 1 to 3 years	660,921	-		-	660,921	664,816
	from 3 to 5 years	300,000	-		-	300,000	304,051
	over 5 years	824,790	65,000		-	889,790	905,675
	Total	2,160,711	65,000	-	-	2,225,711	2,250,152
Sovereign debt	**up to 1 year**	**375,000**	**-**	**-**	**-**	**375,000**	**375,610**
	from 1 to 3 years	**1,120,921**	**-**	**883**	**595**	**1,122,399**	**1,128,306**
	from 3 to 5 years	**300,000**	**-**	**-**	**-**	**300,000**	**304,051**
	over 5 years	**924,790**	**65,000**	**-**	**-**	**989,790**	**1,003,244**
	Total	**2,720,711**	**65,000**	**883**	**595**	**2,787,189**	**2,811,211**

Net interbank position

The net interbank position at year-end is negative for Euro 1.7 billion, compared with the position at the end of the previous year, which was also negative for Euro 1.4 billion.

8.4 - Shareholders' equity and capital adequacy

The consolidated shareholders' equity of the banking group

Shareholders' equity pertaining to the Parent Company at 31 December 2021, including net profit for the period, amounts to Euro 1,088.7 million, compared with Euro 995.1 million at the end of the previous year. The positive change of Euro 93.6 million is attributable to the result for the period and the effect on reserves of the sale of the investment in Cedacri S.p.A., partially offset by the decrease due to the decision to distribute the 2020 dividend.

The following table shows a reconciliation between the shareholders' equity and net profit of the Parent Company and the corresponding consolidated figures at 31 December 2021, also explaining the financial and economic effects related to the consolidation of subsidiaries and associated companies.

Table no. 10 - **RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH THE CONSOLIDATED FIGURES AT 31.12.2121**

Amounts in thousands of Euro	**Shareholders' equity**	***of which: Profit for the period***
Balances of the Parent Company Banco Desio	***1,078,224***	***52,415***
Effect of consolidation of subsidiaries	10,517	4,690
Dividends declared during the period	-	-2,204
Consolidated balance of the Banco Desio Group	**1,088,741**	**54,901**

On 25 January 2018, the Board of Directors of the bank resolved to adopt the transitional arrangements introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of IFRS 9 on own funds and capital ratios. At the board meeting on 30 July 2020, the Board of Directors also resolved to make use of the option provided for by Regulation 2020/873 i.e. the temporary treatment of unrealised profits and losses measured at fair value recognised in other comprehensive income for Government debt securities for the period 2020-2022 (exclusion factor of 1 in 2020, 0.70 in 2021 and 0.40 in 2022).

From 30 June 2018, the calculation of Own Funds and of the consolidated prudential requirements, which are transmitted to the Bank of Italy in relation to the prudential supervisory reports (COREP) and statistical reports (FINREP), is made with reference to Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. as it is the financial parent company of the banking group according to European legislation.

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

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

When drafting the resolution plan, the Bank of Italy, as the National Resolution Authority, also determined the minimum requirement of own funds and eligible liabilities (MREL) for the Banco di Desio e della Brianza

Group. This requirement is equivalent to the amount needed to absorb losses and coincides with the greater of the binding total capital ratio required by the SREP (8.60% binding level) and financial leverage (3%).

Own funds and consolidated supervisory requirements of the financial Parent Company

Under the provisions of articles 11, paragraphs 2 and 3 and 13, paragraph 2 of the CRR Regulation, the banks controlled by a "financial parent company" have to comply with the requirements established by the aforementioned regulation on the basis of the consolidated situation of the financial parent company. As a result, capital ratios have been calculated at the level of Brianza Unione di Luigi Gavazzi and Stefano Lado S.A.p.A., which is the company that controls 50.08% of Banco di Desio e della Brianza S.p.A.

Consolidated Own Funds calculated by the financial parent company Brianza Unione amount to Euro 973.0 million at 31 March 2021 (CET1 + AT1 of Euro 898.1 million + T2 of Euro 74.9 million), compared with Euro 927.1 million at the end of the previous year. The Common Equity Tier 1 ratio was 11.6% (11.2% at 31 December 2020). The Tier 1 ratio was 12.4% (12.0% at 31 December 2020), while the Total capital ratio was 13.5% (13.2% at 31 December 2020).

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

	31.12.2021		
	Application of the transitional arrangements	Without IFRS 9 transitional provisions	Fully loaded
OWN FUNDS			
Common Equity Tier 1 - CET 1	840,462		
Common Equity Tier 1 - CET1 without application of the transitional arrangements		798,859	797,986
Tier 1 capital	898,097		
Tier 1 capital without application of the transitional arrangements		855,675	854,801
Total Own funds	972,982		
Total own funds without application of the transitional arrangements		929,543	928,672
RISK ASSETS			
Risk-weighted assets	7,215,518		
Risk-weighted assets without application of the transitional arrangements		7,112,902	7,112,902
CAPITAL RATIOS			
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	11.648%		
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional arrangements		11.231%	11.219%
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	12.447%		
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional arrangements		12.030%	12.018%
Total Own Funds/Risk-weighted assets (Total capital ratio)	13.485%		
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional arrangements		13.068%	13.056%

At 31 December 2021 the consolidated ratios of the "CRR" Brianza Unione Group are above the regulatory thresholds, also considering the limits imposed by the Supervisory Authority through the SREP procedure previously referred to, with a SREP buffer on CET1 of 4.3% and Total Capital Ratio of 2.4%.

Own funds and consolidated supervisory requirements of the banking group

The Consolidated Own Funds of the Banco Desio Group at 31 December 2021, after a pay-out that takes account of the proposed allocation of the net profits of Group companies, subject to authorisation by their respective shareholders' meetings, amounted to Euro 1,131.5 million (CET1 + AT1 Euro 1,127.4 million + T2 Euro 4.1 million), compared with Euro 1,057.1 million at the end of the previous year. The Common Equity Tier 1 ratio was 15.6% (14.7% at 31 December 2020). The Tier 1 ratio was 15.6% (14.7% at 31 December 2020), while the Total Capital ratio was 15.7% (15.1% at 31 December 2020).

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

	31.12.2021		
	Application of the transitional arrangements	Without IFRS 9 transitional provisions	Fully loaded
OWN FUNDS			
Common Equity Tier 1 - CET 1	1,127,365		
Common Equity Tier 1 - CET1 without application of the transitional arrangements		*1,052,319*	*1,050,575*
Tier 1 capital	1,127,365		
Tier 1 capital without application of the transitional arrangements		*1,052,319*	*1,050,575*
Total own funds	1,131,495		
Total own funds without application of the transitional arrangements		*1,056,449*	*1,054,705*
RISK ASSETS			
Risk-weighted assets	7,217,404		
Risk-weighted assets without application of the transitional arrangements		*7,114,789*	*7,114,789*
CAPITAL RATIOS			
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	15.620%		
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional arrangements		*14.791%*	*14.766%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	15.620%		
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional arrangements		*14.791%*	*14.766%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	15.677%		
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional arrangements		*14.849%*	*14.824%*

The solidity of the Group is confirmed with respect to the requirements.

8.5 - Reclassified income statement

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

The presentation criteria for this table are as follows:

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- breakdown of profit (loss) for the period between "Current result after tax" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 230 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers, flat-rate tax on long-term loans and recoveries of legal expense, as well as depreciation of leasehold improvements, reclassified respectively as a reduction to caption 180b) "Other administrative expenses" and as an increase in caption 220 "Net adjustments to intangible assets" included in "Operating expenses";
- the time value components of non-performing financial assets (calculated on the basis of the original effective interest rate) and impairment losses on interest on non-performing loans are reclassified from the item "Net interest income" to "Cost of credit";
- the net trading fees relating to consumer credit were transferred from "Net commission income" to "Net interest income";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of financial assets valued at amortised cost" of "Operating income" is reclassified, net of the component of gains (losses) on debt securities at amortised cost, to "Cost of credit" (which also includes caption 130a) "Net impairment adjustments to loans and advances") after "Operating profit";
- the balance of item 110 ""Net result of other financial assets and liabilities designated at fair value through profit and loss" of "Operating income" for the part referring to closed UCITS units subscribed following completion of the assignment of non-performing loans is reclassified to the specific item "Cost of Credit" (which also includes item 130a) "Net impairment adjustments to loans and advances"), subsequent to the "Result of operations";
- the expected loss on securities at amortised cost included in caption 130a) "Net impairment adjustments to financial assets at amortised cost", has been reclassified to caption 130b) "Net adjustments to securities owned" (which also includes the balance of net adjustments for credit risk on securities at fair value with impact on overall profitability);
- costs for operating leases falling within the scope of IFRS 16 "Leases", which came into force on 1 January 2019, booked to item "20. Interest and similar expense" and to item "210. Net adjustments to property, plant and equipment", have been reclassified to item "190 b) Other administrative costs", where the charges incurred on these contracts were recorded in the prior period;
- ordinary contributions to the Single Resolution Mechanism (SRM) and to the Deposit Guarantee Scheme (DGS) are transferred from item 160 b) "Other Administrative Costs" to "Charges relating to the banking system";
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 200 "Net provisions for risks and charges - other" to caption "Cost of credit", both captions coming after the "Result of operations";
- provisions, expenses and revenues of an extraordinary nature or which are "one-off" are reclassified to "Extraordinary provisions for risks and charges, other provisions, expenses and revenues";
- the tax effect on "Non-recurring profit (loss)", together with non-recurring taxes, is reclassified from caption 300 "Income tax for the period on current operations" to "Income taxes on non-recurring items".

The net profit for the year of Euro 31.2 million (+131.7%) benefits from the positive trend in operations (+40.4%), partially offset by a higher cost of credit of Euro 14.3 million and increased charges relating to the banking system up by Euro 5.2 million with reference to the ordinary component. There is also a non-recurring loss of Euro 1.1 million (loss of Euro 10.4 million in the comparative period when a Euro 12.0 million charge was taken for the staff redundancy plan).

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

Captions				Change	
Amounts in thousands of Euro		**31.12.2021**	**31.12.2020**	**Amount**	**%**
10+20	Net interest income	245,106	214,352	30,754	14.3%
70	Dividends and similar income	690	1,765	-1,075	-60.9%
40+50	Net commission income	201,523	169,114	32,409	19.2%
80+90+100+110	Net result of financial assets and liabilities	8,486	13,861	-5,375	-38.8%
230	Other operating income/expense	2,372	3,178	-806	-25.4%
	Operating income	**458,177**	**402,270**	**55,907**	**13.9%**
190 a	Payroll costs	-175,439	-169,635	-5,804	3.4%
190 b	Other administrative costs	-82,996	-87,438	4,442	-5.1%
210+220	Net adjustments to property, plant and equipment and intangible assets	-9,320	-9,577	257	-2.7%
	Operating costs	**-267,755**	**-266,650**	**-1,105**	**0.4%**
	Result of operations	**190,422**	**135,620**	**54,802**	**40.4%**
130a+100a	Cost of credit	-91,320	-77,055	-14,265	18.5%
130 b	Net adjustments to securities owned	-1,178	942	-2,120	n.s.
140	Profit/losses from contractual changes without write-offs	-71	267	-338	n.s.
200 a	Net provisions for risks and charges - commitments and guarantees given	889	-2,234	3,123	n.s.
200 b	Net provisions for risks and charges - other	-5,026	-3,838	-1,188	31.0%
	Charges relating to the banking system	-13,498	-8,343	-5,155	61.8%
	Profit (loss) from continuing operations before tax	**80,218**	**45,359**	**34,859**	**76.9%**
300	Income taxes on continuing operations	-26,438	-11,242	-15,196	135.2%
	Profit (loss) from continuing operations after tax	**53,780**	**34,117**	**19,663**	**57.6%**
260	Fair value adjustment of property, plant and equipment and intangible assets	-123	0	-123	n.s.
	Provisions for risks and charges, other provisions, one-off expenses and revenue	-11,015	-13,815	2,800	-20.3%
	Non-recurring result before tax	**-11,138**	**-13,815**	**2,677**	**-19.4%**
	Income taxes from non-recurring items	12,259	3,388	8,871	261.8%
	Non-recurring profit (loss) after tax	**1,121**	**-10,427**	**11,548**	**n.s.**
330	**Net profit (loss) for the period**	**54,901**	**23,690**	**31,211**	**131.7%**
340	Net profit (loss) pertaining to minority interests	0	0	0	n.s.
350	**Parent Company net profit (loss)**	**54,901**	**23,690**	**31,211**	**131.7%**

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

Table no. 12 - **RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME STATEMENT AT 31.12.2021**

Captions		As per financial statements	Reclassifications										Reclassified income statement
Amounts in thousands of Euro		31.12.2021	Measurement effects on non-performing loans	Fides brokerage commission	Tax/expense recoveries	Expected loss on securities at amortised cost	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions, one-off	System charges	Reclassifications IFRS16 - Leases	Income taxes	31.12.2021
10+20	Net interest income	253,734	-4,953	-4,393					0		718		245,106
70	Dividends and similar income	690											690
40+50	Net commission income	197,130		4,393									201,523
80+90+100 +110	Net result of financial assets and liabilities	-2,208						10,694	0				8,486
230	Other operating income/charges	24,778			-33,117		1,411		9,300				2,372
	Operating income	**474,124**	**-4,953**	**0**	**-33,117**	**0**	**1,411**	**10,694**	**9,300**	**0**	**718**	**0**	**458,177**
190 a	Payroll costs	-174,449							-990				-175,439
190 b	Other administrative costs	-124,209			33,117				973	17,943	-10,820		-82,996
210+220	Net adjustments to property, plant and equipment and intangible assets	-18,011					-1,411				10,102		-9,320
	Operating costs	**-316,669**	**0**	**0**	**33,117**	**0**	**-1,411**	**0**	**-17**	**17,943**	**-718**	**0**	**-267,755**
	Result of operations	**157,455**	**-4,953**	**0**	**0**	**0**	**0**	**10,694**	**9,283**	**17,943**	**0**	**0**	**190,422**
130a+100a	Cost of credit	-86,496	4,953			1,187		-10,694	-270				-91,320
130 b	Net adjustments to securities owned	9				-1,187							-1,178
140	Profit/losses from contractual changes without write-offs	-71											-71
200 a	Net provisions for risks and charges - commitments and guarantees given	889											889
200 b	Net provisions for risks and charges - other	-2,583							-2,443				-5,026
	Charges relating to the banking system									-13,498			-13,498
	Profit (loss) from continuing operations before tax	**69,203**	**0**	**0**	**0**	**0**	**0**	**0**	**6,570**	**4,445**	**0**	**0**	**80,218**
300	Income taxes on continuing operations	-14,179										-12,259	-26,438
	Profit (loss) from continuing operations after tax	**55,024**	**0**	**0**	**0**	**0**	**0**	**0**	**6,570**	**4,445**	**0**	**-12,259**	**53,780**
260	Fair value adjustment of property, plant and equipment and intangible assets	-123				0							-123
	Provisions for risks and charges, other provisions, one-off expenses and revenue		0			0			-6,570	-4,445			-11,015
	Non-recurring result before tax	**-123**	**0**	**0**	**0**	**0**	**0**	**0**	**-6,570**	**-4,445**	**0**	**0**	**-11,138**
	Income taxes from non-recurring items											12,259	12,259
	Non-recurring profit (loss) after tax	**-123**	**0**	**0**	**0**	**0**	**0**	**0**	**-6,570**	**-4,445**	**0**	**12,259**	**1,121**
330	**Net profit (loss) for the period**	**54,901**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**54,901**
340	Net profit (loss) pertaining to minority interests	0											0
350	**Parent Company net profit (loss)**	**54,901**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**54,901**

Table no. 13 - **RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS AND THE RECLASSIFIED INCOME STATEMENT AT 31.12.2020**

	Captions	As per financial statements	Reclassifications										Reclassified income statement
	Amounts in thousands of Euro	31.12.2020	Measurement effects on non-performing loans	Fides brokerage commission	Tax/expense recoveries	Expected loss on securities at amortised cost	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions,	System charges	Reclassifications IFRS16 - Leases	Income taxes	31.12.2020
10+20	Net interest income	222,379	-5,012	-3,027							1,041		214,352
70	Dividends and similar income	1,765											1,765
	Profit (loss) from equity investments in associates												0
40+50	Net commission income	166,087		3,027									169,114
80+90+100+110	Net result of financial assets and liabilities	5,010	0					9,211	-360				13,861
230	Other operating income/charges	34,729			-33,118		1,567		0				3,178
	Operating income	**429,970**	**-5,012**		**-33,118**	**0**	**1,567**	**9,211**	**-1,389**	**0**	**1,041**	**0**	**402,270**
190 a	Payroll costs	-181,662							12,027				-169,635
190 b	Other administrative costs	-120,577			33,118					11,520	-11,499		-87,438
210+220	Net adjustments to property, plant and equipment and intangible assets	-18,468					-1,567				10,458		-9,577
	Operating costs	**-320,707**	**0**		**33,118**	**0**	**-1,567**	**0**	**12,027**	**11,520**	**-1,041**	**0**	**-266,650**
	Result of operations	**109,263**	**-5,012**		**0**	**0**	**0**	**9,211**	**10,638**	**11,520**	**0**	**0**	**135,620**
130a+100a	Cost of credit	-71,723	5,012			-751		-9,211	-382				-77,055
130 b	Net adjustments to securities owned	191				751							942
140	Profit/losses from contractual changes without write-offs	267											267
200 a	Net provisions for risks and charges - commitments and guarantees given	-2,234											-2,234
200 b	Net provisions for risks and charges - other	-4,220							382				-3,838
	Charges relating to the banking system									-8,343			-8,343
	Profit (loss) from continuing operations before tax	**31,544**	**0**	**0**	**0**	**0**	**0**	**0**	**10,638**	**3,177**	**0**	**0**	**45,359**
300	Income taxes on current operations	-7,854										-3,388	-11,242
	Profit (loss) from continuing operations after tax	**23,690**	**0**		**0**	**0**	**0**	**0**	**10,638**	**3,177**	**0**	**-3,388**	**34,117**
250+280	Fair value adjustment of property, plant and equipment and intangible assets	0											0
	Provisions for risks and charges, other provisions, one-off expenses and revenue								-10,638	-3,177			-13,815
	Non-recurring profit (loss) before tax	**0**	**0**		**0**	**0**	**0**	**0**	**-10,638**	**-3,177**	**0**	**0**	**-13,815**
	Income taxes from non-recurring items											3,388	3,388
	Non-recurring profit (loss) after tax	**0**	**0**		**0**	**0**	**0**	**0**	**-10,638**	**-3,177**	**0**	**3,388**	**-10,427**
330	**Net profit (loss) for the period**	**23,690**	**0**		**0 0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23,690**
340	Net profit (loss) pertaining to minority interests	0											0
350	**Parent Company net profit (loss)**	**23,690**	**0**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23,690**

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

Operating income

Core revenues increased by about Euro 55.9 million with respect to the comparative period (+13.9%), amounting to Euro 458.2 million. The trend is mainly attributable to growth in the net interest income of Euro 30.8 million (+14.3%) and net commission income of Euro 32.4 million (+19.2%), partly offset by the decrease in other operating income/expense of Euro 0.8 million (-25.4%), the net result of financial assets and liabilities of Euro 5.4 million (-38.8%) and dividends of Euro 0.7 million (vs Euro 1.8 million).

The following table analyses net commission income by type.

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

					Change	
Amounts in thousands of Euro	**31.12.2021**	**%**	**31.12.2020**	**%**	**Amount**	**%**
Financial instruments	19,374	9.6%	17,244	10.2%	2,130	12.4%
Custody and administration	235	0.2%	255	0.2%	-20	-7.8%
Payment services	110,036	54.6%	94,214	55.7%	15,822	16.8%
Distribution of third-party services	58,985	29.2%	47,895	28.3%	11,090	23.2%
Other commission	12,893	6.4%	9,506	5.6%	3,387	35.6%
Net commission income	**201,523**	**100.0%**	**169,114**	**100.0%**	**32,409**	**19.2%**

"Other commissions" records the higher contribution of factoring commissions for Euro 0.6 million and the placement of consumer credit products for Euro 1.0 million.

Operating costs

Operating costs, which include payroll costs, other administrative expenses and net adjustments to property, plant and equipment and intangible assets come to Euro 267.8 million and have increased with respect to the comparative period by Euro 1.1 million (+0.4%).

Other administrative costs have decreased by Euro 4.4 million (-5.1%), whereas payroll costs have increased by 5.8 million (+3.4%) versus the comparative period, which saw a considerable reduction in the variable component in compliance with the Supervisory Authorities' instructions. The balance of net adjustments to property, plant and equipment and intangible assets is down compared with the comparative period (-2.7%).

Result of operations

The result of operations at 31 December 2021 therefore amounts to Euro 190.4 million, up by Euro 54.8 million compared with the prior year (+40.4%).

Profit (loss) from continuing operations after tax

The result of operations of Euro 190.4 million leads to a net profit (loss) from operations after tax of Euro 53.8 million, 57.6% up on the Euro 34.1 million in the comparative period, mainly because of:

- higher cost of credit (net impairment adjustments to loans and advances from customers and gains (losses) on disposal or repurchase of loans) of Euro 91.3 million, compared with Euro 77.1 million in the prior period;
- negative net adjustments to proprietary securities of Euro 1.2 million (positive for Euro 0.9 million in the comparative period);
- net provisions for risks and charges of Euro 4.1 million euro (Euro 6.1 million in the comparative period);

- charges relating to the banking system for ordinary contributions of Euro 13.5 million (vs Euro 8.3 million);
- income taxes on current operations of Euro 26.4 million (vs Euro 11.2 million).

Result of non-recurring items after tax

At 31 June 2021 there was a non-recurring profit after tax of Euro 1.1 million (negative for Euro 10.4 million). This caption essentially consists of:

- the Euro 1.0 million of costs connected with the sale of the investment in Cedacri S.p.A.,
- the Euro 2.2 million charge for the extraordinary contribution to the SRM, "Single Resolution Mechanism", requested by the National Resolution Authority in June 2021,
- the Euro 2.2 million charge for the additional contribution to the Deposit Guarantee Scheme requested by the FITD in December,
- the provision of Euro 9.3 million as a precautionary measure following the preventive confiscation of tax credits acquired from a financial intermediary, for which see paragraph "4.2 Significant events",
- the revenue of approximately Euro 0.9 million recognised to adjust the liability recorded in 2020 for access to the "Income support solidarity fund" following the negotiations with all the previously identified resources,
- the partial release of Euro 2.7 million from the provision at the end of the previous year for operational risks linked to the situation of legal uncertainty relating to operations with customers in the consumer credit sector, which compared with the previous year was subject to a different regulatory context following the enactment of new primary legislation (Decree Law no. 73/2021, the so-called "Sostegni-Bis");

net of the tax effect (which was positive for Euro 2.9 million. Income taxes from non-recurring items also include the positive economic effect of Euro 9.4 million deriving from the realignment of goodwill and properties (so-called "step-up") in accordance with art. 110, para. 8 and para. 8-bis, of Legislative Decree 104/2020 (the "August Decree"), which made it possible to realign fiscal values to the higher statutory carrying amounts of operating assets by subjecting the difference to a flat-rate substitute tax of 3%.

For the comparison period, the result of non-recurring items after tax was a loss of Euro 10.4 million. This item basically consists of:

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

net of the positive tax effect of non-recurring items (Euro 3.4 million).

Net profit (loss) pertaining to the Parent Company

The total of the profit from operations after tax and the non-recurring profit after tax, as well as the result attributable to minority interests, leads to a net profit for the Parent Company at 31 December 2021 of Euro 54.9 million.

9 - Performance of consolidated companies

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

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

Balance sheet

Amounts in thousands of Euro	31.12.2021	31.12.2020	Change amount	Change %
Total assets	17,775,318	15,638,800	2,136,518	13.7%
Financial assets	3,797,714	3,543,684	254,030	7.2%
Due from banks [1]	2,114,999	1,034,585	1,080,414	104.4%
Loans to customers [1]	11,067,767	10,419,441	648,326	6.2%
Property, plant and equipment [2]	218,018	221,535	-3,517	-1.6%
Intangible assets	12,455	11,772	683	5.8%
Non-current assets and disposal groups held for sale [3]	13,080		13,080	
Due to banks	3,815,695	2,412,244	1,403,451	58.2%
Due to customers [4]	10,924,688	10,205,567	719,121	7.0%
Debt securities in issue	1,522,265	1,608,927	-86,662	-5.4%
Shareholders' equity (including Net profit/loss for the period)	1,078,224	987,046	91,178	9.2%
Own funds	1,127,058	1,055,325	71,733	6.8%
Total indirect deposits	18,018,035	16,520,360	1,497,675	9.1%
of which: Indirect deposits from ordinary customers	*11,033,464*	*10,160,527*	*872,937*	*8.6%*
of which: Indirect deposits from institutional customers	*6,984,571*	*6,359,833*	*624,738*	*9.8%*

[1] based on Circular 262, the balance on this item includes debt securities held to collect (HTC) recognised at amortised cost, which in these summary figures are shown under financial assets; the balance does not include current accounts and demand deposits (with the exception of the reserve requirement account with central banks) shown under Cash.

[2] the balance of this item at 31 December 2021 includes the right of use ("RoU Assets") equal to Euro 50.5 million for operating lease contracts falling within the scope of application of IFRS 16 Leases, which came into effect on 1 January 2019

[3] the balance on this item is made up of NPL credits for which, at the reference date, the sale contracts have been signed but not yet finalised.

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

Income statement[5]

Amounts in thousands of Euro	31.12.2021	31.12.2020	Change amount	Change %
Operating income	444,253	391,395	52,858	13.5%
of which: Net interest income	*226,494*	*200,480*	*26,014*	*13.0%*
Operating costs	260,111	259,204	907	0.3%
Result of operations	184,142	132,191	51,951	39.3%
Charges relating to the banking system	13,498	8,343	5,155	61.8%
Profit (loss) from continuing operations after tax	53,109	34,322	18,787	54.7%
Non-recurring profit (loss) after tax	-694	-10,427	9,733	-93.3%
Net profit (loss) for the period	52,415	23,895	28,520	119.4%

[5] from the reclassified income statement

Key figures and ratios

	31.12.2021	31.12.2020	Change amount
Capital/Total assets	6.1%	6.3%	-0.2%
Capital/Loans to customers	9.7%	9.5%	0.2%
Capital/Due to customers	9.9%	9.7%	0.2%
Capital/Debt securities in issue	70.8%	61.3%	9.5%
Common Equity Tier 1 (CET 1)/Risk-weighted assets *(Common Equity Tier 1 ratio)* (6)	16.5%	15.7%	0.8%
Core Tier 1 capital (T1)/Risk-weighted assets *(Tier 1 ratio)* (6)	16.5%	15.7%	0.8%
Total Own Funds/Risk-weighted assets *(Total capital ratio)* (6)	16.6%	16.1%	0.5%
Financial assets / Total assets	21.4%	22.7%	-1.3%
Due from banks / Total assets	11.9%	6.6%	5.3%
Loans to customers / Total assets	62.3%	66.6%	-4.3%
Loans to customers/Direct customer deposits	88.9%	88.2%	0.7%
Due to banks / Total assets	21.5%	15.4%	6.1%
Due to customers / Total assets	61.5%	65.3%	-3.8%
Debt securities in issue / Total assets	8.6%	10.3%	-1.7%
Direct customer deposits/Total assets	70.0%	75.5%	-5.5%

	31.12.2021	31.12.2020	Change amount
Cost/Income ratio	58.6%	66.2%	-7.6%
(Operating costs + Charges relating to the banking system)/Operating income (Cost/Income ratio)	61.6%	68.4%	-6.8%
Net interest income / Operating income	51.0%	51.2%	-0.2%
Result of operations / Operating income	41.4%	33.8%	7.6%
Profit (loss) from operations after tax/Capital (7)	5.2%	3.6%	1.6%
Profit (loss) from operations after tax/Capital (7) (R.O.E.)	5.1%	2.5%	2.6%
Profit (loss) from operations before tax/Total assets (ROA)	0.4%	0.3%	0.1%

	31.12.2021	31.12.2020	Change amount
Net bad loans / Loans to customers (8)	0.8%	1.1%	-0.3%
Net non-performing loans / Loans to customers (8)	2.0%	2.9%	-0.9%
% Coverage of bad loans) (8)	63.3%	61.0%	2.4%
% Coverage of bad loans, gross of write-offs) (8)	64.3%	62.2%	2.1%
% Total coverage of non-performing loans (8)	51.4%	47.6%	3.7%
% Coverage of non-performing loans, gross of write-offs (8)	52.1%	48.5%	3.6%
% Coverage of performing loans	0.93%	0.72%	0.21%

Structure and productivity ratios

	31.12.2021	31.12.2020	Change amount	Change %
Number of employees	2,090	2,129	-39	-1.8%
Number of branches	232	249	-17	-6.8%
Amounts in thousands of Euro				
Loans and advances to customers per employee	5,247	4,872	375	7.7%
Direct deposits from customers per employee	5,900	5,525	375	6.8%

	31.12.2021	31.12.2020	Change amount	Change %
Operating income per employee (9)	211	183	28	15.3%
Result of operations per employee (9)	87	58	29	50.0%

(6) Capital ratios at 31.12.2021 are calculated in application of the transitional arrangements introduced by EU Regulation 2017/2395; the ratios calculated without application of these arrangements are the following: Common Equity Tier1 15.6%; Tier 1 15.6%; Total capital ratio 15.6%;

(7) net of the result for the period;

(8) net of assets held for sale

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

The net profit for the year of Euro 28.5 million (+119.4%) benefits from the positive trend in operations (+39.3%), partially offset by a higher cost of credit of Euro 13.7 million and increased charges relating to the banking system up by Euro 5.2 million with reference to the ordinary component. There is also a non-recurring loss of Euro 0.7 million (loss of Euro 10.4 million in the comparative period when a Euro 12.0 million charge was taken for the staff redundancy plan).

Loans to ordinary customers at 31 December 2021 amounted to Euro 11,068 million, an increase compared with the previous year (+6.2%).

Shareholders' equity pertaining to the Parent Company Banco Desio at 31 December 2021, including net profit for the year, amounts to Euro 1,078.2 million, compared with Euro 987.0 million at the end of 2020. The positive change of Euro 93.8 million is attributable to the result for the year and the effect on reserves of the sale of the investment in Cedacri S.p.A., partially offset by the decrease due to the decision to distribute the 2020 dividend.

At 31 December 2021 shareholders' equity calculated in accordance with the new regulatory provisions defined as Own Funds, after the pay out of 34.99%, amounts to Euro 1,127.1 million (CET1 + ATI of Euro 2 million + T2 of Euro 4.2 million), an increase of Euro 67.6 million compared with Euro 1.055,3 million at the end of the previous year.

The Total Capital Ratio, consisting of total Own Funds as a ratio of risk-weighted assets, comes to 16.6%.

9.2 - Fides S.p.A.

Balance sheet

	31.12.2021	31.12.2020	Change	
Amounts in thousands of Euro			amount	%
Total assets	931,049	878,254	52,795	6.0%
Financial assets	0	15	-15	-100.0%
Due from banks	1,560	5,298	-3,738	-70.6%
Loans to customers	923,320	865,398	57,922	6.7%
Property, plant and equipment	402	948	-546	-57.6%
Intangible assets	1,139	1,215	-76	-6.3%
Due to banks	863,445	811,720	51,725	6.4%
of which: Due to Group Banks	*863,445*	*811,720*	*51,725*	*6.4%*
Due to customers	3,649	3,931	-282	-7.2%
Shareholders' equity (including Net profit/loss for the period)	53,610	48,937	4,673	9.5%
Own funds	47,426	45,977	1,449	3.2%

Income statement (1)

	31.12.2021	31.12.2020	Change	
Amounts in thousands of Euro			amount	%
Operating income	16,164	12,267	3,897	31.8%
of which: Net interest income	22,942	16,844	*6,098*	*36.2%*
Operating costs	-7,697	-7,495	-202	2.7%
Result of operations	8,467	4,772	3,695	77.4%
Profit (loss) from continuing operations after tax	5,057	2,755	2,302	83.6%
Non-recurring profit (loss) after tax	1,816	0	1,816	n.s.
Net profit (loss) for the period	6,873	2,755	4,118	149.5%

(1)*from the reclassified income statement*

Banco Desio

Key figures and ratios

	31.12.2021	31.12.2020	Change amount
Capital/Total assets	5,8%	5,6%	0,2%
Capital/Loans to customers	5,8%	5,7%	0,1%
Capital/Due to Banks	6,2%	6,0%	0,2%
Total Own Funds/Risk-weighted assets (Total capital ratio)	10,3%	10,9%	-0,7%
Loans to customers / Total assets	99,2%	98,5%	0,7%
Due to banks / Total assets	92,7%	92,4%	0,3%
	31.12.2021	**31.12.2020**	**Change amount**
Cost/Income ratio	47,6%	61,1%	-13,5%
Net interest income / Operating income	141,9%	137,3%	4,6%
Result of operations / Operating income	52,4%	38,9%	13,5%
Profit (loss) from operations after tax/Capital [(2)]	10,8%	6,0%	4,8%
ROE [(2)]	14,7%	6,0%	8,7%
Profit (loss) from operations before tax/Total assets (ROA)	0,4%	0,2%	0,2%
	31.12.2021	**31.12.2020**	**Change amount**
Net bad loans / Loans to customers	0,1%	0,1%	0,0%
Net non-performing loans / Loans to customers	0,8%	0,4%	0,5%
% Coverage of bad loans	61,9%	59,4%	2,4%
% Total coverage of non-performing loans	24,3%	38,5%	-14,2%
% Coverage of performing loans	0,08%	0,08%	0,01%

Structure and productivity ratios

	31.12.2021	31.12.2020	Change amount	Change %
Number of employees	51	50	1	2.0%
Amounts in thousands of Euro	**31.12.2021**	**31.12.2020**	**amount**	**%**
Loans and advances to customers per employee [(3)]	18,284	17,308	976	5.6%
Amounts in thousands of Euro	**31.12.2021**	**31.12.2020**	**amount**	**%**
Operating income per employee [(3)]	320	245	75	30.6%
Result of operations per employee [(3)]	168	95	73	76.8%

[(2)] net of the result for the period;

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

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

The net profit for the year ended 31 December 2021 was around Euro 6.9 million, a rise from the comparative period (Euro 2.8 million); operating income amounted to Euro 16.2 million, up by Euro 3.9 million compared with 31 December 2020. Operating costs come in at Euro 7.7 million (vs Euro 7.5 million). The result of operations was Euro 8.5 million (vs Euro 4.8 million). The Cost of credit of Euro 1.0 million euro (vs Euro 0.5 million) and taxes of Euro 2.4 million (vs 1.3 million euro) lead to the result for the year. the net profit for the year was also influenced by the partial release of Euro 2.7 million (Euro 1.8 million net of tax) from the provision at the end of the previous year for operational risks linked to the situation of legal uncertainty relating to operations with customers in the consumer credit sector, which compared with the previous year was subject to a different regulatory context following the enactment of new primary legislation (Decree Law no. 1.8/2021, the so-called "Sostegni-Bis");

Loans to customers increased from Euro 865.4 million at the end of 2020 to Euro 923.3 million at the reference date, with an incidence of the NPL portfolio of 0.8% (vs 0.4%) influenced by the application from 1 January 2021 of the new definition of default for prudential purposes.

Shareholders' equity has increased from Euro 48.9 million at 31 December 2020 to Euro 53.6 million at the reporting date (due to the result for the year, partly offset by the distribution of dividends), while Own Funds have gone from Euro 46.0 million at the end of 2019 to Euro 47.4 million. The Total Capital ratio, consisting of Total Own Funds as a percentage of Risk-weighted assets, amounts to 10.3% (10.9% at 31 December 2020).

10 - Other information

10.1 - Treasury shares and shares of the Parent Company

At 31 December 2021, as was the case at the previous year-end, the Bank did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi & C. S.a.p.A. During the year, the Bank did not carry out any trading of shares of its Parent Company, not even through a trust company or an intermediary. During the year, however, it traded on the market 57 ordinary treasury shares deriving from the exercise of the right of withdrawal of the savings shareholders as part of the mandatory conversion described in paragraph "3.2 Significant events", as well as from the amalgamation of the so-called "odd lots" resulting from the conversion process.

10.2 - Ratings

On 30 April 2021 Fitch Ratings announced that it had left all of the Bank's ratings unchanged following the annual rating review, also confirming the Outlook as Stable. The rating reflects the Bank's adequate liquidity and capitalisation, able to withstand pressures, even significant ones, in terms of asset quality in the current pandemic context with its many uncertainties regarding the economic and social repercussions of the Covid-19 health emergency.

The Bank shows a constant attention to improving its capital ratios, thanks to continuous derisking and the resilience of the model adopted by virtue of its consolidated relationship with key customers.

The updated ratings are the following:

- Long term IDR: confirmed at "BB+" Stable Outlook
- Viability rating: confirmed at "bb+"
- Short term IDR: confirmed at "B"
- Support Rating: confirmed at "5"
- Support Rating Floor: confirmed at "No Floor"

Sustainability rating

On 14 April 2021, Standard Ethics, a rating agency, updated Banco Desio's corporate sustainability rating, recognising an increase of one notch from the previous "E+" to the current "EE–" which is investment grade. The long-term vision is positive; for the related press release, see the web page: https://standardethics.eu/media-en/press-releases/standard-ethics-upgrades-rating-to-banco-desio-brianza/viewdocument/527.

10.3 – Transactions with related parties and/or associated persons

For a more detailed description of the procedures that govern transactions with related parties (pursuant to art. 2391-bis of the Italian Civil Code) and/or with associated persons (pursuant to art. 53 of the CFA), reference should be made to paragraph 5 of the Annual Report on Corporate Governance, which is available on the website www.bancodesio.it, pursuant to art. 123-bis of the CFA.

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

10.4 – Information on incentive plans

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

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

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

10.6 - Research and development activities

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

In accordance with the Group's guidelines, IT security and data protection were also a priority in 2021, to which great importance was given. This factor played a role in the management of risks and in compliance with measures in line with current regulations on privacy, security and the main industry standards.

The Group has continued to adapt and evolve its operational and information processes related to Compliance activities, increasing the necessary safeguards and controls.

The management, control and measurement of IT risks, including cyber risk, are integral parts of the broader system of internal control and risk management adopted by the Bank, as the parent of the Banco Desio Group. With reference to the principal lines of development, the Parent Company is involved in a process of continuously strengthening the first level controls over IT security, via the development of a system of KPIs able to constantly monitor the following areas: positioning of the Group with regard to cyber security, effectiveness of fraud detection systems, exposure to vulnerabilities and management of incidents.

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

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

No special transactions were carried out during 2020.

10.8 - Non-financial statement

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

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

11 - Outlook for operations and principal risks and uncertainties

The financial statements at 31 December 2021 have been prepared on a going concern basis, since there are no plausible reasons to believe the contrary for the foreseeable future, in consideration of the Bank's capital solidity, growing operations in terms of the main commercial priorities of the strategic plan, careful management of credit quality and low NPL ratio, in confirmation of the commercial strength and resilience of the Bank,which was able to achieve an overperformance during the year compared with the expectations for the first year of the 2021-23 Business Plan, in an undoubtedly complicated social and economic context, still conditioned by the effects of Covid-19.

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

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

The current context following the Covid-19 pandemic, while benefiting from widespread vaccination campaigns, still represents a significant element of risk, beyond the control of management, in which the vigorous recovery of Italian economic activity is in any case held back by difficulties in international logistics, the scarcity of intermediate goods and raw materials and the acceleration of inflation, largely caused by the energy component, which has pushed up medium and long-term interest rates.

Management of the risks inherent in the positions taken will continue to be a fundamental element driving the performance of the Group and one of the main activities that will again involve all of the control structures during 2022. The extent of the impacts will be strictly connected to how the macroeconomic context evolves, especially the Covid-19 scenario, and to the emergence of any new situations of uncertainty that may arise and the long-term effectiveness of the support measures mentioned previously.

On 16 December 2021, the Bank's Board of Directors therefore approved the budget for 2022 with an update of the performance forecasts in line with the final results of the year just ended, in continuity with the strategic guidelines drawn up in the Business Plan D23, confirming the path of strengthening the guidelines for renewal and refocusing of the business model.

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

The ambition for 2022 is to characterise even more clearly the Banco Desio Group as an independent Group recognised for its capital strength, economic resilience, quality of service and a more focused strategy, concentrating on the Group's historical areas of presence.

Desio, 10 February 2022 The Board of Directors

Consolidated financial statements

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

Banco Desio

CONSOLIDATED BALANCE SHEET

ASSETS

Assets		31.12.2021	31.12.2020	Change Amount	Change %
10.	Cash and cash equivalents	84,412	120,342	(35,930)	-29.9%
20.	Financial assets at fair value through profit or loss	85,544	56,702	28,842	50.9%
	a) Financial assets held for trading	11,034	6,239	4,795	76.9%
	b) Financial assets designated at fair value	-	-	-	0.0%
	c) Other financial assets mandatorily at fair value	74,510	50,463	24,047	47.7%
30.	Financial assets at fair value through other comprehensive income	593,360	662,646	(69,286)	-10.5%
40.	Financial assets at amortised cost	16,330,175	14,268,528	2,061,647	14.4%
	a) Due from banks	2,445,253	1,301,942	1,143,311	87.8%
	b) Loans to customers	13,884,922	12,966,586	918,336	7.1%
50.	Hedging derivatives	-	-	-	0.0%
60.	Adjustment to financial assets with generic hedge (+/-)	502	563	(61)	-10.8%
70.	Equity investments	-	-	-	0.0%
80.	Technical reserves carried by reinsurers	-	-	-	0.0%
90.	Property, plant and equipment	218,420	222,483	(4,063)	-1.8%
100.	Intangible assets	19,119	18,513	606	3.3%
	of which:				
	- goodwill	15,322	15,322	-	0.0%
110.	Tax assets	170,080	205,131	(35,051)	-17.1%
	a) current	14,587	18,306	(3,719)	-20.3%
	b) deferred	155,493	186,825	(31,332)	-16.8%
120.	Non-current assets and disposal groups held for sale	13,080	-	13,080	
130.	Other assets	290,089	108,614	181,475	167.1%
Total assets		17,804,781	15,663,522	2,141,259	13.7%

To reflect its inclusion in item 10. Cash and cash equivalents of current accounts and demand deposits with banks and central banks (with the exception of the Mandatory Reserve account) required by the 7th Update of Circular 262 published in October 2021, the balance for the comparative period was restated by reclassifying Euro 63,817 thousand from item 40.a) Due from banks to item 10) Cash and cash equivalents.

Banco Desio

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities and shareholders' equity		31.12.2021	31.12.2020	Change Amount	Change %
10.	Financial liabilities at amortised cost	16,316,377	14,276,954	2,039,423	14.3%
	a) Due to banks	3,815,695	2,412,244	1,403,451	58.2%
	b) Due to customers	10,978,417	10,255,783	722,634	7.0%
	c) Debt securities in issue	1,522,265	1,608,927	(86,662)	-5.4%
20.	Financial liabilities held for trading	5,901	7,527	(1,626)	-21.6%
30.	Financial liabilities designated at fair value	-	-	-	0.0%
40.	Hedging derivatives	365	1,540	(1,175)	-76.3%
50.	Adjustment to financial liabilities with generic hedge (+/-)	-	-	-	0.0%
60.	Tax liabilities	3,972	13,491	(9,519)	-70.6%
	a) current	2,011	-	2,011	
	b) deferred	1,961	13,491	(11,530)	-85.5%
70.	Liabilities associated with assets held for sale	-	-	-	0.0%
80.	Other liabilities	320,685	297,233	23,452	7.9%
90.	Provision for termination indemnities	21,960	24,740	(2,780)	-11.2%
100.	Provisions for risks and charges	46,776	46,962	(186)	-0.4%
	a) commitments and guarantees given	4,058	4,947	(889)	-18.0%
	b) pensions and similar commitments	-	-	-	0.0%
	c) other provisions for risks and charges	42,718	42,015	703	1.7%
110.	Technical reserves	-	-	-	0.0%
120.	Valuation reserves	15,762	66,096	(50,334)	-76.2%
130.	Redeemable shares	-	-	-	0.0%
140.	Equity instruments	-	-	-	0.0%
150.	Reserves	931,240	818,447	112,793	13.8%
160.	Share premium reserve	16,145	16,145	-	0.0%
170.	Share capital	70,693	70,693	-	0.0%
180.	Treasury shares (-)	-	-	-	0.0%
190.	Minority interests (+/-)	4	4	-	0.0%
200.	Net profit (loss) for the period (+/-)	54,901	23,690	31,211	131.7%
Total liabilities and shareholders' equity		17,804,781	15,663,522	2,141,259	13.7%

Banco Desio

CONSOLIDATED INCOME STATEMENT

Captions		31.12.2021	31.12.2020	Change Amount	Change %
10.	Interest and similar income	294,440	259,999	34,441	13.2%
	of which: interest income calculated using the effective interest method	223,249	199,173	24,076	12.1%
20.	Interest and similar expense	(40,706)	(37,620)	(3,086)	8.2%
30.	Net interest income	253,734	222,379	31,355	14.1%
40.	Commission income	216,100	182,496	33,604	18.4%
50.	Commission expense	(18,970)	(16,409)	(2,561)	15.6%
60.	Net commission income	197,130	166,087	31,043	18.7%
70.	Dividends and similar income	690	1,765	(1,075)	-60.9%
80.	Net trading income	4,287	2,290	1,997	87.2%
90.	Net hedging gains (losses)	-	-	-	n.s.
100.	Gains (losses) on disposal or repurchase of:	(7,226)	6,454	(13,680)	n.s.
	a) financial assets at amortised cost	(11,314)	(1,747)	(9,567)	547.6%
	b) financial assets at fair value through other comprehensive income	4,397	8,218	(3,821)	-46.5%
	c) financial liabilities	(309)	(17)	(292)	n.s.
110.	Net result of other financial assets and liabilities at fair value through profit or loss	731	(3,734)	4,465	n.s.
	b) other financial assets mandatorily at fair value	731	(3,734)	4,465	n.s.
120.	Net interest and other banking income	449,346	395,241	54,105	13.7%
130.	Net value adjustments/write-backs for credit risk relating to:	(86,487)	(71,532)	(14,955)	20.9%
	a) financial assets at amortised cost	(86,496)	(71,723)	(14,773)	20.6%
	b) financial assets at fair value through other comprehensive income	9	191	(182)	-95.3%
140.	Profit/losses from contractual changes without write-offs	(71)	267	(338)	n.s.
150.	Net profit from financial activities	362,788	323,976	38,812	12.0%
180.	Net profit from financial and insurance activities	362,788	323,976	38,812	12.0%
190.	Administrative costs:	(298,658)	(302,239)	3,581	-1.2%
	a) payroll costs	(174,449)	(181,662)	7,213	-4.0%
	b) other administrative costs	(124,209)	(120,577)	(3,632)	3.0%
200.	Net provisions for risks and charges	(1,694)	(6,454)	4,760	-73.8%
	a) commitments for guarantees given	889	(2,234)	3,123	n.s.
	b) other net provisions	(2,583)	(4,220)	1,637	-38.8%
210.	Net adjustments to property, plant and equipment	(16,266)	(17,109)	843	-4.9%
220.	Net adjustments to intangible assets	(1,745)	(1,359)	(386)	28.4%
230.	Other operating charges/income	24,778	34,729	(9,951)	-28.7%
240.	Operating costs	(293,585)	(292,432)	(1,153)	0.4%
260.	Fair value adjustment of property, plant and equipment and intangible assets	(123)	-	(123)	n.s.
290.	Profit (loss) from continuing operations before tax	69,080	31,544	37,536	119.0%
300.	Income taxes on continuing operations	(14,179)	(7,854)	(6,325)	80.5%
310.	Profit (loss) from continuing operations after tax	54,901	23,690	31,211	131.7%
330.	Net profit (loss) for the period	54,901	23,690	31,211	131.7%
350.	Parent Company net profit (loss)	54,901	23,690	31,211	131.7%

	31.12.2021	31.12.2020
Basic earnings per share (Euro)	0.41	0.18
Diluted earnings per share (Euro)	0.41	0.18

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Captions	31.12.2021	31.12.2020
10.	**Net profit (loss) for the period**	**54,901**	**23,690**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Equity instruments designated at fair value through other comprehensive income	(47,320)	21,370
50.	Property, plant and equipment	(38)	-
70.	Defined-benefit pension plans	6	(326)
	Other elements of income, net of income taxes with reversal to income statement		
120.	Cash-flow hedges	729	423
140.	Financial assets (other than equities) at fair value through other comprehensive income	(3,711)	(744)
170.	**Total other elements of income (net of income taxes)**	**(50,334)**	**20,723**
180.	**Total comprehensive income (Captions 10+170)**	**4,567**	**44,413**
190.	Total comprehensive income pertaining to minority interests	-	-
200.	**Total consolidated comprehensive income pertaining to Parent Company**	**4,567**	**44,413**

Note. The negative change in caption 20 "Equity instruments designated at fair value through other comprehensive income" is due to the sale of the investment in Cedacri S.p.A. completed on 3 June of this year for Euro 114.7 million; in accounting terms, the following entries have been made as a result of this disposal i) reversal of the valuation reserve at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result compared with the initial book value, equal to Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve shown under retained earnings. In the comparative period, the positive change in this item was attributable to the revaluation of the same investment in Cedacri S.p.A.

Banco Desio

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31 DECEMBER 2021

	Balance at 31.12.2020	Changes in opening balances	Balance at 01.01.2021	Allocation of prior year results: Reserves	Allocation of prior year results: Dividends and other allocations	Changes during the year: Changes in reserves	Changes during the year – Transactions on shareholders' equity: Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income at 31.12.2021	Group shareholders' equity at 31.12.2021	Minority interests at 31.12.2021
Share capital:																
a) ordinary shares	63,828	-	63,828	-	-	-	-	-	-	6,865	-	-	-	-	70,693	-
b) other shares	6,865		6,865							(6,865)						
Share premium reserve	16,145		16,145												16,145	
Reserves:																
a) from profits	798,517		798,517	15,536		97,460									911,513	
b) other	19,934		19,934	(203)											19,727	4
Valuation reserves:	66,096		66,096											(50,334)	15,762	
Equity instruments																
Treasury shares																
Net profit (loss) for the period	23,690		23,690	(15,333)	(8,357)									54,901	54,901	
Group shareholders' equity	995,071		995,071		(8,357)	97,460								4,567	1,088,741	
Minority interests	4	-	4	-	-	-	-	-	-	-	-	-	-	-	-	4

Note. The changes in the "Valuation reserves" and the "Retained earnings reserve" are influenced by the sale of the investment in Cedacri S.p.A. completed on 3 June for Euro 114.7 million; in accounting terms, the following entries have been made as a result of this disposal i) reversal of the valuation reserve at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result compared with the initial book value, equal to Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve shown under retained earnings.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31 DECEMBER 2020

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

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

CONSOLIDATED CASH FLOW STATEMENT – DIRECT METHOD

	31.12.2021	31.12.2020
A. OPERATING ACTIVITIES		
1. Cash generated from operations	146,323	147,796
- interest received (+)	287,241	253,822
- interest paid (-)	(40,238)	(36,824)
- dividends and similar income (+)	690	1,765
- net commission income (+/-)	193,773	160,083
- payroll costs (-)	(175,003)	(169,662)
- net premiums received (+)		
- other insurance income/expense (+/-)		
- other costs (-)	(122,651)	(96,657)
- other revenues (+)	26,056	43,123
- taxation (-)	(23,545)	(7,854)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	(2,259,518)	(1,518,980)
- financial assets held for trading	(3,286)	(1,031)
- financial assets designated at fair value through profit and loss		
- other financial assets that are mandatorily at fair value	(23,414)	(16,817)
- financial assets at fair value through other comprehensive income	64,406	(79,484)
- financial assets at amortised cost	(2,167,986)	(1,442,035)
- other assets	(129,238)	20,387
3. Cash generated (absorbed) by financial liabilities	2,087,999	1,388,593
- financial liabilities at amortised cost	2,039,908	1,426,447
- financial liabilities held for trading	(1,626)	(611)
- financial liabilities designated at fair value through profit and loss		
- other liabilities	49,717	(37,243)
Net cash generated/absorbed by operating activities (A)	(25,196)	17,409
B. INVESTING ACTIVITIES		
1. Cash generated by	25	12
- sale of equity investments		
- dividends collected on equity investments		
- sale of property, plant and equipment	25	12
- sale of intangible assets		
- sale of lines of business		
2. Cash absorbed by	(5,620)	(4,885)
- purchase of equity investments		
- purchase of property, plant and equipment	(3,267)	(3,207)
- purchase of intangible assets	(2,353)	(1,678)
- purchase of lines of business		
Net cash generated/absorbed by investing activities (B)	(5,595)	(4,873)
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(8,357)	-
- sale/purchase of third party control		
Net cash generated/absorbed by financing activities (C)	(8,357)	-
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	(39,148)	12,536

RECONCILIATION

	31.12.2021	31.12.2020
Cash and cash equivalents at beginning of period	120,342	104,595
Net increase (decrease) in cash and cash equivalents	(39,148)	12,536
Cash and cash equivalents: effect of changes in exchange rates	3,218	3,211
Cash and cash equivalents at end of period	84,412	120,342

NB: to reflect inclusion in item 10. Cash and cash equivalents of current accounts and sight deposits with banks and central banks (with the exception of the Mandatory Reserve account) required by the 7th Update of Circular 262 published in October 2021, the cash flow statement for the comparative period was restated to reflect the reclassification of Euro 63,817 from item 40.a) Due from banks to item 10) Cash and cash equivalents.

Consolidated explanatory notes

PART A – ACCOUNTING POLICIES

A.1 GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation 1606 of 19 July 2002, these consolidated financial statements are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (formerly IFRIC) applicable as of 31 December 2021 and endorsed by the European Commission.

Section 2 - Basis of preparation

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

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

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

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

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

The individual financial statements used in preparing these consolidated financial statements are those prepared by the subsidiaries as of the same reporting date, adjusted - where necessary - to comply with the IAS/IFRS adopted by the Parent Company.

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

Banco Desio

Section 3 – Scope of consolidation and methodology

1 Investments in subsidiaries

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

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

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

2 Significant assessments and assumptions in determining the scope of consolidation

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

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

3 Investments in subsidiaries with significant minority interests

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

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

3.2 Investments with significant minority interests: accounting information

Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Net interest and other banking income	Operating costs	Profit (loss) from current operations before tax	Profit (loss) from current operations after tax	Profit (loss) after tax on non-current assets held for sale	Net profit (loss) for the period (1)	Other elements of income, net of income taxes (2)	Comprehensive income (3) = (1) + (2)
Desio OBG S.r.l.	59	-	-	-	-	10	-	87	(83)	1	-	-	-	-	-

Banco Desio

4. Significant restrictions

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

5. Other information

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

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

Section 4 – Subsequent events

These financial statements have been approved on 10 February 2022 by the Board of Directors of Banco di Desio e della Brianza S.p.A., which authorised publication at the same time.

With regard to events that have taken place subsequent to the reporting date, please refer to the paragraph entitled "Tax credits purchased from financial intermediary" in "Significant events" of the Report on Operations.

Section 5 - Other aspects

Use of estimates and assumptions in preparing the financial statements

The preparation of the financial statements requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement, and on the disclosures provided in the notes.

The use of such estimates involves the use of available information and the adoption of subjective assessments, partly based on historical experience, in order to make reasonable assumptions for the recognition of operating events. Given their nature, it is therefore possible that the assumptions made, however reasonable, might not find confirmation in the future scenarios within which the Group will actually operate. Future results may well differ from the estimates made to prepare the economic and financial position at the reporting date and, accordingly, adjustments to the reported carrying amounts of assets and liabilities may be needed that, at this time, cannot be foreseen or estimated.

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

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

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

Risks, uncertainties and impacts of the Covid-19 pandemic

Among the main factors of uncertainty that could affect the future scenarios in which the Group will have to operate, the negative effects on the global and Italian economy, directly or indirectly linked to developments in the Covid-19 epidemic, must not be underestimated.

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

The exceptional characteristics of the current crisis from which economic and financial consequences on people and businesses may derive, depending on the duration of the health and social emergency, as well as the measures already put in place by the Italian government, EU authorities and ECB which, for their amount and characteristics, are likely to mitigate the effects of the crisis, make still complex the application of accounting standards based on current market values and forward-looking valuations.

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

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

The European supervisory and regulatory bodies and standard setters (the Authorities) that have expressed opinions on this matter concur in suggesting extreme caution when changing the scenarios considered, at least during the phase of acute uncertainty in 2020. At the same time, the ECB's suggestion to use a reference scenario anchored to its indications seemed to indicate the intention of the Authorities to want to centrally direct the banks in this particular situation, providing a homogeneous set of parameters for forecasts of future economic trends.

Given the persistence of the underlying causes, the decisions taken in 2020 for the preparation of financial reports remain valid and in light of the trend in the economic-health context, they have been subject to calibration and refinement from time to time up to this document.

On 16 December 2021, the projections for the Eurozone were announced by the ECB, which published the document "Eurosystem staff macroeconomic projections for the Euro Area", which was followed by the "Macroeconomic projections for the Italian economy" for the three-year period 2021-24 published by the Bank of Italy on 17 December 2021.

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

In particular, referring to the guidelines expressed in the letter of the ECB of 4 December 2020 "Identification and measurement of credit risk in the context of the coronavirus pandemic (Covid-19)" addressed to all significant institutions as regards, specifically, the complexities involved in identifying any increase in credit risk (so-called "staging") and in estimating expected losses, the specific management overlays to include ad hoc corrections, not captured by the modelling in use, still apply, to better reflect the peculiarities of the impacts of Covid-19 in the assessment of the performing loan portfolio (stages 1 and 2).

The economic effects of these interventions have been quantified in management terms in Euro 31.6 million (pre-tax) as described below in "Impacts of the Covid-19 epidemic on the income statement at 31 December 2021" and in the notes, Part E - Information on risks and related hedging policy to which reference is made.

The determination of expected losses on non-performing loans (stage 3) also implies significant elements of assessment, with particular reference to estimating the flows deemed recoverable and the related timing of recovery. During the period, appropriate interventions were carried out to manage the situation caused by the Covid-19 epidemic and, in any case, to ensure the correct classification and assessment of recoverability of exposures classified as non-performing. This had an impact on the cost of non-performing loans for the period and on the increase in the level of coverage of non-performing loans compared with 31 December 2020, taking into account the disposals that have taken place in the meantime and the expected sales scenarios which the Bank wants to take advantage of to continue derisking in line with its NPL strategy.

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

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

Measurement of financial instruments at fair value

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

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

The use of significant judgements in the valuation of the financial instruments in portfolio is to be considered fairly marginal, given that the bank continues to maintain a very prudent allocation. The use of valuation models for the recognition of the fair value of the financial instruments not listed on active markets (Level 3), substantially attributable to units of UCITS of closed-end funds, therefore relates to a minimal portion of the investments held. With particular reference to closed-end investment funds classified as financial instruments mandatorily at fair value, the positive economic effects (approximately Euro 1.3 million) resulting from the update of the valuation based on the latest information available (NAV, business plan, etc.) in accordance with the provisions of the Group's fair value policy.

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

Impairment test of intangible assets with indefinite life (goodwill)

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

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

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

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

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

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

For the preparation of these financial statements, the Group updated its performance forecasts, with projections over an explicit time horizon of five years, taking into account the main drivers relating to the events of the period, the results achieved at 30 September 2021, the forecasts at 31 December 2021 and the 2022 budget, as well as the most recent market forecasts available.

As a result, the impairment tests at 31 December 2021 were not carried out and evaluated using a multi-scenario approach, as updated trend forecasts and the 2020-2023 Plan forecasts based on reasonable assumptions linked to the latest and most updated macroeconomic and sector assumptions, in turn influenced by the effects of the global spread of Covid-2021 contagion and the government measures adopted in support of households and businesses.

The principal parameters and assumptions used for the impairment test at the reporting date are listed below, in comparison with those used in the two prior years:

	31.12.2021			31.12.2020			31.12.2019		
CGU	BDB	Fides	Group	BDB	Fides	Group	BDB	Fides	Group
Model	DDM								
Flows	Net results								
Input used	2022 Budget extended to 2026 (*)			2021-23 Business Plan extended to 2025			2020 Budget extended to 2024		
CAGR RWA	2.50%	7.10%	2.60%	-1.30%	11.90%	-0.30%	0.71%	-0.64%	0.63%
Ke	8.22% (**)			8.09% (**)			8.33%		
g	1.58%			1.50%			1.50%		
Capital ratio	9.84% (***)			8.95% (****)			8.85% (****)		

(*) Forecasts of the 2021-23 Business Plan updated by management taking into account the results achieved at 30 September, the forecasts at 31 December 2021 and the most recent market forecasts available, which led to the approval of the 2022 budget and further projections developed over 5 years.
(**) Determination of the cost of equity (Ke) took account of a specific risk premium of 1.5%, reflecting an increase in the "Italy" risk to take account of the pandemic situation
(***) Estimated target allocated capital for the Banco Desio Group (5Y average CET1) to monitor compliance with the (current) minimum CET1 levels at CRR Brianza Unione Group level
(****) Overall Capital Requirement Tier 1 ratio assigned with SREP procedure from time to time

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

	31.12.2021			31.12.2020			31.12.2019		
CGU	BDB	Fides	Group	BDB	Fides	Group	BDB	Fides	Group
% decrease in net future results (RN)	43.56%	39.60%	42.50%	22.60%	20.80%	13.36%	17.42%	47.33%	14.06%
Increase in p.p. of discount rate used for future cash flows (FCFE)	> 1,000	992	683	391	302	132	265	> 1,000	135

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

Qualitative and quantitative information about how the impairment test was carried out is provided in the section on "Intangible assets – caption 100" contained in "Part B – Information on the consolidated balance sheet" of these explanatory notes.

Estimate of the recoverability of deferred tax assets

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

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

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

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

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

Qualitative information on how the recoverability of deferred tax assets was checked is provided in the section on "Tax assets – Caption 110", contained in "Part B – Information on the consolidated balance sheet" of these explanatory notes.

Estimate of the provisions for risks and charges

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

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

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

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

Estimate of obligations relating to employee benefits

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

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

The main actuarial assumptions used at the date of these financial statements are listed below, compared with those used for the two previous years:

Demographic assumptions	**31.12.2021**	**31.12.2020**	**31.12.2019**
Death rate of employees	determined by the State General Accounting Department, denominated RG48 divided by gender		
Frequencies and amount of termination indemnity advances	4.00%		
Frequencies of turnover	2.50%		
Financial assumptions	**31.12.2021**	**31.12.2020**	**31.12.2019**
Discount rate Iboxx Euro Corporate AA index 7-10 years (*)	0.38%	-0.01%	0.88%
Inflation rate	1.20%	1.00%	1.50%

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

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

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

Impacts produced by the Covid-19 epidemic on the income statement as at 31 December 2021

With reference to the impact on the income statement related to the Covid-19 pandemic as at 31 December 2021, totalling € 31.6 million (33.7 million in 2020), it should be noted that:

- a cost of credit linked to the performing portfolio (stage 1 and stage 2) of loans to customers, endorsement loans and commitments to disburse funds in 2021 of Euro 29.0 million (which are added to Euro 30.7 million of the previous year), due to the effect of updating the models for implementing the macroeconomic forecasts impacted by Covid-19 and to the management overlay interventions after the model, described in Part E– Information on risks and related hedging policy;
- the recognition of higher operating costs to deal with the emergency of Euro 2.6 million (added to the Euro 3.0 million incurred the previous year).

Going concern

These financial statements have been prepared on a going concern basis. In consideration of the capital solidity and the careful derisking approach adopted, the low and continuously decreasing level of the NPL ratio and the other initiatives taken to minimise the effects of the economic situation still conditioned by the pandemic, the Directors have a reasonable expectation that the Group will continue operating in the foreseeable future and have therefore prepared the financial statements on a going-concern basis The Directors therefore believe that the risks and uncertainties that the Group may encounter in carrying on its operations, also considering the persistence of the effects of Covid-19 already reflected in the 2021-23 Business Plan, as well as in the updated performance forecasts mentioned above, are not such as to generate doubts about business continuity.

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

Contractual changes resulting from Covid-19

1) ***Contractual amendments and accounting derecognition (IFRS 9)***

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

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

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

2) ***Amendment to the accounting standard IFRS 16***

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

TLTRO III Transactions – "Targeted Longer Term Refinancing Operations"

At 31 December 2021, ECB funding transactions comprise solely TLTRO III loans totalling 3.8 billion euro, which were obtained by Banco Desio at the quarterly auctions held in June 2020, 1.2 billion euro, in December 2020, 1.2 billion euro, in March 2021, 1.0 billion euro, and in December 2021, 0.45 billion euro. Each operation has a duration of three years.

Following these changes, the interest rate is fixed at the average for the principal Eurosystem refinancing operations (MRO), currently 0%, except for the period from 24 June 2020 to 23 June 2022 ("special interest-rate period"), during which the rate will be 50 basis points lower.

An incentive mechanism is also envisaged, that grants access to more favourable rates on the achievement of specified benchmarks.

Interest period from 24 June 2020 to 23 June 2021

For counterparties whose net eligible lending between 1 March 2020 and 31 March 2021 ("special reference period") totals at least the respective benchmark net lending, the rate applied was the average rate on the deposit facility, currently -0.5%, for the entire duration of the operation, with a further reduction of 50 basis points during the special interest-rate period between 24 June 2020 and 23 June 20221.

For counterparties whose net eligible loans recorded an increase in the twelve months prior to 31 March 2019, the "net lending benchmark" is set at zero; otherwise, that benchmark is set at the reduction in net eligible loans in the twelve months prior to 31 March 2019.

Interest period from 24 June 2021 to 23 June 2022

The same mechanism was subsequently introduced also for the period between 24 June 2021 and 23 June 2022 for counterparties whose net eligible loans between 1 October 2020 and 31 December 2021 are at least equal to their respective reference levels.

Accounting treatment

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

Interest recognition at 31 December 2020

When determining the variable rate to be applied when calculating the first-year interest at 31 December 2020, reference was made to the average rate for the principal refinancing operations, currently 0.0%, and the further reduction of 50 bps during the special interest-rate period". Although the benchmark net lending of Banco Desio is negative by 0.1 billion euro and net eligible lending has risen since 1 March 2020 (by 0.8 billion euro), the achievement of benchmark net lending at 31 March 2021 is not yet certain, considering the average repayments identified every month, and so, prudently, it is considered that the conditions are not yet satisfied for recognising variable interest at the minimum deposit rate, currently -0.5%, and the further reduction of 50 bps in the special interest-rate period.

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

Interest recognition at 31 December 2021

In March, for the period 1.03.2020 - 31.03.2021, the benchmark was exceeded with the consequent achievement of a further bonus rate of -0.5% over the entire special interest period for the TLTRO III transactions outstanding. Consequently, for all TLTRO III lines, equal to Euro 3.4 billion at 31 March 2021, the adjustment of the interest accrued over the special interest period was recognised at a rate of -1%, recognition of which subsequently continued at a rate of -1% until 23 June 2021.

In December 2021, the reference parameters in terms of net disbursements were also exceeded for the period 1 October 2020 - 31 December 2021, consequently the bonus rate was also recognised for the interest period starting from 24 June 2021 on all lines outstanding as at 31 December 2021.

At 31 December 2021, therefore, the interest accrued during the year for Euro 35.7 million is recognised in interest income, which together with the accrued interest already recognised at 31 December 2020 for Euro 3.4 million, bring the total accrued interest to Euro 39.1 million.

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

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

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

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

Disposals related to the “Held to collect” business model

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

In particular, the Bank completed security sales during the year with a total nominal value of 10 million euro. These sales resulted in a net gain of 1.0 million euro which was recognised in caption “100. Profit (losses) from sales or repurchases of: a) financial assets at amortised cost”.

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

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

Reform of the reference indices for determining interest rates

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

In this regard, it should be noted that the nominal value of the 2 derivative contracts designated as hedges at 31 December 2021 the parameters of which are subject to the reform ("IBOR") is equal to 80 million (with maturity in May 2022). They are Interest Rate Swaps designated to hedge the cash flows of floating-rate bonds; the index used as a point of reference for all existing contracts is the 3-mth Euribor. With reference to the Euribor, please note that only a partial modification of the calculation method is envisaged, so there are no particular elements of uncertainty in the prospective measurement of hedging relationships.

Realignment ("step-up") of differences between the tax values of assets and their higher carrying amounts (Legislative Decree 14 August 2020)

Art. 110 of Legislative Decree no. 104/2020 (the so-called "August" Decree) reintroduced the possibility for companies that prepare their financial statements according to IAS/IFRS to realign the differences between the tax and accounting values of tangible assets (excluding goods) and intangible assets (excluding goodwill) and long-term investments.

Paragraph 83 of art. 1 of Law no. 178/2020 (Budget Law 2021) added, after paragraph 8 of article 110 of the August Decree, paragraph 8-bis which extends the possibility of realignment also to goodwill and other intangible assets resulting from the financial statements of the year in progress at 31 December 2019.

In light of the above, on 24 June 2021 the Board of Directors of Banco Desio resolved to make use of the right to realign the tax value of intangible assets represented by intangibles (goodwill), recognised in the separate financial statements, with the higher carrying amount recorded in the financial statements at 31 December 2020 for a total of Euro 4.1 million. This consists of the goodwill recognised in 1999 following the purchase of branches from Banco Ambrosiano Veneto for Euro 1.7 million and the goodwill recognised in 2019 following the merger by absorption of the former subsidiary Banca Popolare di Spoleto for Euro 2.4 million (the latter was already subject to a previous step-up pursuant to art. 15, paragraph 10 of art. 15, para. 10 of Legislative Decree no. 185/2008).

At the same meeting, the Board of Directors also resolved to make use of the right to realign the tax value of the tangible assets represented by buildings, recognised in the separate financial statements, to the higher carrying amount recorded in the financial statements at 31 December 2020 for a total of Euro 28.5 million.

Against this decision to realign, Banco Desio took a commitment to pay a substitute tax of approximately Euro 1.0 million, corresponding to 3% of the realigned value (Euro 32.6 million), to be paid in a maximum of three annual instalments by the deadline for final payment of income taxes. The step-up option was therefore exercised and the first instalment of the substitute tax was paid by 30 June 2021.

At 31 December 2020 the deferred tax liabilities on the misalignment of the assets in question amounted to Euro 9.6 million and are fully recognised in the income statement. With reference to the goodwill recognised as a result of the absorption of the former subsidiary Banca Popolare di Spoleto, following the previous step-up, partially cancelled deferred tax assets were recognised for Euro 0.8 million in relation to the tax amortisation already deducted.

In accordance with paragraph 47 of IAS 12 Income taxes, deferred tax liabilities have to be calculated at the tax rates that are expected to be applied in the year when the liability will be extinguished, on the basis of the tax rates and tax legislation in force or substantially in force at the balance sheet date.

In view of the resolution thus adopted, taking into account the accounting legislation explained above, for the purposes of preparing the condensed interim financial statements at 30 June 2021 it was necessary to reverse the deferred tax liabilities and reconstitute the cancelled deferred tax assets on the tax misalignment on the goodwill referring to Banca Popolare di Spoleto, recognising the cost of the substitute tax to be paid as a tax payable. The related economic effect, recognised under item 300 "Income taxes for the year of current operations", was positive for Euro 9.4 million, i.e. the net positive effect resulting from the reversal of existing deferred tax liabilities (Euro 9.6 million), reconstitution of the deferred tax assets (Euro 0.8 million) and the amount of the substitute tax to be paid (Euro 1.0 million).

As a result of this realignment, it is also necessary to record a tax restriction in the event of distribution (so-called reserve in suspension of tax for tax purposes) for an amount equal to Euro 31.6 million, corresponding to the higher values realigned, net of the substitute tax to be paid.

New definition of default applicable from 1 January 2021

In the identification of non-performing loans, the new European supervisory rules on the classification of "debtors in default" have been applied since 1 January 2021. They introduced more stringent criteria and methods than those previously adopted by Italian banking intermediaries and financial institutions in the disbursement of loans, assessment of credit and classification as default, with a view to containing and improving credit quality and overall supervision of banking operations. The changes introduced are summarised below.

<u>New calculation of past due</u>

- Lowering the threshold of "relative" materiality from 5% to 1%;
- The calculation of this threshold is represented by the ratio between the amount in arrears and the customer's overall exposure, both calculated at Group level without offsetting any margins available on other lines of credit;
- Introduction of an "absolute" materiality threshold differentiated by type of exposure, i.e. Euro 100 for retail exposures and Euro 500 for non-retail exposures;
- Classification of a debtor in default when both materiality thresholds are exceeded at the same time for more than 90 consecutive days;
- Calculation of past due and thresholds exceeded at Group level.

<u>Observation period of 3 months (known as the "cure period")</u>

- Introduction of an observation period of at least 3 months in preparation for the reclassification to performing loans for debtors previously classified as default (past due, UTPs and bad loans) who then regularise their position.

<u>Reduced financial obligation</u>

- Introduction of the calculation of "Reduced Financial Obligation", the new UTP trigger for each concession measure made to a customer in financial difficulty. The calculation of the reduced financial obligation is carried out in a situation of forbearance.

<u>Propagation rules</u>

- Introduction of new rules for the propagation of the state of default of a performing position on the basis of an existing link with other positions classified as being in default.

<u>Uniformity of classification:</u>

- Same classification of a debtor in default at Banking Group level.

Application of the new definition of default resulted in a limited transition from performing loans (stage 1 and stage 2) to non-performing overdue loans, in particular for the subsidiary Fides due to the more restrictive thresholds in the calculation of past due and the propagation effect from the Parent Company (calculation of exceeding the thresholds at Group level). At 31 December 2021, exposures classified as non-performing overdue amounted to a total of Euro 5.7 million gross.

Domestic tax group election

The Italian companies of the Banco Desio Group (except for Desio OBG S.r.l., given its status as an SPV) have chosen to be a "domestic tax group" for the years 2021-2023, governed by arts. 117-129 of the Consolidated Income Tax Law, which was introduced into tax legislation by Legislative Decree no. 344/2003. This law provides an optional system, under which the total income or tax loss of each subsidiary in the tax consolidation - together with withholdings, deductions and tax credits - are transferred to the parent company, which then calculates a single taxable income or tax loss to be carried forward (as resulting from the sum of its own taxable income or tax losses and those of the participating subsidiaries) and, consequently, a single tax liability or tax credit.

Comparability of financial statements

For each account in the financial statements, the previous year's balance is also given: if the accounts are not comparable, the prior year figures have to be adjusted. This standard was applied following the amendment to the Balance Sheet and Income Statement formats introduced with the 7th update of Circular no. 262 "Bank financial statements: formats and rules of compilation" of 29 October 2021

Terms of approval and publication of the financial statements

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

The financial statements of Banco di Desio e della Brianza S.p.A. were approved by the Board of Directors at the meeting held on 10 February 2022 and will be presented for approval at the Shareholders' Meeting called for 14 April 2022.

Independent audit

These consolidated financial statements have been audited by KPMG S.p.A., pursuant to Legislative Decree 39 of 27 January 2010 and to the resolution of the Shareholders' Meeting of 23 April 2020, which appointed this company for the years 2021 to 2029 included.

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

A.2 MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

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

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

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

Classification

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

- financial assets held for trading, essentially represented by debt and equity securities and the positive value of derivative contracts held for trading purposes;
- financial assets mandatorily at fair value, represented by financial assets that do not meet the requirements for valuation at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not provide exclusively for repayments of principal and payments of interest on the principal to be repaid (i.e. failed to pass the SPPI test) or that are not held as part of a business model whose objective is to hold the assets with a view to collecting the contractual cash flows (Hold To Collect or "HTC") or whose objective is achieved both through the collection of contractual cash flows and through the sale of financial assets (Hold To Collect and Sell or "HTCS");
- financial assets designated at fair value, i.e. the financial assets defined as such at the time of initial recognition when the right conditions exist. In these circumstances, an entity can irrevocably designate a financial asset as being at fair value through profit or loss, but only if doing so eliminates or significantly reduces an inconsistency in measurement.

In particular, the following are recognised in this item:

- debt securities and loans that are not attributable to the "HTC" or "HTCS" business models (which are therefore included in the "Other/Trading" business model) or which do not pass the SPPI test;
- capital instruments that do not qualify as control, association and joint control instruments held for trading purposes or which were not designated at fair value through other comprehensive income (under the FVOCI option) at the time of initial recognition;
- mutual funds.

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

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

Recognition

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

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

Measurement

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

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

Derecognition

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

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

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

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

Classification

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

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

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

In particular, the following are recognised in this item:

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

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

Recognition

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

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

Measurement

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

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

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

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

Derecognition

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

3 – Financial assets at amortised cost

Classification

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

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

In particular, the following are recognised in this item:

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

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

Recognition

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

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

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

Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

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

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

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

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

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

4 – Hedging transactions

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

Classification

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

The type of hedge used may be:

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

Recognition

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

The recognition of hedging transactions assumes:

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

Measurement

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

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

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

Recognition of items affecting the income statement – Fair value hedges

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

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

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

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

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

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

Derecognition

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

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

6 – Property, plant and equipment

Classification

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

Recognition

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

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

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

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

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

Measurement

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

For property, plant and equipment measured according to the revaluation model:

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

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

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

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

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

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

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

7 – Intangible assets

Classification

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

Recognition

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

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

Measurement

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

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

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

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

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

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

Derecognition

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

Recognition of items affecting the income statement

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

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

8. Non-current assets and disposal groups held for sale

Classification

Non-current assets/liabilities and groups of assets/liabilities whose carrying amount will presumably be recovered through sale rather than through continuous use are classified in the asset item "Non-current assets and disposal groups held for sale", and in the liability item "Liabilities associated with assets held for sale".

Recognition

To be classified in these items, the assets or liabilities (or disposal group) must be immediately available for sale and there must be active and concrete plans to make highly probable their disposal within one year of being classified as an asset being held for sale.

Measurement

Following their classification in this category, these assets are measured at the lower of their carrying amount and their fair value, less costs to sell, with the exception of certain types of assets - attributable for example to all financial instruments falling within the scope of application of IFRS 9 - for which IFRS 5 provides that the valuation criteria of the accounting standard in question must continue to be applied.

In the event that the assets being disposed of are depreciable, the depreciation process ceases from the year in which they are classified as non-current assets held for sale.

Income and expenses attributable to groups of assets and liabilities being held for sale, if considered discontinued operations pursuant to IFRS 5, are shown in the income statement after tax, in the item "320. Profit (loss) from discontinued operations net of taxes", while those relating to individual non-current assets being held for sale are recognised in the most suitable income statement item.

By "discontinued operations" we mean an important autonomous branch or geographical area of activity, even if it is part of a single coordinated disposal programme, rather than a subsidiary company acquired exclusively for resale.

Derecognition

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

9 – Current and deferred taxation

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

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

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

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

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

10 – Provisions for risks and charges

Provisions for risks and charges for commitments and guarantees given

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

Other provisions for risks and charges

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

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

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

Recognition of items affecting the income statement

Provisions are charged to the income statement.

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

11. Financial liabilities at amortised cost

Classification

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

Recognition

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

Measurement

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

Derecognition

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

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

12 – Financial liabilities held for trading

Recognition and classification

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

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

Measurement and recognition of items affecting the income statement

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

Derecognition

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

14 – Currency Transactions

Recognition

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

Measurement

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

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

Recognition of items affecting the income statement

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

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

16 – Other information

Other assets

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

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

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

Other liabilities

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

The caption includes by way of example:

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

- tax payables other than those classified in caption “60. Tax liabilities”, including amounts withheld as a tax agent.

Provision for termination indemnities

Measurement

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

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

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

Recognition of items affecting the income statement

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

Valuation reserves

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

Recognition of costs and revenues

Revenues are recognised:

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

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

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

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

- default interest, which may be provided by contract, is recognised in the income statement only when actually collected;
- dividends are recognised in the income statement when the right to collect them arises, the Bank is likely to receive the related economic benefits and the amount can be determined reliably;
- commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;
- revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (Level 1 and Level 2 of the fair value hierarchy). If these values cannot easily be determined or have a reduced level of liquidity (Level 3), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;
- gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
- revenues from the sale of non-financial assets are recognised on completion of the sale, i.e. when the obligation towards the customer is fulfilled.

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

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

Finance leases

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

Securitisations

Exposures to the securitisation (in the form of junior securities or deferred purchase price) are allocated to Financial assets at fair value through profit or loss. However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control[3] introduced by IFRS 10, it is included in the Banco Desio Group's scope of consolidation.

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

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

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

Tax credits linked to the "Cura Italia" and "Relaunch" Decrees acquired following disposal by the direct beneficiaries or previous purchasers (e.g. Ecobonus)

Decrees 18/2020 ("Cura Italia") and 34/2020 ("Relaunch") have introduced into Italian law tax incentives based on investment costs (e.g. Ecobonus and Sismabonus) and on current costs (e.g. rent of premises for non-residential use). These tax incentives are applied to households or businesses, are commensurate with a percentage of the expenditure incurred (which in some cases even reaches 110%) and are disbursed in the form of tax credits or tax deductions (with an option to convert them into tax credits). The main features of these tax credits are (i) the possibility to use them for offsetting; (ii) transferability to third-party purchasers; and (iii) the fact that they are non-refundable by the tax authorities.

The accounting of tax credits acquired by a third party (transferee of the tax credit) is not covered by a specific international accounting standard. IAS 8 provides that, in the event where there is a case not explicitly dealt with by an IAS/IFRS, management has to define an accounting policy that guarantees relevant and reliable disclosure of such transactions.

To this end and taking into consideration the indications expressed by the Supervisory Authorities, the Banco Desio Group has adopted an accounting policy that refers to the accounting discipline envisaged by IFRS 9, applying by analogy the provisions compatible with the characteristics of the transaction and considering that the tax credits in question are substantially similar to a financial asset. The Group purchases the receivables according to its tax capacity, with the aim of holding them and using them for future compensation. These receivables are therefore attributable to a Hold to Collect business model and recognised at amortised cost, showing the remuneration in net interest income during the recovery period. These receivables have to be measured considering how they will be used through estimated future compensations. However, the accounting framework envisaged by IFRS 9 for the calculation of expected losses is not applicable in this specific case, i.e. ECL is not calculated on these tax credits, as there is no counterparty credit risk, taking into account that realisation of the credit takes place by offsetting them against tax payables and not by collecting them.

Taking into account that the tax credits purchased do not represent tax assets, government grants, intangible assets or financial assets, in accordance with international accounting standards, the most appropriate classification is the residual one, "Other Assets".

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

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

Type of financial instrument	Source portfolio	Destination portfolio	Date of reclassification	Reclassified book value	Interest income recorded during the year (before tax)
Debt securities	HTCS	HTC	01.10.2018	703,243	n.a.

With reference to the reclassified financial assets still recorded under assets at the reporting date, the "Reclassified book value" column shows the amount transferred from the HTCS to the HTC portfolio (originally Euro 1,045,956 thousand), including the cumulative OCI valuation reserve at 30 September 2018, negative for Euro 42,200 thousand (originally Euro 51,458 thousand, pre-tax), which was eliminated from shareholders' equity on the reclassification date in exchange for the fair value of the reclassified financial assets, which are then recognised as if they had always been measured at amortised cost.

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

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

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

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

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

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

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

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

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

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

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

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

The accounting effects of this operation, which only affect the balance sheet, took place on 1 October 2018 (the "reclassification date"), for which the conditions established by IFRS 9 in the case of a change in business models were satisfied (in terms of rarity of occurrence, decision taken by senior management following external or internal changes, materiality for operations in general and the fact that they can be demonstrated to third parties).[4]

The financial instruments involved in the change of business model from HTC&S to HTC are mainly represented by sovereign debt securities, as well as corporate bonds for a total nominal value of Euro 1,093 million. The relative accumulated loss on the reclassification date of Euro 51.5 million (gross of the related tax effect), previously recognised in the other components of comprehensive income (valuation reserve), is eliminated from equity against the fair value of the same financial instruments, which are therefore recognised as if they had always been valued at amortised cost.

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

- with reference to the FVTPL portfolio: increase in the daily stop-loss, while keeping the other periodic VAR and Stop Loss limits unchanged;
- with reference to the HTC&S portfolio: (a) increase in the maximum duration of the portfolio, (b) increase in the maximum residual life of the securities that can be held and (c) establishment of a maximum limit that can be invested in securities with a rating lower than investment grade, but still equal to or greater than BB- or Ba3;
- with reference to the HTC portfolio: (a) differentiation in the weighting of sales as the modified duration of the securities in portfolio decreases, without prejudice to the sales materiality threshold of 5% and (b) it is better to set the frequency threshold (i.e. the number of annual executions) at 12, regardless of the number of positions that make up the portfolio.

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

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

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

A.4 INFORMATION ON FAIR VALUE

Qualitative information

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

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

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

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

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

Fair value measurement with use of level 1 inputs

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

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

The fundamental elements are the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A.4.2 Process and sensitivity of valuations

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

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

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

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

A.4.3 Fair value hierarchy

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

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

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

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

A.4.4 Other information

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

Quantitative information

A.4.5 Fair value hierarchy

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

	31.12.2021			31.12.2020		
Financial assets/liabilities measured at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	23,197	4,492	57,855	18,657	3,790	34,255
a) Financial assets held for trading	6,932	3,609	493	2,662	2,930	647
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	16,265	883	57,362	15,995	860	33,608
2. Financial assets at fair value through other comprehensive income	562,346	27,680	3,334	574,458	23,893	64,295
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	585,543	32,172	61,189	593,115	27,683	98,550
1. Financial liabilities held for trading	-	5,461	440	-	6,935	592
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	365	-	-	1,540	-
Total	-	5,826	440	-	8,475	592

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

Investments measured on the basis of unobservable inputs (Level 3) represent a very small percentage of total financial assets measured at fair value (9.01% compared with 13.7% at the end on 2020, which included the equity investment in Cedacri). These investments are almost entirely made up of investments in UCIs compulsorily valued at fair value.

At 31 December 2021, the impact of applying the Credit Value Adjustment and Debit Value Adjustment to the balance sheet values has not been calculated as all outstanding derivative contracts are backed by collateral agreements with counterparties to mitigate credit risk (CSA agreements).

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets mandatorily at fair value				
1. Opening balance	**34,255**	**647**	**-**	**33,608**	**64,295**	**-**	**-**	**-**
2. Increases	**26,214**	**493**	**-**	**25,721**	**54,228**	**-**	**-**	**-**
2.1. Purchases	23,385	-	-	23,385	-	-	-	-
2.2. Profits posted to:	2,829	493	-	2,336	54,228	-	-	-
2.2.1. Income statement	2,829	493	-	2,336	-	-	-	-
- of which: capital gains	2,829	493	-	2,336	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	-	54,228	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	**2,614**	**647**	**-**	**1,967**	**115,189**	**-**	**-**	**-**
3.1. Sales	54	-	-	54	114,695	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3. Losses posted to:	1,986	647	-	1,339	-	-	-	-
3.3.1. Income statement	1,986	647	-	1,339	-	-	-	-
- of which: capital losses	1,986	647	-	1,339	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	-	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	574	-	-	574	494	-	-	-
4. Closing balance	**57,855**	**493**	**-**	**57,362**	**3,334**	**-**	**-**	**-**

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

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**592**	**-**	**-**
2. Increases	**440**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses posted to:	440	-	-
2.2.1. Income statement	440	-	-
- of which: capital losses	440	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**592**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits posted to:	592	-	-
3.3.1. Income statement	592	-	-
- of which: capital gains	592	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**440**	**-**	**-**

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2021				31.12.2020			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	16,330,175	2,271,868	8,319,758	6,089,065	14,332,345	2,099,602	7,970,888	4,780,775
2. Investment property	2,502	-	-	2,823	1,758	-	-	1,920
3. Non-current assets and disposal groups held for sale	13,080	-	-	13,080	-	-	-	-
Total	16,345,757	2,271,868	8,319,758	6,104,968	14,334,103	2,099,602	7,970,888	4,782,695
1. Financial liabilities at amortised cost	16,316,377	-	1,513,377	14,801,083	14,276,954	-	1,601,142	12,676,375
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	16,316,377	-	1,513,377	14,801,083	14,276,954	-	1,601,142	12,676,375

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

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

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

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

PART B - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - caption 10

1.1 Cash and cash equivalents: breakdown

	31.12.2021	31.12.2020
a) Cash	52,904	56,525
b) Current accounts and demand deposits with Central Banks	-	-
c) Current accounts and demand deposits with banks	31,508	63,817
Total	84,412	120,342

To reflect the inclusion in caption "10. Cash and cash equivalents" of current accounts and demand deposits with banks and Central Banks (with the exception of the Reserve Requirement account) required by the 7th update to Circular 262 published in October 2021, the balance of the comparison period was restated following the reclassification of Euro 63,817 thousand from caption 40.a) Due from banks to caption 10) Cash and cash equivalents.

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

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31.12.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	3,599	-	-	2,930	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	3,599	-	-	2,930	-
2. Equity instruments	4,668	-	-	2,553	-	-
3. Mutual funds	2,151	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	6,819	3,599	-	2,553	2,930	-
B. Derivatives						
1. Financial derivatives	113	10	493	109	-	647
1.1 for trading	113	10	493	109	-	647
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	113	10	493	109	-	647
Total (A+B)	6,932	3,609	493	2,662	2,930	647

Key
L1 = Level 1
L2 = Level 2
L3 = Level 3
Caption 20 "Financial assets held for trading" comprises:

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

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

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

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

Captions/Amounts	31.12.2021	31.12.2020
A. Cash assets		
1. Debt securities	3,599	2,930
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	3,599	2,930
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	4,668	2,553
a) Banks	541	302
b) Other financial companies	1,209	266
of which: insurance companies	-	-
c) Non-financial companies	2,918	1,985
d) Other issuers	-	-
3. Mutual funds	2,151	-
4. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	10,418	5,483
B. Derivatives		
a) Central counterparties	-	-
b) Other	616	756
Total (B)	616	756
Total (A+B)	11,034	6,239

2.5 Other financial assets mandatorily at fair value: breakdown

Captions/Amounts	31.12.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**883**	**-**	**-**	**860**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	883	-	-	860	-
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Mutual funds	**16,265**	**-**	**57,362**	**15,995**	**-**	**33,608**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**16,265**	**883**	**57,362**	**15,995**	**860**	**33,608**

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

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

In particular, in 2021 sales of loans were carried out for a nominal value of Euro 46,742 thousand, with the subscription of closed-end funds for Euro 18,386 thousand, valued in line with the Group's fair value policy.

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

	31.12.2021	31.12.2020
1. Equity instruments	**-**	**-**
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	**883**	**860**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	883	860
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Mutual funds	**73,627**	**49,603**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**74,510**	**50,463**

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

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

Captions/Amounts	31.12.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	562,177	17,680	-	574,272	13,893	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	562,177	17,680	-	574,272	13,893	-
2. Equity instruments	169	10,000	3,334	186	10,000	64,295
3. Loans	-	-	-	-	-	-
Total	562,346	27,680	3,334	574,458	23,893	64,295

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

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

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

In the comparison period, in particular, caption "2. Equity instruments" showed the investment in Cedacri S.p.A. for Euro 60.5 million, based on internal valuation models applied to the economic and financial forecasts contained in the strategic planning documents. On 5 March 2021, the shareholders of Cedacri signed a binding agreement which provided for the sale of their respective equity investments to ION. Considering that the equity investment was sold on 3 June 2021, the buyer (the newco Cedacri Mergeco S.p.A.) paid the Bank the agreed sum of Euro 114.7 million, as described in greater detail in the Report on Operations, to which reference is made.

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

Captions/Amounts	31.12.2021	31.12.2020
1. Debt securities	**579,857**	**588,165**
a) Central banks	-	-
b) Public administrations	561,059	574,272
c) Banks	18,798	13,893
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**13,503**	**74,481**
a) Banks	10,000	10,000
b) Other issuers:	3,503	64,481
- other financial companies	2,224	2,503
of which: insurance companies	-	-
- non-financial companies	1,279	61,978
- other	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**593,360**	**662,646**

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

	Gross value					Total write-downs				Total partial write-offs
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired acquired or originated	First stage	Second stage	Third stage	Impaired acquired or originated	
Debt securities	579,857	579,857	-	-	-	163	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-
Total 31.12.2021	**579,857**	**579,857**	**-**	**-**	**-**	**163**	**-**	**-**	**-**	**-**
Total 31.12.2020	**588,165**	**588,165**	**-**	**-**	**-**	**172**	**-**	**-**	**-**	**-**

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

Type of transaction/ Amounts	31.12.2021						31.12.2020					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	Impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	Impaired acquired or originated	L1	L2	L3
A. Due from central banks	1,921,557	-	-	-	-	1,921,557	836,893	-	-	-	-	836,893
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirement	1,921,557	-	-	X	X	X	836,893	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	523,696	-	-	-	365,651	163,854	465,049	-	-	-	337,229	135,858
1. Loans	162,054	-	-	-	-	162,054	134,058	-	-	-	-	134,058
1.1. Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Time deposits	53,209	-	-	X	X	X	43,172	-	-	X	X	X
1.3. Other loans:	108,845	-	-	X	X	X	90,886	-	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Loans for leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	108,845	-	-	X	X	X	90,886	-	-	X	X	X
2. Debt securities	361,642	-	-	-	365,651	1,800	330,991	-	-	-	337,229	1,800
2.1 Structured securities	3,974	-	-	-	4,007	-	3,945	-	-	-	3,988	-
2.2 Other debt securities	357,668	-	-	-	361,644	1,800	327,046	-	-	-	333,241	1,800
Total	2,445,253	-	-	-	365,651	2,085,411	1,301,942	-	-	-	337,229	972,751

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

The balance of the comparison period was restated due to the reclassification of Euro 63,817 thousand from caption 40.a) Due from banks to caption 10) Cash and cash equivalents, to reflect the inclusion in caption 10) Cash and cash equivalents of current accounts and demand deposits with banks and Central Banks (with the exception of the Reserve Requirement account) required by the 7th update to Circular 262 published in October 2021.

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

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

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

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

The Bank's commitment to maintain the reserve requirement amounts to Euro 103.9 million at 31 December (Euro 101.3 million in December 2020).

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

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

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

Type of transaction/Amounts	31.12.2021						31.12.2020					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	Impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	Impaired acquired or originated	L1	L2	L3
1. Loans	10,890,376	227,783	9,598	-	7,528,161	3,928,178	10,163,851	298,675	10,702	-	7,196,337	3,739,218
1.1. Current accounts	911,200	42,010	161	X	X	X	875,822	72,580	311	X	X	X
1.2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgage loans	7,943,255	169,031	9,284	X	X	X	7,496,763	205,673	10,235	X	X	X
1.4. Credit cards, personal loans and assignments of one-fifth of salary	980,345	8,000	12	X	X	X	869,096	3,668	35	X	X	X
1.5 Loans for leases	151,439	5,146	-	X	X	X	154,268	12,057	-	X	X	X
1.6. Factoring	76,935	107	-	X	X	X	43,027	296	-	X	X	X
1.7. Other loans	827,202	3,489	141	X	X	X	724,875	4,401	121	X	X	X
2. Debt securities	2,757,165	-	-	2,271,868	425,946	75,476	2,493,358	-	-	2,099,602	437,322	4,989
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	2,757,165	-	-	2,271,868	425,946	75,476	2,493,358	-	-	2,099,602	437,322	4,989
Total	13,647,541	227,783	9,598	2,271,868	7,954,107	4,003,654	12,657,209	298,675	10,702	2,099,602	7,633,659	3,744,207

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

Gross loans amount to a total of Euro 11,472,049 thousand (Euro 10,823,025 thousand at the end of last year), of which Euro 10,996,967 thousand relate to performing loans and Euro 475,082 thousand to non-performing loans.

Total write-downs on the same loans amount to Euro 344,292 thousand (Euro 349,797 thousand at the end of the previous year), of which Euro 241,354 thousand relate to non-performing loans (Euro 275,702 thousand at the end of the previous year) and Euro 102,938 thousand to performing loans (Euro 74,095 thousand at the end of the previous year.

With regard to the determination of credit losses, the information provided in the note on "Risks, uncertainties and the impacts of the Covid-19 pandemic" in "Section 5 – Other aspects", contained in subsection "A.1 General information" of "Part A - Accounting policies", is supplemented by the note on the "Model for measuring expected losses on performing loans" contained in "Part E – Information on risks and related hedging policy" of these explanatory notes.

The breakdown of loans to customers by type at 31 December 2021 (compared with 31 December 2020) shows significant growth in medium/long-term mortgages and loans due to both the disbursements made to companies backed by guarantees from Medio Credito Centrale, and the loans to households.

The table also includes the amounts of receivables sold which have not been derecognised, constituting eligible assets for the Covered Bond programme; at 31 December 2021 these loans amount to 1,491,336 thousand euro (1,473,441 thousand euro at the end of the previous year).

The sub-caption "Mortgage loans" also include collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 3,177,848 thousand (Euro 2,889,722 thousand at the end of last year).

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

This caption includes the interest accrued at 31 December 2021 that is recoverable from 1 March of the following year, due to application of the rules for the calculation of interest on banking transactions established in MEF Decree no. 343/2016, which implements art. 120, para. 2, of the Consolidated Banking Law (T.U.B.).

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

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

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows. The value of debt securities is shown net of adjustments deriving from the application of the new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments". This portfolio at 31 December 2021 includes Euro 177,580 thousand of senior notes issued by the "2Worlds s.r.l." SPV following the sale of doubtful loans through use of the "GACS" scheme in 2018; another reimbursement of Euro 16,180 thousand was made in January 2022.

At 31 December 2021, non-performing loans of Euro 13,080 thousand were reclassified to caption "110. Assets held for sale", due to sales agreements previously signed and subsequently finalised at the beginning of 2022.

Banco Desio

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

Type of transaction/Amounts	31.12.2021			31.12.2020		
	First and second stage	Third stage	Impaired assets acquired or originated	First and second stage	Third stage	Impaired assets acquired or originated
1. Debt securities	**2,757,165**	**-**	**-**	**2,493,358**	**-**	**-**
a) Public administrations	2,250,151	-	-	2,048,094	-	-
b) Other financial companies	453,277	-	-	417,290	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	53,737	-	-	27,974	-	-
2. Loans to:	**10,890,376**	**227,783**	**9,598**	**10,163,851**	**298,675**	**10,702**
a) Public administrations	114,997	177	15	67,062	319	-
b) Other financial companies	206,611	2,067	-	134,043	5,208	-
of which: insurance companies	6,220	-	-	5,076	-	-
c) Non-financial companies	5,994,291	131,061	4,513	5,789,326	188,983	4,511
d) Households	4,574,477	94,478	5,070	4,173,420	104,165	6,191
Total	**13,647,541**	**227,783**	**9,598**	**12,657,209**	**298,675**	**10,702**

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

		Gross value					Total write-downs				Total partial write-offs
		First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired acquired or originated	First stage	Second stage	Third stage	Impaired acquired or originated	
Debt securities		3,121,344	3,120,874	-	-	-	2,537	-	-	-	-
Loans		11,248,321	-	1,828,629	465,450	13,406	18,490	84,473	237,667	3,808	6,371
Total	**31.12.2021**	**14,369,665**	**3,120,874**	**1,828,629**	**465,450**	**13,406**	**21,027**	**84,473**	**237,667**	**3,808**	**6,371**
Total	**31.12.2020**	**11,676,866**	**2,856,917**	**2,357,758**	**570,968**	**14,235**	**18,811**	**56,662**	**272,293**	**3,533**	**9,039**

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

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

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

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

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

4.4a Loans at amortised cost subject to Covid-19 support measures: gross value and total write-downs

		Gross value					Total write-downs				Total partial write-offs*
		First stage	of which: Instruments with low credit risk	Second stage	Third stage	Impaired acquired or originated	First stage	Second stage	Third stage	Impaired acquired or originated	
1. Loans subject to concession in compliance with the GL		16,796	-	525,174	31,823	332	93	48,431	10,734	57	-
2. Loans subject to moratorium measures in force no longer complying with GL and not considered subject to forbearance		-	-	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures		-	-	-	-	-	-	-	-	-	-
4. New loans		2,101,080	-	322,375	14,806	1,523	2,616	2,415	2,646	228	-
Total	**31.12.2021**	**2,117,876**	**-**	**847,549**	**46,629**	**1,855**	**2,709**	**50,846**	**13,380**	**285**	**-**
Total	**31.12.2020**	**2,782,760**	**553**	**1,636,177**	**58,666**	**4,447**	**4,031**	**40,213**	**13,665**	**585**	**-**

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

Exposures in stage 2 shown in the table were impacted by management overlays, in relation to both the staging allocation and the calculation of the expected loss of the model, which will be described in greater detail in “Section E - Information on risks and hedging policies”.

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

6.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets/Amounts	31.12.2021	31.12.2020
1. Positive adjustments	502	563
1.1 of specific portfolios:	-	-
a) financial assets at amortised cost	-	-
b) financial assets at fair value through other comprehensive income	-	-
1.2 total	502	563
2. Negative adjustments	-	-
2.1 of specific portfolios:	-	-
a) financial assets at amortised cost	-	-
b) financial assets at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	502	563

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

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

Section 7 - Equity investments - caption 70

7.1 Equity investments: details of holdings

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

Section 9 - Property, plant and equipment - caption 90

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

Assets/Amounts	31.12.2021	31.12.2020
1. Own assets	**165,199**	**169,207**
a) land	52,553	52,778
b) property	95,846	99,107
c) furniture	3,691	4,230
d) electronic systems	4,373	3,285
e) other	8,736	9,807
2. Assets held under finance leases	**50,719**	**51,518**
a) land	-	-
b) property	49,989	50,621
c) furniture	-	-
d) electronic systems	-	-
e) other	730	897
Total	215,918	220,725
of which: obtained through enforcement of the guarantees received	-	-

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

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

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

Note that at 31 December 2021 the RoU Asset referring to the head office of the subsidiary Fides S.p.A. in Via Ombrone, Rome was released on termination of the lease.

9.2 Investment property: breakdown of assets at cost

Assets/Amounts	31.12.2021				31.12.2020			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**2,502**	**-**	**-**	**2,823**	**1,758**	**-**	**-**	**1,920**
a) land	1,052	-	-	1,187	828	-	-	846
b) property	1,450	-	-	1,636	930	-	-	1,074
2. Rights of use acquired under lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) property	-	-	-	-	-	-	-	-
Total	**2,502**	**-**	**-**	**2,823**	**1,758**	**-**	**-**	**1,920**
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

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

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

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

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

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

9.4 Investment property: breakdown of assets carried at fair value

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

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

Assets/Amounts	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**52,778**	**210,549**	**40,027**	**31,050**	**58,092**	**392,496**
A.1 Total net write-downs	-	(60,821)	(35,797)	(27,765)	(47,388)	(171,771)
A.2 Net opening balance	**52,778**	**149,728**	**4,230**	**3,285**	**10,704**	**220,725**
B. Increases:	**-**	**15,611**	**479**	**4,326**	**1,551**	**21,967**
B.1 Purchases	-	12,102	213	2,140	998	15,453
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increase in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	-
B.7 Other changes	-	3,509	266	2,186	553	6,514
C. Decreases:	**225**	**19,504**	**1,018**	**3,238**	**2,789**	**26,774**
C.1 Sales	1	3	278	2,190	551	3,023
C.2 Depreciation	-	12,510	506	1,048	2,173	16,237
C.3 Impairment write-downs booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value booked to	-	-	180	-	-	180
a) shareholders' equity	-	-	57	-	-	57
b) income statement	-	-	123	-	-	123
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	224	844	-	-	-	1,068
a) investment property, plant and equipment	224	844	X	X	X	1,068
b) non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	6,147	54	-	65	6,266
D. Net closing balance	52,553	145,835	3,691	4,373	9,466	215,918
D.1 Net total write-downs	-	(73,036)	(36,035)	(26,627)	(49,070)	(184,768)
D.2 Gross closing balance	**52,553**	**218,871**	**39,726**	**31,000**	**58,536**	**400,686**
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

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

Captions "B.7 Other changes", "C.1 Sales" and "C.7 Other changes" include: the effects of disposals and sales of property, plant and equipment during the year; in particular, caption "B.7 Other changes" includes the release of the accumulated depreciation on the assets sold and caption "C.7 Other changes" includes the release of the historical cost of the same assets. As a result of these disposals, losses of Euro 103 thousand were recorded to the income statement under caption 230 "Other operating charges/income".

9.7 Investment property: changes during the year

	Total	
	Land	**Buildings**
A. Opening balance	**828**	**930**
B. Increases	**224**	**844**
B.1 Purchases	-	-
- of which: business combinations	-	-
B.2 Capitalised improvement costs	-	-
B.3 Positive changes in fair value	-	-
B.4 Write-backs	-	-
B.5 Foreign exchange gains	-	-
B.6 Transfers from assets used in business	224	844
B.7 Other changes	-	-
C. Decreases	**-**	**324**
C.1 Sales	-	-
- of which: business combinations	-	-
C.2 Depreciation	-	29
C.3 Negative changes in fair value	-	-
C.4 Impairment write-downs	-	-
C.5 Foreign exchange losses	-	-
C.6 Transfers to:	-	-
a) assets used in business	-	-
b) non-current assets and disposal groups held for sale	-	-
C.7 Other changes	-	295
D. Closing balance	**1,052**	**1,450**
E. Measurement at fair value	**1,187**	**1,636**

9.9 Commitments to purchase property, plant and equipment

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

Section 10 - Intangible assets - caption 100

10.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2021		31.12.2020	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		**15,322**		**15,322**
A.1.1 pertaining to the Group		15,322		15,322
A.1.2 pertaining to minority interests		-		-
A.2 Other intangible assets	**3,797**	**-**	**3,191**	**-**
of which Software	3,532	-	2,872	-
A.2.1 Carried at cost:	**3,797**	**-**	**3,191**	**-**
a) Intangible assets generated internally	-	-	-	-
b) Other assets	3,797	-	3,191	-
A.2.2 Carried at fair value:	**-**	**-**	**-**	**-**
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**3,797**	**15,322**	**3,191**	**15,322**

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

Other intangible assets are amortised on a straight-line basis over their useful lives which, for computer software, is four years and for application software is 4 or 5 years, based on the useful life specified within the asset category.

Impairment testing of goodwill

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

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

As described in the paragraph "Risks, uncertainties and impacts of the Covid-19 pandemic" in "Section 5 – Other aspects" of "A.1 General information" in "Part A - Accounting policies" of these explanatory notes (to which reference is made), preparation of these financial statements included carrying out impairment tests on goodwill and equity investments. These tests took account of the performance forecasts updated by management (starting with the 2021-2023 Business Plan) for the five-year period, based on the forecast at 31 December 2021 (developed starting from the latest final interim figures) of the 2022 budget approved by the Board of Directors on16 December 2021, as well as the most recent market forecasts available.

In particular, pursuant to IAS 36 and in application of the policy on the impairment of intangible assets with an indefinite useful life (goodwill) and equity investments, the recoverable amount of the CGUs was determined with reference to their value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived from them, using an appropriate discount rate for the time period in which the cash flows will be generated.

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

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

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

a) Criterion to estimate the recoverable amount (impairment)

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

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

The time period adopted for the 2022-2023 Business Plan was considered, together with the further projection of that plan made by management and approved by the Board of Directors on 10 January 2022. This prudent projection was used to obtain an explicit forecast for the next 5 years, thus reducing the distortions that would derive from using the shorter time horizon for the Plan, which is heavily conditioned by a complex systemic situation clouded by macroeconomic and sector uncertainties as a result of the pandemic. More generally, the longer time frame normalises the effect on results of exceptional events, in order to focus more properly on the true medium/long-term potential of the business tested.

Cash flows

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

Discount rate

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

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

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

Terminal Value

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

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

b) Parameters used for impairment testing

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

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco di Desio e della Brianza S.p.A.	DDM	2022 Budget extended to 2026 (*)	2.5%	8.22%	1.58%	Net results	Tier1 9.84% (**)
Fides S.p.A.	DDM	2022 Budget extended to 2026 (*)	7.1%	8.22%	1.58%	Net results	Tier1 9.84% (**)

(*) 2021-23 Business Plan forecasts updated by the management, taking account of the results achieved at 30 September 2021, the forecasts at 31 December 2021 and the most recent market forecasts available, which led to the approval of the 2022 budget and the additional 5-year projections developed.
(**) Target allocated capital for the Banco Desio Group estimated (CET1 5Y average) also in order to monitor the consistency with the minimum (current) levels of CET1 at the level of the CRR Brianza Unione Group.

As a result of the impairment testing, no write-down of goodwill was required.

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

c) Sensitivity analysis

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

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

CGU	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banco di Desio e della Brianza S.p.A.	43.56%	Over 1,000
Fides S.p.A.	39.60%	992

Second level impairment tests

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

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

a) Criterion to estimate the recoverable amount (impairment)

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

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

The time period adopted for the 2022-2023 Business Plan was considered, together with the further projection of that plan made by management and approved by the Board of Directors on 10 January 2022. This prudent projection was used to obtain an explicit forecast for the next 5 years, thus reducing the distortions that would derive from using the shorter time horizon for the Plan, which is heavily conditioned by a complex systemic situation clouded by macroeconomic and sector uncertainties as a result of the pandemic. More generally, the longer time frame normalises the effect on results of exceptional events, in order to focus more properly on the true medium/long-term potential of the business tested.

Cash flows

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

Discount rate

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

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

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

Terminal Value

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

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

b) Parameters used for impairment testing

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

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco Desio Group	DDM	2022 Budget extended to 2026 (*)	2.6%	8.22%	1.58%	Net results	Tier1 9.84% (**)

(*) 2021-23 Business Plan forecasts updated by the management, taking account of the main drivers relating to events in the period, the forecasts at 31 December 2021 and the most recent market forecasts available, which led to the approval of the 2022 budget and the additional 5-year projections.
(**) Target allocated capital for the Banco Desio Group estimated (CET1 5Y average) also in order to monitor the consistency with the minimum (current) levels of CET1 at the level of the CRR Brianza Unione Group.

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

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

c) Sensitivity analysis

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

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of consolidated shareholders' equity match the carrying amount at the measurement date.

CGU	% decrease in net future results (RN)	Increase in percentage points of discount rate used for future cash flows (FCFE)
Banco Desio Group	42.50%	683

Banco Desio

10.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		LIM	UNLIM	LIM	UNLIM	
A. Opening balance	**35,963**	**-**	**-**	**25,048**	**-**	**61,011**
A.1 Total net write-downs	(20,641)	-	-	(21,857)	-	(42,498)
A.2 Net opening balance	15,322	-	-	3,191	-	18,513
B. Increases	**-**	**-**	**-**	**2,352**	**-**	**2,352**
B.1 Purchases	-	-	-	2,352	-	2,352
- of which: business combinations	-	-	-	-	-	-
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- recognised in equity	X	-	-	-	-	-
- recognised in income statement	X	-	-	-	-	-
B.5 Foreign exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**1,746**	**-**	**1,746**
C.1 Sales	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Write-downs	-	-	-	1,746	-	1,746
- Amortisation	X	-	-	1,746	-	1,746
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value:	-	-	-	-	-	-
- recognised in equity	X	-	-	-	-	-
- recognised in income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Foreign exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**15,322**	**-**	**-**	**3,797**	**-**	**19,119**
D.1 Total net write-downs	(20,641)	-	-	(23,603)	-	(44,244)
E. Gross closing balance	**35,963**	**-**	**-**	**27,400**	**-**	**63,363**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

Key
LIM: limited duration
UNLIM: unlimited duration

10.3. Other information

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

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

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

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

Deferred tax assets are recognised when their recovery is probable.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	31.12.2021	31.12.2020
A) With contra-entry to the income statement:				
Tax losses	185		185	12,144
Tax deductible goodwill	3,727	755	4,482	4,082
Write-down of loans to customers deductible on a straight-line basis	113,065	15,805	128,870	152,407
General allowance for doubtful accounts	305		305	305
Statutory depreciation of property, plant and equipment	289		289	283
Provision for guarantees and commitments and country risk	1,116		1,116	1,360
Provisions for personnel costs	5,030	815	5,845	5,569
Provision for lawsuits	2,705		2,705	2,725
Provision for claw-backs	228	46	274	236
Provision for sundry charges	2,312	376	2,688	3,400
Tax provision for termination indemnities	6		6	7
Other	4,394	547	4,941	1,737
Total A	**133,362**	**18,344**	**151,706**	**184,255**
B) With contra-entry to shareholders' equity:				
Cash-flow hedges	1,082	219	1,301	1,301
Tax provision for termination indemnities	1,117		1,117	1,119
Write-down of securities classified as FVOCI	1,059	220	1,279	51
Other	75	15	90	99
Total B	3,333	454	3,787	2,570
Total (A+B)	136,695	18,798	155,493	186,825

Probability test on deferred tax assets

In relation to the deferred tax assets described above, it should be noted that they refer for Euro 109,898 thousand to taxes as per Law 214/2011, which made it certain that they would be recovered, thereby making the IAS 12 Income taxes probability test automatically satisfied.

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

The additional deferred tax assets described above, which are outside the scope of Law 214/2011, have been recognised in view of the probability of their recovery, expecting there to be sufficient taxable income in the future to recover these assets. In particular, deferred tax assets were analysed by type and timing of reabsorption, as well as the future profitability of the bank and the related taxable income based on the business plan forecasts referring to the time frame attributable to the years 2022 and 2023 of the 2021-2023 Business Plan, and the additional development of that plan, overseen by the management and approved by the Board of Directors on 10 February 2022, and their extension to 2026, described in greater detail as part of the impairment testing of goodwill. The analysis showed that there will be sufficient taxable income in the future to recover these assets.

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2021	31.12.2020
A) With contra-entry to the income statement:				
Gains on disposal of property, plant and equipment				
Tax depreciation of buildings				7,555
Tax depreciation of property, plant and equipment	-	13	13	16
Tax amortisation of goodwill	10	2	12	571
Tax amortisation of deferred charges (software)				
Tax provision as per art. 106, paragraph 3				
PPA of loans and receivables				
PPA of depreciation and amortisation				1,011
Tax provision for termination indemnities				
Other	645	5	650	569
Total A	**655**	**20**	**675**	**9,722**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	999	202	1,201	841
Revaluation of securities valued at FVOCI	20	4	24	630
Revaluation of equity investments				2,219
Revaluation of artworks	51	10	61	79
Total B	**1,070**	**216**	**1,286**	**3,769**
Total (A+B)	**1,725**	**236**	**1,961**	**13,491**

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

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

	31.12.2021	31.12.2020
1. Opening balance	**184,255**	**192,545**
2. Increases	**9,887**	**7,954**
2.1 Deferred tax assets recognised during the year	9,729	7,471
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	9,729	7,471
2.2 New taxes or increases in tax rates		
2.3 Other increases	158	483
3. Decreases	**42,436**	**16,244**
3.1 Deferred tax assets cancelled in the year	30,595	16,244
a) reversals	30,595	16,244
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases:	11,841	
a) conversion to tax credits as per Law 214/2011	11,841	
b) other		
4. Closing balance	**151,706**	**184,255**

The deferred tax assets recognised during the year mainly comprised:

- Euro 4,048 thousand relating to non-deductible provisions to risks and charges and employee related provisions;
- Euro 99 thousand to the non-deductible provisions tax disputes;
- Euro 1,161 thousand for non-deductible provisions for legal disputes and bankruptcy clawback actions;
- Euro 800 thousand for the restoration of the deferred tax assets due to the realignment carried out pursuant to art. 110 of Decree Law no 104/2020 of the tax values to the higher statutory amounts of goodwill recognised in 2019 following the merger by incorporation of the former subsidiary Banca Popolare di Spoleto;
- Euro 205 thousand for ACE (Aid for Economic Growth).

The sub-caption "2.3 Other increases" relates to the recognition of deferred tax assets as a result of the recomputation, made for the purpose of the tax return for the year 2020.

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

- Euro 20,315 thousand from the recovery of prior year loan write-downs, pursuant to art. 16, paragraph 4 of Decree Law no. 83 of 27 June 2015 and subsequent amendments and integrations;

- Euro 3,037 thousand from the deduction of the 10% annual portion pursuant to paragraphs 1067 and 1068 of art. 1 of Law 145/2018, of the income elements arising from the adoption of the recognition of the expected losses on loans and receivables from customers, booked on first-time adoption of the IFRS 9 standard;
- Euro 6,213 thousand relating to the use of taxed provisions.

Caption “3.3 Other decreases” refers to the credit relating to the tax losses of the Parent Company for 2020, transformed into tax credits pursuant to art. 2, paragraph 56-bis of Decree Law no. 225/2010, starting from the date of filing the tax returns.

The closing balance comprises the credit for the current-year tax loss of the Parent Company, 185 thousand euro, which is transformable into a tax credit pursuant to art. 2, para. 56-bis, of Decree 225/2010, upon presentation of the annual income tax declaration.

That amount includes the lower credit for deferred tax assets on the tax loss, equal to Euro 1,343 thousand, generated due to the income components charged directly to shareholders' equity, which were never planned to be charged to the income statement.

11.4 Changes in deferred tax assets under Law 214/2011

	31.12.2021	31.12.2020
1. Opening balance	**142,599**	**151,027**
2. Increases		
3. Decreases	32,701	8,428
3.1 Reversals	20,860	8,428
3.2 Conversion to tax credits	11,841	
a) arising from the loss for the year		
b) arising from tax losses	11,841	
3.3 Other decreases		
4. Closing balance	**109,898**	**142,599**

"3.1 Reversals" refers to:

- Euro 20,315 thousand for the recovery of prior year loan write-downs, pursuant to art. 16, paragraph 4 of Decree Law no. 83 of 27 June 2015 and subsequent amendments and integrations;
- Euro 72 thousand for the amortisation of goodwill previously stepped up for tax purposes.

Caption “3.2 Conversion to tax credits” refers to the credit relating to the tax losses of the Parent Company for 2020, transformed into tax credits pursuant to art. 2, paragraph 56-bis of Decree Law no. 225/2010, starting from the date of filing the tax returns.

The closing balance comprises the credit for the current-year tax loss of the Parent Company, 185 thousand euro, which is transformable into a tax credit pursuant to art. 2, para. 56-bis, of Decree 225/2010, upon presentation of the annual income tax declaration.

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

	31.12.2021	31.12.2020
1. Opening balance	**9,722**	**12,255**
2. Increases	**703**	**63**
2.1 Deferred tax liabilities recognised during the year	703	63
a) relating to prior years		
b) due to changes in accounting policies		
c) other	703	63
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**9,750**	**2,596**
3.1 Deferred tax liabilities cancelled during the year	9,657	2,594
a) reversals	9,657	2,594
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases	93	2
4. Closing balance	**675**	**9,722**

Deferred tax liabilities recognised during the year mainly refer to the Provision for termination indemnities and the adjustment of deferred tax liabilities on the value of buildings following the realignment carried out by the Parent Company pursuant to art. 110 of Decree Law no. 104/2020.

Deferred tax liabilities cancelled during the year are mainly attributable:

- for Euro 9,544 thousand, to the realignment carried out by the Parent Company, pursuant to art. 110 of Decree Law no. 104/2020, of the tax values to the higher statutory values of buildings;
- for 111 thousand euro to the share of capital gains realised on financial assets in 2017, deductible on a straight-line basis over the following four years in accordance of art. 86 of TUIR (Consolidated Income Tax Act).

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

	31.12.2021	31.12.2020
1. Opening balance	**2,570**	**2,408**
2. Increases	**1,259**	**172**
2.1 Deferred tax assets recognised during the year	1,259	172
a) relating to prior years		
b) due to changes in accounting policies		
c) other	1,259	172
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**42**	**10**
3.1 Deferred tax assets cancelled in the year	42	10
a) reversals	42	10
b) written down as no longer recoverable		
c) due to changes in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	**3,787**	**2,570**

Deferred tax assets recognised during the year are due to the valuation of securities classified as Financial assets valued at fair value through other comprehensive income (FVOCI).

Deferred tax liabilities cancelled during the year are essentially due to the valuation of securities classified as Financial assets valued at fair value through other comprehensive income (FVOCI).

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

	31.12.2021	31.12.2020
1. Opening balance	3,769	3,561
2. Increases	364	1,104
2.1 Deferred tax liabilities recognised during the year	364	1,104
a) relating to prior years		
b) due to changes in accounting policies		
c) other	364	1,104
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	2,847	896
3.1 Deferred tax liabilities cancelled during the year	2,847	896
a) reversals	2,847	896
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Closing balance	1,286	3,769

Banco Desio

Deferred tax liabilities recognised during the year are mainly due to the change in the cash-flow hedge reserve.

Deferred tax liabilities cancelled during the year are essentially due to the measurement and sale of securities classified as Financial assets at fair value through other comprehensive income (FVOCI).

Section 12 – Non-current assets and disposal groups held for sale and associated liabilities – Caption 120 of assets and Caption 70 of liabilities and shareholders' equity

At 31 December 2021, assets held for sale included non-performing loans of Euro 13,080 thousand valued at the sale price deriving from the sales agreements signed and finalised at the date of approval of this document.

Section 13 - Other assets - caption 130

13.1 Other assets: breakdown

	31.12.2021	31.12.2020
Tax credits		
- capital	151,210	2,948
Amounts recoverable from the tax authorities for advances paid	36,334	30,016
Cheques negotiated to be cleared	15,502	15,808
Invoices issued to be collected	320	304
Items being processed and in transit with branches	22,796	19,409
Currency spreads on portfolio transactions	-	141
Investments of the supplementary fund for termination indemnities	19	31
Leasehold improvement expenditure	7,278	8,202
Accrued income and prepaid expenses	20,150	3,290
Other items	36,480	28,465
Total	290,089	108,614

The "Tax credits" caption mainly relates to:

- for Euro 147,166 thousand to tax credits for the eco/earthquake bonuses acquired pursuant to art. 121 of Decree Law 34/2020 and recognised at amortised cost, as indicated in Part A – A.2 Main captions in the financial statements, to which reference is made;
- for Euro 1,127 thousand, to the credit linked to management of the reconstruction loans disbursed after the 2009 earthquake in Abruzzo;
- for Euro 2,215 thousand, to the credit linked to management of the reconstruction loans disbursed after the 2016 earthquake in Central Italy.

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

- a receivable for virtual stamp duty of Euro 24,469 thousand;

- a receivable for an advance payment of substitute tax due on capital gains of Euro 10,101 thousand, as per art. 2, para. 5, of Decree Law no. 133 of 30 November 2013;
- the receivable for substitute tax on medium/long-term loans for Euro 972 thousand;
- a receivable for withholding tax on the interest earned by deposits and current accounts of Euro 792 thousand.

The most significant items among "Items being processed and in transit with branches" are those relating to cheques being processed, Euro 1,587 thousand; the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 1,706 thousand, the recovery of commissions on lines of credit made available to customers, Euro 6,849 thousand, and units of a closed-end investment fund to be received for Euro 5,538 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new year.

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

"Leasehold improvement expenditure" is amortised each year in accordance with the residual period of the lease agreement.

"Accrued income and prepaid expenses" include amounts that are not attributable to specific asset captions; this caption mainly relates to prepaid administrative costs; the change on the previous year is mainly attributable to the different dynamics in payment of the fees for the IT outsourcer, paid in advance for 2022.

The main sub-captions included in the caption "Other items" are:

- other amounts awaiting collection for 20,068 thousand euro (mainly stamp duty recoverable on bank statements, services charged to clients on a quarterly basis and interbank income receivable;
- invoices to be issued for Euro 4,948 thousand.

LIABILITIES AND SHAREHOLDERS' EQUITY

Section 1 - Financial liabilities at amortised cost - caption 10

1.1 Financial liabilities at amortised cost: breakdown of amounts due to banks

Type of transaction/Amounts	31.12.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	3,805,889	X	X	X	2,396,583	X	X	X
2. Due to banks	9,806	X	X	X	15,661	X	X	X
2.1 Current accounts and demand deposits	56	X	X	X	1,376	X	X	X
2.2 Time deposits	9,750	X	X	X	14,285	X	X	X
2.3 Loans	-	X	X	X	-	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Finance lease payables	-	X	X	X	-	X	X	X
2.6 Other payables	-	X	X	X	-	X	X	X
Total	3,815,695	-	-	3,815,695	2,412,244	-	-	2,412,244
Total	3815695				2412244			

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

The "Due to central banks" caption reflects the funding facility assigned to the Bank by the ECB as part of the "TLTRO " operation. To assist this loan, the Bank has lodged collateralised mortgage loans with the ECB (via the A.Ba.Co. procedure).

In March and December 2021, the Bank participated in TLTRO III auctions for amounts of Euro 1.0 billion and Euro 0.45 billion, respectively, thus bringing total TLTRO III loans outstanding to Euro 3.85 billion. As a result of exceeding the benchmark for net disbursements, and the resulting achievement of the bonus rate, at 31 December 2021 the caption interest income includes the interest accrued during the year for Euro 35.7 million which, along with the accruals recognised in the previous year for Euro 3.4 million, bring the total accruals of negative interest income to Euro per 39.1 million.

1.2 Financial liabilities at amortised cost: breakdown of amounts due to customers

Type of transaction/Amounts	31.12.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	10,124,243	X	X	X	9,555,338	X	X	X
2. Time deposits	434,619	X	X	X	515,159	X	X	X
3. Loans	324,775	X	X	X	69,505	X	X	X
3.1 Repurchase agreements	207,735	X	X	X	-	X	X	X
3.2 Other	117,040	X	X	X	69,505	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Finance lease payables	51,817	X	X	X	52,293	X	X	X
6. Other payables	42,963	X	X	X	63,488	X	X	X
Total	10,978,417	-	-	10,978,417	10,255,783	-	-	10,255,783

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

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

The heading "5. Finance lease payables" shows, in application of IFRS 16 in force from 1 January 2019, the lease liability, consisting of the current value of the payments which still have to be paid to the lessor at the reporting date.

The main components of caption 6. "Other payables" relate to: cashier's cheques for Euro 38,894 thousand and cheques for Euro 540 thousand (cashier's cheques for Euro 59,837 thousand and cheques for Euro 543 thousand respectively at the end of the previous year).

1.3 Financial liabilities at amortised cost: breakdown of debt securities in issue

Type of security/Amounts	31.12.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	1,515,294	-	1,513,377	-	1,600,580	-	1,601,142	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,515,294	-	1,513,377	-	1,600,580	-	1,601,142	-
2. other securities	6,971	-	-	6,971	8,347	-	-	8,347
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	6,971	-	-	6,971	8,347	-	-	8,347
Total	1,522,265	-	1,513,377	6,971	1,608,927	-	1,601,142	8,347

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

This caption reflects funding by means of securities, which include bonds and certificates of deposit, the book value of which is measured at amortised cost (or at fair value if the security is hedged), inclusive of accrued interest thereon. The total funds collected are shown net of repurchased securities.

The caption A.1.2 "Bonds: other" includes the Guaranteed Bank Bonds (GGB) issued for Euro 1,171.9 million.

Sub-caption A.2.2 "Other securities: other" consist of certificates of deposit and related accrued interest, with a short term maturity.

1.4 Details of subordinated payables/securities

Bonds	Issue date	Maturity date	Currency	Interest rate	31.12.2021	31.12.2020
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	80,027	80,006
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	-	50,081
Total					80,027	130,087

No subordinated bond was issued by the Group during the period.

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Section 2 - Financial liabilities held for trading - caption 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	31.12.2021					31.12.2020				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	X	-	5,461	440	X	X	-	6,935	592	X
1.1 for trading	X	-	5,461	440	X	X	-	6,935	592	X
1.2 connected with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 for trading	X	-	-	-	X	X	-	-	-	X
2.2 connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**5,461**	**440**	**X**	**X**	**-**	**6,935**	**592**	**X**
Total (A+B)	**X**	**-**	**5,461**	**440**	**X**	**X**	**-**	**6,935**	**592**	**X**

Key
NV = Nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
Fair value* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

Caption 20 "Financial liabilities held for trading" comprises the negative value of derivatives held for trading.

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

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

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

At the reference date, the Group did not have subordinated loans included in financial liabilities held for trading

Section 4 - Hedging derivatives - caption 40

4.1 Hedging derivatives: breakdown by type and level

	31.12.2021				31.12.2020			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives		**365**		**80,000**		**1,540**		**130,000**
1) Fair value								
2) Cash flows		365		80,000		1,540		130,000
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**365**		**80,000**		**1,540**		**130,000**

Key
NV = Notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

This caption reports the fair value of the financial derivatives arranged to hedge bonds issued by the Bank (cash flow hedges).

Section 6 - Tax liabilities - caption 60

The breakdown and changes during the year of tax liabilities are disclosed in Section 11, Assets, together with information on deferred tax assets.

Section 8 - Other liabilities - caption 80

8.1 Other liabilities: breakdown

	31.12.2021	31.12.2020
Due to tax authorities	804	2,788
Amounts payable to tax authorities on behalf of third parties	34,324	27,218
Social security contributions to be paid	6,411	6,529
Dividends due to shareholders	16	12
Suppliers	17,408	20,984
Amounts available to customers	13,580	11,543
Payments against bill instructions	58	304
Early payments on loans not yet due	43	64
Items being processed and in transit with branches	9,761	14,402
Currency differences on portfolio transactions	137,428	104,184
Due to personnel	8,032	12,231
Sundry creditors	83,800	90,023
Accrued expenses and deferred income	9,020	6,951
Total	**320,685**	**297,233**

The "Amounts payable to tax authorities on behalf of third parties" mainly relate to the F24 tax payments to be made on behalf of customers and to the taxes withheld by the Group for payment to the tax authorities.

"Items being processed and in transit with branches" are generally settled in the first few days of the next period. The main components relate to:

- bank transfers being processed of Euro 1,677 thousand,
- MAV/RAV receipts, payment slips and Sepa direct debit (SDD) instructions for Euro 1,121 thousand,
- items related to transactions in securities settled afterwards for Euro 277 thousand,
- transitory items for the settlement of purchase orders of customers of asset management products (funds and bancassurance) for Euro 682 thousand.

The amount of "Currency differences on portfolio transactions" is the result of the offset of illiquid liability positions against illiquid asset positions, in relation to various types of transactions in connection with the accounts of customers and correspondent banks.

"Due to personnel" includes the payable relating to early retirement incentives of Euro 6,686 thousand (Euro 9,877 thousand at the end of last year) and the amount due for untaken holiday of Euro 753 thousand (Euro 1,846 thousand at the end of last year).

The main items included in caption "Sundry creditors" refer to: bank transfers being processed of Euro 64,527 thousand (Euro 57,759 thousand at the end of the previous year), sundry creditors for currency trading transactions for Euro 824 thousand (Euro 2,198 thousand in the previous year), creditors for bills paid for Euro 3,807 thousand (Euro 824 thousand in the previous year), and sums collected for pending disputes awaiting attribution for Euro 5,080 thousand (Euro 5,837 thousand in the previous year); the comparison period also included the amount of dividends on the profit of the Parent Company Banco Desio at 31 December 2019, equal to Euro 14,359 thousand, awaiting distribution to shareholders, as subject to the condition precedent according to the specific regulatory framework of reference.

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Section 9 - Provision for termination indemnities - caption 90

9.1 Provision for termination indemnities: changes during the year

	31.12.2021	31.12.2020
A. Opening balance	**24,740**	**25,481**
B. Increases	**194**	**535**
B.1 Provision for the year	194	85
B.2 Other changes	-	450
C. Decreases	**(2,974)**	**(1,276)**
C.1 Payments made	(2,962)	(1,275)
C.2 Other changes	(12)	(1)
D. Closing balance	**21,960**	**24,740**
Total	**21,960**	**24,740**

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

The provision made in the year does not include amounts paid directly by the Group, depending on the choice made by employees, to supplementary pension schemes or to the state pension scheme managed by INPS. The cost of the foregoing payments, which for the year just ended amounts to Euro 10,717 thousand (Euro 11,417 thousand last year), is recognised in Personnel expenses in the sub-caption "g) payments to external supplementary pension funds: defined contribution".

The captions "B.2 Other changes" and "C.2 Other changes" reflects the impact of discounting the provision for termination indemnities for statutory purposes (positive and negative).

The statutory liability to the employees of the Group at year end amounts to Euro 20,139 thousand.

9.2. Other information

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

Demographic assumptions

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

- for the probability of advances, an annual amount of 4% was assumed;

Economic-financial assumptions

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

- technical discounting rate -0.38%
- annual inflation rate 1.20%
- total annual income growth rate 2.50%
- termination indemnity annual growth rate 2.40%.

As regards the discount rate, the iBoxx Eurozone Corporates AA 7-10 index at the latest date available has been taken as reference for the valuation of this parameter.

The following table gives a sensitivity analysis of the liability recognised on changes in the economic and financial assumptions:

	Increase in parameter (+)	Decrease in parameter (-)
Annual discounting rate (+/- 0.25%)	21,633	22,298
Annual inflation rate (+/- 0.25%)	22,151	21,774
Annual turn over rate (+/- 2.00%)	21,768	22,182

Section 10 - Provisions for risks and charges - caption 100

10.1 Provisions for risks and charges: breakdown

Items/Components	31.12.2021	31.12.2020
1. Credit risk provisions relating to commitments and financial guarantees given	4,058	4,947
2. Provisions for other commitments and other guarantees given	-	-
3. Pensions and similar commitments	-	-
4. Other provisions for risks and charges	42,718	42,015
4.1 Legal and tax disputes	10,969	10,620
4.2 Personnel expenses	18,150	17,450
4.3 Other	13,599	13,945
Total	**46,776**	**46,962**

In caption "1. Provisions for credit risk relating to commitments and financial guarantees given", the risk provision is determined by applying the models for calculating the expected loss defined on first-time adoption of "IFRS 9 Financial Instruments".

The "Legal disputes" sub-caption includes provisions made for losses expected to arise from disputes, of which Euro 10,140 thousand relates to legal disputes (Euro 9,908 thousand at the end of last year) and Euro 829 thousand relates to bankruptcy clawback actions (Euro 712 thousand at the end of 2020).

The caption "personnel expenses" mainly includes the liabilities regarding costs for redundancy incentives for Euro 4,067 thousand (Euro 7,852 thousand in the previous year), relating to the bonus system for Euro 10,236 thousand (Euro 5,661 thousand at the end of the previous year, a figure which was impacted by the revision of the bonus pool in 2020 when the Covid-19 pandemic was exploding) and for long-service and additional holiday awards for Euro 3,828 thousand (Euro 3,906 thousand at the end of the previous year).

The caption "Other" includes provisions for charges pertaining to other operating risks, including provisions for contractual indemnities due to financial advisors on the occurrence of certain conditions

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

10.2 Provisions for risks and charges: changes in the year

	Provisions for other commitments and other guarantees given	Other provisions	Total
A. Opening balance	**4,947**	**42,015**	**46,962**
B. Increases		**19,341**	**19,341**
B.1 Provision for the year		19,021	19,021
B.2 Changes due to the passage of time		1	1
B.3 Changes due to changes in the discount rate			
B.4 Other changes		319	319

C. Decreases	**889**	**18,638**	**19,527**
C.1 Utilisations during the year	889	11,358	12,247
C.2 Changes due to changes in the discount rate			
C.3 Other changes		7,280	7,280
D. Closing balance	**4,058**	**42,718**	**46,776**

With reference to "Other provisions", "B.1 Provisions of the year" include accruals for:

- to the bonus fund of Euro 10,006 thousand,
- for other operational risks, including the provisions related to the indemnities to be paid to financial advisors, for Euro 4,348 thousand,
- charges for legal disputes and bankruptcy of Euro 3,347 thousand.

The caption "B.2 Changes due to the passage of time" includes discount interest accrued during the year on the provision for legal disputes and on the staff provision for solidarity, due to the proximity of the expected maturities of the liabilities.

The caption "C.1 Utilisations in the year" includes direct utilisations of Provisions for risks and charges as a result of agreements and settlements executed in the year, as well as conditions having been met for the payment of provisions to the personnel. In particular, utilisations related mainly to payments for legal disputes and claims from bankruptcy administrators, Euro 3,840 thousand, payments relating to the bonus fund, Euro 5,333 thousand, and to operational risks, Euro 2,130 thousand.

Caption "C.3 Other changes" includes the partial release of the provision for operating risks for Euro 2,713 thousand, in place at the end of the previous year for contingent operating risks linked to the situation of particular legal uncertainty relating to transactions with customers in the consumer credit segment; compared with the previous year, the current frame of reference is marked by the validity of newly-issued primary regulations (Decree Law no. 73/2021, known as "Sostegni-Bis").

10.3 Credit risk provisions relating to commitments and financial guarantees given

	Credit risk provisions relating to commitments and financial guarantees given				
	First stage	**Second stage**	**Third stage**	**Impaired loans acquired or originated**	**Total**
Commitments to disburse funds	1,181	210	-	-	1,391
Financial guarantees given	239	364	2,064	-	2,667
Total	**1,420**	**574**	**2,064**	**-**	**4,058**

10.5 Pensions and similar commitments - defined benefits

There are nil balances at year end.

10.6. Provisions for risks and charges: other provisions

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

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

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

	31.12.2021	31.12.2020
A. Share capital	**70,693**	**70,693**
A.1 Ordinary shares	70,693	63,828
A.2 Savings shares		6,865
A.3 Preference shares		
B. Treasury shares		
B.1 Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	**70,693**	**70,693**

On 29 November 2021 the mandatory conversion of 13,202,000 savings shares into 11,617,760 ordinary shares of Banco di Desio e della Brianza took effect; the share capital, unchanged on the comparison period, fully subscribed and paid-in, equal to Euro 70,692,590.28, is therefore divided into 134,363,049 ordinary shares without nominal value.

13.2 Share capital - number of shares of the Parent Company: changes during the year

Captions/Type	Ordinary	Other
A. Shares at the beginning of the year	**122,745,289**	**13,202,000**
- fully paid	122,745,289	13,202,000
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares in circulation: opening balance	122,745,289	13,202,000
B. Increases	**11,617,760**	**-**
B.1 New issues		
- for payment		
- business combination		
- conversion of bonds		
- exercise of warrant		
- other	11,617,760	
- bonus issues		
- in favour of employees		
- in favour of directors		
- other		
B.2 Sale of treasury shares		

B.3 Other changes		
C. Decreases	**-**	**13,202,000**
C.1 Cancellation		13,202,000
C.2 Purchase of treasury shares		
C.3 Business sale transactions		
C.4 Other changes		
D. Shares in circulation: closing balance	134,363,049	-
D.1 Treasury shares (+)		
D.2 Shares at the end of the year		
- fully paid		
- not fully paid		

13.4 Revenue reserves: other information

	31.12.2021	31.12.2020
Legal reserve	105,190	102,800
Statutory reserves	605,474	592,375
Retained earnings (losses)	100,932	3,474
Other FTA reserves	99,785	99,785
Other reserves	132	83
Total	**911,513**	**798,517**

Section 14 - Minority interests - caption 190

14.1 Details of caption 190 "Minority interests"

Company name	31.12.2021	31.12.2020
Equity investments in consolidated companies with significant minority interests	4	4
Desio OBG S.r.l.	4	4
Other equity investments		
Total	**4**	**4**

14.2 Equity instruments: breakdown and changes during the year

None.

1. Commitments and financial guarantees given

	Nominal value on commitments and financial guarantees given				31.12.2021	31.12.2020
	First stage	Second stage	Third stage	Impaired loans acquired or originated		
1. Commitments to disburse funds	**3,012,227**	**85,917**	**7,721**	**-**	**3,105,865**	**3,315,311**
a) Central Banks	-	-	-	-	-	-
b) Public administrations	49,980	-	-	-	49,980	15,856
c) Banks	7,866	-	-	-	7,866	6,741
d) Other financial companies	104,173	1,869	-	-	106,042	164,181
e) Non-financial companies	2,625,933	77,373	7,288	-	2,710,594	2,906,814
f) Households	224,275	6,675	433	-	231,383	208,719
2. Financial guarantees given	**48,703**	**3,193**	**1,313**	**-**	**53,209**	**50,472**
a) Central Banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	6
c) Banks	32	-	-	-	32	32
d) Other financial companies	2,591	27	-	-	2,618	2,650
e) Non-financial companies	41,031	2,826	1,230	-	45,087	42,770
f) Households	5,049	340	83	-	5,472	5,014

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2. Other commitments and other guarantees given

	Nominal value 31.12.2021	Nominal value 31.12.2020
1. Other guarantees given	**233,033**	**210,896**
of which non-performing loans	2,922	3,188
a) Central Banks	-	-
b) Public administrations	48	50
c) Banks	5,741	6,325
d) Other financial companies	1,878	2,445
e) Non-financial companies	207,198	183,344
f) Households	18,168	18,372
2. Other commitments	**-**	**-**
of which non-performing loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31.12.2021	31.12.2020
1. Financial assets at fair value through profit or loss	-	-
2. Financial assets at fair value through other comprehensive income	207,543	-
3. Financial assets at amortised cost	6,321,364	4,363,163
4. Property, plant and equipment	-	-
of which: tangible fixed assets that constitute inventories	-	-

Caption "3. Financial assets at amortised cost" includes loans transferred to the SPV Desio OBG S.r.l. consisting of assets suitable for the issue of Covered Bonds (GBB) and the collateralised loans with the ECB through the A.Ba.Co. procedure.

5. Administration and trading on behalf of third parties

Type of services	**31.12.2021**
1. Execution of orders on behalf of customers	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	**1,747,284**
3. Custody and administration of securities	**21,361,591**
a) third-party securities on deposit as custodian bank (excluding portfolio management schemes)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) third-party securities held on deposit (excluding portfolio management schemes): Other	8,721,889
1. securities issued by the reporting bank	415,909
2. other securities	8,305,980
c) third-party securities deposited with third parties	8,700,788
d) portfolio securities deposited with third parties	3,938,914
4. Other transactions	-

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

Technical forms		Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e)	Net amount
					Financial instruments (d)	Cash deposits posted as collateral (e)	31.12.2021	31.12.2020
1. Derivatives		10	-	-	-	-	-	-
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
Total	31.12.2021	10	-	-	-	-	10	
Total	31.12.2020	-	-	-	-	-		-

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

Technical forms		Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e)	Net amount
					Financial instruments (d)	Cash deposits posted as collateral (e)	31.12.2021	31.12.2020
1. Derivatives		5,826	-	5,826	5,020	1,010	(204)	1,005
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
Total	31.12.2021	5,826	-	5,826	5,020	1,010	(204)	
Total	31.12.2020	8,475	-	8,475	6,330	1,140		1,005

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest - captions 10 and 20

Interest and similar income: breakdown

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2021	31.12.2020
1. Financial assets at fair value through profit or loss:	**377**	**-**	**-**	**377**	**158**
1.1 Financial assets held for trading	262	-	-	262	40
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	115	-	-	115	118
2. Financial assets at fair value through other comprehensive income	**755**	**-**	**X**	**755**	**1,033**
3. Financial assets at amortised cost:	**23,772**	**230,584**	**X**	**254,356**	**250,077**
3.1 Due from banks	4,631	83	X	4,714	4,204
3.2 Loans to customers	19,141	230,501	X	249,642	245,873
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**1,502**	**1,502**	**334**
6. Financial liabilities	**X**	**X**	**X**	**37,450**	**8,397**
Total	**24,904**	**230,584**	**1,502**	**294,440**	**259,999**
of which: interest income on impaired financial assets	-	1,993	-	1,993	3,862
of which: interest income from finance leases	X	2,210	X	2,210	3,408

Interest on "Financial assets at amortised cost" is recognised net of default interest accrued and not collected in the reference period on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question accrued at the year-end amounts to Euro 1,105 thousand (Euro 1,933 thousand).

Conversely, the caption includes default interest referred to the year and collected during the year of Euro 344 thousand (Euro 254 thousand last year).

Caption 5. "Other assets" includes revenues relating to the Ecobonus and Sismabonus tax credits recognised by the Bank following the sale by customers, showing the remuneration in net interest income during the recovery period.

Caption "6. Financial liabilities" includes the negative interest earned on the TLTRO loans obtained, recognised using the effective interest rate on an amortised cost basis (see Part A of the Explanatory notes, A.1 GENERAL INFORMATION – Section 4 Other aspects) for Euro 35,695 thousand (previously Euro 8,397 thousand) as well as interest income on repurchase agreements for Euro 1,755 thousand.

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Captions	31.12.2021	31.12.2020
Interest income on financial assets in foreign currency	368	676

1.3 Interest and similar expense: breakdown

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2021	31.12.2020
1. Financial liabilities at amortised cost	**(18,087)**	**(12,948)**	**X**	**(31,035)**	**(36,362)**
1.1 Due to central banks	-	X	X	-	
1.2 Due to banks	(709)	X	X	(709)	(1,092)
1.3 Due to customers	(17,378)	X	X	(17,378)	(20,284)
1.4 Debt securities in issue	X	(12,948)	X	(12,948)	(14,986)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**(322)**	**(322)**	**(240)**
5. Hedging derivatives	**X**	**X**	**(1,084)**	**(1,084)**	**(989)**
6. Financial assets	**X**	**X**	**X**	**(8,265)**	**(29)**
Total	**(18,087)**	**(12,948)**	**(1,406)**	**(40,706)**	**(37,620)**
of which: interest expense relating to lease payables	(702)	X	X	(702)	(1,041)

Caption "6. Financial assets" comprises the negative interest on the reserve account with the Bank of Italy for Euro 6,605 thousand, negative interest on securities included in the held to collect & sell portfolio for Euro 1,453 thousand as well as interest expense on reverse repurchase agreements for Euro 207 thousand.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

Captions	31.12.2021	31.12.2020
Interest expense on foreign currency financial liabilities	(143)	(280)

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1.5 Differentials on hedging transactions

Captions	31.12.2021	31.12.2020
A. Positive differentials on hedging transactions	-	-
B. Negative differentials on hedging transactions	(1,084)	(989)
C. Balance (A-B)	(1,084)	(989)

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Section 2 - Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2021	31.12.2020
a) Financial instruments	19,641	17,518
1. Placement of securities	3,651	2,956
1.1 With firm commitment and/or based on an irrevocable commitment	-	-
1.2 Without irrevocable commitment	3,651	2,956
2. Order taking and execution of orders on behalf of customers	5,450	5,445
2.1 Order taking for one or more financial instruments	5,450	5,445
2.2 Execution of orders on behalf of customers	-	-
3. Other commission connected with operations linked to financial instruments	10,540	9,117
of which: trading on own behalf	-	-
of which: individual asset management	9,963	8,540
b) Corporate Finance	-	-
1. M&A consultancy	-	-
2. Treasury services	-	-
3. Other commission connected with corporate finance services	-	-
c) Investment consultancy	-	-
d) Clearing and settlement	-	-
e) Collective asset management	-	-
f) Custody and administration	1,693	1,544
1. Custodian bank	-	-
2. Other commission linked to custody and administration	1,693	1,544
g) Centralised administrative services for collective asset management	-	-
h) Trustee activities	-	-
i) Payment services	112,117	97,463
1. Current accounts	78,058	70,381
2. Credit cards	12,904	6,423
3. Debit cards and other payment cards	4,682	5,143
4. Bank transfers and other payment orders	8,514	7,421
5. Other commission linked to payment services	7,959	8,095
j) Distribution of third-party services	63,741	50,555
1. Collective asset management	33,807	25,686
2. Insurance products	26,220	21,375
3. Other products	3,714	3,494
of which: individual asset management	380	395
k) Structured finance	-	-

l) Servicing related to securitisation	88	80
m) Commitments to disburse funds	-	-
n) Financial guarantees given	2,329	2,345
of which: credit derivatives	-	-
Financing transactions	7,370	5,766
of which: factoring transactions	1,533	923
p) Trading in foreign exchange	1,029	905
q) Commodities	-	-
r) Other commission income	8,092	8,632
of which: for management of multilateral trading systems	-	-
of which: for management of organised trading facilities	-	-
Total	216,100	182,496

Commission relating to the "distribution of third-party services" (sub-caption j.3) are mainly commissions for the distribution of personal loans.

Commission for “Other services” include commission income for salary-backed loans delegation of payment for Euro 5,837 thousand (Euro 4,843 thousand at the end of last year), internet banking fees for Euro 1,933 thousand (Euro 2,123 thousand at the end of last year), expense recoveries on collections of mortgage payments for Euro 1,475 thousand (Euro 1,343 thousand at the end of last year).

2.2 Commission expense: breakdown

Services/Amounts	31.12.2021	31.12.2020
a) Financial instruments	(267)	(274)
of which: trading in financial instruments	(267)	(274)
of which: placement of financial instruments	-	-
of which: individual asset management	-	-
- Own portfolio	-	-
- Portfolios managed by third parties	-	-
b) Clearing and settlement	-	-
c) Collective asset management	-	-
1. Own portfolio	-	-
2. Portfolios managed by third parties	-	-
d) Custody and administration	(1,458)	(1,289)
e) Collection and payment services	(2,081)	(3,249)
of which: credit and debit cards and other payment cards	(660)	(1,486)
f) Servicing related to securitisation	-	-
g) Commitments to receive funds	-	-
h) Financial guarantees received	(107)	(203)
of which: credit derivatives	-	-
i) offer of securities, financial products and services through financial promoters	(14,240)	(10,529)
l) trading in foreign exchange	-	-
m) Other commission expense	(817)	(865)
Total	(18,970)	(16,409)

Caption "offer of securities, financial products and services through financial advisors" shows the balance of commission expense for expenses connected to the network of financial advisors and agents.

Commission for "other services" includes fees for the presentation of customers and loans granted to them for Euro 109 thousand.

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2021		31.12.2020	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	236	-	143	-
B. Other financial assets mandatorily at fair value	-	-	-	-
C. Financial assets at fair value through other comprehensive income	454	-	1,622	-
D. Equity investments	-	-	-	-
Total	690	-	1,765	0

Section 4 - Net trading income - caption 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**280**	**1,421**	**(408)**	**(16)**	**1,277**
1.1 Debt securities	93	207	(9)	(9)	282
1.2 Equity instruments	127	1,069	(339)	(7)	850
1.3 UCITS units	60	108	(60)	-	108
1.4 Loans	-	-	-	-	-
1.5 Other	-	37	-	-	37
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**2,523**
4. Derivatives	**1,595**	**5,256**	**(10)**	**(6,351)**	**487**
4.1 Financial derivatives:	1,595	5,256	(10)	(6,351)	487
- On debt securities and interest rates	1,492	1,585	(10)	(1,642)	1,425
- On equities and equity indices	103	3,671	-	(4,709)	(935)
- On currency and gold	X	X	X	X	(3)
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**1,875**	**6,677**	**(418)**	**(6,367)**	**4,287**

The captions "1. Financial assets held for trading" and "4. Derivatives" include income from financial assets held for trading.

Caption "3. Other financial assets and liabilities: exchange differences" includes the gains (or losses) arising from assets and liabilities in foreign currency.

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

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	31.12.2021			31.12.2020		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	**4,179**	**(15,493)**	**(11,314)**	**6,502**	**(8,249)**	**(1,747)**
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	4,179	(15,493)	(11,314)	6,502	(8,249)	(1,747)
2. Financial assets at fair value through other comprehensive income	4,855	(458)	4,397	9,001	(783)	8,218
2.1 Debt securities	4,855	(458)	4,397	9,001	(783)	8,218
2.2 Loans	-	-	-	-	-	-
Total assets	**9,034**	**(15,951)**	**(6,917)**	**15,503**	**(9,032)**	**6,471**
Financial liabilities at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	11	(320)	(309)	43	(60)	(17)
Total liabilities	**11**	**(320)**	**(309)**	**43**	**(60)**	**(17)**

Caption "1.2 Loans to customers" reports the net gain of 838 thousand on disposal of financial assets, excluding those held for trading and those at fair value through profit and loss. This caption also includes the net gain (loss) on disposal of non-performing loans carried out by Banco.

The caption "2. Financial assets at fair value through other comprehensive income" includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect.

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

Section 7 - Result of financial assets and liabilities at fair value through profit and loss - caption 110

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	3,417	490	(2,784)	(392)	731
1.1 Debt securities	11	-	-	-	11
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	3,406	490	(2,784)	(392)	720
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	X	X	X	X	-
Total	3,417	490	(2,784)	(392)	731

This item consists of the result of financial instruments which must be valued at fair value through profit or loss, even if they are not held for trading, as they fail to pass the SPPI test foreseen in the new standard. This item is made up mainly of mutual funds, which by their very nature do not have characteristics compatible with passing the test.

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Section 8 - Adjustments for credit risk - caption 130

8.1 Net adjustments for credit risk relating to financial assets at amortised cost: breakdown

Transactions/Income components	Write-downs (1)						Write-backs (2)				31.12.2021	31.12.2020
	First stage	Second stage	Third stage		Impaired acquired or originated		First stage	Second stage	Third stage	Impaired acquired or originated		
			Write-offs	Other	Write-offs	Other						
A. Due from banks	(99)	-	-	-	-	-	2		-	-	(97)	25
- Loans	(26)	-	-	-	-	-	2	-	-	-	(24)	68
- Debt securities	(73)	-	-	-	-	-	-	-	-	-	(73)	(43)
B. Loans to customers	(2,655)	(27,845)	(3,371)	(66,544)	-	(143)	206	33	13,913	7	(86,399)	(71,748)
- Loans	(1,541)	(27,845)	(3,371)	(66,544)	-	(143)	206	33	13,913	-	(85,292)	(72,541)
- Debt securities	(1,114)	-	-	-	-	-	-	-	-	7	(1,107)	793
Total	(2,754)	(27,845)	(3,371)	(66,544)	-	(143)	208	33	13,913	7	(86,496)	(71,723)

This caption includes the adjustments and write-backs made against the credit risk of assets valued at amortised cost (loans to banks and customers, including debt securities).

As regards "Write-downs" the figure in the "Write-off" column relates to losses from the write-off of bad loans.

"Write-downs – third stage", which arise from the analytical assessment of the probability of recovery of non-performing loans and by discounting cash flows expected to be generated, relate to:

- bad loans Euro 23,328 thousand (versus Euro 19,917 thousand);
- unlikely to pay loans Euro 42,981 thousand (formerly Euro 36,661 thousand);
- past due loans Euro 378 thousand (formerly Euro 138 thousand);

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

"Write-backs (Third Stage)" relate to:

- bad loans amortised in previous years and with actual recoveries higher than expected for Euro 1,006 thousand (formerly Euro 717 thousand);
- collections of loans previously written down for Euro 8,299 thousand (formerly Euro 8,465 thousand);
- measurement write-backs for Euro 4,608 thousand (formerly Euro 7,403 thousand).

Adjustments to loans and debt securities result from the application of models for determining expected loan losses adopted by the Group.

With regard to the determination of credit losses, the information provided in the note on "Risks, uncertainties and the impacts of the Covid-19 pandemic" in "Section 5 – Other aspects", contained in subsection "A.1 General information" of "Part A - Accounting policies", is supplemented by the note on the "Model for measuring expected losses on performing loans" contained in "Part E – Information on risks and related hedging policy" of these explanatory notes.

8.1a Net adjustments for credit risk relating to loans valued at amortised cost subject to Covid-19 support measures: breakdown

Transactions/Income components	Write-downs, net						31.12.2021	31.12.2020
	First stage	Second stage	Third stage		Impaired acquired or originated			
			Write-offs	Other	Write-offs	Other		
1. Loans subject to forbearance complying with GL	465	(37,390)	-	(8,903)	-	(11)	(45,839)	(30,256)
2. Loans subject to moratorium measures in force no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures	-	-	-	-	-	-	-	-
4. New loans	598	(1,479)	-	(2,500)	-	(125)	(3,506)	(4,983)
Total 31.12.2021	1,063	(38,869)	-	(11,403)	-	(136)	(49,345)	
Total 31.12.2020	1,727	(26,750)		(6,762)				(35,239)

8.2 Net adjustments for credit risk relating to financial assets at fair value through other comprehensive income: breakdown

Transactions/Income components	Write-downs (1)						Write-backs (2)				31.12.2021	31.12.2020
	First stage	Second stage	Third stage		Impaired acquired or originated		First stage	Second stage	Third stage	Impaired acquired or originated		
			Write-offs	Other	Write-offs	Other						
A. Debt securities	(117)	-	-	-	-	-	126	-	-	-	9	191
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	(117)	-	-	-	-	-	126	-	-	-	9	191

This item includes the adjustments and write-backs deriving from application of the new models for determining the expected loss on the "held to collect & sell" debt securities portfolio in application of "IFRS 9 - Financial Instruments".

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Section 9 - Profits/losses from contractual changes without cancellations - caption 140

9.1 Profits/losses from contractual changes: breakdown

This caption includes the adjustment made to the book values of loans to customers that undergo changes to the contractual cash flows without giving rise to accounting cancellations pursuant to para. 5.4.3 and Appendix A of IFRS 9.

Section 12 - Administrative costs - caption 190

12.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2021	31.12.2020
1) Employees	(170,710)	(178,149)
a) wages and salaries	(114,673)	(114,582)
b) social security charges	(30,759)	(30,707)
c) termination indemnities	-	-
d) pension expenses	-	-
e) provision for termination indemnities	(190)	(95)
f) provision for post-retirement benefits and similar commitments:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(10,717)	(11,417)
- defined contribution	(10,717)	(11,417)
- defined benefit	-	-
h) Equity-based payments	-	-
i) other personnel benefits	(14,371)	(21,348)
2) Other active employees	(715)	(464)
3) Directors and auditors	(3,024)	(3,049)
4) Retired personnel	-	-
5) Recovery of cost of employees seconded to other companies	-	-
6) Reimbursement of cost of third-party employees seconded to the Company	-	-
Total	(174,449)	(181,662)

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

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

12.2 Average number of employees by level

	31.12.2021	31.12.2020
1) Employees	2,155	2,190
a) managers	32	36
b) middle managers	1,035	1,038
c) other employees	1,088	1,116
2) Other personnel	7	5

12.3 Defined post-employment benefit obligations: costs and revenues

There are none at the reporting date.

12.4 Other personnel benefits

	31.12.2021	**31.12.2020**
Provision for sundry charges	(9,911)	(4,884)
Contributions to healthcare fund	(2,281)	(2,340)
Training and instruction costs	(692)	(341)
Rent expense of property used by employees	(106)	(164)
Redundancy incentives	990	(12,027)
Other	(2,371)	(1,592)
Total	(14,371)	(21,348)

The main components of the "Other" caption include company canteen costs of Euro 2,184 thousand (vs. Euro 1,856 thousand) and costs relating to insurance premiums of Euro 314 thousand (vs. Euro 323 thousand).

12.5 Other administrative costs: breakdown

	31.12.2021	31.12.2020
Indirect taxes and duties:		
- Stamp duty	(28,148)	(27,613)
- Other	(6,161)	(6,074)
Other costs:		
- IT expenses	(19,485)	(21,042)
- Lease of property and other assets	(2,142)	(1,670)
- Maintenance of buildings, furniture and equipment	(9,141)	(8,661)
- Post office and telegraph	(1,350)	(1,428)
- Telephone and data transmission	(5,304)	(6,042)
- Electricity, heating, water	(3,084)	(3,566)
- Cleaning services	(3,265)	(3,242)
- Printed matter, stationery and consumables	(721)	(655)
- Transport costs	(942)	(926)
- Surveillance and security	(1,575)	(2,172)
- Advertising	(1,322)	(1,154)
- Information and surveys	(2,600)	(2,533)
- Insurance premiums	(1,334)	(988)
- Legal fees	(3,045)	(2,683)
- Professional consulting fees	(8,408)	(9,591)
- Various contributions and donations	(196)	(94)
- Sundry expenses	(25,986)	(20,443)
Total	(124,209)	(120,577)

The increases in "Cleaning services" with respect to the prior year mainly reflect the additional operating charges incurred in order to tackle the Covid-19 emergency.

The caption "Sundry expenses" comprises the contributions of the year to Single Resolution Mechanism and to Deposit Guarantee Scheme for Euro 17,943 thousand (Euro 11,520 thousand) of which:

- Euro 6,794 thousand for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for the year (Euro 3,443 thousand in the previous period);
- Euro 2,213 thousand for the extraordinary contribution to the Single Resolution Mechanism (SRM) for the year (Euro 1,088 thousand in the previous period);
- Euro 8,935 thousand (Euro 6,989 thousand in the previous period) for the contribution to the Deposit Guarantee Schemes Directive (DGSD), of which Euro 2,218 thousand as additional contribution;

These also include the fees paid to the network of the Independent Auditors KPMG S.p.A. for services provided to the Group, as summarised below.

Type of services	Company that provided the service	Recipient	Fees (in thousands of euro)
Audit	KPMG S.p.A.	Banco di Desio e della Brianza S.p.A. Fides S.p.A. Desio OBG S.r.l.	296.5 33.5 13.0
Attestation services	KPMG S.p.A.	Banco di Desio e della Brianza S.p.A.	68.0
Other services:			
Risk Management Methodological Support	KPMG Advisory S.p.A.	Banco di Desio e della Brianza S.p.A.	* 454.4
Total			865.4

* Net of Euro 115.6 thousand pertaining to 2020

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

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

13.3 Other net provisions for risks and charges: breakdown

	Provision	Utilisations	31.12.2021	31.12.2020
Commitments for guarantees given	(355)	1,244	889	(2,234)
Charges for legal disputes	(7,929)	3,772	(4,157)	(2,506)
Other	(3,615)	5,189	1,574	(1,714)
Total	(11,899)	10,205	(1,694)	(6,454)

The item "Commitments for guarantees given" represents the net provision for risks determined by applying the models for calculating the expected loss in accordance with "IFRS 9 Financial Instruments".

Charges for legal disputes include provisions made in the year for expected losses arising from legal disputes and bankruptcy clawback actions.

The item "Other" include provisions for other operating risks, inclusive of tax disputes. With regard to the provisions existing at the end of the year for contingent operating risks in relation to the situation of particular legal uncertainty regarding transactions with customers in the consumer credit sector, the current frame of reference features, compared to last year, the validity of newly-issued primary regulations (Decree Law no. 73/2021, "Sostegni-Bis"); as a result, part of the existing provisions were released, for Euro 2,713 thousand.

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

14.1. Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Property, plant and equipment				
1 For business purposes	(16,237)	-	-	(16,237)
- Owned	(6,135)	-	-	(6,135)
- Rights of use acquired under lease	(10,102)	-	-	(10,102)
2 Investment property	(29)	-	-	(29)
- Owned	(29)	-	-	(29)
- Rights of use acquired under lease	-	-	-	-
3 Inventory	X	-	-	-
Total	(16,266)	-	-	(16,266)

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

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

The breakdown by asset category of the impact on the income statement of adjustments to property, plant and equipment is shown in caption "C.2 Depreciation" of Table "9.6 Property, plant and equipment for business purposes: annual changes" and Table "9.7 Investment property, plant and equipment: annual changes" of Part B, Section 9.

Section 15 - Net adjustments to intangible assets - caption 220

15.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets	(1,745)			(1,745)
of which: software	(1,626)	-	-	(1,626)
A.1 Owned	(1,745)	-	-	(1,745)
- Generated internally	-	-	-	-
- Other	(1,745)	-	-	(1,745)
A.2 Rights of use acquired under lease	-	-	-	-
Total	(1,745)	-	-	(1,745)

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

Section 16 - Other operating charges/income - caption 230

16.1 Other operating charges: breakdown

	31.12.2021	31.12.2020
Amortisation of leasehold improvements	(1,422)	(1,578)
Losses on disposal of property, plant and equipment	(125)	(168)
Charges on non-banking services	(9,820)	(475)
Total	(11,367)	(2,221)

Caption "Charges on non-banking services" includes Euro 9.3 million set aside as a precautionary measure following the preventive confiscation of tax credits acquired from a financial intermediary. For more information, refer to the Report on Operations.

16.2 Other operating income: breakdown

	31.12.2021	31.12.2020
Recovery of taxes from third parties	31,145	30,701
Recharge of costs of current accounts and deposits	2,206	2,776
Rental and leasing income	45	77
Other expense recoveries	1,871	2,359
Gains on disposal of property, plant and equipment	22	12
Other	856	1,025
Total	36,145	36,950

The "Recovery of taxes from third parties" caption principally includes the recovery of stamp duty on current accounts, deposit accounts and other customer investments totalling Euro 27,261 thousand (vs Euro 25,590 thousand), and the recovery of substitute taxes totalling Euro 3,889 thousand (vs Euro 5,111 thousand).

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 822 thousand (vs Euro 1,339 thousand) and other recoveries for various communications to customers of Euro 1,145 thousand (vs Euro 1,268 thousand).

"Other expense recoveries" include, in particular, recoveries of legal costs relating to bad loans of Euro 1,014 thousand (vs Euro 1,315 thousand), the recovery of processing costs for various loans for Euro 170 thousand (vs Euro 340 thousand), and the recovery of sundry expenses relating to lease applications of Euro 312 thousand (vs Euro 291 thousand).

Section 18 - Net gains (losses) arising from the fair value measurement of property, plant and equipment and intangible assets - caption 260

18.1. Net result of the measurement at fair value (or revalued amount) or at estimated realisable value of property, plant and equipment and intangible assets: breakdown

Assets/Income items	Revaluations (a)	Write-downs (b)	Exchange differences Positive (c)	Exchange differences Negative (d)	Net result (a-b+c-d)
A. Property, plant and equipment	-	(123)	-	-	(123)
A.1 For business purposes:	-	(123)	-	-	(123)
- Owned	-	(123)	-	-	(123)
- Rights of use acquired under lease	-	-	-	-	-
A.3 Other	-	-	-	-	-
A.2 Investment property:	-	-	-	-	-
- Owned	-	-	-	-	-
- Rights of use acquired under lease	-	-	-	-	-
B. Intangible assets	-	-	-	-	-
B.1 Owned:	-	-	-	-	-
B.1.1 Generated internally	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Rights of use acquired under lease	-	-	-	-	-
Total	-	(123)	-	-	(123)

The caption includes the negative change in the category of works of art as a result of the update to the valuation of valuable artistic assets (governed by IAS 16 "Property, Plant and Machinery").

Section 19 - Goodwill impairment - Caption 270

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

Section 21 - Income taxes on current operations - caption 300

21.1 Income taxes on current operations: breakdown

Income items/Segments	31.12.2021	31.12.2020
1. Current taxes (-)	(3,833)	(1,717)
2. Change in prior period income taxes (+/-)	223	105
3. Reduction in current taxes (+)	-	-
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(19,523)	(8,773)
5. Change in deferred tax liabilities (+/-)	8,954	2,531
6. Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5)	(14,179)	(7,854)

Taxation for the period benefited from the step-up of the fiscal values to the higher statutory carrying amounts of buildings and goodwill by the Parent Company, pursuant to art. 110 of Legislative Decree 104/2020.

The positive effect on the result for the period was Euro 9,365 thousand, due to the difference between:

- the substitute tax due of 979 thousand euro (referred to in item 1);
- the reversal of deferred tax liabilities for Euro 9,544 thousand (referred to in item 5) and the reconstitution of deferred tax assets for Euro 800 thousand (referred to in item 4), for a total of Euro 10,344 thousand.

Law 190/2014 added the Patent Box regime to the Italian legal framework: this is an optional regime for the reduced taxation of income deriving from the use of intangible assets, including trademarks. In 2016, Banca Popolare di Spoleto (absorbed by the Parent Company in 2019) submitted an application for admission to the trademark procedure, starting from the tax period 2016. In April 2021 an agreement was reached with the Umbria Regional Department of the Tax Agency, Taxation and Compliance Office, Audits Section, regarding the methodology to be used to calculate the economic contribution of the intangible assets referred to in the application..

Following the agreement, the Parent Company recognised in the 2021 Financial Statements a tax benefit relating to the subsidised Patent Box regime, only for the three-year period 2016-2019, of Euro 219 thousand.

Caption "2. Change in prior period income taxes", which records an increase of Euro 223 thousand, refers to the recalculation of taxes as of 31.12.2020.

Caption "4. Change in deferred tax assets" differs from the net balance of rows 2.1 and 3.1 of Table "11.3 Change in deferred tax assets (as a contra-entry to the income statement)" for Euro 1,343 thousand, equal to the lower receivable for deferred tax assets on the tax loss, generated due to the income components charged directly to shareholders' equity, which were never planned to be charged to the income statement.

21.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	69,080		69,080	
Costs not deductible for IRAP purposes			37,721	
Revenue not taxable for IRAP purposes			(7,010)	
Sub total	69,080		99,791	
Theoretical tax charge 24% Ires - 3.5% Ires surcharge - 5.57% Irap		(18,997)		(5,559)
Temporary differences taxable in subsequent years	(1,070)		(35)	
Temporary differences deductible in subsequent years	27,509		13,490	
Reversal of prior year temporary differences	(92,264)		(67,612)	
Differences that will not reverse in subsequent years	(2,959)		452	
Taxable income	296		46,086	
Current taxes for the year 24% Ires - 3.5% Ires surcharge - 5.57% IRAP		(287)		(2,567)

The total "Current taxes for the year" in this table, equal to Euro 2,854 thousand, differs from the balance of "1. Current taxes" in Table 21.1 for the amount of substitute tax of Euro 979 thousand relating to the realignment ("step-up") carried out by the Parent Company pursuant to art. 110 of Decree Law no. 104/2020, of the tax values to the higher statutory values of buildings and goodwill, as specified under Table "21.1 Income taxes on current operations: breakdown".

Section 25 - Earnings per share

	31.12.2021		31.12.2020	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Net profit of the Group attributable to the various classes of shares (thousands of euro)	54,901	-	23,690	-
Average number of shares outstanding	134,363,049	-	134,363,049	-
Average number of potentially dilutive shares	-	-	-	-
Average number of diluted shares	134,363,049	-	134,363,049	-
Earnings per share (Euro)	0.41	-	0.18	-
Diluted earnings per share (Euro)	0.41	-	0.18	-

The average number of shares outstanding for the comparison period was restated, in compliance with IAS 33 "Earnings per Share", paragraph 28, in proportion to the change in the number of ordinary shares outstanding occurred during 2021 due to the mandatory conversion of 13,202,000 savings shares into ordinary shares, which changed the number of ordinary shares outstanding without resulting in an equivalent change in the amount of share capital.

25.1 Average number of ordinary shares (fully diluted)

During the year, no operations were carried out on share capital, except the mandatory conversion mentioned above, and no financial instruments were issued that could result in the issue of shares. Therefore, the average number of shares used to calculate the diluted earnings per share is 134,363,049 ordinary shares.

25.2 Other information

There is no other information to be disclosed.

PART D - CONSOLIDATED OTHER COMPREHENSIVE INCOME

STATEMENT OF CONSOLIDATED OTHER COMPREHENSIVE INCOME

Voci		31.12.2021	31.12.2020
10.	Profit (loss) for the year	54,901	23,690
	Other income items not charged to the income statement		
20.	Equity instruments designated at fair value through other comprehensive income:	(50,963)	22,971
	a) changes in fair value	(50,963)	22,971
	b) transfers to other items of shareholders' equity		
50.	Property, plant and equipment	(57)	
70.	Defined-benefit plans	8	(450)
100.	Income tax on other income items not charged to the income statement	3,660	(1,477)
	Other income items charged to the income statement		
130.	Cash flow hedges:	1,090	632
	a) changes in fair value		
	b) charge to income statement	1,090	632
150.	Financial assets (other than equities) at fair value through other comprehensive income:	(5,544)	(1,111)
	a) changes in fair value	(3,796)	1,592
	b) charge to income statement	(1,748)	(2,632)
	- adjustments for credit risk	(10)	(191)
	- gains/losses on disposal	(1,738)	(2,441)
	c) other changes		(71)
180.	Income tax on other income items charged to the income statement	1,472	158
190.	Total other income items	(50,334)	20,723
200.	Other comprehensive income (Caption 10+190)	4,567	44,413
210.	Consolidated other comprehensive income attributable to minority interests	-	-
220.	Consolidated other comprehensive income attributable to the parent company	4,567	44,413

The negative change in caption 20 "Equity instruments designated at fair value through other comprehensive income" is due to the sale of the investment in Cedacri S.p.A. completed on 3 June of this year for Euro 114.7 million; in accounting terms, the following entries have been made as a result of this disposal i) reversal of the valuation reserve at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result compared with the initial book value, equal to Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve shown under retained earnings. During the comparative period, the increase in that item was attributable to the revaluation of the investment held in Cedacri S.p.A.

PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

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

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

The organisational model adopted by the Group envisages that the Risk Management function reports directly to the Board of directors and participates in the risk management process designed to identify, measure, assess, monitor, prevent, mitigate and communicate the risks assumed or which could be assumed in the conduct of business. This function also covers the subsidiaries, in accordance with the provisions of the relevant Service Agreements.

The Board of Directors approves, at least annually, the Group's "Risk Appetite Framework (RAF)" and the "Policy for risk management", which define risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. Within the context of these documents, specific risk indicators with related attention thresholds are provided at the level of individual legal entity, identifying the competent functions for the specific control mechanisms and providing dedicated information flows. The Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) also form part of the Group's risk management system.

SECTION 1 – RISKS OF THE ACCOUNTING CONSOLIDATION

Quantitative information

A. Credit quality

A.1 Non-performing and performing loans: amounts, adjustments, trends and economic distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/Quality	Bad loans	Unlikely to pay loans	Past due impaired loans	Past due performing loans	Other performing exposures	Total
1. Financial assets at amortised cost	94,494	133,941	5,295	96,921	15,999,524	16,330,175
2. Financial assets at fair value through other comprehensive income	-	-	-	-	579,859	579,859
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	883	883
5. Financial assets held for sale	2,721	10,359	-	-	-	13,080
Total 31.12.2021	97,215	144,300	5,295	96,921	16,580,266	16,923,997
Total 31.12.2020	117,442	186,010	1,568	100,641	14,515,709	14,921,370

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

Portfolio/Quality		Non-performing				Performing			Total (net exposure)
		Gross exposure	Total write-downs	Net exposure	**Total partial write-offs***	Gross exposure	Total write-downs	Net exposure	
1. Financial assets at amortised cost		475,083	(241,353)	233,730	6,371	16,202,065	(105,620)	16,096,445	16,330,175
2. Financial assets at fair value through other comprehensive income		-	-	-	-	580,022	(163)	579,859	579,859
3. Financial assets designated at fair value		-	-	-	-	X	X	-	-
4. Other financial assets mandatorily at fair value		-	-	-	-	X	X	883	883
5. Financial assets held for sale		24,516	(11,435)	13,081	-	-	-	-	13,081
Total	31.12.2021	499,599	(252,788)	246,811	6,371	16,782,087	(105,783)	16,677,187	16,923,998
Total	31.12.2020	580,722	(275,704)	305,018	9,039	14,691,254	(75,764)	14,616,350	14,921,368

Portfolio/Quality		Assets with an obviously poor credit quality		Other assets
		Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading		-	-	4,216
2. Hedging derivatives		-	-	-
Total	31.12.2021	-	-	4,216
Total	31.12.2020	-	-	3,686

SECTION 2 – RISKS OF THE CONSOLIDATION FOR REGULATORY PURPOSES

1.1 Credit risk

Qualitative information

1. General aspects

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

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

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

2. *Credit risk management policies*

2.1. Organisational aspects

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

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

2.2 Systems for managing, measuring and monitoring credit risk

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

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

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

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

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

The concessions or suspensions carried out for legislative "Covid-19" purposes, requested by customers before 30 September 2020, have not been classified as forborne (according to the indications provided by the supervisory authorities). Legislative suspensions received after that date were analytically assessed in order to identify the elements of forbearance. Commencing from the last quarter of 2020, a series of detailed checks were carried out on counterparties with the largest exposures to look for evidence that they should be classified as forborne or, in the case of significant anomalies, as UTP. These checks, which led to modest changes to non-performing loans in percentage terms on the sample subject to verification, were completed in the first quarter of 2021.An analytical verification will also be carried out in the second half of the 2021 on a sample of counterparties which have requested and benefited from the extension of the measures granted by art. 56 of the Liquidity Decree. Similar to the analyses conducted in the first half of the year, there was a low percentage of volumes of counterparties classified as impaired.

In the case of a moratorium decided by the Bank, specific assessments are carried out only for positions with companies that already had a higher level of risk before the outbreak of the pandemic, to verify whether or not to consider renegotiation as a forbearance measure, with a consequent transfer to stage 2.

To assess how the macroeconomic scenario is likely to evolve, estimates of impacts on the sector and the tools available to deal with the crisis and the new scenario that will emerge at the end of the emergency were examined in depth.

As part of its corporate risk management policy, the Group has set up a system of operating limits and specific Key Risk Indicators (KRI). In the context of monitoring and control, on pre-established thresholds being exceeded, the Risk Management function activates internal procedures for an intervention in order to maintain a risk appetite level consistent with the guidelines laid down in the RAF and the risk management policies.

For risk management purposes, the Group uses an internal rating system that classifies each counterparty in risk classes that reflect their probability of default. The classification of performing counterparties is on a scale from 1 to 10. Non-performing loans (past due and/or overdrawn exposures, unlikely-to-pay and bad loans) are excluded from the rating assignment.

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

2.3 Methods of measuring expected losses

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

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

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

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

Therefore the Group decided to update the macroeconomic forecasts of the models used to estimate the expected losses to align with the projections for Italy in 2021-23 drawn up by the experts of the Bank of Italy, as part of the coordinated work of the Eurosystem published on 17 December 2021, and with the projections for Europe drawn up by the experts of the European Central Bank, published on 16 December 2021 and, to a lesser extent, those drawn up by specialised providers. These projections take into account the transmission of the effects of the pandemic to the economy through multiple channels, such as the drop in international trade and foreign demand, the reduction of international tourist flows, the effects of uncertainty and confidence on companies' propensity to invest, etc.

Estimate of Expected Credit Loss – Stage 1 and Stage 2

The model for calculating Expected Credit Losses (ECL) used in testing performing instruments for impairment, differentiated according to the classification of the exposure in Stage 1 or Stage 2, is based on the following formula:

$$ECL = \sum_{t=1}^{T} PDt\,'\,EADt\,'\,LGDt\,'\,(1+r)^{-t}$$

where:

PDt represents the probability of default on each cash flow date. This is the probability of moving from performing to non-performing over the one-year time horizon (1-year PD) or over the entire duration of the exposure (PD lifetime)

EADt represents the counterparty exposure at each cash flow date

LGDt represents the loss associated to counterparty on each cash flow date. This is the percentage of loss in the event of default, based on the historical experience observed in a given observation period, as well as the prospective evolution over the entire lifetime of the exposure;

r represents the discount rate

t represents the cash flow number

T represents the total number of cash flows, limited to the following 12 months for stage 1 relationships, whereas it refers to the entire residual life for those in stage 2

The models used to estimate these parameters derive from the corresponding parameters developed on the basis of the most recent regulatory guidelines, making specific adaptations to take into account the different requirements and purposes of the IFRS 9 impairment model compared with the regulatory one.

The definition of the above parameters therefore took into account the following objectives:

- removing the elements envisaged for regulatory purposes only, such as the downturn component considered in the regulatory LGD calculation to take into account the adverse economic cycle, the margin of conservatism envisaged for the PD, LGD and EAD and the add-on of indirect costs with the objective of avoiding a double-counting effect on the income statement;
- including the conditions of the current economic cycle (Point-in-Time risk measures) in place of a measurement of the parameters along the economic cycle (TTC - Through The Cycle) envisaged for regulatory purposes;
- introducing forward-looking information on the future dynamics of macroeconomic factors (forward-looking risk) deemed potentially able to influence the borrower's situation;
- extending the risk parameters to a long-term perspective, taking into account the lifetime of the credit exposure to be assessed).

More detailed information is provided below on how the Group has determined the aforementioned IFRS 9 compliant risk parameters, with particular reference to the way in which forward-looking factors have been included.

In this regard, it should be noted that the updating of the historical series of the parameters and consequently of their recalibration is carried out on an annual basis.

Estimate of the PD parameter

The PD parameters were suitably calibrated, using satellite models, to reflect the default rates based on current (PiT) and forward-looking conditions. These parameters must be estimated with reference not only to the twelve-month period after the reporting date, but also to future years so that lifetime provisions can be calculated.

For the Group, the lifetime PD curves were constructed by multiplying the 12-month rating migration matrices, divided by segments conditioned by prospective macroeconomic scenarios, with a Markovian approach. The associated lifetime PD curve is associated with each rating class assigned to counterparties through internal models. The main methodological steps used to estimate lifetime PD are listed below:

- construction of the historical Point in Time (PiT) migration matrices for each risk segment defined by the rating models and, on the basis of the average of these matrices, obtaining the 3-year migration matrices for each risk segment. Note that in order to reduce the bias on the default rate deriving from the support policies, counterparties benefiting from moratoriums were removed from the 2020 migration matrix;
- determination of future PiT migration matrices for the first three years following the reporting date, obtained on the basis of PiT migration matrices conditioned on the basis of some selected macroeconomic scenarios, via satellite models (Merton method) capable of expressing the sensitivity of the PD measures with respect to changes in the main economic aggregates. These satellite models are differentiated by business and private segment and use specific variables for each segment;
- obtaining the cumulative PDs by rating class and scenario, through Markov chain techniques of the future PiT migration matrices for the first three years, as previously calculated, while from the fourth year onwards the 1-year average TTC is used, assumed as constant in each period t, obtained by deconditioning the single annual migration matrices observed in the last five years through the Merton–Vasicek method;

- generation of the cumulative lifetime PD curve as the average of the cumulated PD curves of each selected macroeconomic scenario weighted by the respective probabilities of occurrence.

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

Estimate of the LGD parameter

The LGD values are assumed equal to the regulatory recovery rates calculated over the economic cycle (TTC), suitably adapted in order to remove some elements of prudence represented by indirect costs and by the component linked to the adverse economic cycle (so-called "downturn" component, in addition to the previously mentioned "margin of conservatism).

EAD estimate

For on-balance sheet exposures, the EAD parameter is presented at each future payment date by the residual amount due, based on the amortisation schedule, as uplifted by any unpaid and/or past due instalments.

For off-balance sheet exposures, represented by guarantees and commitments to disburse irrevocable or revocable funds, the EAD is equal to the nominal value weighted by a specific credit conversion factor (CCF - Credit Conversion Factor), determined in accordance with internal models and using the standardised approach for the remaining exposures.

Inclusion of forward-looking factors

For the purpose of determining expected losses, the inclusion of forward-looking information is obtained by considering the effects on risk parameters, derived from different macroeconomic scenarios. In detail, the many possible alternative macroeconomic scenarios have been traced to a limited to three scenarios (positive, basic and negative) which constitute the input of the so-called "satellite models". Use of these latter models makes it possible to define, through statistical regression techniques, the relationship between a limited number of significant macroeconomic variables, taken as a point of reference, and the decay rates of the various segments. The result of these estimates is used to create stress factors, called "delta scores", distinguished by scenario and risk segments. These "delta scores" are applied using the Merton method to the average Point in Time (PiT) matrix by risk segment, represented by the most recent three-year internal data available on migration between ratings, so as to obtain three future stressed matrices based on macroeconomic forecasts. From the fourth year onwards, to calculate the PD curves, we chose to refer to the long-term matrix.

Subsequently, the construction of the PD curves for each of the 3 scenarios takes place by applying the Markov chain statistical procedure (product of the annual matrices described above). Lastly, the cumulative PiT and lifetime PD curves are generated as the average of the cumulated PD curves of each selected macroeconomic scenario, weighted by the respective probability of occurrence.

Considering that the effects of the final data for 2020 (featuring a sharp 8.9% drop in Italian GDP) have probably not been entirely reflected in the default classifications nor in the impairment of the performing loans portfolio, it was decided to incorporate a Cliff Effect into the calculation of the expected default rates. This is a disproportionate amplification of the effects deriving from a substantial simultaneous decrease – from the end of 2021 – in the mechanisms to support the economy adopted to deal with the pandemic (i.e. SACE guarantees on business loans, moratoriums on loans to SMEs and on mortgage loans, measures on tax bills falling due and restorations, firing freezes and access to the funded Redundancy Fund).

The adjustment was therefore applied by calculation – starting with the projections obtained by applying the satellite model and to each rating system – the difference between the estimated 2020 default rate (DR) and the rate observed in that year, and the difference between the 2021 DR and the rate observed in that year. Subsequently, the latent portion of defaults was identified for which it is believed that the support measures granted were not sufficient to mitigate the pandemic effect, spreading it asymmetrically over the three-year projection (i.e. with a greater effect on the first year of the projection).

Furthermore, given the persistence of uncertainty about the future evolution of the pandemic and its economic effects, the mix of probability of occurrence was calibrated by adding to the "baseline" scenario deemed most likely (with a probability of 55%), an alternative "negative" scenario (with a probability of 45%) and a "positive" scenario (with a probability of 0%).

The following tables show the range of values for the macroeconomic factors considered in the forward-looking conditioning models (i.e. satellite models, which are routinely subject to calibration and fine-tuning), for the scenarios deemed most likely to influence the expected losses of the performing credit exposures and the probability of occurrence considered as at 31 December 2021, 2020 and 2019:

Financial statements at 31 December 2021	**Positive Scenario**		**Baseline Scenario**		**Negative Scenario**	
Macroeconomic indicators	**Min**	**Max**	**Min**	**Max**	**Min**	**Max**
GDP - Italy	2.24	6.44	2.50	6.20	1.43	5.96
Inflation - Europe	2.10	3.40	1.80	3.20	1.40	3.10
3-month Euribor	-0.47	-0.50	-0.50	-0.50	-0.54	-0.50
Residential property values Italy	1.43	2.50	1.39	1.73	0.36	1.38
Spread Bund - on 10-year BTPs	0.91	1.03	0.91	1.03	1.28	2.14
Probability of occurrence	0%		55%		45%	

Financial statements at 31 December 2020	**Positive Scenario**		**Baseline Scenario**		**Negative Scenario**	
Macroeconomic indicators	**Min**	**Max**	**Min**	**Max**	**Min**	**Max**
GDP - Italy	-8.9	6.1	-9.0	3.8	-9.2	1.4
Unemployment - Italy	8.9	9.8	9.2	10.4	9.6	11.3
Residential property values	292.2	324.2	288.2	294.7	270.3	283.0
Unemployment - Europe	7.5	8.8	8.0	9.3	8.1	10.3
Probability of occurrence	0%/5%		70%		25%/30%	

Financial statements at 31 December 2019	**Baseline scenario**		**Negative scenario**	
Macroeconomic indicators	**Min**	**Max**	**Min**	**Max**
GDP - Italy	1.30	1.32	-1.52	0.62
Unemployment - Italy	10.51	10.81	11.93	12.68
Inflation - Italy	1.50	1.62	-0.10	0.77
Inflation - Europe	1.53	1.73	0.11	0.51
BTP yield	2.49	2.85	3.72	4.02
3-month Euribor	-0.13	0.15	0.34	0.54
Probability of occurrence	80%		20%	

Post model adjustments

Considering, in addition, that the latent riskiness of a cluster of exposures at the reference date cannot be fully reflected in the models for measuring expected losses pursuant to IFRS 9 in terms of staging allocation, due to the application of expected losses as a result of the specific situation that the government support measures continue to create on the liquidity of businesses and the normal monitoring of loans (past-due amounts, financial tensions, etc.), the Group deemed it appropriate to adopt a prudent approach in line with that required by ESMA in the "European Common Enforcement Priorities for 2021 Annual Financial Reports" in assessing the long-term impacts of Covid-19, defining post model adjustments ("management overlays") which consider the following for the transfer to stage 2:

- for the moratoriums on mortgage loans still in force at 30 September 2021, mainly comprised of legislative moratoriums pursuant to art. 56 of the "Liquidity Decree",
- the updating of the analyses of the attractiveness of the sectors by the Bank using the sector studies carried out by Prometeia, focusing on ratings equal to or worse than the median class (rating 5).

With regard to the sectors considered less attractive, the Ateco business codes used as drivers for the specific monitoring and risk containment actions adopted as part of credit policies were taken into consideration, as discussed below.

ATECO (sector code)	SECTOR	ATTRACTIVITY
1	Agriculture	LOW
2	Agriculture	LOW
3	Agriculture	LOW
13	Textiles and Clothing	LOW
14	Textiles and Clothing	LOW
15	Textiles and Clothing	LOW
35	Production and supply of electricity, gas	LOW
55	Accommodation and Catering	LOW
56	Accommodation and Catering	LOW
68	Real Estate	LOW
70	Business Services	LOW
73	Business Services	LOW
77	Business Services	LOW
78	Business Services	LOW
79	Recreational Activities, Sports and Travel Agencies	LOW
80	Business Services	LOW
81	Business Services	LOW
82	Business Services	LOW
90	Recreational Activities, Sports and Travel Agencies	LOW
91	Recreational Activities, Sports and Travel Agencies	LOW
92	Recreational Activities, Sports and Travel Agencies	LOW
93	Recreational Activities, Sports and Travel Agencies	LOW

Within positions in stage 2, for loans to businesses, specific high risk clusters were identified, on which to apply increasing minimum coverage:

Cluster 1: active moratoriums (in force at 30 September 2021) with rating classes 1-3 and moratoriums expired before 30 September 2021 for sectors with low attractiveness;

Cluster 2: active moratoriums with rating classes 1-3 for sectors with low attractiveness;

Cluster 3: active moratoriums with ratings >= 4 and other loans in sectors with loan attractiveness (ratings >=7);

Cluster 4: active moratoriums with ratings >= 4 for sectors with low attractiveness.

The moratoriums in force at 30 September 2021 or subsequently on loans to individual customers were considered a single risk cluster on which to apply a minimum coverage level which could reflect higher underlying risk.

To define the minimum coverage to apply to the various clusters identified, within a range from 3% to 13%, the average coverage levels expressed by the model on different risk stages were considered.

Sensitivity analysis of expected losses

As shown in the paragraph "Use of estimates and assumptions in preparing the financial statements" contained in Part A in the section "Basis of preparation and accounting policies", the determination of losses due to impairment of receivables implies significant elements of opinion, with particular reference to the model used to measure losses and related risk parameters, to the triggers deemed to express significant credit deterioration and to the selection of macroeconomic scenarios.

The inclusion of forward-looking factors is a particularly complex exercise, as it requires the formulation of macroeconomic forecasts, the selection of scenarios and their probability of occurrence, as well as the definition of a model capable of expressing the relationship between the aforementioned macroeconomic factors and the default rates of the exposures subject to assessment, as explained in the previous paragraph.

In order to assess how forward looking factors can influence expected losses, it is considered reasonable to carry out a sensitivity analysis in the context of different scenarios based on forecasts consistent with the evolution of the various macroeconomic factors. The innumerable interrelations between the individual macroeconomic factors are, in fact, such as to render a sensitivity analysis of the expected losses based on the single macroeconomic factor barely meaningful.

The Group therefore deemed it reasonable for the sensitive analysis to consider the probability of occurrence of the negative scenario to be 70%, which would increase the write-downs to the performing loans portfolio by about Euro 1.2 million, gross.

2.4 Credit risk mitigation techniques

As part of the process leading up to the provision of credit, whenever possible, the Group acquires real and/or personal guarantees in order to mitigate risk, even if the requirements appear to be satisfied.

For all loans, the main type of real guarantee is the mortgage, primarily related to the technical form of mortgage loans (particularly on residential properties). Substantial loans are sometimes also assisted by public guarantees, such as the guarantees and counter-guarantees given by the Guarantee Fund for SMEs pursuant to Law 662/96, SACE or the European Investment Fund, as well as by the pledge of securities and/or cash.

Guarantees received are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions. The process of collateral management provides for monitoring and specific controls to check their eligibility, in line with the requirements of supervisory regulations.

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

3. Non-performing loans

3.1 Management strategies and policies

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

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

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

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

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

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

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

In execution of its capital management strategy, the Parent Company completed a programme of sales of NPLs, particularly significant in recent years, with reference to loans classified as "bad" and loans classified as "unlikely-to-pay" (UTP). The additional sales finalised during the year resulted in an further decrease in the NPL Ratio (gross non-performing loans/gross loans ratio) to 4.1%, net of assets classified as held for sale, confirming a level in line with the best in the Italian banking industry. In line with the NPL ratio containment policy, there are plans for initiatives that will allow further improvement in this indicator.

In particular, considering the limited volumes of past due/overdue positions, the bank's attention is concentrated above all on timely identification of positions classified as performing but with certain critical elements, in order to identify procedures to regularise the situation, where possible, also through appropriate measures of forbearance.

Two types of action are taken to limit the stock of "unlikely-to-pay" loans (UTPs):

1. prevention of inflows to UTP;
2. effective management of the impaired portfolio in order to maintain good levels of recovery and/or a return to performing status, together with a policy of targeted sales aimed at optimising its value.

As business counterparties represent a significant share, in terms of volume, the focus is more on reducing transfers to UTP for this type of loan.

The methods and operational tools used by the Banco Desio Group, through which the positions that present credit anomalies and critical factors are identified and managed, are regulated and formalised in the internal documentation. In particular, monitoring is strongly focused on analysing the performance of the individual risk positions intercepted through periodic and spot checks, based on the systematic reports produced by the internal IT procedure (Credit Quality Manager) and highlighted by the Monitoring Dashboard. In addition to photographing and periodically monitoring the trend in anomalies, this tool provides an assessment of the individual branches for the purposes of control and eventual intervention, giving each one a ranking based on various risk indicators.

This reporting tool, which is also used to provide support for the Parent Company's senior management and the Network, makes it possible to interpret, process and age the data coming from various certified sources, in order to detect the credit quality of the Parent Company, of the Territorial Areas and of the Branches.

3.2 *Write-offs*

Non-performing exposures for which there is no possibility of recovery (either total or partial) are written off in accordance with the policies in force from time to time, as approved by the Group's Board of Directors. Among the strategies identified for containing NPLs, the Group has envisaged for unlikely to pay loans, a management approach based on single name assignments with particular reference to those loans managed with a view to liquidation or total repayment (so-called "gone concern").

As regards the indicators used to assess recovery expectations, the Group has adopted specific analytical assessment policies for non-performing loans which provide for specific percentages of adjustment, distinguishing the presence and type of underlying guarantees (secured or unsecured), the submission of customers to a specific procedure (agreed in advance, settlement liquidators, agreed upon in continuity, crisis due to over-indebtedness, as per art. 67 or art. 182 of the Bankruptcy Law).

3.3 *Purchased or originated credit impaired financial assets*

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

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

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

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

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

In this case, the exposure does not fall into the category of forborne exposures.

Quantitative information

A. Credit quality

A.1 Non-performing and performing loans: amounts, adjustments, trends and economic distribution

A.1.1 Regulatory consolidation - Distribution of financial assets by past due bands (book values)

Portfolios/Stages of risk	First stage			Second stage			Third stage			Purchased or originated credit impaired		
	From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days
1. Financial assets at amortised cost	19,571	3,784	41,337	13,771	14,002	4,455	15,920	13,840	133,823	0	0	-
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	0	0	-
3. Financial assets held for sale	-	-	-	-	-	-	1,306	-	8,236	0	0	-
Total 31.12.2021	19,571	3,784	41,337	13,771	14,002	4,455	17,226	13,840	142,059	-	-	-
Total 31.12.2020	10,274	4,537	33,989	20,407	21,178	10,257	9,737	13,037	196,976	-	-	-

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A.1.2 Regulatory consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and provisions (Part 1)

Description/stages of risk	Total write-downs									
	Assets included in the first stage					Assets included in the second stage				
	Due from banks and central banks on demand	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: collective write-downs	Due from banks and central banks on demand	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: collective write-downs
Total opening adjustments	-	18,811	172	-	18,983	-	56,662	-	-	56,662
Increases in purchased or originated credit impaired financial assets	-	7,981	-	-	7,981	-	2,078	-	-	2,078
Cancellations other than write-offs	-	(4,995)	-	-	(4,995)	-	(911)	-	-	(911)
Net adjustments/write-backs for credit risk (+/-)	-	(708)	(9)	-	(717)	-	26,625	-	-	26,625
Contractual changes without write-offs	-	-	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-	-	-
Write-offs not booked directly to the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	-	(74)	-	-	(74)	-	19	-	-	19
Total closing adjustments	-	21,015	163	-	21,178	-	84,473	-	-	84,473
Recoveries of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-offs booked directly to the income statement	-	-	-	-	-	-	-	-	-	-

A.1.2 Regulatory consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and provisions (Part 2)

Description/stages of risk	Total write-downs											Total provisions on commitments to disburse funds and financial guarantees given				Total
	Assets included in the third stage						Purchased or originated credit impaired financial assets									
	Due from banks and central banks on demand	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	First stage	Second stage	Third stage	Commitments to disburse funds and financial guarantees given on impaired loans acquired or	
Total opening adjustments	-	272,293	-	-	272,293	-	3,533	-	-	3,411	122	2,196	766	1,985	-	356,418
Increases in purchased or originated credit impaired financial assets	-	858	-	-	858	-	X	X	X	X	X	-	-	-	-	10,917
Cancellations other than write-offs	-	(35,691)	-	-	(35,691)	-	-	-	-	-	-	-	-	-	-	(41,597)
Net adjustments/write-backs for credit risk (+/-)	-	11,642	-	-	11,642	-	275	-	-	275	-	(776)	(192)	79	-	36,936
Contractual changes without write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not booked directly to the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	(11,435)	-	11,435	-	-	-	-	-	-	-	-	-	-	-	(55)
Total closing adjustments	-	237,667	-	11,435	249,102	-	3,808	-	-	3,686	122	1,420	574	2,064	-	362,619
Recoveries of financial assets subject to write-off	-	4,257	-	-	-	-	-	-	-	-	-	-	-	-	-	4,257
Write-offs booked directly to the income statement	-	(3,978)	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,978)

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A.1.3 Regulatory Consolidation - Financial assets, commitments to disburse funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portfolios/Stages of risk	Gross exposure/nominal value					
	Transfers between first and second stage		Transfers between second and third stage		Transfers between first and third stage	
	From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
1. Financial assets at amortised cost	770,098	913,533	63,017	3,455	23,679	769
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	93,223	58,146	1,062	116	3,643	568
Total 31.12.21	863,321	971,679	64,079	3,571	27,322	1,337
Total 31.12.20	1,958,738	374,618	52,985	17,300	38,672	2,615

A.1.3a Loans subject to Covid-19 support measures: transfers between the different credit risk stages (gross values)

Portfolio/Quality		Gross values/nominal value					
		Transfers between first and second stage		Transfers between second and third stage		Transfers between first and third stage	
		From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
A. Loans at amortised cost		320,114	-	12,975	176	5,097	63
A.1 subject to forbearance complying with GL		17,758	-	10,417	122	6	30
A2. subject to moratorium measures in force no longer complying with GL and not considered subject to forbearance		-	-	-	-	-	-
A.3 subject to other forbearance measures		-	-	-	-	-	-
A.4 new loans		302,356	-	2,558	54	5,091	33
B. Loans at fair value through other comprehensive income		-	-	-	-	-	-
B.1 Subject to forbearance complying with GL		-	-	-	-	-	-
B2. subject to moratorium measures in force no longer complying with GL and not considered subject to forbearance		-	-	-	-	-	-
B.3 subject to other forbearance measures		-	-	-	-	-	-
B.4 new loans		-	-	-	-	-	-
Total	31.12.2021	320,114	-	12,975	176	5,097	63
Total	31.12.2020	1,273,297	93,817	21,658	7,790	6,976	122

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

Types of exposure/Amounts	Gross exposure					Total write-downs and provisions					Net exposure	Total partial write-offs*
		First stage	Second stage	Third stage	Purchased or originated credit impaired		First stage	Second stage	Third stage	Purchased or originated credit impaired		
A. CASH EXPOSURES												
A.1 ON DEMAND	31,536	31,536	-	-	-	28	28	-	-	-	31,508	-
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	31,536	31,536	-	X	-	28	28	-	X	-	31,508	-
A.2 OTHER	2,468,242	2,468,242	-	-	-	595	595	-	-	-	2,467,647	-
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to pay	-	X	-	-	-	-	X	-	-	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
c) Past due non-performing loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
d) Past due performing loans	-	-	-	X	-	-	-	-	X	-	-	-
- of which: exposures subject to forbearance	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	2,468,242	2,468,242	-	X	-	595	595	-	X	-	2,467,647	-
- of which: exposures subject to forbearance	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	2,499,778	2,499,778	-	-	-	623	623	-	-	-	2,499,155	-
B. OFF-BALANCE SHEET EXPOSURES						-	-	-	-	-		
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	13,639	13,639	-	X	-	1	1	-	X	-	13,638	-
Total (B)	13,639	13,639	-	-	-	1	1	-	-	-	13,638	-
Total (A+B)	2,513,417	2,513,417	-	-	-	624	624	-	-	-	2,512,793	-

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

"Off-balance sheet exposures" include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transaction (trading, hedging, etc.).

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

Types of exposure/Amounts	Gross exposure					Total write-downs and provisions					Net exposure	Total partial write-offs*
		First stage	Second stage	Third stage	Purchased or originated credit impaired		First stage	Second stage	Third stage	Purchased or originated credit impaired		
A. CASH EXPOSURES												
a) Bad loans	261,725	X	-	259,224	2,501	164,511	X	-	163,250	1,261	97,214	6,371
- of which: exposures subject to forbearance	28,505	X	-	27,612	893	14,689	X	-	14,335	354	13,816	-
b) Unlikely to pay	232,176	X	-	225,047	7,129	87,877	X	-	85,451	2,426	144,299	-
- of which: exposures subject to forbearance	116,427	X	-	112,862	3,565	43,572	X	-	42,378	1,194	72,855	-
c) Past due non-performing loans	5,696	X	-	5,689	7	401	X	-	400	1	5,295	1
- of which: exposures subject to forbearance	331	X	-	331	-	46	X	-	46	-	285	-
d) Past due performing loans	98,518	64,815	33,667	X	36	1,598	123	1,475	X	-	96,920	-
- of which: exposures subject to forbearance	5,890	-	5,890	X	-	513	-	513	X	-	5,377	-
e) Other performing exposures	14,214,801	12,416,101	1,794,963	X	3,737	103,579	20,460	82,998	X	121	14,111,222	-
- of which: exposures subject to forbearance	197,836	-	197,302	X	534	16,288	-	16,258	X	30	181,548	-
Total (A)	**14,812,916**	**12,480,916**	**1,828,630**	**489,960**	**13,410**	**357,966**	**20,583**	**84,473**	**249,101**	**3,809**	**14,454,950**	**6,372**
B. OFF-BALANCE SHEET EXPOSURES												
a) Non-performing	12,043	X	-	12,043	-	2,063	X	-	2,063	-	9,980	-
b) Performing	3,372,030	3,268,807	103,223	X	-	1,993	1,419	574	X	-	3,370,037	-
TOTAL (B)	**3,384,073**	**3,268,807**	**103,223**	**12,043**	**-**	**4,056**	**1,419**	**574**	**2,063**	**-**	**3,380,017**	**-**
TOTAL (A+B)	**18,196,989**	**15,749,723**	**1,931,853**	**502,003**	**13,410**	**362,022**	**22,002**	**85,047**	**251,164**	**3,809**	**17,834,967**	**6,372**

"Cash exposures" include all on-balance sheet financial assets due from customers, regardless of the portfolio they are allocated to for accounting purposes (at fair value through profit or loss, at fair value through other comprehensive income or at amortised cost). "Off-balance sheet exposures" include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that lead to the assumption of credit risk, regardless of the nature of the transaction (trading, hedging, etc.).

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A.1.5a Cash exposures to customers subject to Covid-19 support measures: gross and net amounts

	Gross exposure					Total write-downs and provisions					Net exposure	Total partial write-offs*
		First stage	Second stage	Third stage	Purchased or originated credit impaired		First stage	Second stage	Third stage	Purchased or originated credit impaired		
A. BAD LOANS	**11**	**-**	**-**	**11**	**-**	**8**	**-**	**-**	**8**	**-**	**3**	**-**
a) Subject to forbearance complying with GL	11	-	-	11	-	8	-	-	8	-	3	-
b) Subject to moratorium measures no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
B. UNLIKELY TO PAY LOANS	**50,438**	**-**	**-**	**49,589**	**849**	**15,419**	**-**	**-**	**15,149**	**270**	**35,019**	**-**
a) Subject to forbearance complying with GL	35,179	-	-	34,943	236	12,574	-	-	12,524	50	22,605	-
b) Subject to moratorium measures no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	15,259	-	-	14,646	613	2,845	-	-	2,625	220	12,414	-
C. PAST-DUE NON-PERFORMING LOANS	**233**	**-**	**-**	**233**	**-**	**27**	**-**	**-**	**27**	**-**	**206**	**-**
a) Subject to forbearance complying with GL	73	-	-	73	-	6	-	-	6	-	67	-
b) Subject to moratorium measures no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	160	-	-	160	-	21	-	-	21	-	139	-
D. PERFORMING LOANS	**4,719**	**189**	**4,505**	**-**	**25**	**300**	**3**	**297**	**-**	**-**	**4,419**	**-**
a) Subject to forbearance complying with GL	3,416	189	3,227	-	-	281	3	278	-	-	3,135	-
b) Subject to moratorium measures no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	1,303	-	1,278	-	25	19	-	19	-	-	1,284	-
E. OTHER PERFORMING LOANS	**2,961,713**	**2,117,687**	**843,044**	**-**	**982**	**53,271**	**2,706**	**50,550**	**-**	**15**	**2,908,442**	**-**
a) Subject to forbearance complying with GL	538,650	16,607	521,947	-	96	48,251	90	48,154	-	7	490,399	-
b) Subject to moratorium measures no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	2,423,063	2,101,080	321,097	-	886	5,020	2,616	2,396	-	8	2,418,043	-
TOTAL (A+B)+C+D+E)	**3,017,114**	**2,117,876**	**847,549**	**49,833**	**1,856**	**69,025**	**2,709**	**50,847**	**15,184**	**285**	**2,948,089**	**-**

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

There are no such credit exposures at the reporting date.

A.1.6 bis Regulatory consolidation – On-balance sheet credit exposures to customers: changes in exposures subject to forbearance broken down by credit quality

Balances were zero at the reporting dates.

A.1.7 On-balance sheet credit exposures to customers: changes in gross non-performing loans

Description/Categories	Bad loans	Unlikely to pay loans	Past due non-performing loans
A. Opening gross exposure	300,886	278,106	1,730
- of which: exposures sold but not derecognised	-	8,962	55
B. Increases	56,362	113,449	13,028
B.1 transfers from performing exposures	664	85,406	8,813
B.2 transfers from purchased or originated credit impaired financial assets	-	687	143
B.3 transfers from other categories of non-performing exposures	54,595	6,467	1,823
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	1,103	20,889	2,249
C. Decreases	95,523	159,378	9,062
C.1 transfers to performing exposures	229	4,672	1,716
C.2 write-offs	10,692	175	-
C.3 collections	18,820	56,452	1,153
C.4 proceeds from disposal	12,501	19,581	-
C.5 losses on disposal	53,007	21,771	-
C.6 transfers to other categories of non-performing exposures	274	56,418	6,193
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	309	-
D. Closing gross exposure	261,725	232,177	5,696
- of which: exposures sold but not derecognised	-	-	-

A.1.7bis Regulatory consolidation - On-balance sheet credit exposures to customers: changes in exposures subject to forbearance broken down by credit quality

Description/Quality	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. Opening gross exposure	168,207	128,528
- of which: exposures sold but not derecognised	5,260	24,232
B. Increases	53,871	179,715
B.1 transfers from performing positions not subject to forbearance	2,412	158,138
B.2 transfers from performing positions subject to forbearance	34,852	X
B.3 transfer from exposures subject to forbearance	X	2,833
B.4 transfers from non-performing positions not subject to forbearance	-	-
B.5 other increases	16,607	18,744
C. Decreases	76,815	104,517
C.1 transfers to performing positions not subject to forbearance	X	32,808
C.2 transfers to performing positions subject to forbearance	2,833	X
C.3 transfers to exposures subject to forbearance on non-performing positions	X	34,852
C.4 write-offs	606	-
C.5 collections	52,881	36,845
C.6 proceeds from disposal	11,756	12
C.7 losses on disposal	8,739	-
C.8 other decreases	-	-
D. Closing gross exposure	145,263	203,726
- of which: exposures sold but not derecognised	6,327	30,220

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A.1.9 Regulatory consolidation – Non-performing on-balance sheet credit exposures to customers: changes in total adjustments

Description/Categories	Bad loans		Unlikely to pay loans		Past due non-performing loans	
	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance	Total	of which: exposures subject to forbearance
A. Total opening adjustments	183,444	15,288	92,096	37,516	162	47
- of which: exposures sold but not derecognised	-	-	1,525	895	7	7
B. Increases	61,743	11,788	53,552	25,581	412	63
B.1 write-downs of purchased or originated credit impaired financial assets	-	X	-	X	-	X
B.2 other write-downs	40,518	2,698	44,094	24,050	381	43
B.3 losses on disposal	5,974	753	9,321	1,512	-	-
B.4 transfers from other categories of non-performing exposures	14,245	8,337	137	19	31	20
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	1,006	-	-	-	-	-
C. Decreases	80,677	12,386	57,771	19,525	173	64
C.1 measurement write-backs	3,997	513	6,546	3,425	52	16
C.2 write-backs on collection	4,559	710	4,663	2,500	82	29
C.3 gains on disposal	2,414	158	740	129	-	-
C.4 write-offs	10,623	3,519	175	-	-	-
C.5 transfers to other categories of non-performing exposures	101	-	14,273	8,357	39	19
C.6 contractual changes without write-offs	-	-	-	-	-	-
C.7 other decreases	58,983	7,486	31,374	5,114	-	-
D. Total closing adjustments	164,510	14,690	87,877	43,572	401	46
- of which: exposures sold but not derecognised	-	-	2,295	1,571	22	

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

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

Exposures	External rating class						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
a) Financial assets at amortised cost	36,638	240,713	3,115,807	823,545	302,088	144,302	12,009,051	16,672,144
- First stage	35,405	233,722	3,070,737	740,595	229,716	76,947	9,977,536	14,364,658
- Second stage	1,233	6,991	45,055	82,950	67,460	65,928	1,559,013	1,828,630
- Third stage	-	-	-	-	4,912	1,427	459,111	465,450
- Purchased or originated credit impaired	-	-	15	-	-	-	13,391	13,406
B. Financial assets designated at fair value through other comprehensive income	2,587	-	559,709	17,725	-	-	-	580,021
- First stage	2,587	-	559,709	17,725	-	-	-	580,021
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	24,516	24,516
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	24,511	24,511
- Purchased or originated credit impaired	-	-	-	-	-	-	5	5
Total (A+B+C)	39,225	240,713	3,675,516	841,270	302,088	144,302	12,033,567	17,276,681
D. Commitments to disburse funds and financial guarantees issued	38,321	130,669	255,386	230,442	77,026	31,086	2,634,782	3,397,712
- First stage	38,321	130,669	250,343	221,726	76,126	30,450	2,534,811	3,282,446
- Second stage	-	-	5,043	8,716	900	440	88,124	103,223
- Third stage	-	-	-	-	-	196	11,847	12,043
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-
Total (D)	38,321	130,669	255,386	230,442	77,026	31,086	2,634,782	3,397,712
Total (A+B+C+D)	77,546	371,382	3,930,902	1,071,712	379,114	175,388	14,668,349	20,674,393

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

The following table gives a reconciliation between the rating classes indicated in table A.2.1 and those provided by the ECAIs Moody's and Mode Finance, the agencies that the Group uses for external ratings.

Classes of credit quality	Moody's rating	Mode Finance
1	from Aaa to Aa3	from EA1 to EA2-
2	from A1 to A3	from EA3+ to EA3-
3	from Baa1 to Baa3	from EB1+ to EB1-
4	from Ba1 to Ba3	from EB2+ to EB2-
5	from B1 to B3	from EB3+ to EB3-
6	Caa1 or less	EC1+ or less

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

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

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

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

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

Exposures	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
On-balance sheet exposures	65.33%	25.59%	6.78%	2.30%	100%
Off-balance sheet exposures	79.36%	14.68%	4.19%	1.77%	100%

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Regulatory consolidation: Guaranteed on- and off-balance sheet credit exposures to banks

There are no such contractual arrangements at the reporting date.

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

			Secured guarantees (1)				Unsecured guarantees (2)									Total
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Property - Mortgages	Property under finance leases	Securities	Other secured guarantees	CLN	Central counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	(1)+(2)
1. Guaranteed on-balance sheet exposures:	8,703,837	8,419,375	4,383,293	105,746	230,387	128,613	-	-	-	-	-	2,458,883	16,302	18,735	765,077	8,107,036
1.1. totally guaranteed	6,825,239	6,557,813	4,380,259	105,746	204,139	123,104	-	-	-	-	-	986,608	13,357	6,416	733,398	6,553,027
- of which: non-performing	389,329	206,283	162,768	4,393	465	2,236	-	-	-	-	-	8,396	760	19	27,154	206,191
1.2. partially guaranteed	1,878,598	1,861,562	3,034	-	26,248	5,509	-	-	-	-	-	1,472,275	2,945	12,319	31,679	1,554,009
- of which: non-performing	23,266	13,548	118	-	121	574	-	-	-	-	-	9,290	148	-	1,480	11,731
2. Guaranteed off-balance sheet exposures:	852,003	850,921	2,996	-	65,687	59,197	-	-	-	-	-	1,738	4,243	715	672,165	806,741
2.1. totally guaranteed	733,645	732,670	2,996	-	53,670	48,159	-	-	-	-	-	952	3,917	28	622,806	732,528
- of which: non-performing	3,760	3,469	13	-	70	432	-	-	-	-	-	-	-	-	2,954	3,469
2.2. partially guaranteed	118,358	118,251	-	-	12,017	11,038	-	-	-	-	-	786	326	687	49,359	74,213
- of which: non-performing	593	571	-	-	19	324	-	-	-	-	-	-	-	-	126	469

B. Distribution and concentration of credit exposures

B.1 Regulatory consolidation – Distribution by sector of on- and off-balance sheet credit exposures to customers

(Part 1)

Exposures/Counterparties		Public administrations		Financial companies		Financial companies (of which: insurance companies)	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures							
A.1 Bad loans		-	-	2,424	11,420	-	-
- of which: exposures subject to forbearance		-	-	-	-	-	-
A.2 Unlikely to pay		292	292	265	638	146	-
- of which: exposures subject to forbearance		-	-	1	11	11	-
A.3 Past due non-performing loans		177	177	26	1	-	-
- of which: exposures subject to forbearance		-	-	-	-	-	-
A.4 Performing loans		2,926,223	2,926,223	585	655,776	2,967	6,221
- of which: exposures subject to forbearance		-	-	-	1,296	84	-
Total A		**2,926,692**	**876**	**658,839**	**14,533**	**6,221**	**1**
B. Off-balance sheet exposures							
B.1 Non-performing loans		-	-	-	-	-	-
B.2 Performing loans		50,028	50,028	-	110,454	118	-
Total B		**50,028**	**-**	**110,454**	**118**	**-**	**-**
Total (A+B)	**31.12.2021**	**2,976,720**	**876**	**769,293**	**14,651**	**6,221**	**1**
Total (A+B)	**31.12.2020**	**2,705,659**	**1,014**	**667,156**	**12,401**	**5,076**	**-**

B.1 Regulatory consolidation – Distribution by sector of on- and off-balance sheet credit exposures to customers

(Part 2)

Exposures/Counterparties		Non-financial companies		Households	
		Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures					
A.1 Bad loans		59,190	117,313	35,601	35,777
- of which: exposures subject to forbearance		6,517	6,518	8,851	7,297
A.2 Unlikely to pay		86,240	86,240	61,202	57,129
- of which: exposures subject to forbearance		39,622	39,622	28,503	33,222
A.3 Past due non-performing loans		362	362	56	4,755
- of which: exposures subject to forbearance		51	51	8	234
A.4 Performing loans		6,049,409	6,049,409	76,172	4,576,735
- of which: exposures subject to forbearance		120,368	120,368	12,294	65,260
Total A		**6,195,201**	**254,743**	**4,674,220**	**87,813**
B. Off-balance sheet exposures					
B.1 Non-performing loans		9,422	9,422	1,999	558
B.2 Performing loans		2,954,999	2,954,999	1,727	254,994
Total B		**2,964,421**	**3,726**	**255,552**	**213**
Total (A+B)	**31.12.2021**	**9,159,622**	**258,469**	**4,929,772**	**88,026**
Total (A+B)	**31.12.2020**	**9,193,520**	**250,302**	**4,529,292**	**92,123**

B.2 Regulatory consolidation – Territorial distribution of on- and off-balance sheet credit exposures to customers (Part 1)

Exposures/Geographical areas		Italy		Other European countries		America
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure
A. Cash exposures						
A.1 Bad loans		97,163	(164,442)	52	(68)	-
A.2 Unlikely to pay		143,981	(87,686)	318	(191)	-
A.3 Past due non-performing loans		5,290	(400)	5	(1)	-
A.4 Performing loans		14,035,064	(105,057)	155,293	(99)	16,796
Total (A)		**14,281,498**	**(357,585)**	**155,668**	**(359)**	**16,796**
B. Off-balance sheet exposures						
B.1 Non-performing loans		9,979	(2,063)	-	-	-
B.2 Performing loans		3,365,983	(1,994)	4,055	-	432
Total (B)		**3,375,962**	**(4,057)**	**4,055**	**-**	**432**
Total (A+B)	**31.12.2021**	**17,657,460**	**(361,642)**	**159,723**	**(359)**	**17,228**
Total (A+B)	**31.12.2020**	**16,955,779**	**(355,531)**	**117,888**	**(290)**	**21,377**

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

Exposures/Geographical areas		America	Asia		Rest of the world	
		Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-
A.4 Performing loans		(20)	427	(1)	563	-
Total (A)		**(20)**	**427**	**(1)**	**563**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing loans		-	-	-	1	-
B.2 Performing loans		-	-	-	5	-
Total (B)		**-**	**-**	**-**	**6**	**-**
Total (A+B)	**31.12.2021**	**(20)**	**427**	**(1)**	**569**	**-**
Total (A+B)	**31.12.2020**	**(18)**	**171**	**(1)**	**412**	**-**

B.3 Regulatory consolidation – Territorial distribution of on- and off-balance sheet credit exposures to banks (Part 1)

Exposures/Geographical areas		Italy		Other European countries		America
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure
A. Cash exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-
A.4 Performing loans		2,373,437	(566)	93,094	(28)	-
Total (A)		**2,373,437**	**(566)**	**93,094**	**(28)**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing loans		-	-	-	-	-
B.2 Performing loans		11,089	(1)	676	-	-
Total (B)		**11,089**	**(1)**	**676**	**-**	**-**
Total (A+B)	**31.12.2021**	**2,384,526**	**(567)**	**93,770**	**(28)**	**-**
Total (A+B)	**31.12.2020**	**1,260,826**	**(435)**	**131,155**	**(57)**	**3,018**

B.3 Regulatory consolidation – Territorial distribution of on- and off-balance sheet credit exposures to banks (Part 2)

Exposures/Geographical areas		America	Asia		Rest of the world	
		Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-
A.4 Performing loans		-	-	-	1,116	(1)
Total (A)		**-**	**-**	**-**	**1,116**	**(1)**
B. Off-balance sheet exposures						
B.1 Non-performing loans		-	-	-	-	-
B.2 Performing loans		-	2,000	-	-	-
Total (B)		**-**	**2,000**	**-**	**-**	**-**
Total (A+B)	**31.12.2021**	**-**	**2,000**	**-**	**1,116**	**(1)**
Total (A+B)	**31.12.2020**	**(2)**	**317**	**-**	**800**	**(6)**

B.4 Large exposures

With reference to current supervisory regulations, the situation at 31 December 2021 is reported below:

Description	*Amount (book value)*	*Amount (weighted amount)*	*Number*
Large exposures	8,280,263	416,466	8

The positions recognised relate to:

- tax assets of the bank and Italian government securities,
- stake held in the Bank of Italy,
- subscription of junior and mezzanine securities and granting of loans to the vehicle company of the NPL securitisation with GACS,
- guarantees provided by the Guarantee Fund under Law no.662 of 23.12.1996,
- guarantees given by SACE,
- exposures with Crédit Agricole for cash deposited as part of the covered bond transaction and debt securities included in the proprietary portfolio,
- repurchase agreements in force with Cassa di Compensazione e Garanzia,
- ABS securities issued by the vehicle company Lumen S.p.V. with loans to SMEs guaranteed by MCC as underlyings.

C. Securitisation transactions

Qualitative information

In 2018, a securitisation was carried out that makes use of the Italian State guarantee on the senior securities issued following a securitisation of bad loans pursuant to Decree Law 18/2016 ("GACS") aimed at deconsolidating Banco Desio Group loans for a gross value of Euro 1.0 billion (the "Transaction").

The Transaction was structured in order to carry out the significant transfer of the credit risk associated with the securitised loans ("SRT") pursuant to art. 243 et seq. of Regulation (EU) no. 575/2013; the NPL portfolio sold on 12 June 2018 to "2Worlds s.r.l." (the special purpose vehicle or "SPV" set up specifically for this purpose) consists of mortgage or unsecured loan contracts granted by Banco di Desio e della Brianza and by Banca Popolare di Spoleto in favour of secured customers, i.e. with relationships guaranteed by mortgages, and unsecured customers, i.e. with relationships that do not have any collateral.

On 25 June 2018, the SPV issued the following types of asset-backed securities (ABS):

- senior securities for Euro 288.5 million, corresponding to 28.8% of the Gross Book Value (GBV) at the date of identification of the loans at 31 December 2020, to which DBRS Ratings Ltd and Scope Ratings GmbH have given "BBB low" and "BBB" ratings respectively;
- mezzanine securities for Euro 30.2 million to which DBRS Ratings Ltd and Scope Ratings GmbH have given "B low" and "B" ratings respectively;
- junior securities for Euro 9.0 million, with no rating.

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

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

In December 2021, Banco Desio also participated in a multi-originator securitisation of bad loans with GACS government guarantee, carried out by the team of Cassa Centrale Banca (Buonconsiglio 4). In particular, on 15 December, the Bank finalised the non-revolving sale in the form of a securitisation, carried out pursuant to Law 130/1999 (the "Transaction") of a portfolio of NPLs with a gross book value (GBV) of Euro 22.9 million to the vehicle company "Buonconsiglio 4 S.r.l." ("SPV" or "Vehicle").

In order to fulfil the retention obligation pursuant to: (i) art. 405, par. 1 of Regulation EU 575/2013 (the "CRR"), (ii) art. 51, par. 1 of Delegated Regulation (EU) 231/2013 ("AIMFD Regulation") and (iii) art. 254 of Delegated Regulation (EU) 35/2015 ("Solvency II Regulation"), the Group decided to maintain a net economic interest in the nominal value of each Junior (around 7%) and Mezzanine tranche (around 6%) transferred to third party investors, and retain 100% of the Senior tranche, pursuant to art. 405, par. 1, letter (a) of the CRR. The sale price, equal to Euro 4.59 million (gross of collections of Euro 90 thousand relating to the period 1 August 2021 – 1 December 2021, as envisaged by the GACS Decree of 3 August 2016, art. 2, par., letter a), was recognised via BDB subscribing ABS securities ("Notes") issued by the SPV on 14 December 2021, in exchange for the NPLs acquired pro-rata from each selling bank. On 15 December 2021, Banco di Desio e della Brianza signed the final binding agreement for the sale by the originator bank of around 94% of the Mezzanine securities and 93% of the Junior securities formulated by a third-party institutional investor, for a pro-rata price of Euro 202,322, collecting the price on the date set out for settlement of the securities transactions, i.e. 17 December 2021. After the transaction was finalised in December, the application for a guarantee on the senior securities was sent to the Ministry of the Economy and Finance (MEF), which is still being processed. at the date of preparation of this document, the conditions have been met to recognise the significant risk transfer of the loans sold for prudential purposes.

In 2020, the Bank subscribed Euro 50 million for an asset-backed security ("ABS") issued by Lumen SPV S.r.l. (special-purpose vehicle or "SPV"), representing medium/long-term loans granted by Credimi S.p.A.

(“Originator”) to SMEs and backed by guarantees from Medio Credito Centrale (MCC), as envisaged in Decree Law 23 dated 8 April 2020 (the "Liquidity" Decree). In 2021, an additional issue by Lumen was subscribed, with underlying loans of the same type for an additional Euro 50 million.

The objectives of this initiative are to:

1. obtain an expected return consistent with the risk profile of the operation with underlying loans that are guaranteed by Medio Credito Centrale;
2. increase the number of customers with a target in line with the commercial and credit policies (geography, company size and expected loss of the portfolio);
3. commence operations in fintech channels (co-branded portal) that provide clients with a fully on-line user experience that is simple and quick.

During 2020, with a view to diversifying the securities portfolio and seeking attractive returns, the Bank also invested 5 million euro in senior notes issued by Viveracqua, an SPV, maturing in 2034 and representing 6 bond issues by companies operating in the water sector. Also with a view to diversifying its securities portfolio, in 2021 the following investments were made in senior tranches of third-party securitisations:

- Euro 30 million relating to a simple, transparent and standardised (“STS”) senior issue of Kripton SPV with underlying loans to SMEs guaranteed by Medio Credito Centrale: at 31 December 2021, the transaction is still in the ramp-up phase, and payments of around Euro 21.5 million have been made;
- Euro 15 million relating to a senior issue of the vehicle P2P Lendit with underlying consumer loans to individuals. At 31 December 2021, the transaction is still in the ramp-up phase and payments of around Euro 1.4 million have been made.

Quantitative information

C.1 Regulatory consolidation - Exposures arising from principal "own" securitisations, broken down by type of securitised asset and by type of exposure

TYPE OF SECURITISED ASSETS/EXPOSURES	Cash exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
A. Fully derecognised	181,592	39	882		2	
- financial assets at amortised cost	181,592	39				
B. Partially derecognised						
C. Not derecognised						

The exposure shown in the financial statements represents:

- the value of the senior securities at amortised cost (including upfront costs incurred and accrued interest accrued and net of the expected credit loss - ECL);
- the fair value of mezzanine and junior securities held, recorded under financial assets that are mandatorily at fair value.

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

TYPE OF UNDERLYING ASSETS/EXPOSURES	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
Loans to customers	118,444	1,455				
Unlisted debt securities	5,017	35				

D. Asset disposals

D.4 Regulatory consolidation - Covered bonds

This section includes covered bond transactions in which the transferring bank and the financing bank coincide.

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

- Banco di Desio e della Brianza (Parent Company) in the role of (1) originator bank, (2) lending bank, and (3) bank issuing the covered bonds;
- Desio OBG S.r.l. (Vehicle or SPV), as a special purpose vehicle for the sale of eligible assets by Banco Desio, 60% owned by the Parent Company;

- BNP Paribas, as the counterparty in the swap taken out to hedge the potential risk generated by the mismatch between the fixed rate on the covered bond and the mix of rates on the portfolio.

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

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. issues by Banco di Desio e della Brianza of covered bonds to institutional investors for Euro 575 million (in 2017) and Euro 500 million (in 2019), respectively, with 7-year maturity, plus Euro 100 million (issued in 2021), with 10-year maturity;
4. a liability swap on the covered bonds issued taken out by the SPV for a notional amount of Euro 300 million (for the 2017 issue) and for a notional amount of Euro 200 million (for the 2019 issue) with BNP Paribas as counterparty;
5. a back-swap taken out by Banco di Desio e della Brianza for the same notional amount with the same counterparty, as a mirror-image of the previous one.

The main characteristics of the transaction are summarised below:

a) SPV name: Desio OBG S.r.l.
b) Type of underlying loans: Residential mortgage loans;
c) Value of the loans sold: total of Euro 2,180 million;
d) Amount of subordinated loan: totalling Euro 1,595 million at 31 December 2021;
e) Nominal value of the covered bonds issued: Euro 1,175 million;
f) Interest rate on covered bonds issued: fixed rate of 0.875% (2017 issue), 0.375% (2019 issue) and 0% with issue price of 98.493% (2021 issue).

At 31 December 2021, the loan portfolio sold by the Bank has a book value of about Euro 1,491 million.

D.5 Regulatory consolidation - Financial assets sold and fully derecognised

<u>Qualitative information</u>

In line with the pro-active management strategy for non-performing loans and the guidelines issued by the European Central Bank, during the year there were 7 sales of loan portfolios made up of mortgage and unsecured loans classified as bad loans and unlikely-to-pay for a gross book value (GBV) of Euro 75.0 million to closed-end investment funds in exchange for the investment in units of those funds, for a total of Euro 24.3 million.

As can be seen from the analysis of the quantitative information reported in the following paragraph, the structure of each transaction was configured in a way to allow Banco Desio to meet the requirements of IFRS 10 Consolidated Financial Statements regarding the absence of the conditions required for the exercise of control over the investment fund (and therefore exclusion of the units received from the scope of consolidation of the Banco Desio Group). Likewise, the conditions laid down by IFRS 9 for the substantial transfer of the rights to receive the cash flows from the individual assets sold and the risks and benefits associated with them are respected. This results in total deconsolidation of the loans transferred from an accounting point of view, also taking into consideration that no further guarantees have been granted, except for the usual ones on the existence of credit in favour of the Fund.

As part of the agreements involved in the Transaction ("side letters"), specific periodic reporting has been provided for to allow subscribers of the units adequate feedback on the assets underlying the net asset value of the closed-end Fund.

Quantitative information

Against those multi-originator sales, due to the presence of sales of non-performing loans to the same fund by a series of investors (including ten banks and one operator specialising in the management of non-performing loans), the following fund units were subscribed:

a. Euro 4.1 million of the Efesto fund,
b. Euro 8.7 million of the Cuvee fund,
c. Euro 6.7 million of the VIC fund,
d. Euro 4.7 million of the Illimity CR fund.

Due to the pre-existing write-downs at 31 December 2020 on the loans sold in 2021, net losses on the sale of financial assets at amortised cost of approximately Euro 6.4 million were recognised.

Against this multi-originator sales, due to the presence of sales of non-performing loans by a series of investors, Banco Desio holds the following investments in closed-end UCIs of non-performing loans, with the resulting % of total issued units (based on the latest statement available of each fund):

1) 5,133,105.17 units of the Efesto Fund, corresponding to 1.7% of the total of the issued units;
2) 34.1845 units of the Back2Bonis Fund, corresponding to 3.5% of the total of the issued units;
3) 7,767,036 units of the Clessidra Fund, corresponding to 3.9% of the total of the issued units;
4) 4,741,034 units of the Illimity CR Fund, corresponding to 4.1% of the total of the issued units;
5) 159 units of the Vir1 Fund, corresponding to 12.9% of the total of the issued units;
6) 120 units of the Vic2 Fund, corresponding to 22.2% of the total of the issued units, plus one unit to be received for a value of Euro 5.9 million.

Taking into account the participation in each fund with respect to the series of investors involved, the conditions required by IFRS 10 for the exercise of control over the related Fund are not met, whereas the bank met the conditions of IFRS 9 for the derecognition of the loans sold due to the changed characteristics of the asset recorded in the financial statements in place of the loans originated by the Bank (in terms of number, characteristics and nominal amount of the loans) and derecognised as a result of the transactions. To reach these conclusions, the following were assessed:

- the absence of elements indicating an ability to guide or control the variable yields of the funds, to which the Bank is exposed as holder of the units;
- the number of debtors, the segments in which they operate, the existence of guarantees, the timing of recoveries and the types of loan: analysis of these qualitative factors identifies considerable diversification, with many debtors having different characteristics that, furthermore, cause the funds to adopt different recovery strategies to those that the individual participating banks would have adopted;
- for the more significant contributions with respect to the total assets of the funds (Vir1 and Vic2), the conclusions of a quantitative test carried out by calculating the ratio of the variability of the cash flows from the loan portfolios contributed by each participating bank to the variability of the cash flows from the overall loan portfolio held by the fund.

The units of closed-end investment funds subscribed, classified under instruments mandatorily valued at fair value through profit and loss, are measured according to the methods set out in the Fair Value Policy for the type of asset, based on the internally-developed methods; that fair value (Level 3) updated in line with the adoption of the fair value models identified resulted in an adjustment to the last available NAV totalling Euro 3.7 million, equal to over 8% of the investment recorded based on the NAV communicated by the manager.

E. Regulatory consolidation - Credit risk measurement models

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

1.2 Market risk

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

Qualitative information

A. General aspects

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

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

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

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

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

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

The indicators and operating limits are continuously monitored, as a first level control, by the Finance Area, while the Risk Management Department carries out second level monitoring, activating any escalation procedures in the event of overruns, in accordance with the provisions of internal regulations.

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

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

Quantitative information

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives - Euro

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
A. Cash assets	**-**	**-**	**-**	**-**	**2,581**	**991**	**-**	**-**
1.1 Debt securities	-	-	-	-	2,581	991	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	2,581	991	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-

3. Financial derivatives

3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	95	18	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	95	18	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	143,411	3,901	5,098	1,225	420	-	-
+ Short positions	-	126,913	4,051	5,410	4,148	5,017	5,712	-

1. Regulatory trading book: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives – Other currencies

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
A. Cash assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	125,385	3,974	5,117	-	-	-	-
+ Short positions	-	128,132	3,974	5,117	-	-	-	-

2. Regulatory trading book: distribution of exposures concerning equities and equity indices by the main countries where they are listed

Type of operation/equity index	Listed			Unlisted
	Italy	United States	Other	
A. Equity securities				
long positions	3,868		800	
short positions				
B. Unsettled transactions in equity securities				
long positions				
short positions				
C. Other equity security derivatives				
long positions	113			
short positions			3,849	
D. Equity index derivatives				
long positions				
short positions				

3. Trading portfolio for supervisory purposes: internal models and other methodologies for the analysis of sensitivity

The monitoring of the "trading portfolio reported for supervisory purposes" performed up to the third quarter shows a structure with limited market risk. The VaR estimated using Monte Carlo simulations at 31.12.2021 amounts to Euro 96.56 thousand, with a percentage of 1.70% of the trading portfolio.

1.2.2. Interest rate risk and price risk – banking book

Qualitative information

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

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

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

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

The analyses are carried out also considering non-parallel shifts in the yield curve and the application of behavioural models for on-demand items. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

Quantitative information

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities - EURO

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	1,032,710	6,956,522	1,313,093	564,444	3,575,860	2,314,033	1,082,424	-
1.1 Debt securities	-	742,411	963,377	96,868	722,385	1,034,008	137,913	-
- with early redemption option	-	197,443	7,077	503	65,393	67,069	-	-
- other	-	544,968	956,300	96,365	656,992	966,939	137,913	-
1.2 Loans to banks	119,140	1,927,419	-	-	-	383	-	-
1.3 Loans to customers	913,570	4,286,692	349,716	467,576	2,853,475	1,279,642	944,511	-
- current accounts	596,269	330,664	2,204	4,245	18,471	900	28	-
- other loans	317,301	3,956,028	347,512	463,331	2,835,004	1,278,742	944,483	-
- with early redemption option	97,026	3,226,102	257,402	394,416	2,327,150	952,230	944,050	-
- other	220,275	729,926	90,110	68,915	507,854	326,512	433	-
2. Cash liabilities	9,432,849	1,079,301	234,256	138,482	5,086,232	144,832	61,875	-
2.1 Due to customers	9,430,970	936,098	122,028	137,862	116,327	44,457	61,875	-
- current accounts	9,298,831	701,337	89,428	94,442	62,248	-	-	-
- other payables	132,139	234,761	32,600	43,420	54,079	44,457	61,875	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	132,139	234,761	32,600	43,420	54,079	44,457	61,875	-
2.2 Due to banks	56	-	-	-	3,805,889	-	-	-
- current accounts	56	-	-	-	-	-	-	-
- other payables	-	-	-	-	3,805,889	-	-	-
2.3 Debt securities	1,823	143,203	112,228	620	1,164,016	100,375	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,823	143,203	112,228	620	1,164,016	100,375	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								-
- Options								-
+ Long positions	-	7,207	11,156	19,924	81,135	42,674	25,373	-
+ Short positions	-	185,722	1,748	-	-	-	-	-
- Other derivatives								-
+ Long positions	-	80,000	-	-	-	-	-	-
+ Short positions	-	-	80,000	-	-	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	85,930	3,065	-	-	-	-	480	-
+ Short positions	89,475	-	-	-	-	-	-	-

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities - Other currencies

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. Cash assets	8,216	85,726	1,391	195	2,669	309	124	-
1.1 Debt securities	-	-	-	164	2,422	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	164	2,422	-	-	-
1.2 Loans to banks	7,087	61,069	-	-	-	-	-	-
1.3 Loans to customers	1,129	24,657	1,391	31	247	309	124	-
- current accounts	508	-	-	-	-	-	-	-
- other loans	621	24,657	1,391	31	247	309	124	-
- with early redemption option	-	-	31	31	247	309	124	-
- other	621	24,657	1,360	-	-	-	-	-
2. Cash liabilities	82,926	9,750	-	-	-	-	-	-
2.1 Due to customers	82,926	-	-	-	-	-	-	-
- current accounts	82,926	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	9,750	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	-	9,750	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions								
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

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

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

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

The Bank regularly conducts scenario and stress tests to estimate the possible impact of changes in market interest rates on net interest income, over the time horizon of one year, and on the economic value, as required by European regulations.

With the goal of fine-tuning that analysis, considering the actual speed of repricing of the items lacking a contractual expiry, the adoption of a behavioural estimation model of demand items was approved, in substitution of the one mentioned in Attachment C of Circular 285. The model was validated by the Group's internal Validation function and used in the first application for the purposes of the ICAAP 2020 reporting.

Also considering the low level of interest rates and the non-negative interest rate constraint, for demand items to customers, therefore, partial propagation is assumed on the final interest rate in the event of increases in market rates, and no action in the event of decreases, as the floor of interest rates has been reached and cannot be lowered any further.

Thus, in the event of increases, the final positive impact on the net interest income is the result of the full benefit on the asset side that reprices during the year, partially decreased by the limited increase in the cost of liabilities.

Conversely, in the event of a further decrease in interest rates, the impossibility of transferring the new levels to demand deposits would make it impossible to mitigate the decreased return on assets, entailing a greater reduction in net interest income.

The method used for the impact analysis on economic value is based on integrating the results of the management model that represents the financial statement items in terms of volumes and repricing buckets, including the results of the behavioural model on demand items, to which the coefficients set out in Circular 285 are applied to approximate sensitivity.

In this simplified revaluation approach, the impact of increases in interest rates would decrease the economic value of the banking book, while the presence of the implicit floor mentioned above would limit its increase in the event of a decline in the curve.

1.2.3. EXCHANGE RATE RISK

<u>Qualitative information</u>

A. General aspects, management and measurement of exchange risk

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

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

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

B. Hedging of exchange risk

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

Quantitative information

1. Distribution by currency of denomination of assets, liabilities and derivatives

Captions	Currencies				
	US dollar	Pound sterling	Franc	Yen	Other currencies
A. Financial assets	**76,068**	**1,843**	**4,209**	**1,013**	**1,133**
A.1 Debt securities	880	589			1,117
A.2 Equity instruments	752				
A.3 Loans to banks	50,307		2,901		
A.4 Loans to customers	24,129	1,254	1,308	1,013	16
A.5 Other financial assets					
B. Other assets	**3,178**	**1,004**	**626**	**99**	**3,016**
C. Financial liabilities	**78,413**	**5,696**	**4,667**	**1,064**	**2,833**
C.1 Due to banks	8,829			920	
C.2 Due to customers	69,584	5,696	4,667	144	2,833
C.3 Debt securities					
C.4 Other financial liabilities					
D. Other liabilities	**576**		**2**		**14**
E. Financial derivatives					
- Options					
+ Long positions					
+ Short positions					
- Other derivatives					
+ Long positions	126,939	2,468	1,452	2,151	1,466
+ Short positions	129,933	2,284	1,478	2,151	1,376
Total assets	**206,185**	**5,315**	**6,287**	**3,263**	**5,615**
Total liabilities	**208,922**	**7,980**	**6,147**	**3,215**	**4,223**
Net balance (+/-)	**(2,737)**	**(2,665)**	**140**	**48**	**1,392**

2. Internal models and other methodologies for the analysis of sensitivity

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

1.3 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

1.3.1 Trading derivatives

A. Financial derivatives

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

Underlying assets/Type of derivatives	Total 31.12.2021				Total 31.12.2020			
	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 netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	-	-	17,259	-	-	-	14,514	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	17,259	-	-	-	14,514	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	113	-	-	-	109	-
a) Options	-	-	113	-	-	-	109	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	264,942	-	-	-	142,278	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	264,942	-	-	-	142,278	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	282,314	-	-	-	156,901	-

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

Type of derivative	31.12.2021				31.12.2020			
	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 netting arrangements	Without netting arrangements	
1. Positive fair value								
a) Options	-	-	113	-	-	-	109	-
b) Interest rate swaps	-	-	10	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	494	-	-	-	647	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	617	-	-	-	756	-
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	5,461	-	-	-	6,935	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	441	-	-	-	592	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	5,902	-	-	-	7,527	-

A.3 OTC financial trading derivatives – notional values, positive and negative gross fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of netting arrangements				
1) Debt securities and interest rates				
- notional value	X	15,559	-	1,700
- positive fair value	X	-	-	10
- negative fair value	X	5,461	-	-
2) Equities and equity indices				
- notional value	X	-	18	95
- positive fair value	X	-	18	95
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	132,471	110,771	21,700
- positive fair value	X	177	15	301
- negative fair value	X	288	18	134
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of netting arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equities and equity indices	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currency and gold	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

4) Commodities	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial 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		737	5,372	11,150	17,259
A.2 Financial derivatives linked to equities and stock indices		95	18	-	113
A.3 Financial derivatives linked to currencies and gold		264,942	-	-	264,942
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	31.12.2021	265,774	5,390	11,150	282,314
Total	31.12.2020	142,933	2,859	11,109	

1.3.2 Accounting hedges

Qualitative information

A. Fair value hedges

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

B. Cash flow hedges

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

D. Hedging instruments

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

E. Hedged items

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

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

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

Banco Desio

Quantitative information

A. Hedging financial derivatives

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

Underlying assets/Type of derivatives	Total 31.12.2021				Total 31.12.2020			
	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 netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	-	-	80,000	-	-	-	130,000	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	80,000	-	-	-	130,000	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currency and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	80,000	-	-	-	130,000	-

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

Type of derivative	Positive and negative fair value								Change in amount used to determine hedge effectiveness	
	31.12.2021				31.12.2020					
	Over the counter			Organised markets	Over the counter			Organised markets	31.12.2021	31.12.2020
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	365	-	-	-	1,540	-	365	1,540
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	-	365	-	-	-	1,540	-	365	1,540

A.3 OTC hedging financial derivatives - notional values, positive and negative gross fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of netting arrangements				
1) Debt securities and interest rates				
- notional value	X	80,000	-	-
- positive fair value	X	-	-	-
- negative fair value	X	365	-	-
2) Equities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of netting arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying/Residual life		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives linked to debt securities and interest rates		80,000	-	-	80,000
A.2 Financial derivatives linked to equities and stock indices		-	-	-	-
A.3 Financial derivatives linked to currencies and gold		-	-	-	-
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	31.12.2021	80,000	-	-	80,000
Total	31.12.2020	50,000	80,000	-	

1.3.3 Other information on trading and hedging instruments

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other parties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	15,559	-	1,700
- net positive fair value	-	-	-	10
- net negative fair value	-	5,461	-	-
2) Equities and equity indices				
- notional value	-	-	18	95
- net positive fair value	-	-	18	95
- net negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	132,471	110,771	21,700
- net positive fair value	-	177	15	301
- net negative fair value	-	288	18	134
4) Commodities				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchase of protection				
- notional value	-	80,000	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	365	-	-
2) Sale of protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

1.4. Banking Group - Liquidity risk

Qualitative information

A. General aspects, management and measurement of liquidity risk

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

The monitoring of and periodic reporting on liquidity risk is carried out by the Risk Management Office in compliance with the threshold of tolerance for this kind of risk as determined by the Policy for the management of liquidity risk. Treasury activities consist of procuring and allocating available liquidity through the interbank market, open market operations and transactions in repurchase agreements and derivatives.

The management of operational liquidity has the objective of ensuring the Group is capable of meeting expected and unexpected payment commitments in the context of the "normal course of business" (going concern) over a short term time horizon that does not exceed 3 months. The scope of reference of the daily report on operating liquidity refers to items with a high level of volatility and a considerable impact on the monetary base. The monitoring and control of operating limits is carried out through the acquisition of information resulting from collection and payment transactions, management of accounts for services and trading in the financial instruments held in proprietary portfolios.

The counterbalancing capacity model allows us to integrate the report with all of the free assets that can readily be used, both to be eligible for refinancing with the ECB and to be sold. Next to the application of haircuts determined by the ECB for eligible securities and A.Ba.Co. loans, appropriate discount factors are prepared (divided by type of security, rating and currency), also for all securities not eligible, but still considered marketable if appropriately positioned in time buckets.

Further support for the management of liquidity risk is derived from the monitoring of structural liquidity with the primary objective of maintaining an adequate dynamic relationship between assets and liabilities in the medium to long term.

Operations are measured using Asset and Liability Management (ALM) methods through the ERMAS5 application: by developing all of the cash flows generated by operations, it allows us to evaluate and manage in the various time periods any liquidity requirement that the Bank may encounter due to imbalances between inflows and outflows.

The analysis of the overall structural liquidity is developed on a monthly basis using the technique, i.e. showing imbalances by date of liquidation of capital flows over a set time horizon.

In order to evaluate the impact of the negative events on the risk exposure, stress tests are performed at consolidation level. In particular, the events considered are:

- outflow from overdrafts repayable on demand considered non core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) and "on demand" due to the increase in impaired loans;
- decrease in value of the owned securities portfolio (Held to collect and sell "HTCS" and Held to collect "HTC");
- repurchase of issued Bonds;
- use of available facilities for revocable lines of credit (call risk).

On completion of the analysis, three types of scenarios are created:

1. Idiosyncratic, defined as a loss of confidence by the Group's market;
2. Market, defined as a loss arising from exogenous events and from the impact of a general economic downturn;

3. Combined, being a combination of scenarios 1 and 2.

The time horizon for the simulation of all scenarios is 1 month, a period in which the Group would have to cope with the crisis before commencing structural interventions.

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

The Group's liquidity at 30 June 2021 is well under control with a LCR indicator of 199.88%.

Quantitative information

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

EURO

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
A. Cash assets	1,179,928	41,767	140,684	163,058	818,007	654,678	1,120,112	6,437,274	4,662,642	1,921,766
A.1 Government securities	-	-	1,271	-	2,633	139,447	247,323	1,420,921	989,790	-
A.2 Other debt securities	3,545	-	258	488	43,306	23,372	47,952	293,435	491,147	-
A.3 Mutual funds	75,026	-	-	-	-	-	-	-	-	-
A.4 Loans	1,101,357	41,767	139,155	162,570	772,068	491,859	824,837	4,722,918	3,181,705	1,921,766
- Banks	125,142	-	-	-	-	-	-	-	384	1,921,766
- Customers	976,215	41,767	139,155	162,570	772,068	491,859	824,837	4,722,918	3,181,321	-
B. Cash liabilities	10,105,931	212,138	4,154	55,441	94,557	316,151	147,170	5,126,570	208,095	-
B.1 Deposits and current accounts	10,062,287	3,337	3,151	25,292	62,863	117,229	131,097	68,544	-	-
- Banks	56	-	-	-	-	-	-	-	-	-
- Customers	10,062,231	3,337	3,151	25,292	62,863	117,229	131,097	68,544	-	-
B.2 Debt securities	1,809	1,003	1,003	30,135	31,470	192,838	7,703	1,165,358	101,815	-
B.3 Other liabilities	41,835	207,798	-	14	224	6,084	8,370	3,892,668	106,280	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	4,714	33,092	82,652	7,384	3,885	5,067	-	-	-
- Short positions	-	1,984	33,048	82,642	7,377	3,881	5,157	18	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	10	-	-	-	-	-	-	-	-	-
- Short positions	5,461	-	-	-	185	185	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	22,542	-	-	35	3,000	500	-	12,879	50,518	-
- Short positions	85,929	-	-	353	2,713	-	-	-	480	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

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

OTHER CURRENCIES

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
A. Cash assets	8,989	24,696	32,207	20,676	8,389	1,409	234	2,683	385	-
A.1 Government securities	-	-	-	-	-	2	3	1,478	-	-
A.2 Other debt securities	-	-	-	-	126	-	197	985	-	-
A.3 Mutual funds	752	-	-	-	-	-	-	-	-	-
A.4 Loans	8,237	24,696	32,207	20,676	8,263	1,407	34	220	385	-
- Banks	7,093	21,119	28,273	11,740	-	-	-	-	-	-
- Customers	1,144	3,577	3,934	8,936	8,263	1,407	34	220	385	-
B. Cash liabilities	82,926	8,830	920	-	-	-	-	-	-	-
B.1 Deposits and current accounts	82,926	8,830	920	-	-	-	-	-	-	-
- Banks	-	8,830	920	-	-	-	-	-	-	-
- Customers	82,926	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	1,982	33,124	82,673	7,606	3,974	5,117	-	-	-
- Short positions	-	4,709	33,144	82,673	7,606	3,974	5,117	-	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5. OPERATIONAL RISK

Qualitative information

A. General aspects, management and measurement of operational risk

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

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

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

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

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

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

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

With regard to the management and monitoring of outsourcing risk, a specific method for assessing the risk associated with third parties was developed and implemented with respect to the broader process of operational risk assessment.

IT security and data protection are priorities for the Group, which attaches central importance to the various risk management strategies. The measures adopt comply consistently with the current regulations governing privacy and security, as well as with the principal sector standards, in order to ensure that the IT systems are protected from events that might have adverse impacts on the Group and the rights of data subjects.

The management, control and measurement of IT risks, including cyber risk, are integral parts of the broader system of internal control and risk management adopted by the Bank, as the parent of the Banco Desio Group.

With reference to the principal organisational and operational controls currently in place to ensure data security and protection, the Group applies:

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

- ✓ a process for assessing third parties and the technological and organisational controls established by them to ensure *inter alia* IT security and operational continuity in the context of the services provided, both in the contracting phase and throughout the entire working relationship;
- ✓ a DPIA (Data Protection Impact Assessment) that considers the need for and proportionality of the processing of confidential data, considers and manages any risks for the rights and freedoms of the data subjects concerned, and identifies and implements mitigation measures for any weaknesses found in the existence and effectiveness of adequate physical, organisational and technological controls;
- ✓ internal training on the data protection regulations and on the methods for processing and protecting data;
- ✓ pro-active anti-fraud procedures that address the dynamic changes in the techniques employed in IT attacks;
- ✓ procedures for the management of security incidents;
- ✓ threat alert systems, partly by specialist recourse to Security Operation Centres. In addition, a service has been acquired recently that includes an advanced IT application complete with intrusion detection system, as well as a component that uses machine learning techniques to group network devices into similar clusters, in terms of the behaviour, in order to help identify anomalies and generate alerts;
- ✓ daily monitoring of the performance of ICT security that uses a rating system (external assessment by a specialist operator with a global footprint).

With reference to the principal lines of development, the Parent Company worked to strengthen the first level controls over IT security, via the development of a system of KPIs capable of monitoring constantly the following areas: positioning of the Group with regard to cyber security, effectiveness of fraud detection systems, exposure to vulnerabilities and management of incidents.

As regards the management of risks impacting the Group's business continuity, the Business Continuity plan was updated during the year, with a view to process: measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), 2 new branches were identified as Business Continuity sites for personnel who cannot operate remotely and for those processes which still need materiality.

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

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

Risk related to outstanding legal disputes

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

	Number	Claim	Provisions
Claw-back suits	17	€ 11.8 million	€ 0.8 million
Other lawsuits	836	€ 143.6 million	€ 9.1 million

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

- Claim of Euro 42.0 million. The Bank's receivable, transferred to another company in December 2017, was admitted to the bankruptcy liabilities for a total of Euro 1,125,000 placed, as requested, in the class of privileged mortgage loans. On 28 May 2020, a letter of formal notice was received from the Receivership with which a request for compensation was formulated, quantifying the damage to the extent now claimed. An identical initiative was also taken with regard to the other banks involved. The communication argued that, even though the Bank was aware of the state of insolvency in which the company found itself, it continued the fiduciary relationship and approved the disbursement of a new line of credit (partly to repay previous loans in suspense). An external lawyer was immediately appointed to give the Receiver feedback with a prompt and firm denial of any claim. Following this notice from the Receivership, a formal summons was served on the Bank and the other credit institutions involved on 31 January 2022 to appear before the Court of Rome. The request for compensation and the sum involved are reconfirmed, as are the reasons underlying the judicial request. Banco Desio's expert witness carried out a preliminary investigation and prepared a report that excluded that the damage claimed by the plaintiff could be attributable to the Bank;
- Claim of Euro 40.0 million. Spoleto Credito e Servizi Soc. Coop. (SCS, former parent cooperative of Banca Popolare di Spoleto) as well as some shareholders of the same company notified the Bank and the members of the Board of Directors of the merged company in office in the period 2014-2016 a summons before the Court of Milan - Specialized Company Section - in order to ascertain: (i) the presumed responsibility of the defendants with regard to the transfer of no. 32 bank branches of Banco to the merged company (concluded in the first half of 2015) by virtue of the Investment Agreement concluded on 1 April 2014 between the Bank and the Extraordinary Commissioners of the merged company, on the assumption that incorrect criteria were used to estimate the value of the business unit and that there was a lack of control over the matter by the merged company's Board of Directors and the members of the Related Parties Committee; (ii) the Bank's responsibility for an alleged breach of the commitment assumed in the Framework Agreement to grant a loan of Euro 15.0 million to SCS. In addition to doubts about the legitimacy of the plaintiffs, the arguments are considered entirely instrumental and unfounded and, above all, the abnormal request for compensation is devoid of any probative support. Resolving the outstanding question, the Court of Milan postponed the lawsuit to clarify the conclusions for the hearing of 28 March 2023;
- Claim of Euro 12.6 million. Following the rejection of the Preventive Technical Assessment established in March 2018, the plaintiff initiated a judgement of merit at the Court of Monza (first hearing on 28 March 2019) to request the return of the amounts made available (transfers and requests for bank drafts), according to the plaintiff, based on false signatures and consequently stolen from his assets for the total of Euro 12.6. As things stand at present, the Bank's legal advisor thought that the risk of losing the case was remote, also considering the outcome of the Preventive Technical Assessment. The appraisal of the hand-writing required by the Judge, concluded that all of the signatures could be traced back to the plaintiff. The hearing for the examination of the expert witness's report was set for 12 February 2021. In the meantime, the counterparty died and the Judge declared the case suspended with effect from 3 June 2021. The lawsuit was reinstated and called to the hearing set for 10 February 2022;
- Claim of Euro 7.3 million. With a writ notified in 2013, the Receivership summoned Banca Popolare di Spoleto together with Banca delle Marche and Monte dei Paschi di Siena before the Court of Perugia to hear ascertained and declared invalid and/or ineffective and/or unenforceable as the receiver of the sale of the loan and, therefore, to hear them condemned, jointly and severally, to pay the sum. The application seems totally unfounded as confirmed by the counsel that we appointed to appear in court. On 2 December 2009 (about three years before the declaration of bankruptcy with judgement on 21 March 2013), the Bank, together with the two other banks, granted a line of credit to the bankrupt company, usable in the technical form of an advance on contracts to public entities and/or the public administration, for an amount of Euro 1 million for each bank; the deed of transfer expressly mentioned the revolving nature of the advance granted. At the hearing of 23 November 2021 set for the clarification of the conclusions, the Judge deferred the lawsuit for decision;

- Claim of Euro 3.6 million. The receivership cited the merged Banca Popolare di Spoleto before the Court of Perugia - Section specialized in business matters (first hearing set for 4 November 2019) asking for verification of whether under art. 2377 of the Italian Civil Code the resolution of the shareholders' meeting of Banca Popolare di Spoleto S.p.A. of 7 May 2019 which approved the project for the merger of BPS with Banco di Desio e della Brianza S.p.A. can be cancelled for lack of information and incongruity on the determination of the exchange ratio between the shares of the two Banks; the Court condemned BPS to reimburse the Bankruptcy for the presumed damages that it caused as a consequence of the incongruity of the exchange ratio; damages quantified by the counterparty at Euro 3.6 or a higher or lower sum that may be decided by the Court. Without prejudice to the fact that, under art. 2504 quater of the Italian Civil Code, since the merger deed was registered, the validity of the merger deed could no longer be questioned, the Bank filed an appearance with the court, reiterating the fairness of the exchange ratio established for the transaction. The Judge lifted the reserve and admitted the filing of documents to back the experts' assessments and scheduled the next hearing for 25 February 2021 to continue the case. The Judge ordered an accounting expert witness and set the start of the expert's work on 27 July 2021, postponing the case to 14 April 2022 to read the expert witness's report. Banco Desio has appointed its own expert witness;
- Claim of Euro 3.0 million. The Receivership summoned the (now merged) Banca Popolare di Spoleto to appear before the Court of Terni, alleging that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, given that by acting in this way it allowed the counterparty to remain on the market and delay the declaration of bankruptcy. The Court of Terni rejected the plaintiff's claim, which was challenged before the Court of Appeal of Perugia. The Court of Appeal upheld the first-instance decision. On 8 March 2018, notice was served of the appeal to the Supreme Court. The Supreme Court accepted the appeal of the receivership with regard to the doubts about its legitimacy, sent back to the Court of Appeals of Perugia with a different composition. The Court of Cassation affirmed the principle of the legitimacy of the receivership to promote indemnification action against the directors and banks that are alleged to have favoured the unlawful use of credit (legitimacy which, vice versa, was denied by the trial court). Nonetheless, the judgement set limits on the affirmation of such hypothesis, a principle with which the Court and the appellate judge must comply. The hearing of reinstatement has been set before the Court of Appeals of Perugia for 17 February 2022;
- Claim of Euro 2.6 million. The counterparty has summoned the Bank to appear before the Court of Brescia to obtain repayment of the sum deriving from the loss suffered by investing in Boost WTI Oil 3x Leverage ETP and Boost Natural Gas 3x Leverage ETP. The plaintiff has been a customer of Banco Desio since 2011. He opened an administered deposit account in which he carried out various trades in financial instruments before concentrating most of his investments in the two financial instruments that are being contested. Among the various allegations regarding his profiling, the investment advice given by the Bank and the presumed surreptitious management by the Bank with regard to his investments, the plaintiff claims that the two financial instruments were recommended by the Bank and the product sheet did not contain any explanation that in the event of a certain percentage loss these financial instruments would have been withdrawn from the market and reimbursed at the lower value, which duly occurred on 8 March 2020, generating the loss suffered by the plaintiff. The contracts are correctly signed, assigning the customer a high-risk profile for which the investments made are appropriate and adequate. The hearing to admit the results of the enquiry was set for 17 March 2022;
- Claim of Euro 2.0 million. By writ of summons, the counterparty brought legal proceedings against the Bank to seek a declaration of ineffectiveness against the creditors associated with remittances made to the company's current account in the year prior to the issue of declaratory judgement of insolvency. The Court of First Instance partially upheld the demands of the bankrupt party and ordered the Bank to return an amount that was lower than the claim. The counterparty lodged an appeal. The Bank paid the amount fixed by the judgement made by the Court of First Instance, subject to restitution based on the outcome of the appeal proceedings. With a judgement issued in 2015, the Milan Court of Appeal rejected the appeal filed by the counterparty. By application filed in November 2015, the counterparty appealed to the Supreme Court, effectively proposing

the same arguments already submitted in first and second degree. The Supreme Court has not yet set the date for the hearing;

- Claim of Euro 1.9 million. The receivership summoned the merged Banca Popolare di Spoleto to appear before the Court of Terni, assuming that the overall exposure to the lending banks and the compromised nature of the financial statements should have led the Bank to refrain from granting credit, so the Bank's operations allowed the party to remain on the market and delay the declaration of bankruptcy. The Bank appeared in court to defend itself, arguing that the credit lines granted were very low (maximum Euro 60 thousand), so lacking any causal link for the allegation of abusive concession of credit. The investigation authorised by the Judge did not address conduct attributable to the Bank. With a judgement of 15 December 2017, the Court of Terni rejected the request filed against the defendant Banks, believing that the conduct of the credit institutions did not contribute to the bad management of the administrator. On 16 January 2018, an appeal against this judgement was served at the request of the receivership. The Court of Appeal upheld the first-instance ruling. The receivership promoted an appeal to the Court of Cassation and the date for the first hearing still has to be set;
- Claim of Euro 1.5 million. By writ notified in 2015, the counterparty summoned the Bank before the Court of Prato to obtain reimbursement of the capital invested in a series of securities and, alternatively, the amount of the loss incurred during the course of the investment. The Bank has objected to the merits of the request. The court-ordered appraisal of the handwriting confirmed that the plaintiff's signatures were not authentic. Through a partial judgement, the Court returned the lawsuit to the enquiry phase, in order to carry out the court-appointed accounting appraisals and setting the next hearing for 17 February 2022;
- Claim of Euro 1.4 million. The counterparty summonsed the Bank on the basis of an econometric appraisal prepared for the sole purpose of convincing the competent Court that non-contractual interest rates were applied, presumably illegitimately or in any case illegally and, allegedly, exceeding the threshold rate for the identification of usury. According to the counterparty, as a result of being reported as non-performing by the Bank, its access to credit from other banks and suppliers was progressively reduced. This economic-financial difficulty allegedly caused material losses, quantified in total by the counterparty as about Euro 4 million, as well as alleged non-material losses of Euro 85,000 for each in which its non-performing status was report, to be settled if appropriate on an equitable basis. At the first hearing on 9 June 2021, the Judge granted the terms for filing the preliminary briefs. The lawsuit was deferred for decision pursuant to art. 281 sexies of the Italian Code of Civil Procedure to the hearing of 6 April 2022;
- Claim of Euro 1.4 million. A Cooperative Company has sued the Bank before the Court of Spoleto asking to ascertain the nullity, cancellation, termination, pre-contractual and contractual liability, the abuse of a dominant position or at least of economic dependence exercised by Banca Popolare di Spoleto S.p.A., under a contract for the provision of investment services and a contract for the purchase of shares for a total of 36,000 shares issued by Spoleto Credito e Servizi Soc. Coop. (SCS, former parent of Banca Popolare di Spoleto) for a total of Euro 1.4 million. The shares (partially pledged) were allegedly purchased by the customer through the mediation of the merged Bank, but with a bank transfer in 2001 directly to SCS. The disputed transaction is very old and the protective measures seem to be prescribed, despite the fact that the operations were used for a loan and a guarantee held with our bank which were subsequently extinguished. The Judge set the hearing for admission of the results of the enquiry for 13 June 2022;
- Claim of Euro 1.2 million. A company, as well as its guarantors, sued the Bank before the Court of Spoleto in order to hear, ascertain and declare in relation to mortgages the application of usurious interest, asking the Court for payment by the Bank of Euro 338 thousand for interest allegedly not due, in addition to Euro 169 thousand by way of damages for the company and Euro 730 thousand for each guarantor in compensation for damages for breach of the principles of fairness and good faith, pursuant to art. 1175 and 1375 of the Italian Civil Code. An expert appraisal was carried out, which confirmed the lawfulness of the relationships involved in the lawsuit. The first-level ruling was therefore favourable to the Bank, but the counterparties have appealed the decision. The Court of Appeals, rejecting all introductory claims to the contrary, set the hearing to clarify the conclusions for 7 July 2022;
- Claim of Euro 1.1 million. Bankruptcy clawback action aimed at the clawback of the payment of the purchase price for a fixed asset owned by the Bank and leased to the counterparty plus

amounts paid into a current account. The receiver contested the way in which the payments were made (art. 65 Bankruptcy Law). The first-instance judgement issued in favour of the Bank by the Court of Como has been appealed by the receivership. The Court of Appeal has overturned the first-instance decision. The Bank has appealed to the Supreme Court, which has not yet set a date for the hearing. The receivership has served notice of an injunction for a sum of Euro 1.2 million and the Bank has opposed the injunction, mainly by reason of the legitimacy of the request, including the stance that an appeal had been made to the Supreme Court. The Judge competent to decide on the opposition to the injunction, however, pending the outcome of the Supreme Court's decision, has ordered the Bank to pay a sum of Euro 1.2 million and, at the same time, has obliged the receivership not to take delivery of the sum, until the outcome of the decision by the court of third instance (Supreme Court) concerning the appeal lodged by the Bank against the Court of Appeal's decision. The Supreme Court has not yet set the date for the first hearing;

* * *

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

For completeness, it should be noted that, under article 72, paragraph 5, of the CBA, after approval has been obtained from the Bank of Italy, the Extraordinary Commissioners in charge of special administration of the subsidiary Banca Popolare di Spoleto, at the end of their mandate, had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager. On 7 April 2016, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto resolved, among other things, confirmation of the action of responsibility already taken by the Extraordinary Commissioners and its extension against the former Statutory Auditors. It should be noted that this action contains a request for the defendants to be sentenced to pay damages of approximately Euro 30.0 million, broken down according to their respective responsibilities. The proceedings relating to admission of the evidence and the case brought against the former auditors have been combined. By way of Shareholders' Meeting taken on 8 October 2021, the lawsuit was settled via the payment to the Bank of the total amount of Euro 380,000.

Quantitative information

The number of detrimental events recorded by the Group at 31 December 2021 comes to 1,633. The result of the process of collecting adverse events is summarised in the table below:

Event type	% events	% of total	% of total	% Recoveries
INTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination), involving at least one member of the bank	0.37%	0.22%	0.22%	0.00%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	1.78%	71.74%	71.58%	0.86%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	0.24%	3.25%	3.28%	0.00%
RELATIONAL ACTIVITY CONNECTED TO CUSTOMERS, PRODUCTS AND CHANNELS Losses due to inability (not intentional or negligent) to fulfil professional commitments taken with customers (including fiduciary requirements and adequate information on investments)	33.80%	18.20%	18.31%	0.00%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	0.37%	0.07%	0.07%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.30%	0.07%	0.06%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	63.14%	6.45%	6.48%	0.31%
TOTAL Banco Desio e della Brianza	100.00%	100.00%	100.00%	0.63%

The gross operating loss comes to Euro 13,316 thousand, for which provisions were made during the period of Euro 1,640 thousand; recoveries were recorded for Euro 84 thousand, so the net operating loss amounted to Euro 13,232 thousand.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY

A. Qualitative information

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

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

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

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

A. Quantitative information

B.1 Consolidated book equity: breakdown by business type

Captions	Group for prudential supervisory purposes	Insurance companies	Other businesses	Consolidation adjustments and eliminations	31.12.2021
1. Share capital	54,026				54,026
2. Share premium reserve	10,809				10,809
3. Reserves	954,754				954,754
- retained earnings:	24,740				24,740
a) legal reserve	5,646				5,646
d) other	19,094				19,094
- other	930,014				930,014
6. Valuation reserves:	15,762				15,762
- Equity instruments designated at fair value through other comprehensive income	(856)				(856)
- Financial assets (other than equities) at fair value through other comprehensive income	(2,531)				(2,531)
- Property, plant and equipment	123				123
- Cash-flow hedges	(203)				(203)
- Actuarial gains (losses) on defined-benefit pension plans	(3,837)				(3,837)
- Special revaluation laws	23,066				23,066
Net profit (loss) of the year (+/-) pertaining to the Group and minority interests	54,330				54,330
Shareholders' equity	**1,089,681**				**1,089,681**

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

Assets/Amounts	Regulatory consolidation		Insurance companies		Other businesses		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	48	(2,579)							48	(2,579)
2. Equity instruments	22	(878)							22	(878)
3. Loans										
Total 31.12.2021	**70**	**(3,457)**							**70**	**(3,457)**
Total 31.12.2020	**48,298**	**(655)**							**48,298**	**(655)**

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

	Debt securities	Equity securities	Loans
1. Opening balance	**1,180**	**46,463**	
2. Positive changes	**71**	**46**	
2.1 Fair value increases	7	21	
2.2 Write-downs for credit risk	37	9	
2.3 Reversal of negative reserves on disposal to profit or loss	27	16	
2.4 Transfers to other components of shareholders' equity (equity instruments)			
2.5 Other changes			
3. Negative changes	**(3,782)**	**(47,365)**	
3.1 Fair value decreases	(2,548)	(156)	
3.2 Write-backs for credit risk	(44)		
3.3 Reversal to income statement from positive reserve: from disposals	(1,190)		
3.4 Transfers to other components of shareholders' equity (equity instruments)		(47,023)	
3.5 Other changes		(186)	
4. Closing balance	**(2,531)**	**(856)**	

The negative change in caption 20 "Equity instruments designated at fair value through other comprehensive income" is due to the sale of the investment in Cedacri S.p.A. completed on 3 June of this year for Euro 114.7 million; in accounting terms, the following entries have been made as a result of this disposal i) reversal of the valuation reserve at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result compared with the initial book value, equal to Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve shown under retained earnings. During the comparative period, the increase in this item was attributable to the revaluation of the investment held in Cedacri S.p.A.

B.4 Valuation reserves related to defined-benefit pension plans: changes of the year

Valuation reserves related to defined-benefit pension plans generated a positive effect of Euro 8 thousand (net of the related tax effect of Euro 2 thousand) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.

SECTION 2 – OWN FUNDS AND CAPITAL ADEQUACY RATIOS

2.1 Scope of application and regulations

As required by the 6th update of Circular 262 "Bank financial statements: schedules and rules for preparation", reference should be made to the contents of the public disclosure ("Third Pillar") provided by the Bank at consolidated level.

PART H - TRANSACTIONS WITH RELATED PARTIES

1 - Information on the remuneration of managers with strategic responsibilities

For information on the remuneration paid to directors and key management personnel, please refer to the "Report on the Group's Remuneration Policies" at 31 December 2021 prepared in accordance with art. 123-ter CFA, published on the website www.bancodesio.it.

2 - Related party disclosures

The internal procedure ("Internal Regulations") for the management of transactions with related parties and entities included in the scope of application of art. 136 of the CBA, adopted in accordance with Consob Regulation no. 17221/2010, as updated by Resolution no. 21624/2020, and supplemented in accordance with the Minimum Capital Requirement in respect of risk assets and conflicts of interest with respect to persons linked to the Bank or the Banking Group pursuant to art. 21624 TUB, is explained in the Annual Report on Corporate Governance at 31 December 2020. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents/Related Parties" section.

Given that, pursuant to art. 5 of Consob Regulation 17221/2010 and art. 154-ter of the CFA, periodic information has to be provided:

a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation;[5]

b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Group;

c) on any changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Group,

there were no transactions worthy of note during the year.

* * *

Transactions with related parties are generally entered into on an arm's length basis and are, in any case, in the Group's interest. Comparison with the equivalent market or standard conditions is mentioned in the periodic reporting of transactions to the Corporate Bodies.

In this context, there are no transactions outstanding at 31 December 2021 that present particular risk profiles compared with those considered part of the normal course of banking business and related financial activity or that present profiles of atypical/unusual features worthy of note.

The following paragraphs summarise - in a prudential logic of unified management of potential conflicts of interest - existing relationships with the Parent Company, subsidiary companies, associates and other related parties pursuant to art. 53 CBA and/or art. 2391-bis of the Italian Civil Code, included entities treated as per art 136 of CBA also in compliance with Italian laws), highlighting, in particular, the balance of current accounts and of the securities portfolio at the end of the year.

I – Parent Company

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. amounted to Euro 209.6 million, of which Euro 203.2 million, relating to the securities portfolio.

It should be recalled that at the end of 2018, a five-year unsecured bullet loan was entered into with this Company for a total of Euro 5 million to replace a similar credit line at another bank which was about to expire. This transaction falls within the scope of application of art. 136 of the Consolidated Banking Act by

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

virtue of the positions held by certain Officers, carried out at market conditions (also on the list of conditions in force for Related Parties according to the specific framework resolution) and included in ordinary credit and loans activity.

The service agreement has also been renewed with the same Company governing the reciprocal rights and obligations inherent to the accounting and reporting activities delegated to Banco di Desio e della Brianza S.p.A. for regulatory consolidation purposes pursuant to art. 11 and 99 of EU Regulation no. 575/2013 (CRR). The fees paid to the latter are of a minor amount and have in any case been determined with the same methodology as similar agreements with subsidiaries. It should be noted that this transaction also falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers referred to in the following paragraph "Transactions with Officers and parties related to them".

II - Transactions with Officers and parties related to them[6]

As for the granting of credit lines approved in 2021 pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of the Group and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 33 positions existing at 31 December 2021 comes to some Euro 13.2 million and the related utilisations amount in total to some Euro 5.7 million.

As regards funding relationships held by Banco Desio directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2021 amounted to Euro 138.5 million in amounts due to customers (including approximately Euro 119.1 million in securities portfolios).

The above computation excludes transactions and balances with the parent company as per paragraphs I above.

Details on to the lending and funding relationships referred to in this paragraph are shown in the following table:

	Balances at 31.12.2021 (in Euro/million)
Lending transactions:	
Amount granted	13.2
Amount drawn down	5.7
Funding transactions:	
C/c and d/r amount (a)	19.4
Amount of securities portfolios (b)	119.1
Total (A+B)	138.5

In accordance with Consob Resolution no. 15519 of 27 July 2006, it should be noted that the overall incidence of the balances shown in the previous paragraphs, in terms of equity, financial and economic results, is more or less insignificant.

[6] Related Parties pursuant to art. 53 CBA (included entities treated as per art 136 of CBA) and/or art. 2391-bis of the Italian Civil Code (other than the parent company and subsidiary/associated companies)

PART L – SEGMENT REPORTING

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

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

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

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

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

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

Income statement	Banking	Near-banking	Consolidation adjustments	Total 31.12.2021
Net profit from financial and insurance activities [(1)]	462,437	16,163	(4,547)	474,053
Fixed costs [(2)]	(309,125)	(7,697)	153	(316,669)
Provisions and adjustments [(3)]	(89,991)	1,680	7	(88,304)
Profit (loss) from equity investments carried at equity	-		-	-
Gains (losses) on disposal of investments			-	-
Profit (loss) from current operations before tax	**63,321**	**10,146**	**(4,387)**	**69,080**

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 31.12.2021
Financial assets	3,797,711	-		3,797,711
Due from banks [(4)]	2,083,607	4		2,083,611
Loans to customers [(4)]	11,067,882	923,320	(863,445)	11,127,757
Due to banks	3,815,695	863,445	(863,445)	3,815,695
Due to customers	10,976,253	3,649	(1,485)	10,978,417
Debt securities in issue	1,522,265			1,522,265
Indirect deposits, under administration and management	**18,018,035**			**18,018,035**

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

Balance sheet	Banking	Near-banking	Consolidation adjustments	Total 31.12.2020
Financial assets	3,543,682	15		3,543,697
Due from banks [(4)]	970,806	5,299	(5,154)	970,951
Loans to customers [(4)]	10,419,550	865,398	(811,720)	10,473,228
Due to banks	2,412,244	811,720	(811,720)	2,412,244
Due to customers	10,257,006	3,931	(5,154)	10,255,783
Debt securities in issue	1,608,927	-		1,608,927
Indirect deposits, under administration and management	**16,520,360**	**-**		**16,520,360**

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

Banco Desio

PART M – INFORMATION ON LEASES

SECTION 1 - LESSEE

Qualitative information

As required by IFRS 16 "Leases", for the contracts that confer the right to control the use of an identified asset (see IFRS 16.B9 and paragraphs B13-B20) for a certain period of time, over the period of use, Banco Desio has assessed whether both of the following requirements have been satisfied:

a) The right to obtain substantially all the economic benefits from use of the identified asset, as described in paragraphs B21-B23;

b) The right to direct the use of the identified asset, as described in paragraphs B24-B30.

Consequently, when a lease contract is identified and the asset is made available for use by the lessee, the Bank recognises:

- a liability consisting of payments due for leases (i.e. Lease Liability). This liability is initially recognised at the present value of future payments due for the lease discounted at the interest rate implicit in the lease or, if this rate cannot easily be determined, at the lessee's incremental borrowing rate;
- an asset consisting of the right of use (i.e. RoU Asset). This asset is initially recognised as a sum of the lease liabilities, initial direct costs, payments made on the date or before the effective date of the contract, net of any lease incentives received, and dismantling costs.

These balance sheet amounts are recognised separately for each type of asset identified, comprising solely property and cars in the case of Banco Desio.

The Bank has adopted some of the practical expedients and recognition exemptions envisaged in IFRS 16 "Leases":

- contracts with an underlying asset value of less than or equal to Euro 5,000 at the FTA date ("low-value assets") were excluded;
- contracts with an overall lease term of less than or equal to 12 months ("short-term assets") were excluded;
- the initial direct costs of measuring the RoU Asset on the FTA date were excluded.

Estimated dismantling costs for the purpose of determining the RoU Asset have not been taken into consideration, as this type of cost should only be considered on the effective date of the lease contract.

With reference to the lease term, the Banco Desio has decided to consider only the first renewal period as reasonably certain for new contracts, unless there are contractual clauses that prohibit it, or facts or circumstances that might lead to consider additional renewals or determine the end of the lease agreement. For contracts in existence at the FTA date, a renewal period is added if the contract is in the first contractual period (i.e. the first renewal period has not yet taken place), or if the contract is in a renewal period following the first one, but the deadline for communication of the cancellation has already expired.

As regards the rate for discounting future lease payments, Banco Desio decided to use as an incremental borrowing rate a single interest rate curve relating to Banco di Desio e della Brianza, also considering a floor of 0% for due dates that have negative interest rates. This curve is based on a risk-free rate (i.e. market interest rate) on the financing spread (i.e. the lessee's credit risk) and is amortising. Typically, the lease contract does not provide for a single payment on the due date, but rather a periodic payment of instalments over the entire duration of the contract, which involves a declining trend for the residual debt.

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

Quantitative information

The leasing assets and liabilities recognised at 31 December 2021 comprise:

- an "RoU Asset" of Euro 49.9 million for properties and Euro 0.8 million for cars;
- a "Lease Liability" of Euro 51.0 million for properties and Euro 0.8 million for cars.

The charges recognised during the year in relation to lease contracts totalled Euro 10,820 thousand, comprising Euro 718 thousand classified as "Interest expense" and Euro 10,102 thousand as "Net adjustments to property, plant and equipment", being the RoU depreciation charge.

In particular, the depreciation recognised in the income statement refers:

- Euro 425 thousand to cars,
- Euro 9,677 thousand to property.

Overall costs for the year referring to lease contracts and not falling within the application of IFRS 16 (low-value assets and short-term assets) amount to Euro 2,054 thousand.

With reference to the "Lease liability" recognised at 31 December 2021, equal to Euro 51,817 thousand, a breakdown by residual maturity is shown below:

- euro 9,138 thousand within 12 months;
- euro 20,301 thousand from 1 to 3 years;
- euro 8,996 thousand from 3 to 5 years;
- euro 13,382 thousand over 5 years.

SECTION 2 – LESSOR

Qualitative information

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

Quantitative information

The reconciliation among gross investment in leases and present value of minimum lease payments and unsecured residual value payable to lessor is reported below.

Type of transaction	31.12.2021 Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)	31.12.2020 Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)
Finance lease	175,045	18,922	156,123	36,155	189,930	25,854	163,536	40,825
- of which leaseback agreements	10,557	1,646	8,911	2,773	12,569	2,272	10,927	3,590
Total	**175,045**	**18,922**	**156,123**	**36,155**	**189,390**	**25,854**	**163,356**	**40,825**

Falling due	31.12.2021 Gross investment	Deferred profit	Net investment	31.12.2020 Gross investment	Deferred profit	Net investment
- Within one year	6,431	160	6,271	3,974	87	3,887
- Between one and two years	8,269	368	7,901	12,074	671	11,403
- Between two and three years	11,337	599	10,738	11,143	787	10,356
- Between three and four years	22,855	983	21,872	12,258	888	11,370
- Between four and five years	38,670	3,341	35,329	23,197	1,596	21,601
- Beyond five years	87,483	13,471	74,012	126,744	21,825	104,919
Total	**175,045**	**18,922**	**156,123**	**189,390**	**25,854**	**163,536**

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

Total interest recognised as income in the year is included in the caption "Loans to customers – loans" and amounts to Euro 2,210 thousand (vs Euro 3,408 thousand); of this, Euro 1,951 thousand relates to index-linked contracts, of which Euro 90 thousand relates to leaseback agreements (vs Euro 2,389 thousand related to index-linked contracts, of which Euro 154 thousand related to leaseback agreements).

Financial income pertaining to subsequent years amounts to Euro 18,922 thousand, of which Euro 1,646 thousand relates to leaseback agreements (vs Euro 25,854 thousand and Euro 2,272 thousand, respectively).

Certification pursuant to art. 154-bis of Legislative Decree 58/98

1. The undersigned, Alessandro Decio, Chief Executive Officer, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 bis of Legislative Decree 58 of 24 February 1998:

   - the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements with respect to the Company and their
   - effective application during 2021.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2021 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.

3. We also certify that:

   3.1 The consolidated financial statements:

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

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

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

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

Desio, 10 February 2022

Chief Executive Officer	Financial Reporting Manager
Alessandro Decio	*Mauro Walter Colombo*

Auditors' report

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Banco di Desio e della Brianza S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Banco Desio Group (the "group"), which comprise the consolidated balance sheet as at 31 December 2021, the consolidated income statement and the statement of consolidated comprehensive income, statement of changes in consolidated shareholders' equity and consolidated cash flow statement for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Banco Desio Group as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Banco di Desio e della Brianza S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets at amortised cost"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": section 4 "Financial assets at amortised cost"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": paragraph 8.1 "Net adjustments for credit risk relating to financial assets at amortised cost: breakdown"

Notes to the consolidated financial statements "Part E - Information on risks and related hedging policies": paragraph 1.1 "Credit risk"

Key audit matter	**Audit procedures addressing the key audit matter**
Lending to customers is one of the group's core activities. Loans and receivables with customers recognised under financial assets at amortised cost totalled €13,885 million at 31 December 2021, accounting for 78% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €86 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, an assessment of any guarantees, the impact of macroeconomic variables, future scenarios and risks of the	Our audit procedures included: — gaining an understanding of the parent's and group companies' processes and IT environments in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein, as well as the adjustments made as a result of the effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network;

Key audit matter	Audit procedures addressing the key audit matter
sectors in which the parent's and its subsidiaries' customers operate. The complexity of the directors' estimation process has been affected by the persisting Covid-19 emergency, which continues to affect current economic conditions and potential future macroeconomic scenarios, requiring an adjustment to the valuation processes and methods. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	— selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the loan and receivable categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets at amortised cost, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Classification and measurement of financial assets at fair value levels 2 and 3

Notes to the consolidated financial statements "Part A – Accounting policies": paragraphs A.2.1 "Financial assets at fair value through profit or loss", A.2.2 "Financial assets at fair value through other comprehensive income" and A.4 "Information on fair value"

Notes to the consolidated financial statements - "Part B - Information on the consolidated balance sheet - Assets": sections 2 "Financial assets at fair value through profit or loss " and 3 "Financial assets at fair value through other comprehensive income"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": sections 4 "Net trading income" and 7 "Result of financial assets and liabilities at fair value through profit and loss"

Notes to the consolidated financial statements "Part E - Information on risks and related hedging policies": paragraph 1.2 "Market risks"

Key audit matter	Audit procedures addressing the key audit matter
Trading in and holding financial instruments are one of the parent's and group companies' core activities. The consolidated financial statements at 31 December 2021	Our audit procedures included: — gaining an understanding of the parent's and group companies' processes and IT environments in relation to the trading,

Key audit matter	Audit procedures addressing the key audit matter
include financial assets at fair value totalling €679 million. A portion thereof, equal to €93 million, is made up of financial assets at fair value without a quoted price on an active market. The parent's and group companies' directors have classified them in levels 2 and 3 of the fair value hierarchy. Classifying and, especially, measuring fair value levels 2 and 3 financial instruments require a high level of judgement in relation to the complexity of the models and parameters used. The complexity of the above procedure has been affected by the persisting Covid-19 emergency, which continues to affect current economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the classification and measurement of financial assets at fair value levels 2 and 2 are a key audit matter.	classification and measurement of financial instruments; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the classification and measurement of financial instruments with fair value levels 2 and 3, also in the light of the financial effects of the Covid-19 pandemic; — checking, on a sample basis, that the financial instruments had been correctly classified on the basis of their fair value level; — for a sample of financial instruments with fair value levels 2 and 3, assessing the reasonableness of the parameters used by the directors for their measurement, also in the light of the financial effects of the Covid-19 pandemic; we carried out these procedures with the assistance of experts of the KPMG network; — analysing the changes in the composition of the financial instrument portfolios compared to the previous year end and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about financial instruments and related fair value levels, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Other matters

The group's 2020 consolidated financial statements were audited by other auditors, who expressed their unqualified opinion thereon on 10 March 2021.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

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

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

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 23 April 2020, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2021 to 31 December 2029.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion on the compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The parent's directors are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF) to the consolidated financial statements to be included in the annual financial report.

We have performed the procedures required by Standard on Auditing (SA Italia) 700B in order to express an opinion on the compliance of the consolidated financial statements with Commission Delegated Regulation (EU) 2019/815.

In our opinion, the consolidated financial statements have been prepared in XHTML format and have been marked up, in all material respects, in compliance with the provisions of Commission Delegated Regulation (EU) 2019/815.

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2021 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2021 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2021 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Banco di Desio e della Brianza S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Milan, 23 March 2022

KPMG S.p.A.

(signed on the original)

Alessandro Nespoli
Director of Audit

Attachment to the consolidated financial statements

DISCLOSURE COUNTRY BY COUNTRY

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

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

Situation taken from the consolidated financial statements at 31 December 2021

Following the corporate events that have taken place in recent years and which were disclosed to the public each time by press releases or inclusion in the periodic financial reports, at 31 December 2021 the Banco Desio Group is now based solely in Italy.

a) Name of company and nature of the activity

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

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

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

Information/Geographical Area		**Italy**
b) Turnover [(1)]	Euro/thousand	449,346
c) Number of employees on full-time equivalent basis [(2)]	Number	1,653
d) Profit (loss) before taxes	Euro/thousand	69,080
e) Income taxes	Euro/thousand	(14,179)

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

Report on Operations

1 - Introduction

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

The content of the explanatory notes takes account of the instructions contained in Consob Note 1/21 dated 16 February 2021, which is still applicable, the ESMA document entitled "European common enforcement priorities for 2021 annual financial reports" dated 29 October 2021, as well as the 7th update on 29 October 2021 of the Bank of Italy's Circular 262 "Bank financial statements: schedules and rules for preparation" and subsequent communication of 21 December 2021, which are discussed in "Part A – Accounting policies" and "Part E - Information on risks and related hedging policy" of the Explanatory notes.

A summary of the main interventions/support measures adopted by Banco reference should be made to the consolidated report on operation at 31 December 2021.

2 - Key figures and ratios

Balance sheet

Amounts in thousands of Euro	31.12.2021	31.12.2020	Change amount	%
Total assets	17,775,318	15,638,800	2,136,518	13.7%
Financial assets	3,797,714	3,543,684	254,030	7.2%
Due from banks [(1)]	2,114,999	1,034,585	1,080,414	104.4%
Loans to customers [(1)]	11,067,767	10,419,441	648,326	6.2%
Property, plant and equipment [(2)]	218,018	221,535	-3,517	-1.6%
Intangible assets	12,455	11,772	683	5.8%
Non-current assets and disposal groups held for sale [(3)]	13,080		13,080	
Due to banks	3,815,695	2,412,244	1,403,451	58.2%
Due to customers [(4)]	10,924,688	10,205,567	719,121	7.0%
Debt securities in issue	1,522,265	1,608,927	-86,662	-5.4%
Shareholders' equity (including Net profit/loss for the period)	1,078,224	987,046	91,178	9.2%
Own funds	1,122,928	1,055,325	67,603	6.4%
Total indirect deposits	18,018,035	16,520,360	1,497,675	9.1%
of which: Indirect deposits from ordinary customers	*11,033,464*	*10,160,527*	*872,937*	*8.6%*
of which: Indirect deposits from institutional customers	*6,984,571*	*6,359,833*	*624,738*	*9.8%*

[(1)] based on Circular 262, the balance on this item includes debt securities held to collect (HTC) recognised at amortised cost, which in these summary figures are shown under financial assets; the balance does not include current accounts and demand deposits (with the exception of the reserve requirement account with central banks)

[(2)] the balance of this item at 31 December 2021 includes the right of use ("RoU Assets") equal to Euro 50.5 million for operating lease contracts falling within the scope of application of IFRS 16 Leases, which came into effect on 1 January 2019

[(3)] the balance on this item is made up of NPL credits for which, at the reference date, the sale contracts have been signed but not yet finalised.

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

Income statement[(5)]

Amounts in thousands of Euro	31.12.2021	31.12.2020	Change amount	%
Operating income	444,253	391,395	52,858	13.5%
of which: Net interest income	*226,494*	*200,480*	*26,014*	*13.0%*
Operating costs	260,111	259,204	907	0.3%
Result of operations	184,142	132,191	51,951	39.3%
Charges relating to the banking system	13,498	8,343	5,155	61.8%
Profit (loss) from continuing operations after tax	53,109	34,322	18,787	54.7%
Non-recurring profit (loss) after tax	-694	-10,427	9,733	-93.3%
Net profit (loss) for the period	52,415	23,895	28,520	119.4%

[(5)] from the reclassified income statement

Banco Desio

Key figures and ratios

	31.12.2021	31.12.2020	Change amount
Capital/Total assets	6.1%	6.3%	-0.2%
Capital/Loans to customers	9.7%	9.5%	0.2%
Capital/Due to customers	9.9%	9.7%	0.2%
Capital/Debt securities in issue	70.8%	61.3%	9.5%
Common Equity Tier 1 (CET 1)/Risk-weighted assets *(Common Equity Tier 1 ratio)* [6]	16.5%	15.7%	0.8%
Core Tier 1 capital (T1)/Risk-weighted assets *(Tier 1 ratio)* [6]	16.5%	15.7%	0.8%
Total Own Funds/Risk-weighted assets *(Total capital ratio)* [6]	16.6%	16.1%	0.5%
Financial assets / Total assets	21.4%	22.7%	-1.3%
Due from banks / Total assets	11.9%	6.6%	5.3%
Loans to customers / Total assets	62.3%	66.6%	-4.3%
Loans to customers / Direct customer deposits	88.9%	88.2%	0.7%
Due to banks / Total assets	21.5%	15.4%	6.1%
Due to customers / Total assets	61.5%	65.3%	-3.8%
Debt securities in issue / Total assets	8.6%	10.3%	-1.7%
Direct customer deposits / Total assets	70.0%	75.5%	-5.5%

	31.12.2021	31.12.2020	Change amount
Cost/Income ratio	58.6%	66.2%	-7.6%
(Operating costs + Charges relating to the banking system) / Operating income (Cost/Income ratio)	61.6%	68.4%	-6.8%
Net interest income / Operating income	51.0%	51.2%	-0.2%
Result of operations / Operating income	41.4%	33.8%	7.6%
Profit (loss) from operations after tax/Capital [7]	5.2%	3.6%	1.6%
Profit (loss) from operations after tax/Capital [7] (R.O.E.)	5.1%	2.5%	2.6%
Profit (loss) from operations before tax/Total assets (ROA)	0.4%	0.3%	0.1%

	31.12.2021	31.12.2020	Change amount
Net bad loans / Loans to customers [8]	0.8%	1.1%	-0.3%
Net non-performing loans / Loans to customers [8]	2.0%	2.9%	-0.9%
% Coverage of bad loans) [8]	63.3%	61.0%	2.4%
% Coverage of bad loans, gross of write-offs) [8]	64.3%	62.2%	2.1%
% Total coverage of non-performing loans [8]	51.4%	47.6%	3.7%
% Coverage of non-performing loans, gross of write-offs [8]	52.1%	48.5%	3.6%
% Coverage of performing loans	0.93%	0.72%	0.21%

Structure and productivity ratios

	31.12.2021	31.12.2020	Change amount	Change %
Number of employees	2,090	2,129	-39	-1.8%
Number of branches	232	249	-17	-6.8%
Amounts in thousands of Euro				
Loans and advances to customers per employee	5,247	4,872	375	7.7%
Direct deposits from customers per employee	5,900	5,525	375	6.8%

	31.12.2021	31.12.2020	Change amount	Change %
Operating income per employee [9]	211	183	28	15.3%
Result of operations per employee [9]	87	58	29	50.0%

[6] Capital ratios at 31.12.2021 are calculated in application of the transitional arrangements introduced by EU Regulation 2017/2395; the ratios calculated without application of these arrangements are the following: Common Equity Tier 1 15.6%; Tier 1 15.6%; Total capital ratio 15.6%;

[7] net of the result for the period;

[8] net of assets held for sale

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

Alternative Performance Measures (APMs)

The alternative performance measures (APMs) shown in this report on operations have been chosen to facilitate understanding of the performance of the Banco Desio Group. APMs are not envisaged by international accounting standards. They represent additional information with respect to the measurements defined in the IAS/IFRS and are in no way a substitute for them.

The method of calculating each APM is provided and the figures used have been taken from the tables or from the reclassified financial statements contained in the "Results" section of this Report.

These APMs are based on the guidelines of the European Securities and Markets Authority (ESMA) of 5 October 2015 (ESMA/2015/1415), incorporated in Consob Communication no. 0092543 of 3 December 2015. Following the instructions contained in the update of the document entitled "ESMA 32-51-370 - Questions and answers - ESMA Guidelines on Alternative Performance Measures (APMs)", published on 17 April 2020, no changes have been made to the APMs nor have new ad hoc measures been introduced to highlight separately the effects of the Covid-19 epidemic.

3 - Underlying scenario

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

4 - Regional market presence and corporate issues

4.1 - The distribution network

The Banco has a presence in 10 regions of Italy (Lombardy, Piedmont, Veneto, Emilia Romagna, Liguria, Umbria (as Banca Popolare di Spoleto), Lazio, Tuscany, Marche and Abruzzo.

The distribution structure consists of 232 branches compared with 249 at the end of the previous year. 17 branches were closed in 2021; steps to raise the efficiency of the distribution network, a key element of the 2021-2023 Business Plan, will continue in the next coming year as well.

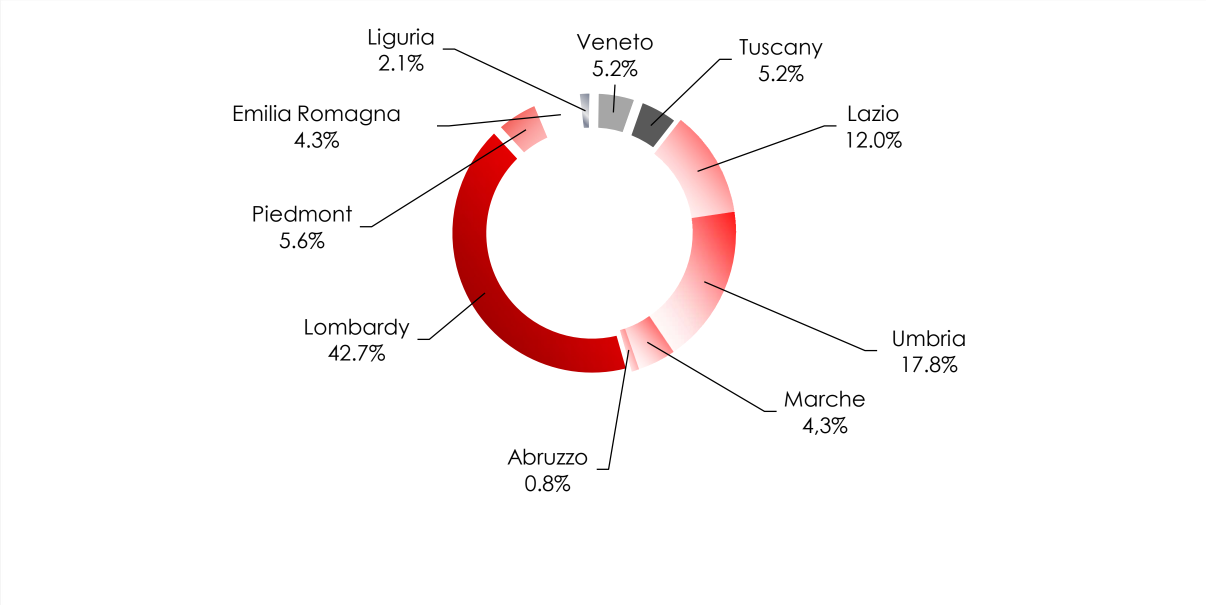
In order to respond more and more pro-actively to customers' needs, primary importance is given to the continuous evolution of the Distribution Model, to be implemented through an integrated "omnichannel" approach, offering our customers each product/service through the desired channel and with increasingly flexible methods. The organisational model envisages:

- the organisation of a distribution network divided into Territorial Areas, each of which is supervised by an Area Manager, who acts as the principal commercial representative in the area, with clearer hierarchical and functional reporting lines by Business Account Managers (formerly Corporate Account Managers) and the Branch Network;
- Private Bankers reporting hierarchically and functionally to the Wealth Management Area.

The most characteristic event of 2021 was the review of the organisational structure and service model of the Bank's Commercial Network which led not only to a reduction in the Bank's territorial areas from 13 to 8, but also the definition of new roles at Territorial Area level (Head of the Business Area, Retail Specialists, Personal Account Manager) and at branch level, with the launch of the segment represented by the Small Business Account Manager and a review of the role of the Individuals Account Manager; in particular, the "renewed" segment represented by the Individuals Account Manager involved - from a professional development perspective - the appointment of about 60 new Individuals Account Manager.

The following chart shows the breakdown of the Company's distribution network by region at the end of 2021.

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



4.2. Significant events

Sale of the investment in Cedacri S.p.A.

On 5 March 2021, the shareholders of Cedacri, the main Italian operator in the IT services outsourcing market for banks and financial institutions, signed a binding agreement which provides for the sale of their respective shareholdings to ION. Considering that the shareholding was sold on 3 June, the buyer (the newco Cedacri Mergeco S.p.A.) paid the Bank the agreed sum of Euro 114.7 million, the final sale price used for the valuation of the shares held (stake of 10.072%) as a contra-entry to the valuation equity reserve before turning the latter into a specific reserve of retained earnings due to the realization event with simultaneous cancellation of the shareholding. The following entries were made as a result of this disposal i) reversal of the valuation reserve at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result compared with the initial book value, equal to Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve shown under retained earnings.

As regard the costs incurred for completion of the sale, charges of Euro 1 million were recognised under caption "190.b Other Administrative Costs".

Participation in TLTRO 3

During the year, the European Central Bank continued to stimulate bank lending by confirming the favourable conditions of TLTRO 3. In March and December 2021, Banco participated in TLTRO III auctions for 1.0 billion euro and 0.45 billion euro respectively, bringing total TLTRO III loans in place to 3.85 billion euro.

By overcoming of the benchmark for net disbursements and consequent achievement of the bonus rate, at 31 December 2021 the interest accrued during the year for Euro 35.7 million has been recognised in interest income, which together with the accrued interest already recognised last year for Euro 3.4 million, brings the total accrued interest to be collected to Euro 39.1 million.

Approval of the financial statements and allocation of the 2020 result (Ordinary Shareholders' Meeting of 15 April 2021)

Banco Desio's Ordinary Shareholders' Meeting of last 15 April approved the financial statements at 31 December 2020. The Meeting approved the distribution to shareholders of a dividend of Euro 0.0603 for each of the 122,745,289 ordinary shares and of Euro 0.0724 for each of the 13,202,000 savings shares. Taking into account the Recommendation of the Bank of Italy of 16 December 2020, payment was suspended until after 30 September 2021 and subsequently reconsidered positively by the Shareholders' Meeting on 4 October 2021 in compliance with the legislative/regulatory framework of reference.

Payment of part of the dividend for 2019 (Shareholders' Meeting of 15 April 2021)

In compliance with the maximum limit on the payment of dividends referred to in the Bank of Italy's Recommendation equal to the lower of 15% of cumulative profits made in 2019-20 or 20 basis points of the CET1 ratio, the Shareholders' Meeting on 15 April passed a resolution, based on the net profit for 2019 destined to the shareholders (as resolved by the Shareholders' Meeting of 23 April 2020), the payment to shareholders of a total dividend of Euro 9,410,368.12 (equal to Euro 0.0679 for each of the 122,745,289 ordinary shares and Euro 0.0815 for each of the 13,202,000 savings shares), with an ex-coupon date (coupon no. 29) of 19 April 2021, a record date of 20 April 2021 and a payment date of 21 April 2021.

Payment of the residual amount of the net profit for 2019 allocated to the shareholders (as resolved by the Shareholders' Meeting of 23 April 2020), equal to Euro 4,948,372.62 (Euro 0.0357 for each of the 122,745,289 ordinary shares and Euro 0.0429 for each of the 13,202,000 savings shares), taking into account the Recommendation of the Bank of Italy of 16 December 2020, was suspended until 30 September 2021 and subsequently reconsidered positively by the Ordinary Shareholders' Meeting on 4 October 2021 in compliance with the legislative/regulatory framework of reference.

Dividend payment for 2019 (residual) and 2020 (Ordinary Shareholders' Meeting of 4 October 2021)

The Ordinary Shareholders' Meeting held on 4 October 2021 approved the payment of dividends for 2019 (for the residual part) and for 2020 in accordance with the Recommendations of the Bank of Italy, as detailed below.

- 2019: Euro 4,948,372.62 (equal to Euro 0.0357 for each of the 122,745,289 ordinary shares and Euro 0.0429 for each of the 13,202,000 savings shares).
- 2020: Euro 8,357,365.73 (equal to Euro 0.0603 for each of the 122,745,289 ordinary shares and Euro 0.0724 for each of the 13,202,000 savings shares).

The total amount of these dividends, Euro 13.3 million, was already shown in a liability item ("Sundry creditors"), so this payment has not had any impact on the capital ratios. The dividends were paid with a coupon date of 11 October 2021; the record date was 12 October 2021 and the payment date 13 October 2021.

Appointment of a new director (Ordinary Shareholders' Meeting of 4 October 2021)

The Ordinary Shareholders' Meeting approved the appointment of Gerolamo Gavazzi as the new Director of Banco Desio (replacing Egidio Gavazzi, a director on the majority list who died a few months ago). His candidacy was proposed on 17 September by the majority shareholder Brianza Union of Luigi Gavazzi and Stefano Lado SApA and announced publicly on the same date. The Board of Directors, which met at the end of the Shareholders' Meeting, also approved the appointment of Gerolamo Gavazzi as a member of the Executive Committee.

Settlement of the liability action against officers of the former subsidiary Banca Popolare di Spoleto S.p.A. (Ordinary Shareholders' Meeting of 4 October 2021)

The Ordinary Shareholders' Meeting approved settlement of the liability action brought by the Extraordinary Commissioners against the former officers of the former subsidiary Banca Popolare di Spoleto S.p.A. The amount due for the settlement, a total of Euro 380,000, has already been set aside by the defendants, who have made their proposals and paid the entire sum by the 31 August 2021 deadline. Note that, as envisaged, the agreements do not concern or preclude the Bank's right to reclaim the amounts paid as jointly and severally liable for payment of the penalties imposed by the Supervisory Authority.

Conversion of savings shares (Extraordinary Shareholders' Meeting and Special Shareholders' Meeting of 4 October 2021)

The Extraordinary Shareholders' Meeting and the Special Meeting of the Savings Shareholders on 4 October approved the proposals made in the respective Explanatory Reports regarding the mandatory conversion of the non-convertible savings shares of Banco di Desio and Brianza S.p.A. into ordinary shares at am ex-dividend conversion ratio of 0.88 ordinary shares for each savings share in line with the resolutions passed by the Board of Directors of Banco Desio on 17 June, 3 August and 23 September 2021 and, lastly, by the Ordinary Shareholders' Meeting.

At present, the Bank's share capital of Euro 70,692,590.28 is divided into 135,947,289 shares with a par value of Euro 0.52 each, of which: (i) 122,745,289 ordinary shares and (ii) 13,202,000 savings shares. Following the mandatory conversion and elimination of the par value, the share capital of Euro 70,692,590.28 has been split into 134,363,049 ordinary shares without par value at a conversion ratio of 0.88.

Given that the resolution to convert the savings shares into ordinary shares entailed an amendment of the Company's Articles of Association with regard to the voting and participation rights of the holders of savings shares, those savings shareholders who were not involved in approving the resolution of the Special Shareholders' Meeting are entitled to exercise their right of withdrawal pursuant to article 2437, paragraph 1 (g) of the Italian Civil Code, as explained in the specific Reports. The outcome of exercising the right of withdrawal was communicated with a specific notice pursuant to the law.

The mandatory conversion was completed following the statutory procedure explained in the documentation for the Shareholders' Meeting made public in accordance with the law. In detail:

- the last day of trading of the registered and bearer savings shares on the Stock Exchange was 26 November 2021;
- the mandatory conversion became effective on 29 November 2021; therefore, from that date only the ordinary shares, including the ordinary shares resulting from the mandatory conversion, with the same characteristics as those in circulation at the effective date, are traded on Euronext Milan of the Italian Stock Exchange;
- after the mandatory conversion of the 13,202,000 savings shares into ordinary shares had taken effect, the share capital, fully subscribed and paid up, equal to Euro 70,692,590.28, is split into 134,363,049 ordinary shares with no par value;
- as a result of the conversion and subsequent trading, the Bank does not hold any treasury shares at 31 December 2021.

Amendments to the Articles of Association (Extraordinary Shareholders' Meeting and Special Shareholders' Meeting of 4 October 2021)

The Extraordinary and Special Meetings of the Bank approved the elimination of articles 6, 14 and 29 of the Articles of Association, which meant renumbering the subsequent articles and the references in articles 4, 12, 13, 19, 20, 23, 27 and 33 and amending articles 4, 5, 31 and 32 of the Articles of Association in order to reflect the mandatory conversion and simultaneous elimination of the shares' par value of Euro 0.52.

The Extraordinary Shareholders' Meeting also approved other amendments to the Articles of Association, including those summarised below:

- amendments relating to the identification of shareholders pursuant to art. 83-duodecies of Legislative Decree no. 58 of 24 February 1998, as amended by Legislative Decree no. 49/2019 implementing Directive 2007/36/EC on shareholder rights as amended by Directive 2017/828/EU, the so-called "SRD II";
- amendments to aspects of corporate governance specifically aimed at allowing flexibility in how the system of powers is structured (making it possible to appoint either a Chief Executive Officer or a General Manager, or both, in which case the two roles must be played by the same person);
- the introduction of “whitewashing” rules for transactions with related parties in the event of a contrary opinion by the Committee for Transactions with Related Parties in line with what is laid down in the Procedure for Transactions with Related Parties;
- the possibility for those entitled to attend board or shareholders' meetings to do so through remote audio/video links and without the Chairman and Notary being present in the same place, in line with the practice that took hold during the pandemic and as expressly permitted by the latest rules issued by the Council of Notaries;
- simplification of the references to the independence requirements of directors, to the provisions of law, including self-regulatory and supervisory provisions, as well as codes of conduct that are applicable and pro tempore in force, in order to have more flexibility in adapting to any changes in the rules.

These amendments have all been subject to assessment by the Bank of Italy, pursuant to articles 56 and 61 of Legislative Decree 385/1993 and subsequent updates, which issued its approval on 14 September 2021. The statutory procedure was concluded with the registration in the register of companies on 14 October 2021.

Step-up of carrying amounts of goodwill and property

Art. 110, para. 8 and para. 8-bis, of Legislative Decree 104/2020 (the so-called "August Decree") provided for the possibility of realigning the tax values to the higher statutory carrying amounts of business assets, by subjecting the difference to a 3% substitute tax for Ires, the Ires surcharge and Irap.

The Bank did all that was necessary to exercise the option to step up the tax values of goodwill and property to their higher carrying amounts as approved by the Board of Directors on 24 June. The effects were recognised in June with the payment of the substitute tax. The Shareholders' Meeting of 4 October established the restriction on the reserves at the first possible meeting. The realignment of goodwill and property resulted in the overall recognition in the income statement of revenue of Euro 9.4 million under item 300 (Income taxes on continuing operations).

The Ordinary Shareholders' Meeting of 4 October 2021 approved application of the tax suspension on the legal reserve, which at 4 December 2021 came to Euro 102,800,368, for an amount of Euro 31,640,200.

Outcome of the Bank of Italy's inspection

On 30 July 2021, the Bank of Italy completed its inspection of the Bank to assess compliance with the anti-money laundering legislation, with specific reference to customers benefiting from loans backed by a State guarantee, which the Bank of Italy had commenced on 28 June 2021 as part of the 2021 inspection campaign on this particular topic.

The results were notified to the Board of Directors on 19 November 2021 and, in summary, revealed areas for improvement in the assessment of the higher risks of money laundering caused by the pandemic, especially with reference to those involved in the granting of loans with a State guarantee to companies pursuant to the Liquidity Decree.

During the inspection, the Bank prepared an action plan to strengthen the anti-money laundering measures and remove the malfunctions that emerged. This plan was approved by the Board of Directors on 3 August 2021 and is expected to be implemented mostly during the first quarter of 2022, monitoring that the deadlines are met.

Partnership agreements with Anthilia Capital Partners SGR S.p.A.

In the context of a wider project involving a commercial partnership between Banco Desio and Anthilia Capital Partners SGR S.p.A. ("Anthilia" or "SGR") in the field of services to SMEs and in the asset and wealth management area, on 4 November 2021 an Investment Agreement between Banco Desio, Anthilia and its parent company Anthilia Holding S.r.l. was signed for Banco Desio's entry into the share capital of Anthilia.

The Investment Agreement provides, among other things, for the subscription of an increase in capital of € 4.6 million, reserved for Banco Desio to buy 15% of the SGR's share capital, subject to the favourable outcome of the authorisation procedure by the Bank of Italy pursuant to art. 15 CFA, which is still in progress. At the same time, Anthilia will issue warrants in favour of Banco Desio, conversion of which will be subject to achieving certain commercial objectives by 2024. If exercised, Banco Desio will be able to reach 30% of the SGR's capital.

From Banco Desio's point of view, together with the process of reorganising the sales and marketing side of the business that the Bank is currently doing, the partnership with Anthilia forms part of a specific strategy move to enrich the Bank's sources of revenue and increase the range of services made available to its customers, also through qualified partnerships.

At 31 December 2021 the following commitments were recognised from an accounting point of view:

(a) Euro 4,644,719.80 ("Subscription Price of the First Increase in Capital") against the resolution by the Extraordinary Shareholders' Meeting of the SGR of an indivisible cash increase in capital, with the issue of 947,902 shares with entitlement from 1 January 2022, with exclusion of the option right of the shareholders pursuant to art. 2441, paragraph 5, of the Italian Civil Code, entirely reserved for subscription by Banco Desio at a price of € 4.90 per Share;

(b) Euro 13,541.44 (the "Warrant Assignment Price") for the issue of 1,354,144 warrants by the SGR (the "Warrants"), the adoption of the Warrant Regulation and the assignment of the Warrants to Banco Desio at a price of Euro 0.01 for each Warrant convertible into ordinary shares of the Company under the terms and conditions of the Warrant Regulation.

Resignation of the Deputy Chairman

On 21 December 2021, the Board of Directors of Banco Desio acknowledged the resignation presented for personal reasons by the Deputy Chairman, Tommaso Cartone, with effect from 17 December 2021.

For the sake of completeness, it should be noted that Mr. Cartone held the position of Deputy Chairman, qualifying as a non-executive director and no longer belonging to any Board Committees. On the basis of the information available to the Company, at the date of his resignation he held 27,500 Banco Desio shares.

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

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

- the standard contribution to the SRM of about Euro 6.8 million. The contribution was paid in May;
- the additional contribution requested by the Bank of Italy in May, as required by Law 208/2015, for approximately Euro 2.2 million. The contribution was paid in May;
- the contribution to the Deposit Guarantee Scheme (DGS) of about Euro 8.9 million of which Euro 2.2 million as an additional contribution. The contribution was paid in December.

Sale of the non-performing loan (NPL) portfolios

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

- loans with a gross book value (GBV) of Euro 75.0 million sold to closed-end investment funds accompanied against an investment of Euro 24.3 million in fund units;
- loans with a GBV of Euro 22.1 million to a securitisation vehicle against the subscription of senior, junior and mezzanine securities (backed by GACS) for an equivalent of Euro 4.0 million already net of the regulation of the sales to institutional investors of approximately 95% of the mezzanine and junior notes;
- loans with a GBV of Euro 9.6 million sold for cash totalling Euro 1.4 million.

As a result of these sales, taking account of all doubtful items identified since last year, pre-tax losses of about Euro 11.1 million were realized overall.

At 31 December 2021, two NPL sale transactions with a GBV of Euro 24.4 million had already been signed for an amount of Euro 13.5 million, completion of which took place when the conditions precedent no longer existed at the beginning of 2022. The receivables being sold are therefore classified at 31 December 2021 under financial assets held for sale.

As a result of these sale transactions, the gross NPL ratio of the Bank's customer loan portfolio came to 4.1% (vs 5.3% at 31 December 2020).

Tax credits purchased from a financial intermediary

As part of the operations linked to the "Cura Italia" and "Rilancio" Decrees, the Bank signed a contract with a financial intermediary to buy a package of tax credits worth approximately Euro 46.5 million, which had been sold to the intermediary by the SGAI Consortium (general contractor in private property restructuring contracts). It is involved in an investigation which resulted in the confiscation of this amount in January 2022, despite the fact that it had already been recognized by the Revenue Agency and inserted in the so-called "fiscal drawer" of the Bank in 2021.

In the urgent preventive confiscation order, which was sent to various financial intermediaries for a total of approximately Euro 85 million[7], express reference is made to the fact that the Bank is among the transferees who are "unsuspecting third parties... misled... as to the existence of the tax credit". In light of the regulatory provisions as well as the interpretative circulars issued by the Revenue Agency[8], the Bank, believing that it had legitimately acquired full ownership of the credits by having purchased them in good faith, promptly initiated contacts with the competent Authorities for a timely resolution of the matter.

While reaffirming its legitimacy to offset the credit subject to confiscation by virtue of the above provisions regarding the rights of transferees in good faith, the Bank assessed with the utmost care the contingent situation linked to the possibility of being unable to use its share (one fifth) of the tax credit by 31 December 2022. It therefore charged Euro 9.3 million to the P&L for 2021, which is of a precautionary nature due to the confiscation and the time required by the investigations and legal actions in progress. It has no value as an assessment of the existence and validity of the credit that the Bank will defend in all appropriate courts of law.

5 - Legislative Decree 231/2001

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

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

[7] Including the credits purchased by the Bank

[8] In particular, in its Circular 24/E of 8 August 2020, the Revenue Agency said that "transferees are liable only if the tax credit is used irregularly or to a greater extent than tax credit received. Therefore, if the subject acquires a tax credit, but during the checks by ENEA or the Agency it is found that the taxpayer was not entitled to the deduction, the transferee who purchased the credit in good faith does not lose the right to use the tax credit." In its Circular 30/E of 22 December 2020 the Revenue Agency reiterated that: *"If a subject acquires a tax credit, but during the checks by ENEA or the Agency it is found that the taxpayer was not entitled to the deduction, the transferee who purchased the credit in good faith does not lose the right to use the tax credit."* According to the provisions of the law, therefore, even in the event of a transfer, the responsibility for the existence of the tax credit and entitlement to it rests exclusively with the beneficiary (as well as, possibly, on the professionals who assisted them during the access phase, if they have certified something that is false), while the purchaser is exempt, unless they are liable for using the credit irregularly or to a greater extent than the amount that was purchased.

6 - Human resources

6.1 - Management and breakdown of resources

For the Bank, 2021 was the first moment of a significant post-pandemic recovery which also affected the company's management decisions, both as regards the organisation of the branch network and that of the head office, where remote working was introduced in light of the legislative and regulatory changes that had occurred. Again with reference to the organisational measures to limit the risk of contagion from COVID-19, as part of the HR management activity, in 2021 cash operations were again closed in the afternoon at almost all branches of the Bank in order to comply with the rules for safeguarding the health of employees and customers.

The most characteristic event of 2021 in the HR area in terms of content, as well as for its impact at an organisational level, was the review of the organisational structure of the Bank's Commercial Network; this led not only to a reduction in the Bank's geographical areas from 13 to 8, but also the definition of new roles at Territorial Area level (Head of the Business Area, Retail Specialist, Personal Account Manager) and at branch level, with the launch of the segment represented by the Small Business Account Manager and a review of the role of the Individuals Account Manager; in particular, the "renewed" segment represented by the Individuals Account Manager involved - from a professional development perspective - the appointment of about 60 new Individuals Account Manager.

Furthermore, in order to proceed with the implementation of plans to ensure increasingly timely service in certain specialised sectors, various professionals have been hired externally for the Planning, Finance and Control Department, for the Credit Department, for the Risk Management Department, for the Human Resources Department and for the Business, Bancassurance, Marketing Areas as well as, in the second half of the year, for the Wealth Management Department with a view to strengthening this line of business as well, as foreseen by the Plan.

Lastly, during the course of 2021, in application of the terms of the Trade Union Agreement of 26 November 2020, 40 employees who qualified for pension benefits by 1 March 2023 were able to resign voluntarily and access the Sector Solidarity Fund.

As a result of the above, at 31 December 2021, the Bank had 2,090 employees, 39 fewer (-1.8%) than at the end of the previous year.

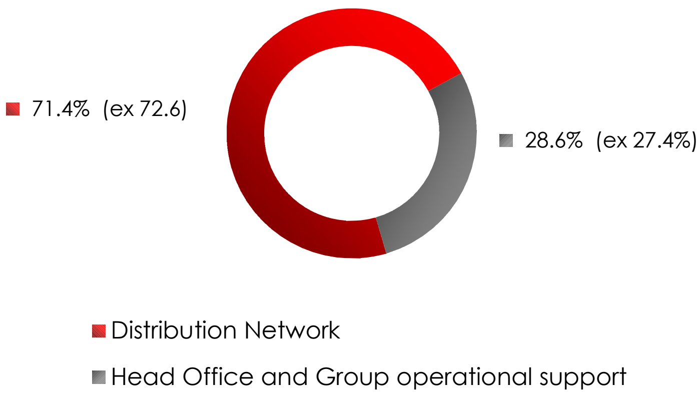
The following table provides a breakdown of employees by level at the end of 2021, compared with the previous year.

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

No. employees	**31.12.2021**	**%**	**31.12.2020**	**%**	**Change Amount**	**Change %**
Managers	30	1.4%	34	1.6%	-4	-11.8%
3rd and 4th level middle managers	449	21.5%	463	21.7%	-14	-3.0%
1st and 2nd level middle managers	566	27.1%	559	26.3%	7	1.3%
Other employees	1,045	50.0%	1,073	50.4%	-28	-2.6%
Employees	**2,090**	**100.0%**	**2,129**	**100.0%**	**-39**	**-1.8%**

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

Chart no. 2 - **BREAKDOWN OF EMPLOYEES BY AREA**



6.2 - Training

The training provided in 2021 assumed considerable importance in the context of professional development, accompanying the evolution of new expertise and further enhancing employees' existing skills. The different training programmes were structured with the aim of providing resources with technical and behavioural tools, in line with the need to strengthen the technical knowledge and behavioural skills needed in the exercise of the various organisational roles, in an investment perspective that will continue in 2022.

This investment is also confirmed by the significant increase in training hours recorded compared with the previous year, resulting in a total of 132,026 man/hours provided (vs 95,208), which corresponds to an average of 8.4 days per employee (vs 5.9). In quantitative terms, the percentage increase was 39% compared with the previous year.

This increase is attributable to various factors; the elements that have contributed the most to this result are listed below:

1) the acceleration recorded in the definition of multidisciplinary programmes created through micro-learning sequences that have made it possible to facilitate the use of the contents using different multimedia tools;
2) intensification of the different me on the subject of "Health and safety in the workplace", in order to ensure and update the knowledge of all the different roles defined within the regulatory context;
3) intense training activity in the insurance sector, which - in accordance with the regulatory extension introduced by IVASS - saw the concentration in 2021 of two programmes to maintain professional qualification, i.e. completion of the 2020 programme and provision of the 2021 programme;
4) enrichment of the technical-professional training on offer in the context of the initiatives that belong to the various topics being taught;
5) the partial rescheduling of different initiatives initially planned for the second half of 2020 and subsequently postponed to the first half of 2021.

Particular attention was paid to the methods of delivery, ensuring training proposals developed through flexible training methodologies, combining different tools in blended solutions (classroom, e-learning, webinar), so as to support a diversified learning experience through courses that are modular and multidisciplinary.

Classroom activity was resumed for some specific courses, which became an opportunity for discussion between participants and sharing views with the lecturers, triggering reflections and facilitating the search for solutions to be applied their respective areas of work.

Even though training restarted in the classroom, during 2021 it confirmed a massive use of remote delivery tools, such as e-learning and the virtual classroom (webinar), given the persistence of the constraints imposed by the health emergency.

The use of "remote" delivery methods has facilitated the structure of working from home and the use of "training pills" ensured flexible use of the course contents.

There was also significant growth in the initiatives delivered in webinar mode: a method that proved effective, as it facilitated the interaction between teachers and participants.

The tools used include a method of identifying training needs in specific areas, prior to designing the contents, as well as the use of assessments on particular technical-professional knowledge, considered essential to provide training in a more targeted way. Gamification was also introduced, encouraging employees' involvement.

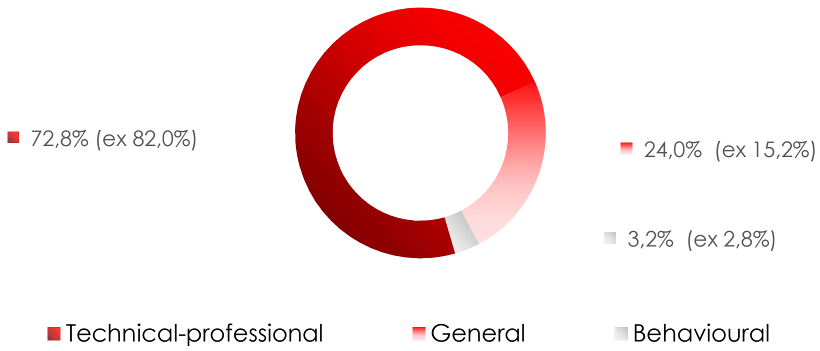
In particular, these methodologies found application in the context of the “DevelUP” project which has become the only point of reference for the provision of multiple training programmes aimed at different job positions. Within DevelUP, the training courses offered consist of various modules, which made it possible to maximise the correspondence of the training to the needs of the resources in the positions concerned. The main lines of development have been oriented according to the following three guidelines: “Service Model Training”, “Product Training” and the “Talent Enhancement Project”.

The following are the main activities that characterised the training on offer, by category:

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

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

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



"General" training increased by 17,199 ohours provided compared with the previous year.

- **Regulatory Area**

The main initiatives belonging to this area are described below:

- The "Organisation & Governance (O&G) Model 231 module, with a focus on the "Direct and insolvency liability of credit institutions in the commission of predicate offences", used by approximately 1360 resources to complete the programme launched in 2020 through webinar sessions;
- the "Privacy and GDPR" pills created through a sequence of micro-learning addressed to both Network and Head Office resources through two different paths, with the aim of updating knowledge on the regulatory context and looking deeper into the different areas of application through specific situational cases;
- the "Banking PO&G (Product Oversight & Governance)" video-lesson addressed to the entire network population as guidance in the use of a questionnaire to gather information that might help orientate commercial negotiations with customers;
- the "Anti-money laundering" programmes with a specific focus on the topic connected to the identification of the "Main risks associated with the pandemic" which initially involved around 450 resources through webinar sessions; it was then extended to the entire network population, according to the relevance of the subject matter. With a view to continuously strengthening the monitoring of the risk of money laundering and terrorist financing, the e-learning module was created on the subject of "Customer due diligence: risk factors", which was used by around 1000 resources;
- the "Operational Risks" module proposed in continuity with the previous years to all the new resources included in the organisational structure of the Network, with the aim of providing colleagues with the tools to guide effective risk management;
- the programmes on "Health and Safety in the workplace" aimed at the appointment of "firefighters" and "first aid personnel" and the programmes for "workers" and "supervisors", which involved about 850 resources in different training activities. As part of the five-year refresher programme, the provision of training pills on "Restart in Safety" was addressed to the entire company population, which provided indications on the behaviour to be adopted in the current situation of health emergency and information on the main individual safety devices.

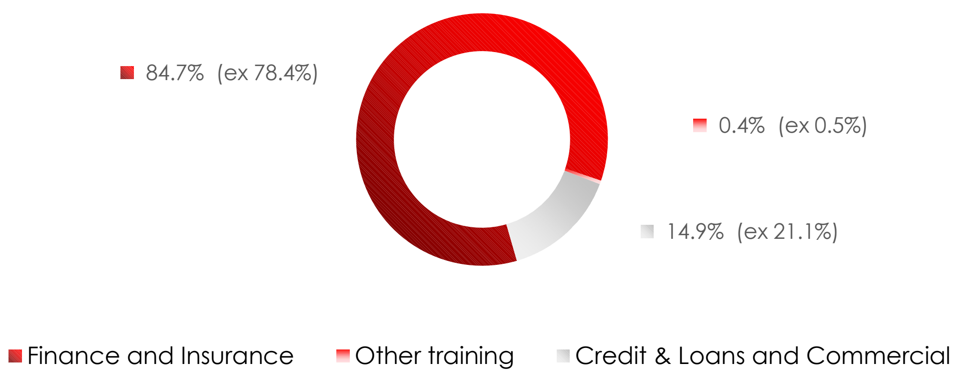
- **Other training**

With reference to the initiatives aimed at enhancing sustainability issues, "Recognizing the Bias" is aimed at specific roles, drawing attention to the importance of behavioural mechanisms in accompanying the processes of inclusion in which the Bank is investing.

Within this area, reference is also made to the inter-company specialist programmes addressed to the Head Office Functions, with the aim of supporting the acquisition and consolidation of the technical-professional knowledge required in the exercise of certain roles.

"Technical-Professional" training accounted for 72.8% of total activities. The following chart represents the distribution of training activities in the areas that belong to "Technical-Professional" training:

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



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

- **Credit & Loans Area** (2.8%)

All of the initiatives for the Credit & Loans Area were designed and delivered by internal lecturers an approach that made it possible to contextualize the course contents with respect to the specific company situation. In particular, the following are worth mentioning:

- the e-learning programme on the 3 segments of the “AIRB Rating System” and the 4 modules on the subject of “Real estate credit to consumers” proposed in continuity with the previous year and addressed to various professional figures of the Distribution Network;
- the webinar sessions on the "New AIRB Model: PD Retail Companies and Private Individuals v2.2" which involved about 460 resources and on the "New Ridotta Obbligazione Finanziaria (R.O.F Probable Default Trigger") addressed to about 380 resources with the aim of updating their knowledge of the mechanisms and the criteria for measuring the indicators for assessing credit positions;
- the blended programme on the subject of "Credit merit assessment" aimed at acquiring or consolidating knowledge about the logic and processes of credit management by the various professional figures in the Network. This programme was divided into two different paths: the first - addressed to about 100 resources - with a focus on the "Mortgage loan disbursement process" and the second - involving around 60 resources - through a first preparatory phase delivered in webinar and a second phase delivered in the classroom, with a specific focus on "Financial statement analysis". The course provided qualitative and quantitative analysis tools which were used to assess a company's ability to create value.

- **Commercial Area** (12%)

Within this area, there is the path on the "Service Model and Role Evolution", which has become a training ground for skills to develop behaviour that is consistent with the new service model and the growth path of the Business Plan, while strengthening the skills required by Network personnel as their roles evolve. This programme involved approximately 270 resources, including Branch Managers and Corporate Account Managers and will be extended to other Network roles during the course of 2022.

Within this area, the use of the "Digital Payments" on-line module for about 440 resources is also worth highlighting. It explains the products and services that the Bank has to offer and is aimed at enriching the knowledge of customers' digital habits.

In addition, there are the webinars addressed to Network resources, which deal with topical issues, such as "Sustainable Finance and ESG Investments" as well as "Behavioural Finance".

- **The Finance and Insurance Areas** (84.7%)

Efforts were made to increase the number the resources to be directed towards acquisition of the knowledge required to perform investment services (ESMA) and to place insurance products (IVASS) through participation in specific training courses certified by means of "remote" knowledge assessment tools.
In the ESMA context, a specific project was introduced to acquire the authorisation for information purposes for OTC derivatives, as well as an initiative included in the qualification programme and provided by webinar on the "Model adopted by the bank: the customer profiling questionnaire".

The process of maintaining the ESMA professional qualification - aimed at around 700 resources - was, on the other hand, structured according to the results of the assessment: a tool that made it possible to direct the training activity on the basis of the gaps detected. Furthermore, in order to optimise investments and reduce the impact of overall training activities for resources, some contents belonging to this programme have also become valid for the maintenance of the IVASS qualification: these are issues considered to be of particular importance, such as "Behavioural finance and investor decisions" and the "Impact of ESG factors on the rules of conduct of the intermediary".

As for the route to maintain the IVASS qualification - addressed to over 1300 resources - structured contents were proposed in line with the nature of the insurance products on offer, focusing on particular elements that are useful for managing the negotiation with the customer, thereby combining communication techniques and how to handle feedback. Furthermore, within these two areas of competence, other different e-learning activities are also referred to, such as the module "Insurance solutions to protect business risks", which describes the solutions offered by the Bank for the protection of company assets, and the "Asset Management" module - used by around 600 resources - which explores the technical characteristics in terms of commercial benefits for an effective value proposition, focused on the needs and requirements of the customer.

As part of the "Behavioural" training, in continuity with 2020, the "learning" path on Soft Skills continued, proposed to the entire company population with the aim of stimulating reflection on specific skills. the following capabilities were made explicit in this second phase: "Decision Making", "Problem Solving" and "Time Management", and - in particular to all Head Office staff - tools on "Project and business process management" were provided. The contents were delivered using different multimedia tools, such as: cartoons, fiction, infographics and tutorials, in order to ensure variety of content and respond to different learning styles.

To complete the course dedicated to Branch Managers on the "New Service Model and Role Evolution", an in-depth pill was provided on the topic "Assigning and communicating objectives to your team", with the aim of strengthening the macro-responsibilities of role related to managing your own team.

6.3 - Industrial relations

During 2021, in addition to the usual occasions to meet and discuss legal and contractual issues, industrial relations with the Trade Union Organisations present in the group also provided for exchanges of information on the measures adopted for the prevention of COVID-19, as happened in 2020, in line with the provisions of the current protocol signed by ABI and the Trade Unions.

Furthermore, in defining employment policies in line with the best practices in the sector, specific agreements were signed with the trade unions on 26 November 2021. representing the majority of registered employees, aimed at introducing important and innovative work-life balance tools to the Group, to expand the sustainability and corporate welfare initiatives that favour the well-being of people and the development of a positive and flexible work environment. In particular:

- access to remote working (i.e. working from home) for Head Office personnel, in line with the provisions of the national collective labour agreement and with sector best practices, starting with overcoming of the deadline of the emergency phase set by COVID-19 by current regulations;
- access for 2022 to remote training courses, also outside the assignment work place (e-learning) in favour of all Group Resources;
- establishment, for 2022, of the so-called "time bank", fed by the company and by the solidarity of the Resources who decide to join the initiative. The time bank aims to offer access to additional paid leave on top of ordinary leave, for the benefit of employees affected by particular personal or family needs.

Furthermore, in application of the agreements defined in the Trade Union agreement of November 26 2020, in 2021 the first window of access to the Solidarity Fund was opened in favour of member employees who met the requirement of being eligible for pension benefits to take effect from 1 March 2023.

6.4 - Future activities

The HR Department will continue to work on the professional conversion of network personnel from administrative roles to commercial/advisory roles, in order to guarantee more targeted and personalised customer service, consistent with the new structure of the commercial network designed to create additional value in each individual segment and, at the same time, the development of the technical-specialist skills of its staff. As regards Head Office personnel, the objective will be to implement the professional skills to be assigned to the private banking segment, in line with the broader industrial project to develop the Wealth Management Department.

In 2022, in addition to implementing the tools defined by the Trade Union agreement of 26 November 2021 (remote working; e-learning; time bank), new initiatives will also be put in place along with improved efficiency of the service models, both at Head Office and at the Network. This in line with the development of ESG issues by the Banco Desio Group and on the basis of corporate policies on sustainability, as well as the enhancement of gender diversity and work-life balance.

Lastly, the HR Department will continue implementing the managerial innovations regarding the organisation of work in line with the provisions of the national contract of the banking sector.

Banco Desio

7 - Control activities

7.1 - The levels of control in the management control and coordination function

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

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

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

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

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

Further information on management control and coordination activities is included in paragraph 2.3 of the Annual Report on Corporate Governance which is available on the Bank's website www.bancodesio.it, pursuant to art. 123-bis of the CFA.

7.2 - The internal control system

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

Detailed information on the internal control system, as well as on the Financial Reporting Manager, and also on systems for risk management and for internal control in relation to the financial reporting process, are included in paragraphs 1 and 7 of the Annual Report on Corporate Governance which is available on the Bank's website www.bancodesio.it, pursuant to art. 123-bis of the CFA.

7.3 - Risk measurement and management

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

8 - Results of operations

8.1 - Savings deposits: customer assets under administration

Total customer funds under management reached Euro 30.5 billion, an increase with respect to the 2020 year-end balance (+7.5%), attributable to both direct deposits (+5.4%) and indirect deposits (+9.1%).

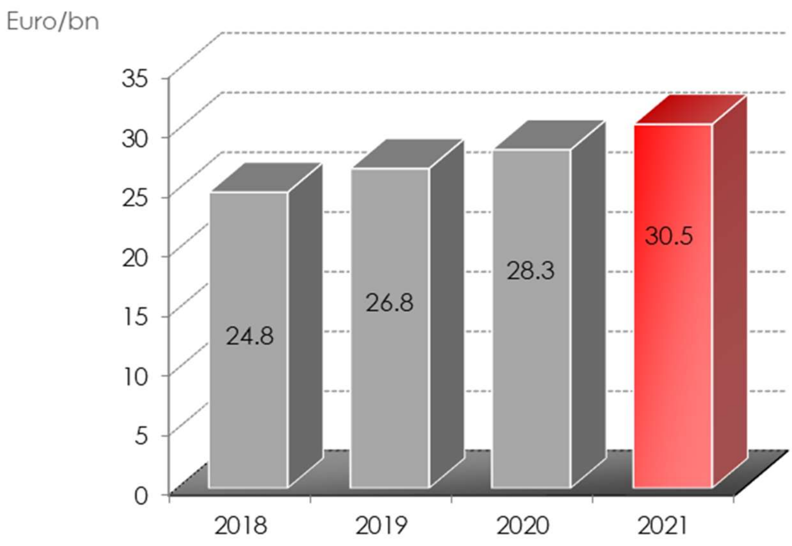
The composition and balances that make up this aggregate are shown in the following table.

Table no. 2 - **CUSTOMER DEPOSITS**

Amounts in thousands of Euro	**31.12.2021**	**%**	**31.12.2020**	**%**	**Change Amount**	**%**
Due to customers	10,924,688	35.9%	10,205,567	36.0%	719,121	7.0%
Debt securities in issue	1,522,265	5.0%	1,608,927	5.7%	-86,662	-5.4%
Direct deposits	**12,446,953**	**40.9%**	**11,814,494**	**41.7%**	**632,459**	**5.4%**
Deposits from ordinary customers	11,033,464	36.2%	10,160,527	36.0%	872,937	8.6%
Deposits from institutional customers	6,984,571	22.9%	6,359,833	22.3%	624,738	9.8%
Indirect deposits	**18,018,035**	**59.1%**	**16,520,360**	**58.3%**	**1,497,675**	**9.1%**
Total Customer deposits	**30,464,988**	**100.0%**	**28,334,854**	**100.0%**	**2,130,134**	**7.5%**

The trend in total deposits since 2018 is shown in the following graph, which shows an average annual growth rate of 7.1%.

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



Direct deposits

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Direct deposits amounted to Euro 12.4 billion, up by 5.4% compared with 31 December 2020, due to the trend in amounts due to customers (+7.0%); debt securities in issue have decreased compared with the end of the previous year (-5.4%).

Due to customers of Euro 10.9 billion represents the most significant component as it makes up 88% of the total balance, of which some Euro 10.1 billion relates to demand deposits, that is, current accounts and savings deposits, while some Euro 0.4 billion relates to restricted deposits, 0.2 billion to repurchase agreements for deposits with the Compensation and Guarantee Fund, and the rest to other payables.

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

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

- within one year 250 million euro (of which 80 million euro subordinated securities);
- between 1 and 3 years Euro 597 million;
- between 3 and 5 years Euro 568 million;
- beyond 5 years Euro 103 million.

Indirect deposits

Indirect deposits totalled Euro 18.0 billion (+9.1%). Deposits from ordinary customers amounted to Euro 11.0 billion, up 8.6% compared with the end of the previous year, attributable to the trend in assets under management (+11.7%).

Deposits from institutional customers, equal to 38.8%, reached a total of Euro 7.0 billion, an increase of Euro 0.6 billion.

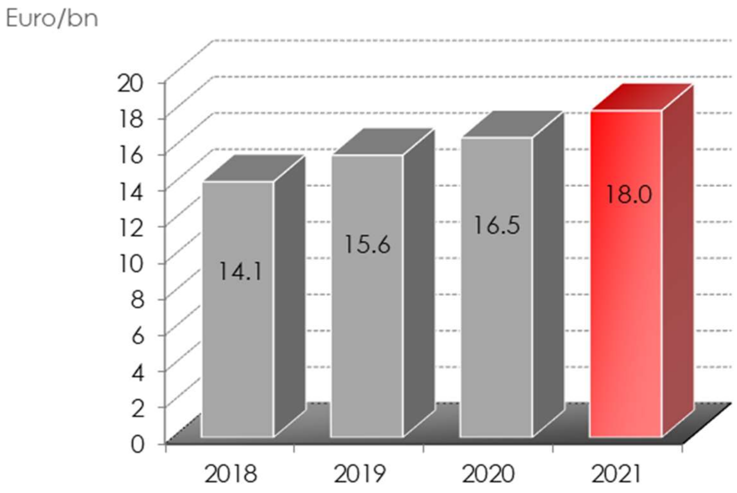
Table no. 3 - **INDIRECT DEPOSITS**

Amounts in thousands of Euro	31.12.2021	%	31.12.2020	%	Change Amount	Change %
Assets under administration	**3,203,624**	**17.8%**	**3,150,381**	**19.0%**	**53,243**	**1.7%**
Assets under management	**7,829,840**	**43.4%**	**7,010,146**	**42.5%**	**819,694**	**11.7%**
of which: UCITS and Sicavs	*4,006,993*	*22.2%*	*3,444,821*	*20.9%*	*562,172*	*16.3%*
Managed portfolios	*1,185,845*	*6.6%*	*1,007,369*	*6.1%*	*178,476*	*17.7%*
Bancassurance	*2,637,002*	*14.6%*	*2,557,956*	*15.5%*	*79,046*	*3.1%*
Deposits from ordinary customers	**11,033,464**	**61.2%**	**10,160,527**	**61.5%**	**872,937**	**8.6%**
Deposits from institutional customers)	**6,984,571**	**38.8%**	**6,359,833**	**38.5%**	**624,738**	**9.8%**
Indirect deposits[1]	**18,018,035**	**100.0%**	**16,520,360**	**100.0%**	**1,497,675**	**9.1%**

[1] institutional customer deposits include securities of the Bancassurance segment of ordinary customers for Euro 2.5 billion

The trend in indirect deposits in recent years can be seen in the following chart, which shows them growing at an average annual rate of 8.5% from 2018.

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



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

Chart no. 7 - **BREAKDOWN OF INDIRECT DEPOSITS FROM ORDINARY CUSTOMERS BY SECTOR AT 31.12.2021**

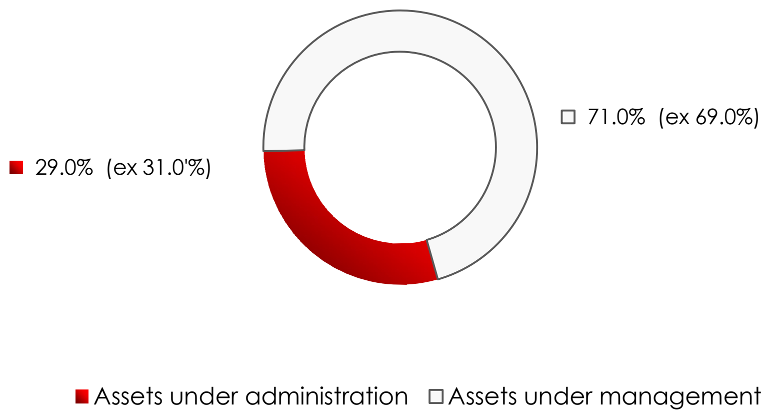
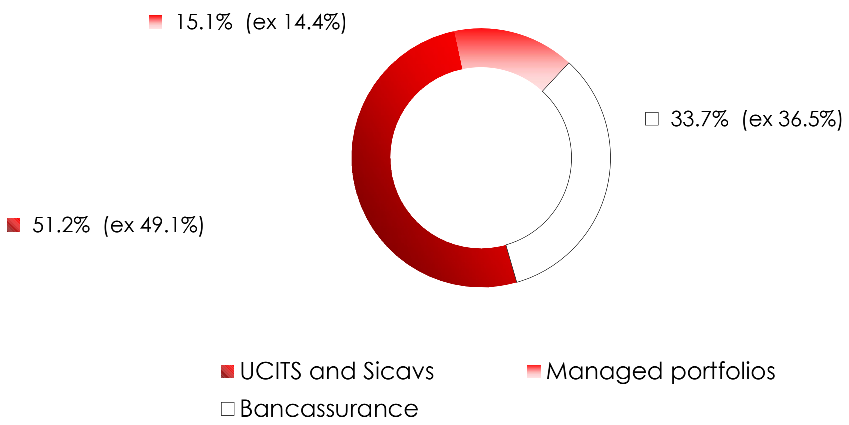


Chart no. 8 - **BREAKDOWN OF INDIRECT DEPOSITS BY ASSET MANAGEMENT COMPONENT AT 31.12.2021**



In almost every respect, 2021 will be remembered as an extraordinary year for global risk assets and the world economy. Stocks, homes and cryptocurrencies all hit record prices before fears about increased contagiousness surrounding the new Omicron variant prompted investors to start a period of profit-taking. At the same time, energy, food and industrial metals have continued to rise, so much so that inflation has reached a high for the last few decades, while more attention is being paid to potential wage increases as a precursor of another flare-up in prices.

With regard to the Equities side of asset management, it was felt that effective vaccination campaigns would have allowed hard hit sectors such as energy, travel and leisure to catch up with the rest of the market. However, the path towards full recovery has remained uneven, with discrepancies between geographical areas and sectors. The United States was the dominant weighting in the portfolios. The overweight position on emerging markets was also maintained. At product level, preferences went to the technology sector, financials and basic resources, to the detriment of telephones, public utility services and cyclical consumption. In sympathy with investors' risk appetite, the riskiest bond asset classes are those that have delivered the most satisfying results. On the other hand, government bonds of developed countries generated negative returns, mainly influenced by the trend in inflation. On the Bond side of asset management, portfolios throughout the year maintained a lower exposure to interest rate risk than that of the reference parameter, while decorrelation strategies (Chinese issues) and exposure to the financial sector and the Asian area of emerging countries gained favour.

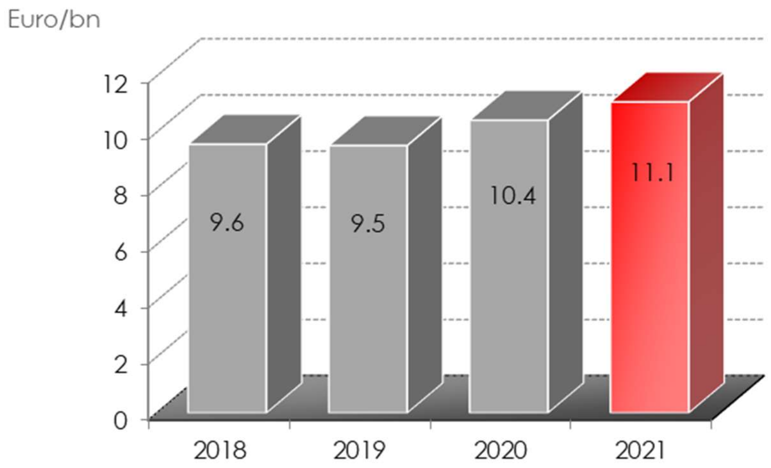
8.2 - Credit management: loans to customers [1]

Loans to ordinary customers at 31 December 2021 amounted to Euro 11.1 billion, an increase compared with the previous year (+6.2%). The Credit Department, with the support of the Risk Management Department, continued to implement the initiatives to support the financial needs of businesses and households, including the extensive public credit guarantee programmes, granting legislative moratoria. Loans to customers classified at performing have increased by 7.2% on the previous year due to further growth in medium/long-term loans linked to the ongoing derisking of the portfolio, thanks to the disbursements of new liquidity (mortgages and medium/long-term loans) to businesses with guarantees from Medio Credito Centrale and SACE for Euro 2.4 billion (1.8 billion at the end of the previous year) and to the disbursement of mortgage loans to private customers; a boost has also been given to consumer lending; a boost has also been given to consumer lending.

[1] All of the figures and indicators in this paragraph are shown net of assets held for sale

The following chart shows the trend in loans in the last four years, reflecting an average annual compound growth rate of +5.0%, due to the rise in volumes, partly offset by the reduction in non-performing loans in previous years.

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



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

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

Amounts in thousands of Euro	**31.12.2021**	**%**	**31.12.2020**	**%**	**Change** **Amount**	**%**
Current accounts	1,814,496	16.4%	1,759,527	16.9%	54,969	3.1%
Mortgages and other long-term loans	8,345,517	75.4%	7,888,369	75.7%	457,148	5.8%
Other	907,754	8.2%	771,545	7.4%	136,209	17.7%
Loans to customers	**11,067,767**	**100.0%**	**10,419,441**	**100.0%**	**648,326**	**6.2%**
- of which non-performing loans	*226,090*	*2.0%*	*301,945*	*2.9%*	*-75,855*	*-25.1%*
- of which performing loans	*10,841,677*	*98.0%*	*10,117,496*	*97.1%*	*724,181*	*7.2%*

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

Amounts in thousands of Euro	**31.12.2021**	**%**	**31.12.2020**	**%**	**Change Amount**	**Change %**
Households	3,440,627	31.1%	3,132,680	30.1%	307,947	9.8%
Non-fin. cos., artisans and other fam. bus	6,404,931	57.9%	6,231,367	59.8%	173,564	2.8%
Financial companies	1,011,024	9.1%	896,511	8.6%	114,513	12.8%
Private social institutions and other[1]	211,185	1.9%	158,883	1.5%	52,302	32.9%
Loans to customers	**11,067,767**	**100.0%**	**10,419,441**	**100.0%**	**648,326**	**6.2%**

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

Loans to non-financial companies, artisans and other family businesses amounted to about Euro 6.4 billion, up by 2.8% on the comparative figure due to the liquidity guaranteed by the State during the year. This still represents the bulk (57.9%) of total lending to customers (59.1% in the comparative period). Loans to households, totalling Euro 3.4 billion, also increased by 9.8% mainly due to the disbursement of new mortgages and the impulse to consumer lending.

The following chart shows the percentage breakdown of loans at the end of 2021, analysed by type of customer, while the subsequent chart focuses on the loans made to non-financial companies, artisans and family businesses, analysed by business sector.

Chart no. 10 - **% BREAKDOWN OF LOANS TO CUSTOMERS BY TYPE OF CUSTOMER AT 31.12.2021**

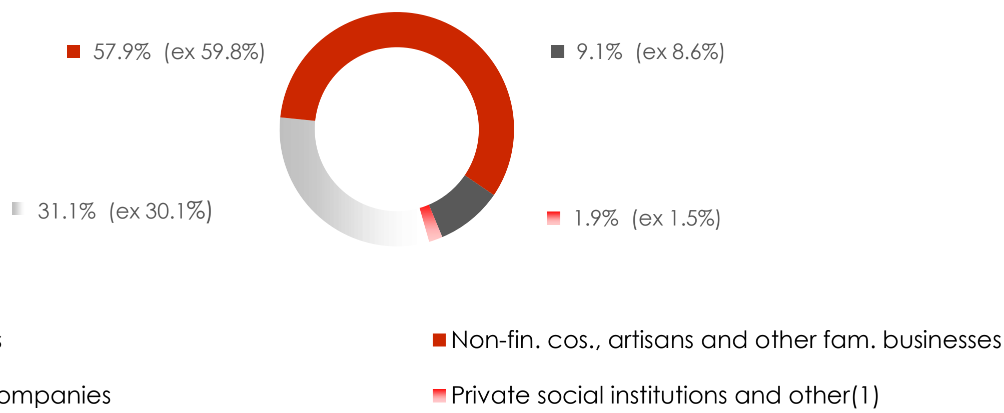
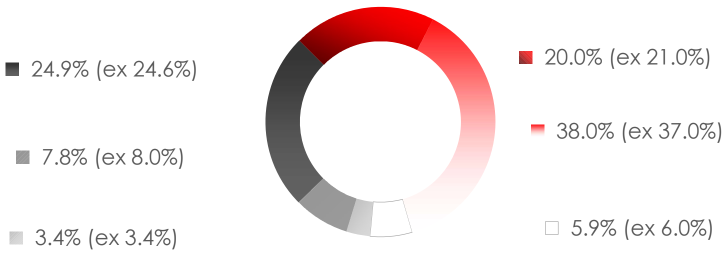


Chart no. 11 - **% BREAKDOWN OF LOANS TO CUSTOMERS AT 31.12.2021 REGARDING NON-FINANCIAL COMPANIES, ARTISANS AND OTHER FAMILY BUSINESSES**



Loans to customers in the service sector generally continue to be very important, especially those in other sales related services, wholesale and retail services, recoveries and repairs and the construction industry. Taken together, these loans represent 52.7% (53.6% last year) of the total corresponding to some Euro 3.4 billion.

Within the distribution of gross loans, including endorsement credits, the percentage of drawdowns by the largest 50 customers at the end of 2021 continues to reflect a high degree of risk diversification.

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

Number of customers [(1)]	**31.12.2021**	**31.12.2020**
First 10	1.16%	1.26%
First 20	2.02%	2.06%
First 30	2.72%	2.76%
First 50	3.91%	3.92%

[(1)] net of loans to the subsidiary FIDES S.p.A.

None of our customers is considered a "Large Exposure" for supervisory purposes at the reference date; the positions classified as "Large Exposures" are attributable to the tax activities of the bank and Italian government securities, Group companies, participation in the capital of the Bank of Italy, underwriting of junior and mezzanine securities and granting of loans to the vehicle company 2Worlds S.r.l. , the counterparty of the NPL securitisation with GACS, guarantees given by the Guarantee Fund Law no.662 23.12.1996, guarantees given by SACE, exposures with Crédit Agricole for liquidity deposited as part of the covered bond transaction and for debt securities included in the proprietary portfolio, operations in repurchase agreements with Cassa di Compensazione e Garanzia, for a total nominal amount of Euro 9.2 billion (which also includes guarantees and commitments), corresponding to 0.3 billion in terms of total weighted amount.

As a result of the sales of non-performing loans carried out during the year, the total amount of net non-performing loans consisting of bad loans, unlikely to pay loans and non-performing past due and/or overdrawn exposures came to Euro 226.1 million, net of adjustments for Euro 238.9 million, with a decrease of Euro 75.8 million compared with Euro 301.9 million at the end of 2020. In particular, net bad loans totalled

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Euro 93.6 million (formerly 116.6 million), unlikely to pay loans Euro 131.0 million (formerly 184.3 million) and non-performing past due and/or overdrawn exposures Euro 1.8 million (formerly Euro 1.0 million).

The following table summarises the gross and net indicators relating to credit risk and the related coverage level, where due to the sales of non-performing loans, and the increase in new liquidity to companies, show a further reduction in the ratio of "gross non-performing loans/gross loans" to 4.1% and "net non-performing loans/net loans" to 2.0%.

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

Amounts in thousands of Euro	31.12.2021					
	Gross exposure	% of total loans and receivables	Write-downs	Coverage ratio	Net exposure	% of total loans and receivables
Bad loans	255,157	2.2%	(161,591)	63.3%	93,566	0.8%
Unlikely to pay loans	208,074	1.9%	(77,088)	37.0%	130,986	1.2%
Past due non-performing loans	1,764	0.0%	(226)	12.8%	1,538	0.0%
Total non-performing loans	**464,995**	**4.1%**	**(238,905)**	**51.4%**	**226,090**	**2.0%**
Exposures in stage 1	9,125,565	80.0%	(17,719)	0.19%	9,107,846	82.3%
Exposures in stage 2	1,818,404	15.9%	(84,573)	4.65%	1,733,831	15.7%
Performing exposures	**10,943,969**	**95.9%**	**(102,292)**	**0.93%**	**10,841,677**	**98.0%**
Total loans to customers	**11,408,964**	**100.0%**	**(341,197)**	**3.0%**	**11,067,767**	**100.0%**

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

All indicators show improved coverage compared with the previous year.

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

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

% Coverage of non-performing and performing loans	**31.12.2021**	**31.12.2020**
% Coverage of bad loans	63.33%	60.98%
% Coverage of bad loans, gross of write-offs	64.33%	62.24%
% Total coverage of non-performing loans	51.38%	47.55%
% Coverage of non-performing loans, gross of write-offs	52.11%	48.45%
% Coverage of performing loans	0.93%	0.72%

With reference to the exposures relating to the Covid-19 loans backed by public guarantees pursuant to Law 662/96 (issued by the Guarantee Fund for SMEs through Medio Credito Centrale, MCC) and by SACE guarantees, which for the entire performing loan portfolio at the reporting date express an overall EAD of approximately Euro 2,424 million, the average coverage is approximately 0.21, of which 0.12% for exposure in stage 1 and 0.75% for exposure in stage 2.

As regards the relationships subject to Covid-19 moratoria (pursuant to law, ABI, internal of general scope), which at the reporting date express an overall EAD for performing exposures of 2,073 million euro, the average coverage is 3.2%, which for stage 2 relationships alone (with a total EAD of 808 million euro) rises to 7.4, also in consideration of the particular attention paid to the evaluation of this type of exposure, which will be kept under close observation over the next few months to ensure that the trend remains normal.

8.3 - The securities portfolio and interbank position

Securities portfolio

The first part of the year saw the continuation of the climate of optimism that had already characterised the markets coming out of a 2020 that had shown two very different faces. The start of the vaccination campaigns in industrialised countries and the economic policies implemented by the main governments reinvigorated the monetary support already in place, leading to expectations of a rapid economic recovery. The Biden Administration launched an economic support plan of over 4 billion dollars while the European Union formalised initial distribution of funds from the Next Generation EU programme.

However, it was precisely with the recovery process that signs of tensions began to show on the supply side, which gradually led to increasing pressure on prices.

In fact, various bottlenecks arose during the year, exacerbated by the lack of capital investment in 2020 and restocking by companies to meet expected higher demand. To name only the most significant ones, the cost of transport via container hit all-time highs, the chip industry was unable to meet growing demand, with grave repercussions on various sectors, automotive most of all, and the progressive rise of raw materials, fuel in particular, a trend that culminated in the exponential growth of gas prices in Europe in the fourth quarter.

The optimism of the beginning of the year, without disappearing altogether, saw a progressive downsizing due to the growing visibility of the costs and difficulties involved in the ecological transition process, which is taking shape with greater vigour in the main economies. A strong resurgence of Covid-19 infections, coinciding with the arrival of the autumn season, also weighed heavily on the situation.

This underlying context, coupled with a recovering labour market, particularly in the United States, led to increasing pressure on prices. In the USA, inflation in December jumped to 7%, while in the Euro Area it reached 5%. Understandably, the Central Banks began to hint at a future decrease in monetary stimulus by acting primarily on quantitative easing and, in the case of the Fed, by suggesting that they may want to start gradually raising interest rates in 2022.

Equity markets still had a great year with the S&P 500 index at +26.8%, Nasdaq 100 at +26.6%, Eurostoxx 50 at +21% and Nikkei 225 at +4.9%.

Interest rates, albeit with fluctuations, saw an upward trend; the 10-year swap rate in Euro went from a low of -0.3% in January 2021 to a positive 0.3% in the last quarter of the year.

The spread between the ten-year BTP and the German Bund consolidated the recovery achieved in 2020, with a minimum of 90 bps reached the day before the swearing-in of Draghi's government in February. The latter part of the year saw the spread widen again to around 130 bps, in conjunction with the indications of less stimulus from the ECB and growing political uncertainty. In any case, it is worth noting that the volatility of the spread has decreased significantly compared with previous years.

At the reporting date, the securities portfolio of the Bank amounted to about Euro 3.8 billion, up by 7.2% over the year. Most of the portfolio, about Euro 3.1 billion, is allocated to the Held to Collect (HTC) business model.

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

The duration of the HTC portfolio, which was only 2.32 at the end of 2020, has risen to 3.12 following reinvestment that favoured the medium/long-term end of the curve. The duration of the HTCS Portfolio has also increased slightly from 1.80 to 1.86. In particular with regard to the HTCS portfolio, new operational limits have been set up in order to improve efficiency and consistency with the business model.

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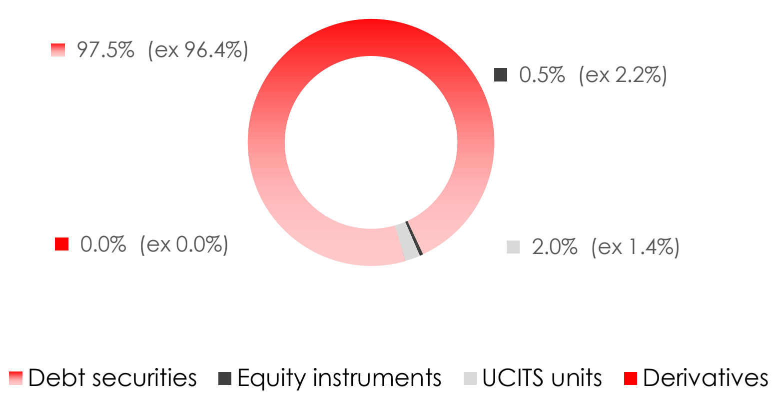
Transactions involving the HTC and HTCS portfolios complied with the operational limits established by the Board of Directors, as discussed in "Part A – Accountg policies" of the explanatory notes.

During the year, the European Central Bank stimulated bank lending by improving the conditions of TLTRO 3. In March and December 2021, the Bank participated in TLTRO III auctions for 1.0 billion euro and 0.45 billion euro respectively, bringing total TLTRO III loans in place to 3.85 billion euro.

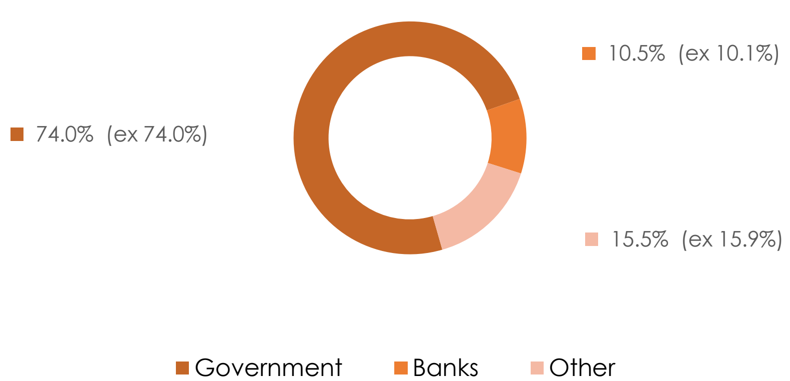
The portfolio breakdown by type of security is shown in the following graph, which shows that almost all (97.4%) of the investments still consist of debt securities.

Chart no. 12 - **% BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2021 BY TYPE OF SECURITIES**



With reference to the issuers of securities, of the total portfolio at the end of the year, 74.0% relates to government securities, 10.5% to securities issued by leading banks and the remainder to other issuers, as shown by the following chart.

Chart no. 13 - ***% BREAKDOWN OF FINANCIAL ASSETS AT 31.12.2021 BY TYPE OF ISSUER***



Sovereign debt exposures

With reference to document 2011/266 published on 28 July 2011 by the European Securities and Markets Authority (ESMA) concerning disclosures about sovereign risk to be included in the annual and interim reports prepared by listed companies adopting IAS/IFRS, positions at 31 December 2021 are reported below, bearing in mind that, according to the guidelines of this European Supervisory Authority, "sovereign debt" has to include bonds issued by central and local governments and government bodies, as well as any loans granted to them.

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

Amounts in thousands of Euro		31.12.2021					31.12.2020		
		Italy	Spain	USA	UK	Total	Italy	Spain	Total
Financial assets at fair value through other comprehensive income	Nominal value	560,000		883	595	561,478	565,000		565,000
	Book value	559,591		880	589	561,060	574,272		574,272
Financial assets at amortised cost	Nominal value	2,160,711	65,000			2,225,711	2,020,711	15,000	2,035,711
	Book value	2,184,691	65,460			2,250,151	2,031,967	16,127	2,048,094
Sovereign debt	**Nominal value**	**2,720,711**	**65,000**	**883**	**595**	**2,787,189**	**2,585,711**	**15,000**	**2,600,711**
	Book value	**2,744,282**	**65,460**	**880**	**589**	**2,811,211**	**2,606,239**	**16,127**	**2,622,366**

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

Amounts in thousands of Euro		Italy	Spain	USA	UK	31.12.2021 Nominal value	Book value
Financial assets available for trading	up to 1 year						
	from 1 to 3 years						
	from 3 to 5 years						
	over 5 years	-				-	-
	Total	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	up to 1 year	-	-		-	-	-
	from 1 to 3 years	460,000	-	883	595	461,478	463,490
	from 3 to 5 years	-	-		-	-	-
	over 5 years	100,000	-		-	100,000	97,569
	Total	560,000	-	883	595	561,478	561,059
Financial assets at amortised cost	up to 1 year	375,000	-		-	375,000	375,610
	from 1 to 3 years	660,921	-		-	660,921	664,816
	from 3 to 5 years	300,000	-		-	300,000	304,051
	over 5 years	824,790	65,000		-	889,790	905,675
	Total	2,160,711	65,000	-	-	2,225,711	2,250,152
Sovereign debt	**up to 1 year**	**375,000**	**-**	**-**	**-**	**375,000**	**375,610**
	from 1 to 3 years	**1,120,921**	**-**	**883**	**595**	**1,122,399**	**1,128,306**
	from 3 to 5 years	**300,000**	**-**	**-**	**-**	**300,000**	**304,051**
	over 5 years	**924,790**	**65,000**	**-**	**-**	**989,790**	**1,003,244**
	Total	**2,720,711**	**65,000**	**883**	**595**	**2,787,189**	**2,811,211**

Net interbank position

The net interbank position at year-end is negative for Euro 1.7 billion, compared with the position at the end of the previous year, which was also negative for Euro 1.4 billion.

8.4 - Shareholders' equity and capital adequacy

Shareholders' equity pertaining to the Parent Company Banco Desio at 31 December 2021, including net profit for the year, amounts to Euro 1,078.2 million, compared with Euro 987.0 million at the end of 2020. The positive change of Euro 93.8 million is attributable to the result for the period and the effect on reserves of the sale of the investment in Cedacri S.p.A., partially offset by the decrease due to the decision to distribute the 2020 dividend.

At 31 December 2021 shareholders' equity calculated in accordance with the new regulatory provisions defined as Own Funds, after the pay out of 34.99%, amounts to Euro 1,127.1 million (CET1 + ATI of Euro 2 million + T2 of Euro 4.2 million), an increase of Euro 67.6 million compared with Euro 1.055,3 million at the end of the previous year.

At 31 December 2021, the Common Equity Tier 1 (CET1/Risk-weighted assets) was 16.5%. The Tier 1 ratio, consisting of total class 1 capital (T1)/Risk-weighted assets, came to 16.5%, while the Total capital ratio, consisting of total Own Funds/Risk-weighted assets, amounted to 16.6%.

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

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

On 25 January 2018, the Board of Directors of the bank resolved to adopt the transitional arrangements introduced by the Regulation (EU) 2017/2395 of 12 December 2017, aimed at mitigating the impact of IFRS 9 on own funds and capital ratios. At the board meeting on 30 July 2020, the Board of Directors also resolved to make use of the option provided for by Regulation 2020/873 i.e. the temporary treatment of unrealised profits and losses measured at fair value recognised in other comprehensive income for Government debt securities for the period 2020-2022 (exclusion factor of 1 in 2020, 0.70 in 2021 and 0.40 in 2022).

The table below therefore shows the composition of own funds and capital ratios calculated with and without application of the transitional arrangements.

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

	31.12.2021		
	Application of the transitional arrangements	**Without IFRS 9 transitional provisions**	**Fully loaded**
OWN FUNDS			
Common Equity Tier 1 - CET 1	1,122,928		
Common Equity Tier 1 - CET1 without application of the transitional arrangements		*1,047,881*	*1,046,137*
Tier 1 capital	1,122,928		
Tier 1 capital without application of the transitional arrangements		*1,047,881*	*1,046,137*
Total own funds	1,127,058		
Total own funds without application of the transitional arrangements		*1,052,011*	*1,050,267*
RISK ASSETS			
Risk-weighted assets	6,800,170		
Risk-weighted assets without application of the transitional arrangements		*6,697,657*	*6,697,657*
CAPITAL RATIOS			
Common Equity Tier 1 ratio/Risk-weighted assets (CET 1 capital ratio)	16.513%		
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) without application of the transitional arrangements		*15.645%*	*15.619%*
Core Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	16.513%		
Common Equity Tier 1/Risk-weighted assets (Tier 1 capital ratio) without application of the transitional arrangements		*15.645%*	*15.619%*
Total Own Funds/Risk-weighted assets (Total capital ratio)	16.574%		
Total own funds/Risk-weighted assets (Total capital ratio) without application of the transitional arrangements		*15.707%*	*15.681%*

8.5 - Reclassified income statement

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

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

- the "Result of operations" has been split into its two component parts, namely "Operating income" and "Operating costs";
- breakdown of profit (loss) for the period between "Profit (loss) from continuing operations after tax" and "Non-recurring profit (loss) after tax";
- "Operating income" also includes the balance of caption 190 "Other operating income/expense", net of recoveries of tax duties on current accounts and securities deposit accounts of customers and flat-rate tax on long-term loans, as well as depreciation of leasehold improvements, reclassified respectively as a reduction to caption 160b) "Other administrative expenses" and as an increase in caption 190 "Net adjustments to intangible assets" included in "Operating expenses";
- the time value components of non-performing financial assets (calculated on the basis of the original effective interest rate) and impairment losses on interest on non-performing loans are reclassified from the item "Net interest income" to "Cost of credit";
- the balance of caption 100a) "Gains (losses) on disposal or repurchase of financial assets valued at amortised cost" of "Operating income" is reclassified, net of the component of loans to customers, to "Cost of credit" (which also includes caption 130a) "Net impairment adjustments to loans and advances") after "Operating profit";
- the balance of item 110 "Net result of other financial assets and liabilities at fair value through profit and loss" of "Operating income" for the part referring to closed UCITS units subscribed following completion of the assignment of non-performing loans is reclassified to the specific item "Cost of Credit" (which also includes item 130a) "Net impairment adjustments to loans and advances"), subsequent to the "Result of operations";
- the expected loss on securities at amortised cost included in caption 130a) "Net impairment adjustments to loans and advances", has been reclassified to caption 130b) "Net adjustments to securities owned" (which also includes the balance of net adjustments for credit risk on securities at fair value with impact on overall profitability).
- provisions relating to claw-back suits on disputed receivables are reclassified from caption 170 "Net provisions for risks and charges - other" to caption "Cost of credit", both captions coming after the "Result of operations";
- costs for operating leases falling within the scope of IFRS 16 "Leases", booked to item "20. Interest and similar expense" and to item "210. Net adjustments to property, plant and equipment", have been reclassified to item "190 b) Other administrative costs", where the charges incurred on these contracts were recorded in the prior period";
- ordinary contributions to the Single Resolution Mechanism (SRM) and to the Deposit Guarantee Scheme (DGS) are transferred from item 160 b) "Other Administrative Costs" to "Charges relating to the banking system";
- provisions, expenses and revenues of an extraordinary nature or which are "one-off" are reclassified to "Extraordinary provisions for risks and charges, other provisions, expenses and revenues";

- the tax effect on "Non-recurring profit (loss)", together with non-recurring taxes, is reclassified from caption 270 "Income tax for the period on continuing operations" to "Income taxes on non-recurring items".

The net profit for the year of Euro 28.5 million (+119.4%) benefits from the positive trend in operations (+39.3%), partially offset by a higher cost of credit of Euro 13.7 million and increased charges relating to the banking system up by Euro 5.2 million with reference to the ordinary component. There is also a non-recurring loss of Euro 0.7 million (loss of Euro 10.4 million in the comparative period when a Euro 12.0 million charge was taken for the staff redundancy plan).

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

Captions *Amounts in thousands of Euro*		31.12.2021	31.12.2020	Change Amount	 %
10+20	Net interest income	226,494	200,480	26,014	13.0%
70	Dividends and similar income	690	1,765	-1,075	-60.9%
40+50	Net commission income	206,124	171,973	34,151	19.9%
80+90+100 +110	Net result of financial assets and liabilities	8,487	13,861	-5,374	-38.8%
200	Other operating income/charges	2,458	3,316	-858	-25.9%
	Operating income	**444,253**	**391,395**	**52,858**	**13.5%**
160 a	Payroll costs	-171,494	-165,764	-5,730	3.5%
160 b	Other administrative costs	-79,837	-84,346	4,509	-5.3%
180+190	Net adjustments to property, plant and equipment and intangible assets	-8,780	-9,094	314	-3.5%
	Operating costs	**-260,111**	**-259,204**	**-907**	**0.3%**
	Result of operations	**184,142**	**132,191**	**51,951**	**39.3%**
100a+130a	Cost of credit	-90,294	-76,589	-13,705	17.9%
130 b	Net adjustments to securities owned	-1,178	942	-2,120	n.s.
140	Profit/losses from contractual changes without write-offs	-71	267	-338	n.s.
170 a	Net provisions for risks and charges - commitments and guarantees given	889	-2,234	3,123	n.s.
170 b	Net provisions for risks and charges - other	-5,026	-3,576	-1,450	40.5%
	Charges relating to the banking system	-13,498	-8,343	-5,155	61.8%
	Dividends from equity investments in subsidiaries	2,204	1,625	579	35.6%
	Profit (loss) from continuing operations before tax	**77,168**	**44,283**	**32,885**	**74.3%**
270	Income taxes on continuing operations	-24,059	-9,961	-14,098	141.5%
	Profit (loss) from continuing operations after tax	**53,109**	**34,322**	**18,787**	**54.7%**
240	Fair value adjustment of property, plant and equipment and intangible assets	-123	0	-123	
	Provisions for risks and charges, other provisions, one-off expenses and revenue	-13,728	-13,815	87	-0.6%
	Non-recurring result before tax	**-13,851**	**-13,815**	**-36**	**0.3%**
	Income taxes from non-recurring items	13,157	3,388	9,769	288.3%
	Non-recurring profit (loss) after tax	**-694**	**-10,427**	**9,733**	**-93.3%**
300	**Net profit (loss) for the period**	**52,415**	**23,895**	**28,520**	**119.4%**

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

Table 12 - Reconciliation between the financial statements and the income statement

Captions		As per financial statements	Reclassifications										Reclassified income statement
Amounts in thousands of Euro		**31.12.2021**	Measurement effects on non-performing loans	Tax/expense recoveries	Dividends from investee companies	Expected loss on securities at amortized cost	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions, one-off expenses and revenue	Charges relating to the banking system	Reclassifications IFRS16 - Leases	Income taxes	**31.12.2021**
10+20	Net interest income	230,745	-4,953						0		702		226,494
70	Dividends and similar income	2,894			-2,204								690
40+50	Net commission income	206,124											206,124
80+90+100+110	Net result of financial assets and liabilities	-2,207						10,694	0				8,487
200	Other operating income/charges	24,864		-33,117			1,411		9,300				2,458
	Operating income	**462,420**	**-4,953**	**-33,117**	**-2,204**	**0**	**1,411**	**10,694**	**9,300**	**0**	**702**	**0**	**444,253**
160 a	Payroll costs	-170,504							-990				-171,494
160 b	Other administrative costs	-121,314		33,117					973	17,943	-10,556		-79,837
180+190	Net adjustments to property, plant and equipment and intangible assets	-17,223					-1,411				9,854		-8,780
	Operating costs	**-309,041**	**0**	**33,117**			**-1,411**		**-17**	**17,943**	**-702**	**0**	**-260,111**
	Result of operations	**153,379**	**-4,953**	**0**	**-2,204**	**0**	**0**	**10,694**	**9,283**	**17,943**	**0**	**0**	**184,142**
	Gains (Losses) on disposal or repurchase of loans							-10,694					-10,694
130 a	Net write-downs for credit risk of financial assets at amortised cost	-85,470	4,953			1,187			-270				-79,600
100a+130a	Cost of credit	-85,470	4,953			1,187		-10,694	-270				-90,294
130 b	Net adjustments to securities owned	9				-1,187							-1,178
140	Profit/losses from contractual changes without write-offs	-71											-71
170 a	Net provisions for risks and charges - commitments and guarantees given	889											889
170 b	Net provisions for risks and charges - other	-5,296							270				-5,026
	Charges relating to the banking system									-13,498			-13,498
	Dividends from equity investments in subsidiaries				2,204								2,204
	Profit (loss) from continuing operations before tax	**63,440**	**0**	**0**	**0**	**0**	**0**	**0**	**9,283**	**4,445**	**0**	**0**	**77,168**
270	Income taxes on continuing operations	-10,902										-13,157	-24,059
	Profit (loss) from continuing operations after tax	**52,538**	**0**	**0**	**0**	**0**	**0**	**0**	**9,283**	**4,445**	**0**	**-13,157**	**53,109**
240	Fair value adjustment of property, plant and equipment and intangible assets	-123											-123
	Provisions for risks and charges, other provisions, one-off expenses and revenue				0				-9,283	-4,445			-13,728
	Non-recurring result before tax	**-123**	**0**	**0**	**0**	**0**	**0**	**0**	**-9,283**	**-4,445**	**0**	**0**	**-13,851**
	Income taxes from non-recurring items											13,157	13,157
	Non-recurring profit (loss) after tax	**-123**	**0**	**0**	**0**	**0**	**0**	**0**	**-9,283**	**-4,445**	**0**	**13,157**	**-694**
300	**Net profit (loss) for the period**	**52,415**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**52,415**

Table 13 - Reconciliation between the financial statements and the consolidated income statement 31.12.2020

	Captions	As per financial statements	Reclassifications										Reclassified income statement
	Amounts in thousands of Euro	**31.12.2020**	Measurement effects on non-performing loans	Tax/expense recoveries	Dividends from investee companies	Expected loss on securities at amortized cost	Amortisation of leasehold improvements	Gains (Losses) on disposal or repurchase of loans	Provisions for risks and charges/other provisions, one-off expenses and revenue	System charges	Reclassifications IFRS16 - Leases	Income taxes	**31.12.2020**
10+20	Net interest income	205,500	-5,012						-1,029		1,021		200,480
70	Dividends and similar income	3,390			-1,625								1,765
40+50	Net commission income	171,973											171,973
80+90+100 +110	Net result of financial assets and liabilities	5,010						9,211	-360				13,861
200	Other operating income/charges	34,867		-33,118			1,567		0				3,316
	Operating income	**420,740**	**-5,012**	**-33,118**	**-1,625**	**0**	**1,567**	**9,211**	**-1,389**	**0**	**1,021**	**0**	**391,395**
160 a	Payroll costs	-177,791		0					12,027				-165,764
160 b	Other administrative costs	-117,754		33,118						11,520	-11,230		-84,346
180+190	Net adjustments to property, plant and equipment and intangible assets	-17,736	0				-1,567				10,209		-9,094
	Operating costs	**-313,281**	**0**	**33,118**			**-1,567**		**12,027**	**11,520**	**-1,021**	**0**	**-259,204**
	Result of operations	**107,459**	**-5,012**	**0**	**-1,625**	**0**	**0**	**9,211**	**10,638**	**11,520**	**0**	**0**	**132,191**
100a+130a	Cost of credit	-71,257	5,012			-751		-9,211	-382				-76,589
130 b	Net adjustments to securities owned	191				751							942
140	Profit/losses from contractual changes without write-offs	267											267
170 a	Net provisions for risks and charges - commitments and guarantees given	-2,234											-2,234
170 b	Net provisions for risks and charges - other	-3,958							382				-3,576
	System charges									-8,343			-8,343
	Dividends from equity investments in subsidiaries				1,625								1,625
	Profit (loss) from continuing operations before tax	**30,468**	**0**	**0**	**0**	**0**	**0**	**0**	**10,638**	**3,177**	**0**	**0**	**44,283**
270	Income taxes on continuing operations	-6,573										-3,388	-9,961
	Profit (loss) from continuing operations after tax	**23,895**	**0**	**0**	**0**	**0**	**0**	**0**	**10,638**	**3,177**	**0**	**-3,388**	**34,322**
240	Fair value adjustment of property, plant and equipment and intangible assets	0											0
	Provisions for risks and charges, other provisions, one-off expenses and revenue				0				-10,638	-3,177			-13,815
	Non-recurring result before tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-10,638**	**-3,177**	**0**	**0**	**-13,815**
	Income taxes from non-recurring items											3,388	3,388
	Non-recurring profit (loss) after tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-10,638**	**-3,177**	**0**	**3,388**	**-10,427**
300	**Net profit (loss) for the period**	**23,895**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23,895**

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

Operating income

Core revenues increased by about Euro 52.9 million with respect to the comparative period (+13.5%), amounting to Euro 444.3 million. The trend is mainly attributable to growth in the net interest income of Euro 26.0 million (+13.0%) and net commission income of Euro 34.2 million (+19.9%), partly offset by the decrease in other operating income/expense of Euro 0.9 million (-25.9%), the net result of financial assets and liabilities of Euro 5.4 million (-38.8%) and dividends of Euro 0.7 million (vs Euro 1.8 million).

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

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

Amounts in thousands of Euro	**31.12.2021**	**%**	**31.12.2020**	**%**	**Change Amount**	**Change %**
Collection and payment services	31,131	15.1%	23,176	13.5%	7,955	34.3%
Placement of securities	3,651	1.8%	2,956	1.7%	695	23.5%
Asset management and Reception/transmission c	15,413	7.5%	13,222	7.7%	2,191	16.6%
Distribution of insurance products	27,370	13.3%	22,266	12.9%	5,104	22.9%
Maintaining and managing current accounts	78,104	37.9%	70,416	40.9%	7,688	10.9%
Placement of UCITS	33,817	16.3%	25,691	15.0%	8,126	31.6%
Other commission	16,638	8.1%	14,246	8.3%	2,392	16.8%
Net commission income	**206,124**	**100.0%**	**171,973**	**100.0%**	**34,151**	**19.9%**

"Other commissions" records the higher contribution of factoring commissions for Euro 0.6 million and the placement of consumer credit products for Euro 1.0 million.

Operating costs

Operating costs, which include *payroll costs, other administrative expenses* and *net adjustments to property, plant and equipment and intangible assets* come to Euro 260.1 million and have increased with respect to the comparative period by Euro 0.9 million (+0.3%).

Other administrative costs have decreased by Euro 4.5 million (-5.3%), whereas payroll costs have increased by 5.7 million (+3.5%) versus the comparative period, which saw a considerable reduction in the variable component in compliance with the Supervisory Authorities' instructions. The balance of net adjustments to property, plant and equipment and intangible assets is down compared with the comparative period (-3.5%).

Result of operations

The result of operations at 31 December 2021 therefore amounts to Euro 184.1 million, up by Euro 52.0 million compared with the prior year (+39.3%).

Net profit (loss) from operations after tax

The *result of operations* of Euro 184.1 million leads to a *net profit (loss) from operations after tax* of Euro 53.1 million, 54.7% up on the Euro 34.3 million in the comparative period, mainly because of:

- higher cost of credit (*net impairment adjustments to loans and advances from customers and gains (losses) on disposal or repurchase of loans*) of Euro 90.3 million, compared with Euro 76.6 million in the prior period;
- negative net adjustments to proprietary securities of Euro 1.2 million (positive for Euro 0.9 million in the comparative period);
- net provisions for risks and charges of Euro 4.1 million euro (Euro 5.8 million in the comparative period);

- charges relating to the banking system for ordinary contributions of Euro 13.5 million (vs Euro 8.3 million);
- income taxes on continuing operations of Euro 22.0 million (formerly Euro 10.0 million).

Result of non-recurring items after tax

At 31 December 2021 there was a non-recurring profit after tax of Euro 0.7 million (negative for Euro 10.4 million). This caption essentially consists of:

- the Euro 1.0 million of costs connected with the sale of the investment in Cedacri S.p.A.,
- the Euro 2.2 million charge for the extraordinary contribution to the SRM, "Single Resolution Mechanism", requested by the National Resolution Authority in June 2021,
- the Euro 2.2 million charge for the additional contribution to the Deposit Guarantee Scheme requested by the FITD in December,
- the provision of Euro 9.3 million as a precautionary measure following the preventive confiscation of tax credits acquired from a financial intermediary, for which see paragraph "4.2 Significant events",
- the revenue of approximately Euro 0.9 million recognised to adjust the liability recorded in 2020 for access to the "Income support solidarity fund" following the negotiations with all the previously identified resources,

net of the tax effect (which was positive for Euro 3.8 million. *Income taxes from non-recurring items* also include the positive economic effect of Euro 9.4 million deriving from the realignment of goodwill and properties (so-called "step-up") in accordance with art. 110, para. 8 and para. 8-bis, of Legislative Decree 104/2020 (the "August Decree"), which made it possible to realign fiscal values to the higher statutory carrying amounts of operating assets by subjecting the difference to a flat-rate substitute tax of 3%.

For the comparison period, the result of non-recurring items after tax was a loss of Euro 10.4 million. This item basically consists of:

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

net of the tax effect of non-recurring items (positive for 3.4 million).

Profit for the period

The total of the *profit from operations* and the *non-recurring profit*, leads to a net profit at 31 December 2021 of Euro 52.4 million (formerly Euro 23.9 million).

Banco Desio

9 - Other information

9.1 -Investments in Banco di Desio e della Brianza S.p.A. Held by members of the Boards of Directors and Statutory Auditors, by the General Manager and by the Deputy General Manager holding office at the year end

Name and surname	Office held in Banco di Desio e della Brianza S.p.A.	Security / Method of ownership	Ordinary shares at 31.12.2020	%	Savings shares at 31.12.2020	%	Ordinary shares purchased	Conversion of savings shares	Ordinary shares sold	Ordinary shares at 31.12.2021	%
Stefano Lado *	Chairman	Owned	2,180,111	1.776	196,000	1.485	1,366	172,480	0	2,353,957	1.752
		In name of spouse	6,500	0.005	0	0.000	0	0	0	6,500	0.005
		Owned through Vega Finanziaria SpA *	6,885,730	5.610	571,522	4.329	30,000	502,939	0	7,418,669	5.521
Alessandro Decio	Chief Executive Officer and General Manager		0	0	0	0	0	0	0	0	0
Graziella Bologna	Director		0	0	0	0	0	0	0	0	0
Valentina Casella	Director		0	0	0	0	0	0	0	0	0
Ulrico Dragoni	Director		0	0	0	0	0	0	0	0	0
Cristina Finocchi Mahne	Director		0	0	0	0	0	0	0	0	0.000
Agostino Gavazzi	Director	Owned	83,744	0.068	0	0.000	0	0	0	83,744	0.062
		In name of spouse	2,900	0.002	0	0.000	0	0	0	2,900	0.002
Gerolamo Gavazzi**	Director	Owned through Fondazione Gerolamo Gavazzi	15,000	0.012	5,000	0.038	0	4,400	0	19,400	0.014
		In name of spouse	500,000	0.407	28,000	0.212	0	24,640	0	524,640	0.390
		Owned through Averla Srl	3,703,425	3.017	706,000	5.348	125,000	621,280	0	4,449,705	3.312
Tito Gavazzi	Director		0	0.000	0	0.000	0	0	0	0	0.000
Giulia Pusterla	Director		0	0.000	0	0.000	0	0	0	0	0.000
Laura Tulli	Director		0	0.000	0	0.000	0	0	0	0	0.000
Emiliano Barcaroli	Chairman of the Board of Statutory Auditors		0	0.000	0	0.000	0	0	0	0	0.000
Rodolfo Anghileri	Acting Auditor		0	0.000	16,000	0.121	0	14,080	0	14,080	0.010
Stefania Chiaruttini	Acting Auditor		0	0.000	0	0.000	0	0	0	0	0.000
Stefano Antonini	Substitute Auditor		0	0.000	0	0.000	0	0	0	0	0.000
Massimo Celli	Substitute Auditor		0	0.000	0	0.000	0	0	0	0	0.000
Silvia Re	Substitute Auditor		0	0.000	0	0.000	0	0	0	0	0.000

**Stefano Lado is the holder of a general power of attorney issued by his children Giulia and Pietro Lado by virtue of which he holds 0.137% of the Bank's ordinary shares (183,570) as well as control of Vega Finanziaria SpA.* The balance at 31.12.2021 of the ordinary shares held by Mr. Lado includes 1,366 shares that were inherited.

*** Appointed by the Ordinary Shareholders' Meeting of 4 October 2021 to replace Egidio Gavazzi after his death.*

9.2 - Investments in subsidiaries held by members of the Boards of Directors and Statutory Auditors, by the General Manager and by the Deputy General Manager holding office at the year end

At 31 December 2021, as was the case throughout the year, no equity investments were held in subsidiaries by members of the Boards of Directors and Statutory Auditors, by the General Manager or by the Deputy General Managers currently in office.

9.3 - Treasury shares and shares of the Parent Company

At 31 December 2021, as was the case at the previous year-end, the Bank did not hold any treasury shares nor any shares in its parent company Brianza Unione di Luigi Gavazzi & C. S.a.p.A. During the year, the Bank did not carry out any trading of shares of its Parent Company, not even through a trust company or an intermediary. During the year, however, it traded on the market 57 ordinary treasury shares deriving from the exercise of the right of withdrawal of the savings shareholders as part of the mandatory conversion described in paragraph "3.2 Significant events", as well as from the amalgamation of the so-called "odd lots" resulting from the conversion process.

9.4 – Transactions between Banco di Desio e della Brianza S.p.A. and the Parent Company and with subsidiaries or companies subject to significant influence

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

Table no. 15 - **TRANSACTIONS WITH THE PARENT COMPANY AND WITH SUBSIDIARIES OR COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE IN THE YEAR ENDED 31.12.2021**

Amounts in thousands of Euro	Assets	Liabilities	Guarantees / commitments	Income	Expenses
Parent Company					
Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A.	5,001	6,441	0	66	4
Subsidiaries					
Fides S.p.A.	863,482	1,485	47	21,045	0
Desio OBG	6	0	0	6	0
Relationships by company	**868,489**	**7,926**	**47**	**21,117**	**4**
Breakdown of relationships by type					
Financial	868,325	7,926	0	16,875	4
Commercial	5	0	47	4,059	0
Asset leasing / management	0	0	0	0	0
Provision of services	0	0	0	157	0
Other	159	0	0	26	0
Relationships by type	**868,489**	**7,926**	**47**	**21,117**	**4**

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

In compliance with art. 16 paragraph 4 of Consob's Market Regulations (adopted by Resolution 20249 of 28 December 2017 and subsequent amendments and additions), note that Brianza Unione di Luigi Gavazzi e Stefano Lado S.a.p.A. the Bank's parent company, as laid down by its articles of association, does not exercise any management control and coordination activities over the Bank and its subsidiaries, neither under banking legislation nor under civil law. For further details on the Group structure concerning the exercise of management control and coordination activities, reference should be made to paragraph 2.3 of the Annual Report on Corporate Governance, which is available on the Bank's website pursuant to art. 123-bis of the CFA.

9.5 - Ratings

On 30 April 2021 Fitch Ratings announced that it had left all of the Bank's ratings unchanged following the annual rating review, also confirming the Outlook as Stable. The rating reflects the Bank's adequate liquidity and capitalisation, able to withstand pressures, even significant ones, in terms of asset quality in the current pandemic context with its many uncertainties regarding the economic and social repercussions of the Covid-19 health emergency.

The Bank shows a constant attention to improving its capital ratios, thanks to continuous derisking and the resilience of the model adopted by virtue of its consolidated relationship with key customers.

The updated ratings are the following:

- Long term IDR: confirmed at "BB+" Stable Outlook
- Viability rating: confirmed at “bb+”
- Short term IDR: confirmed at "B”
- Support Rating: confirmed at "5"
- Support Rating Floor: confirmed at “No Floor”

Sustainability rating

On 14 April 2021, Standard Ethics, a rating agency, updated Banco Desio's corporate sustainability rating, recognising an increase of one notch from the previous “E+” to the current “EE–” which is investment grade. The long-term vision is positive; for the related press release, see the web page: https://standardethics.eu/media-en/press-releases/standard-ethics-upgrades-rating-to-banco-desio-brianza/viewdocument/527.

9.6 - Transactions with related parties and associated persons

For a more detailed description of the procedures that govern transactions with related parties (pursuant to art. 2391-bis of the Italian Civil Code) and/or with associated persons (pursuant to art. 53 of the CFA), reference should be made to paragraph 5 of the Annual Report on Corporate Governance, which is available on the website www.bancodesio.it, pursuant to art. 123-bis of the CFA.

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

9.7 – Information on incentive plans

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

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

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

9.9 – Research and development activities

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

In accordance with the Group's guidelines, IT security and data protection were also a priority in 2021, to which great importance was given. This factor played a role in the management of risks and in compliance with measures in line with current regulations on privacy, security and the main industry standards.

The Group has continued to adapt and evolve its operational and information processes related to Compliance activities, increasing the necessary safeguards and controls.

The management, control and measurement of IT risks, including cyber risk, are integral parts of the broader system of internal control and risk management adopted by the Bank, as the parent of the Banco Desio Group. With reference to the principal lines of development, the Parent Company is involved in a process of continuously strengthening the first level controls over IT security, via the development of a system of KPIs able to constantly monitor the following areas: positioning of the Group with regard to cyber security, effectiveness of fraud detection systems, exposure to vulnerabilities and management of incidents.

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

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

With the exception of what has already been described above with reference to the conversion of savings shares, it should be noted that no extraordinary operations were carried out during 2021.

9.11 - Non-financial statement

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

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

10 - Outlook for the rest of 2017 and principal risks and uncertainties

The financial statements at 31 December 2021 have been prepared on a going concern basis, since there are no plausible reasons to believe the contrary for the foreseeable future, in consideration of the Bank's capital solidity, growing operations in terms of the main commercial priorities of the strategic plan, careful management of credit quality and low NPL ratio, in confirmation of the commercial strength and resilience of the Bank,which was able to achieve an overperformance during the year compared with the expectations for the first year of the 2021-23 Business Plan, in an undoubtedly complicated social and economic context, still conditioned by the effects of Covid-19.

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

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

The current context following the Covid-19 pandemic, while benefiting from widespread vaccination campaigns, still represents a significant element of risk, beyond the control of management, in which the vigorous recovery of Italian economic activity is in any case held back by difficulties in international logistics, the scarcity of intermediate goods and raw materials and the acceleration of inflation, largely caused by the energy component, which has pushed up medium and long-term interest rates.

Management of the risks inherent in the positions taken will continue to be a fundamental element driving the performance of the Group and one of the main activities that will again involve all of the control structures during 2022. The extent of the impacts will be strictly connected to how the macroeconomic context evolves, especially the Covid-19 scenario, and to the emergence of any new situations of uncertainty that may arise and the long-term effectiveness of the support measures mentioned previously.

On 16 December 2021, the Bank's Board of Directors therefore approved the budget for 2022 with an update of the performance forecasts in line with the final results of the year just ended, in continuity with the strategic guidelines drawn up in the Business Plan D23, confirming the path of strengthening the guidelines for renewal and refocusing of the business model.

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

The ambition for 2022 is to characterise even more clearly the Banco Desio Group as an independent Group recognised for its capital strength, economic resilience, quality of service and a more focused strategy, concentrating on the Group's historical areas of presence.

11 – Motion for approval of financial statements and allocation of net profit

Dear Shareholders,

we hereby submit for your approval the financial statements for the year ended 31 December 2021, which report a net profit for the year of Euro 52,415,041.00 as shown by the income statement.

Considering:

- the provisions of art. 28 of the Articles of Association;
- the press release of 27 July 2021 with which the Bank of Italy recommended to the less significant Italian banks to maintain a prudent approach in deciding dividend distributions and share buy-backs, taking into account the sustainability of their business model;
- the dividend distribution policies approved by the Board of Directors on 13 May 2014;

we propose the following allocation of the net profit:

- 10% to be allocated to the legal reserve	Euro	5,241,504.00
- 10% to be allocated to the statutory reserve	Euro	5,241,504.00
- to the shareholders:		
Euro 0.1365 to each of the 134,363,049 ordinary shares	Euro	18,340,556.19
- further allocation to the statutory reserve	Euro	23,591,476.81
Total net profit	**Euro**	**52,415,041.00**

The dividend yield, i.e. the ratio between the proposed dividend per share and the average stock market value for the year, is 4.50%.

Desio, 10 February 2022

The Board of Directors

Financial statements

Banco Desio

BALANCE SHEET

ASSETS

Assets	31.12.2021	31.12.2020	Change Amount	%
10. Cash and cash equivalents	84,294,942	120,205,512	(35,910,570)	-29.9%
20. Financial assets at fair value through profit or loss	85,545,311	56,702,908	28,842,403	50.9%
a) Financial assets held for trading	11,034,697	6,239,488	4,795,209	76.9%
c) Other financial assets mandatorily at fair value	74,510,614	50,463,420	24,047,194	47.7%
30. Financial assets at fair value through other comprehensive income	593,361,612	662,632,565	(69,270,953)	-10.5%
40. Financial assets at amortised cost	16,270,180,482	14,214,692,681	2,055,487,801	14.5%
a) Due from banks	2,445,248,919	1,301,893,674	1,143,355,245	87.8%
b) Loans to customers	13,824,931,563	12,912,799,007	912,132,556	7.1%
60. Adjustment to financial assets with generic hedge (+/-)	501,909	562,706	(60,797)	-10.8%
70. Equity investments	42,199,729	42,199,729	-	0.0%
80. Property, plant and equipment	218,018,340	221,535,447	(3,517,107)	-1.6%
90. Intangible assets	12,454,657	11,772,173	682,484	5.8%
of which:				
- goodwill	9,796,226	9,796,226	-	0.0%
100. Tax assets	167,976,251	201,112,558	(33,136,307)	-16.5%
a) current	13,982,169	16,899,717	(2,917,548)	-17.3%
b) deferred	153,994,082	184,212,841	(30,218,759)	-16.4%
110. Non-current assets and disposal groups held for sale	13,080,432		13,080,432	0.0%
120. Other assets	287,704,815	107,384,025	180,320,790	167.9%
Total assets	**17,775,318,480**	**15,638,800,304**	**2,136,518,176**	**13.7%**

To reflect its inclusion in item 10. Cash and cash equivalents of current accounts and demand deposits with banks and central banks (with the exception of the Mandatory Reserve account) required by the 7th Update of Circular 262 published in October 2021, the balance for the comparative period was restated by reclassifying Euro 63,681,848 from item 40.a) Due from banks to item 10) Cash and cash equivalents.

LIABILITIES

Liabilities and shareholders' equity	31.12.2021	31.12.2020	Change Amount	%
10. Financial liabilities at amortised cost	16,314,212,882	14,278,176,478	2,036,036,404	14.3%
a) Due to banks	3,815,694,609	2,412,243,797	1,403,450,812	58.2%
b) Due to customers	10,976,253,169	10,257,005,182	719,247,987	7.0%
c) Debt securities in issue	1,522,265,104	1,608,927,499	(86,662,395)	-5.4%
20. Financial liabilities held for trading	5,901,354	7,526,992	(1,625,638)	-21.6%
40. Hedging derivatives	364,974	1,539,513	(1,174,539)	-76.3%
60. Tax liabilities	3,770,061	13,490,215	(9,720,154)	-72.1%
a) current	1,809,240		1,809,240	0.0%
b) deferred	1,960,821	13,490,215	(11,529,394)	-85.5%
80. Other liabilities	308,065,317	286,646,376	21,418,941	7.5%
90. Provision for termination indemnities	21,701,461	24,481,704	(2,780,243)	-11.4%
100. Provisions for risks and charges	43,078,062	39,893,366	3,184,696	8.0%
a) commitments and guarantees given	4,058,024	4,947,013	(888,989)	-18.0%
c) other provisions for risks and charges	39,020,038	34,946,353	4,073,685	11.7%
110. Valuation reserves	15,776,299	66,113,301	(50,337,002)	-76.1%
140. Reserves	923,195,351	810,199,596	112,995,755	13.9%
150. Share premium reserve	16,145,088	16,145,088	-	0.0%
160. Share capital	70,692,590	70,692,590	-	0.0%
180. Net profit (loss) for the period (+/-)	52,415,041	23,895,085	28,519,956	119.4%
Total liabilities and shareholders' equity	**17,775,318,480**	**15,638,800,304**	**2,136,518,176**	**13.7%**

Banco Desio

INCOME STATEMENT

Captions		31.12.2021	31.12.2020	Change Amount	%
10.	Interest and similar income	259,876,096	231,881,582	27,994,514	12.1%
	of which: interest income calculated using the effective interest method	175,269,021	155,992,596	(19,276,425)	12.4%
20.	Interest and similar expense	(29,130,826)	(26,381,752)	(2,749,074)	10.4%
30.	**Net interest income**	**230,745,270**	**205,499,830**	**25,245,440**	**12.3%**
40.	Commission income	214,216,326	180,104,187	34,112,139	18.9%
50.	Commission expense	(8,092,815)	(8,131,246)	38,431	-0.5%
60.	**Net commission income**	**206,123,511**	**171,972,941**	**34,150,570**	**19.9%**
70.	Dividends and similar income	2,893,833	3,389,953	(496,120)	-14.6%
80.	Net trading income	4,287,061	2,290,042	1,997,019	87.2%
100.	Gains (losses) on disposal or repurchase of:	(7,225,905)	6,453,417	(13,679,322)	n.s.
	a) financial assets at amortised cost	(11,314,153)	(1,747,023)	(9,567,130)	547.6%
	b) financial assets at fair value through other comprehensive income	4,396,817	8,217,910	(3,821,093)	-46.5%
	c) financial liabilities	(308,569)	(17,470)	(291,099)	n.s.
110.	Net result of other financial assets and liabilities at fair value through profit or loss	731,450	(3,733,862)	4,465,312	n.s.
	b) other financial assets mandatorily at fair value	731,450	(3,733,862)	4,465,312	n.s.
120.	**Net interest and other banking income**	**437,555,220**	**385,872,321**	**51,682,899**	**13.4%**
130.	Net value adjustments/write-backs for credit risk relating to:	(85,460,329)	(71,066,199)	(14,394,130)	20.3%
	a) financial assets at amortised cost	(85,469,788)	(71,256,861)	(14,212,927)	19.9%
	b) financial assets at fair value through other comprehensive income	9,459	190,662	(181,203)	-95.0%
140.	Profit/losses from contractual changes without write-offs	(71,337)	267,295	(338,632)	n.s.
150.	**Net profit from financial activities**	**352,023,554**	**315,073,417**	**36,950,137**	**11.7%**
160.	Administrative costs:	(291,817,733)	(295,545,304)	3,727,571	-1.3%
	a) payroll costs	(170,504,002)	(177,791,017)	7,287,015	-4.1%
	b) other administrative costs	(121,313,731)	(117,754,287)	(3,559,444)	3.0%
170.	Net provisions for risks and charges	(4,407,320)	(6,191,946)	1,784,626	-28.8%
	a) commitments for guarantees given	888,989	(2,233,758)	3,122,747	n.s.
	b) other net provisions	(5,296,309)	(3,958,188)	(1,338,121)	33.8%
180.	Net adjustments to property, plant and equipment	(15,967,700)	(16,809,347)	841,647	-5.0%
190.	Net adjustments to intangible assets	(1,255,216)	(926,621)	(328,595)	35.5%
200.	Other operating charges/income	24,864,193	34,867,570	(10,003,377)	-28.7%
210.	**Operating costs**	**(288,583,776)**	**(284,605,648)**	**(3,978,128)**	**1.4%**
230.	Fair value adjustment of property, plant and equipment and intangible assets	(123,000)		(123,000)	n.s.
260.	**Profit (loss) from continuing operations before tax**	**63,316,778**	**30,467,769**	**32,849,009**	**107.8%**
270.	Income taxes on continuing operations	(10,901,737)	(6,572,684)	(4,329,053)	65.9%
280.	**Profit (loss) from continuing operations after tax**	**52,415,041**	**23,895,085**	**28,519,956**	**119.4%**
300.	**Net profit (loss) for the period**	**52,415,041**	**23,895,085**	**28,519,956**	**119.4%**

STATEMENT OF COMPREHENSIVE INCOME

	Captions	31.12.2021	31.12.2020
10.	**Net profit (loss) for the period**	**52,415,041**	**23,895,085**
	Other elements of income, net of income taxes without reversal to income statement		
20.	Equity instruments designated at fair value through other comprehensive income	(47,319,372)	21,370,198
50.	Property, plant and equipment	(38,150)	-
70.	Defined-benefit pension plans	1,940	(319,110)
	Other elements of income, net of income taxes with reversal to income statement		
120.	Cash-flow hedges	729,330	422,463
140.	Financial assets (other than equities) at fair value through other comprehensive income	(3,710,750)	(744,375)
170.	**Total other elements of income (net of income taxes)**	**(50,337,002)**	**20,729,176**
180.	**Total comprehensive income (Captions 10+170)**	**2,078,039**	**44,624,261**

Note. The negative change in caption 20 "Equity instruments designated at fair value through other comprehensive income" is due to the sale of the investment in Cedacri S.p.A. completed on 3 June of this year for Euro 114.7 million; in accounting terms, the following entries have been made as a result of this disposal i) reversal of the valuation reserve at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result compared with the initial book value, equal to Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve shown under retained earnings. In the comparative period, the positive change in this item was attributable to the revaluation of the same investment in Cedacri S.p.A.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 31.12.21

	Balance at 31.12.2020	Changes in opening balances	Balance at 01.01.2021	Allocation of prior year results		Changes during the year								Shareholders' equity at 31.12.2021
							Transactions on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Other comprehensive income at 31.12.2021	
Share capital:														
a) ordinary shares	63,827,550		63,827,550				-			6,865,040				70,692,590
b) other shares	6,865,040		6,865,040							(6,865,040)				-
Share premium reserve	16,145,088		16,145,088											16,145,088
Reserves:														
a) retained earnings	798,517,559	-	798,517,559	15,537,720		97,458,035								911,513,314
b) other	11,682,037		11,682,037			-								11,682,037
Valuation reserves	66,113,301	-	66,113,301			-							(50,337,002)	15,776,299
Equity instruments	-		-											-
Treasury shares	-		-											-
Net profit (loss) for the peric	23,895,085		23,895,085	(15,537,720)	(8,357,365)								52,415,041	52,415,041
Shareholders' equity	**987,045,660**	**-**	**987,045,660**	**-**	**(8,357,365)**	**97,458,035**	**-**	**-**	**-**	**-**	**-**	**-**	**2,078,039**	**1,078,224,369**

Note 1. The changes in the "Valuation reserves" and the "Retained earnings reserve" are influenced by the sale of the investment in Cedacri S.p.A. completed on 3 June for Euro 114.7 million; in accounting terms, the following entries have been made as a result of this disposal i) reversal of the valuation reserve at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result compared with the initial book value, equal to Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve shown under retained earnings.

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2020

				Allocation of prior year results		Changes during the year								
							Transactions on shareholders' equity							
	Balance at 31.12.2019	Changes in opening balances	Balance at 01.01.2020	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Other comprehensive income at 31.12.2020	Shareholders' equity at 31.12.2020
Share capital:														
a) ordinary shares	63,827,550		63,827,550				-							63,827,550
b) other shares	6,865,040		6,865,040											6,865,040
Share premium reserve	16,145,088		16,145,088											16,145,088
Reserves:														
a) retained earnings	768,080,625	-	768,080,625	44,886,464		(14,449,530)								798,517,559
b) other	11,682,037		11,682,037			-								11,682,037
Valuation reserves	45,384,125	-	45,384,125			-							20,729,176	66,113,301
Equity instruments	-		-											-
Treasury shares	-		-											-
Net profit (loss) for the period	44,886,464		44,886,464	(44,886,464)	-								23,895,085	23,895,085
Shareholders' equity	**956,870,929**	**-**	**956,870,929**	**-**	**-**	**(14,449,530)**	**-**	**-**	**-**	**-**	**-**	**-**	**44,624,261**	**987,045,660**

Note 1: The amount of the "Change in reserves" related to Retained earnings, refers for 14,359 thousand euro to the dividends declared on the basis of Banco Desio's results for the year ended 31 December 2019, which will be distributed to the shareholders when the suspension imposed by banking sector regulations is lifted.

CASH FLOW STATEMENT – DIRECT METHOD

	31.12.2021	31.12.2020
A. OPERATING ACTIVITIES		
1. Cash generated from operations	**142,578,364**	**144,666,581**
- interest received (+)	252,677,772	225,705,451
- interest paid (-)	(28,661,945)	(25,585,963)
- dividends and similar income (+/-)	689,599	1,764,833
- net commission income (+/-)	202,766,560	165,969,658
- payroll costs (-)	(171,058,456)	(165,790,788)
- other costs (-)	(119,711,817)	(94,082,995)
- other revenues (+)	26,144,345	43,259,069
- taxation (-)	(20,267,694)	(6,572,684)
- costs/revenues related to discontinued operations net of the tax effect (+/-)		
2. Cash generated (absorbed) by financial assets	**(2,262,455,242)**	**(1,514,534,612)**
- financial assets held for trading	(3,286,486)	(1,031,936)
- financial assets designated at fair value		
- other financial assets mandatorily at fair value	(23,414,327)	(16,817,803)
- financial assets at fair value through other comprehensive income	64,391,663	(79,482,896)
- financial assets at amortised cost	(2,160,847,221)	(1,439,745,359)
- other assets	(139,298,871)	22,543,382
3. Cash generated (absorbed) by financial liabilities	**2,091,972,768**	**1,385,262,516**
- financial liabilities at amortised cost	2,036,163,356	1,427,002,670
- financial liabilities held for trading	(1,625,637)	(611,464)
- financial liabilities designated at fair value through profit and loss		
- other liabilities	57,435,049	(41,128,690)
Net cash generated/absorbed by operating activities (A)	**(27,904,110)**	**15,394,485**
B. INVESTING ACTIVITIES		
1. Cash generated by	**2,228,916**	**1,637,497**
- sale of equity investments		
- dividends collected on equity investments	2,204,234	1,625,120
- sale of property, plant and equipment	24,682	12,377
- sale of intangible assets		
- sales of lines of business		
2. Cash absorbed by	**(5,095,516)**	**(4,447,171)**
- purchase of equity investments		
- purchase of property, plant and equipment	(3,157,816)	(3,199,517)
- purchase of intangible assets	(1,937,700)	(1,247,654)
- purchases of lines of business		
Net cash generated/absorbed by investing activities (B)	**(2,866,600)**	**(2,809,674)**
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- dividends distributed and other allocations	(8,357,365)	
Net cash generated/absorbed by financing activities (C)	**(8,357,365)**	
NET CASH GENERATED (ABSORBED) IN THE PERIOD (A+B+C)	**(39,128,075)**	**12,584,811**

Key
(+) generated
(-) absorbed

RECONCILIATION

	31.12.2021	31.12.2020
Cash and cash equivalents at beginning of period	**120,205,512**	**104,409,287**
Net increase (decrease) in cash and cash equivalents	(39,128,075)	12,584,811
Cash and cash equivalents: effect of changes in exchange rates	3,217,505	3,211,414
Cash and cash equivalents at end of period	**84,294,942**	**120,205,512**

To reflect inclusion in item 10. Cash and cash equivalents of current accounts and sight deposits with banks and central banks (with the exception of the Mandatory Reserve account) required by the 7th Update of Circular 262 published in October 2021, the cash flow statement for the comparative period was restated to reflect the reclassification of Euro 63,681,848 from item 40.a) Due from banks to item 10) Cash and cash equivalents.

Explanatory notes

PART A – ACCOUNTING POLICIES

A.1 GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

In application of Legislative Decree no. 38 of 28 February 2005, which endorses the EC Regulation 1606 of 19 July 2002, the financial statements are prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Reporting Interpretations Committee (IFRC) applicable as of 31 December 2021 and endorsed by the European Commission.

Section 2 - Basis of preparation

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

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

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

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

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

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

Section 3 – Subsequent events

These financial statements have been approved on 10 February 2022 by the Board of Directors of Banco di Desio e della Brianza S.p.A., which authorised publication at the same time.

With regard to events that have taken place subsequent to the reporting date, please refer to the paragraph entitled "Tax credits purchased from financial intermediary" in "Significant events" of the Report on Operations.

Section 4 – Other aspects

Use of estimates and assumptions in preparing the financial statements

The preparation of the financial statements requires the use of estimates and assumptions that could have a significant impact on the amounts shown in the balance sheet and income statement, and on the disclosures provided in the notes.

The use of such estimates involves the use of available information and the adoption of subjective assessments, partly based on historical experience, in order to make reasonable assumptions for the recognition of operating events. Given their nature, it is therefore possible that the assumptions made, however reasonable, might not find confirmation in the future scenarios within which the Bank will actually operate. Future results may well differ from the estimates made to prepare the economic and financial position at the reporting date and, accordingly, adjustments to the reported carrying amounts of assets and liabilities may be needed that, at this time, cannot be foreseen or estimated.

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

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

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

Risks, uncertainties and impacts of the Covid-19 pandemic

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

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

The exceptional characteristics of the current crisis from which economic and financial consequences on people and businesses may derive, depending on the duration of the health and social emergency, as well as the measures already defined and being defined by the Italian government, EU authorities and ECB which, for their amount and characteristics, are likely to mitigate the effects of the crisis, make rather complex the application of accounting standards based on current market values and forward-looking valuations.

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

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

The European supervisory and regulatory bodies and standard setters (the Authorities) that have expressed opinions on this matter concur in suggesting extreme caution when changing the scenarios considered, at least starting from the phase of acute uncertainty of 2020. At the same time, the ECB's suggestion to use a reference scenario anchored to its indications seemed to indicate the intention of the Authorities to want to centrally direct the banks in this particular situation, providing a homogeneous set of parameters for forecasts of future economic trends.

Given the persistence of the underlying causes, the decisions taken in 2020 for the preparation of financial reports remain valid and in light of the trend in the economic-health context, they have been subject to calibration and refinement from time to time up to this document.

On 16 December 2021, the projections for the Eurozone were announced by the ECB, which published the document "Eurosystem staff macroeconomic projections for the Euro Area", which was followed by the "Macroeconomic projections for the Italian economy" for the three-year period 2021-24 published by the Bank of Italy on 17 December 2021.

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

In particular, referring to the guidelines expressed in the letter of the ECB of 4 December 2020 "Identification and measurement of credit risk in the context of the coronavirus pandemic (Covid-19)" addressed to all significant institutions as regards, specifically, the complexities involved in identifying any increase in credit risk (so-called "staging") and in estimating expected losses, the specific management overlays to include ad hoc corrections, not captured by the modelling in use, still apply, to better reflect the peculiarities of the impacts of Covid-19 in the assessment of the performing loan portfolio (stages 1 and 2).

The economic effects of these interventions have been quantified in management terms in Euro 31.6 million (pre-tax) as described below in "Impacts of the Covid-19 epidemic on the income statement at 31 December 2021" and in the notes, Part E - Information on risks and related hedging policy to which reference is made.

The determination of expected losses on non-performing loans (stage 3) also implies significant elements of assessment, with particular reference to estimating the flows deemed recoverable and the related timing of recovery. During the period, appropriate interventions were carried out to manage the situation caused by the Covid-19 epidemic and, in any case, to ensure the correct classification and assessment of recoverability of exposures classified as non-performing. This had an impact on the cost of non-performing loans for the period and on the increase in the level of coverage of non-performing loans compared with 31 December 2020, taking into account the disposals that have taken place in the meantime and the expected sales scenarios which the Bank wants to take advantage of to continue derisking in line with its NPL strategy.

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

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

Measurement of financial instruments at fair value

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

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

The use of significant judgements in the valuation of the financial instruments in portfolio is to be considered fairly marginal, given that the bank continues to maintain a very prudent allocation. The use of valuation models for the recognition of the fair value of the financial instruments not listed on active markets (Level 3), substantially attributable to units of UCITS of closed-end funds, therefore relates to a minimal portion of the investments held. With particular reference to closed-end investment funds classified as financial instruments mandatorily measured at fair value, the positive economic effects (approximately Euro 1.3 million) resulting from the update of the valuation based on the latest information available (NAV, business plan, etc.) in accordance with the provisions of the Group's fair value policy.

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

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

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

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

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

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

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

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

For the preparation of these financial statements, the Bank updated its performance forecasts, with projections over an explicit time horizon of five years, taking into account the main drivers relating to the events of the period, the results achieved at 30 September 2021, the forecasts at 31 December 2021 and the 2022 budget, as well as the most recent market forecasts available.

As a result, the impairment tests at 31 December 2021 were not carried out and evaluated using a multi-scenario approach, considering that the updated trends, as in the 2021-2023 Plan, are based on reasonable assumptions linked to the latest and most updated macroeconomic and sector assumptions, in turn influenced by the effects of the global spread of Covid-19 and the government measures adopted to support households and businesses.

The principal parameters and assumptions used for the impairment test at the reporting date are listed below, in comparison with those used in the past two year:

	31.12.2021		**31.12.2020**		**31.12.2019**	
CGU	BDB (goodwill)	Fides (equity investment)	BDB (goodwill)	Fides (equity investment)	BDB (goodwill)	Fides (equity investment)
Model			DDM			
Flows			Net results			
Input used	2021-23 Business Plan extended to 2026 (*)		2021-23 Business Plan extended to 2025		2020 Budget extended to 2024	
CAGR RWA	2.50%	7.10%	-1.30%	11.90%	0.71%	-0.64%
Ke	8.22% (**)		8.09% (**)		8.33%	
g	1.58%		1.50%		1.50%	
Capital ratio	9.84% (***)		8.95% (****)		8.85% (****)	

(*) Taking into account the results achieved at 30 September, the forecasts at 31 December 2021 and the 2022 budget, as well as the most recent market forecasts available.

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

(***) Estimated target allocated capital for the Banco Desio Group (5Y average CET1) to monitor compliance with the (current) minimum CET1 levels at CRR Brianza Unione Group level

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

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the CGU, after having deducted the shareholders' equity allocated to it at the reporting date and in the two previous years:

	31.12.2021		**31.12.2020**		**31.12.2019**	
CGU	BDB (goodwill)	Fides (equity investment)	BDB (goodwill)	Fides (equity investment)	BDB (goodwill)	Fides (equity investment)
% decrease in net future results (RN)	43.56%	44.33%	22.60%	26.63%	17.42%	55.66%
Increase in p.p. of discount rate used for future cash flows (FCFE)	Over 1,000	Over 1,000	391	444	265	Over 1,000

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

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

Estimate of the recoverability of deferred tax assets

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

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

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

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

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

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

Estimate of the provisions for risks and charges

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

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

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

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

Estimate of obligations relating to employee benefits

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

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

The main actuarial assumptions used at the date of these financial statements are listed below, compared with those used for the two previous years:

Demographic assumptions	**31.12.2021**	**31.12.2020**	**31.12.2019**
Death rate of employees	determined by the State General Accounting Department, denominated RG48 divided by gender		
Frequency and amount of termination indemnity advances		4.00%	
Frequency of turnover		2.50%	
Financial assumptions	**31.12.2021**	**31.12.2020**	**31.12.2019**
Discount rate Iboxx Euro Corporate AA index 7-10 years (*)	0.38%	-0.01%	0.88%
Inflation rate	1.20%	1.00%	1.50%

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

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

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

Impacts produced by the Covid-19 epidemic on the income statement as at 31 December 2021

With reference to the impact on the income statement related to the Covid-19 pandemic as at 31 December 2021, totalling Euro 31.6 million (Euro 33.7 million in 2020), it should be noted that:

- a cost of credit linked to the performing portfolio (stage 1 and stage 2) of loans to customers, endorsement loans and commitments to disburse funds in 2021 of Euro 29.0 million (plus Euro 30.7 million of the previous year), due to the effect of updating the models for implementing the macroeconomic forecasts impacted by Covid-19 and to the management overlay interventions after the model, described in Part E– Information on risks and related hedging policy;
- the recognition of higher operating costs to deal with the emergency of Euro 2.6 million (added to the Euro 3.0 million incurred the previous year).

Going concern

These financial statements have been prepared on a going concern basis. In consideration of the capital solidity and the careful derisking approach adopted, the low and continuously decreasing level of the NPL ratio and the other initiatives taken to minimise the effects of the economic situation still conditioned by the pandemic, the Directors have a reasonable expectation that the Bank will continue operating in the foreseeable future and have therefore prepared the financial statements on a going-concern basis The Directors therefore believe that the risks and uncertainties that the Bank may encounter in carrying on its operations, also considering the persistence of the effects of Covid-19 already reflected in the 2021-23 Business Plan, as well as in the updated performance forecasts mentioned above, are not such as to generate doubts about business continuity.

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

Contractual changes resulting from Covid-19

1) Contractual amendments and accounting derecognition (IFRS 9)

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

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

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

2) Amendment to the accounting standard IFRS 16

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

TLTRO III Transactions – "Targeted Longer Term Refinancing Operations"

At 31 December 2021, ECB funding transactions comprise solely TLTRO III loans totalling 3.8 billion euro, which were subscribed by Banco Desio at the quarterly auctions held in June 2020 (1.2 billion euro), in December 2020 (1.2 billion euro), in March 2021 (1.0 billion euro), and in December 2021 (0.45 billion euro). Each operation has a duration of three years.

Following these changes, the interest rate is fixed at the average for the principal Eurosystem refinancing operations (MRO), currently 0%, except for the period from 24 June 2020 to 23 June 2022 ("special interest-rate period"), during which the rate will be 50 basis points lower.

An incentive mechanism is also envisaged, that grants access to more favourable rates on the achievement of specified benchmarks.

Interest-rate period from 24 June 2020 to 23 June 2021

In particular, for counterparties whose net eligible lending between 1 March 2020 and 31 March 2021 ("special reference period") totals at least the respective benchmark net lending, the rate applied is the average rate on the deposit facility, currently -0.5%, for the entire duration of the operation, with a further reduction of 50 basis points during the special interest-rate period included between 24 June 2020 and 23 June 2021.

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For counterparties whose net eligible loans recorded an increase in the twelve months prior to 31 March 2019, the "net lending benchmark" is set at zero; otherwise, that benchmark is set at the reduction in net eligible loans in the twelve months prior to 31 March 2019.

Interest-rate period from 24 June 2021 to 23 June 2022

The same mechanism was subsequently introduced also for the period between 24 June 2021 and 23 June 2022 for counterparties whose net eligible loans between 1 October 2020 and 31 December 2021 are at least equal to their respective reference levels.

Accounting treatment

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

Interest recognised at 31 December 2020

When determining the variable rate to be applied when calculating the first-year interest at 31 December 2020, reference was made to the average rate for the principal refinancing operations (0.0%), and the further reduction of 50 bps during the special interest-rate period". Although the benchmark net lending of Banco Desio is negative by 0.1 billion euro and net eligible lending has risen since 1 March 2020 (by 0.8 billion euro), benchmark net lending was exceeded at 31 March 2021, considering the average repayments identified every month could not be certain, so prudently, it is considered that the conditions are not yet satisfied for recognising variable interest at the minimum deposit rate (-0.5%) and the further reduction of 50 bps in the special interest-rate period.

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

Interest recognised at 31 December 2021

In March, for the period 1.03.2020 - 31.03.2021, the benchmark was exceeded with the consequent achievement of a further bonus rate of -0.5% over the entire special interest period for the TLTRO III transactions outstanding. Consequently, for all TLTRO III lines, equal to Euro 3.4 billion at 31 March 2021, the adjustment of the interest accrued over the special interest period was recognised at a rate of -1%, recognition of which subsequently continued at a rate of -1% until 23 June 2021.

In December 2021, the reference parameters in terms of net disbursements were also exceeded for the period 1 October 2020 - 31 December 2021, consequently the bonus rate was also recognised for the interest period starting from 24 June 2021 on all lines outstanding as at 31 December 2021.

At 31 December 2021, therefore, the interest accrued during the year for Euro 35.7 million is recognised in interest income, which together with the accrued interest already recognised at 31 December 2020 for Euro 3.4 million, bring the total accrued interest to Euro 39.1 million.

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

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

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

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

Disposals related to the “Held to collect” business model

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

In particular, the Bank completed one security sale during the year with a total nominal value of 10 million euro. This sale resulted in a net gain of 1.0 million euro which was recognised in caption “100. Profit (losses) from sales or repurchases of: a) financial assets at amortised cost”.

Since these exposures were classified among the “Financial assets at amortised cost”, being the portfolio held in order to collection contractual cash flows ("Hold to Collect" business model), IFRS 9 requires their disposal to comply with certain materiality or frequency thresholds, close to their maturity dates, at a time of increased credit risk or exceptional circumstances. In this regard, the disposals made by the Bank during 2020 complied with the materiality and frequency thresholds documented in the accounting policies adopted by the Group. During 2021 and up to the date of preparing this report, no changes were made to the criteria allowing the sale of financial assets managed using the HTC business model.

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

Reform of the reference indices for determining interest rates

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

In this regard, it should be noted that the nominal value of the 2 derivative contracts designated as hedges at 31 December 2021 whose parameters are subject to the reform ("IBOR") is equal to 80 million (with maturity in May 2022). They are Interest Rate Swaps designated to hedge the cash flows of floating-rate bonds; the index used as a point of reference for all existing contracts is the 3-mth Euribor. With reference to the Euribor, please note that only a partial modification of the calculation method is envisaged, so there are no particular elements of uncertainty in the prospective measurement of hedging relationships.

Realignment ("step-up") of differences between the tax values of assets and their higher carrying amounts (Legislative Decree 14 August 2020)

Art. 110 of Legislative Decree no. 104/2020 (the so-called "August" Decree) reintroduced the possibility for companies that prepare their financial statements according to IAS/IFRS to realign the differences between the tax and accounting values of tangible assets (excluding goods) and intangible assets (excluding goodwill) and long-term investments.

Paragraph 83 of art. 1 of Law no. 178/2020 (Budget Law 2021) added, after paragraph 8 of article 110 of the August Decree, paragraph 8-bis which extends the possibility of realignment also to goodwill and other intangible assets resulting from the financial statements of the year in progress at 31 December 2019.

In light of the above, on 24 June 2021 the Board of Directors of Banco Desio resolved to make use of the right to realign the tax value of intangible assets represented by intangibles (goodwill), recognised in the separate financial statements, with the higher carrying amount recorded in the financial statements at 31 December 2020 for a total of Euro 4.1 million. This consists of the goodwill recognised in 1999 following the purchase of branches from Banco Ambrosiano Veneto for Euro 1.7 million and the goodwill recognised in 2019 following the merger by absorption of the former subsidiary Banca Popolare di Spoleto for Euro 2.4 million (the latter was already subject to a previous step-up pursuant to art. 15, paragraph 10 of art. 15, para. 10 of Legislative Decree no. 185/2008).

At the same meeting, the Board of Directors also resolved to make use of the right to realign the tax value of the tangible assets represented by buildings, recognised in the separate financial statements, to the higher carrying amount recorded in the financial statements at 31 December 2020 for a total of Euro 28.5 million.

Against this decision to realign, Banco Desio took a commitment to pay a substitute tax of approximately Euro 1.0 million, corresponding to 3% of the realigned value (Euro 32.6 million), to be paid in a maximum of three annual instalments by the deadline for final payment of income taxes. The step-up option was therefore exercised and the first instalment of the substitute tax was paid by 30 June 2021.

At 31 December 2021 the deferred tax liabilities on the misalignment of the assets in question amounted to Euro 9.6 million and are fully recognised in the income statement. With reference to the goodwill recognised as a result of the absorption of the former subsidiary Banca Popolare di Spoleto, following the previous step-up, partially cancelled deferred tax assets were recognised for Euro 0.8 million in relation to the tax amortisation already deducted.

In accordance with paragraph 47 of IAS 12, deferred tax liabilities have to be calculated at the tax rates that are expected to be applied in the year when the liability will be extinguished, on the basis of the tax rates and tax legislation in force or substantially in force at the balance sheet date.

In view of the resolution thus adopted, taking into account the accounting legislation explained above, for the purposes of preparing the financial statements it was necessary to reverse the deferred tax liabilities and reconstitute the cancelled deferred tax assets on the tax misalignment on the goodwill referring to Banca Popolare di Spoleto, recognising the cost of the substitute tax to be paid as a tax payable. The related economic effect, recognised under item 300 "Income taxes for the year of continuing operations", was positive for Euro 9.4 million, i.e. the net positive effect resulting from the reversal of existing deferred tax liabilities (Euro 9.6 million), reconstitution of the deferred tax assets (Euro 0.8 million) and the amount of the substitute tax to be paid (Euro 1.0 million).

As a result of this realignment, it is also necessary to record a tax restriction in the event of distribution (so-called reserve in suspension of tax for tax purposes) for an amount equal to Euro 31.6 million, corresponding to the higher values realigned, net of the substitute tax to be paid.

New definition of default applicable from 1 January 2021

In the identification of non-performing loans, the new European supervisory rules on the classification of "debtors in default" have been applied since 1 January 2021. They introduced more stringent criteria and methods than those previously adopted by Italian banking intermediaries and financial institutions in the disbursement of loans, assessment of credit and classification as default, with a view to containing and improving credit quality and overall supervision of banking operations. The changes introduced are summarised below.

<u>New calculation of past due</u>

- Lowering the threshold of "relative" materiality from 5% to 1%;
- The calculation of this threshold is represented by the ratio between the amount in arrears and the customer's overall exposure, both calculated at Group level without offsetting any margins available on other lines of credit;
- Introduction of an "absolute" materiality threshold differentiated by type of exposure, i.e. Euro 100 for retail exposures and Euro 500 for non-retail exposures;
- Classification of a debtor in default when both materiality thresholds are exceeded at the same time for more than 90 consecutive days;
- Calculation of past due and thresholds exceeded at Group level.

<u>Observation period of 3 months (known as the "cure period")</u>

- Introduction of an observation period of at least 3 months in preparation for the reclassification to performing loans for debtors previously classified as default (past due, UTPs and bad loans) who then regularise their position.

<u>Reduced financial obligation</u>

- Introduction of the calculation of "Reduced Financial Obligation", the new UTP trigger for each concession measure made to a customer in financial difficulty. The calculation of the reduced financial obligation is carried out in a situation of forbearance.

<u>Propagation rules</u>

- Introduction of new rules for the propagation of the state of default of a performing position on the basis of an existing link with other positions classified as being in default.

<u>Uniformity of classification:</u>

- Same classification of a debtor in default at Banking Group level.

Application of the new definition of default resulted in a limited transition from performing loans (stage 1 and stage 2) to non-performing overdue loans, in particular for the subsidiary Fides due to the more restrictive thresholds in the calculation of past due and the propagation effect from the Parent Company (calculation of exceeding the thresholds at Group level). At 31 December 2021, exposures classified as non-performing overdue amounted to a total of Euro 5.7 million gross.

Domestic tax group election

The Italian companies of the Banco Desio Group (except for Desio OBG S.r.l., given its status as an SPV) have chosen to be a "domestic tax group" for the years 2021-2023, governed by arts. 117-129 of the Consolidated Income Tax Law, which was introduced into tax legislation by Legislative Decree no. 344/2003. This law provides an optional system, under which the total income or tax loss of each subsidiary in the tax consolidation - together with withholdings, deductions and tax credits - are transferred to the parent company, which then calculates a single taxable income or tax loss to be carried forward (as resulting from the sum of its own taxable income or tax losses and those of the participating subsidiaries) and, consequently, a single tax liability or tax credit.

Comparability of financial statements

For each account in the financial statements, the previous year's balance is also given: if the accounts are not comparable, the prior year figures have to be adjusted. This standard was applied following the amendment to the Balance Sheet and Income Statement formats introduced with the 7th update of Circular no. 262 "Bank financial statements: formats and rules of compilation" of 29 October 2021.

Terms of approval and publication of the financial statements

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

The draft financial statements of Banco di Desio e della Brianza S.p.A. were approved by the Board of Directors at the meeting held on 10 February 2022 and will be presented for approval at the Shareholders' Meeting called for 14 April 2022.

Independent audit

These financial statements have been audited by KPMG S.p.A., pursuant to Legislative Decree 39 of 27 January 2010 and to the resolution of the Shareholders' Meeting of 23 April 2020, which appointed this company for the years 2021 to 2029 included.

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

A.2 MAIN CAPTIONS IN THE FINANCIAL STATEMENTS

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

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

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

Classification

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

- financial assets held for trading, essentially represented by debt and equity securities and the positive value of derivative contracts held for trading purposes;
- financial assets mandatorily at fair value, represented by financial assets that do not meet the requirements for valuation at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not provide exclusively for repayments of principal and payments of interest on the principal to be repaid (i.e. failed to pass the SPPI test) or that are not held as part of a business model whose objective is to hold the assets with a view to collecting the contractual cash flows (Hold To Collect or "HTC") or whose objective is achieved both through the collection of contractual cash flows and through the sale of financial assets (Hold To Collect and Sell or "HTCS");
- the financial assets designated at fair value, i.e. the financial assets defined as such at the time of initial recognition when the right conditions exist. In these circumstances, an entity can irrevocably designate a financial asset as being measured at fair value through profit or loss, but only if doing so eliminates or significantly reduces an inconsistency in measurement.

In particular, the following are recognised in this item:

- debt securities and loans that are not attributable to the "HTC" or "HTCS" business models (which are therefore included in the "Other/Trading" business model) or which do not pass the SPPI test;
- capital instruments that do not qualify as control, association and joint control instruments held for trading purposes or which were not designated at fair value through other comprehensive income (under the FVOCI option) at the time of initial recognition;
- UCITS units.

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

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

Recognition

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

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

Measurement

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

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

Derecognition

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

In extent of the residual involvement, as measured by the exposure to changes in the value of the assets sold and changes in their cash flows.

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

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

Classification

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

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

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

In particular, the following are recognised in this item:

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

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

Recognition

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

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

Measurement

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

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

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

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

Derecognition

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

3 – Financial assets at amortised cost

Classification

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

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

In particular, the following are recognised in this item:

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

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

Recognition

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

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

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

Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the difference between the carrying amount of the loan and the present value of the new cash flows discounted at the original interest rate - and not through derecognition;

- the presence of specific objective elements (known as "triggers") that affect the characteristics and/or contractual flows of the financial instrument (such as a change in currency or a change in the type of risk to which it is exposed, where it is correlated to parameters of equity and commodity), which are considered to involve derecognition because of their impact (expected to be significant) on the original contractual flows.

Derecognition

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

Recognition of items affecting the income statement

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

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

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

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

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

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

4 – Hedging transactions

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

Classification

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

The type of hedge used may be:

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

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

Recognition

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

The recognition of hedging transactions assumes:

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

Measurement

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

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

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

Recognition of items affecting the income statement – Fair value hedges

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

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

Recognition of items affecting the income statement – Cash-flow hedges

The gain or loss on the hedging instrument has be treated as follows:

- the share of the gain or loss defined as effective is recorded in equity as a contra-entry to the valuation reserves;
- the ineffective portion of the hedge is booked to the income statement.

In particular, equity has to include the lower of the total gain or loss on the hedging instrument from the start of it and the overall change in fair value (present value of expected cash flows) on the hedged element from the beginning of the hedge. Any remaining gain or loss on the hedging instrument or the ineffective portion is recognised in the income statement.

Derecognition

The recognition of hedging transactions is interrupted when it no longer meets the criteria of effectiveness, when they are revoked, when the hedging instrument or the hedged instrument expire, or when they are cancelled or sold.

If the instrument being hedged is subject to valuation at amortised cost, the difference between the fair value determined at the date of "discontinuing" (interruption of the hedging relationship) and the amortised cost is spread over its residual life.

5 – Equity investments

Classification

Equity investments are classified as investments in subsidiaries, associates or as investments in companies subject to joint control. The other minority holdings follow the treatment envisaged by IFRS 9, they are classified as Financial assets at fair value through profit or loss (FVTPL) or Financial assets at fair value through other comprehensive income (FVOCI).

Subsidiaries are entities in which the Bank is exposed to variable returns, or holds rights to these returns, deriving from its relationship with them and at the same time has the capacity to affect these returns by exercising its power over these entities.

The companies in which the Bank holds at least 20% of the voting rights (including "potential" voting rights) or in which, despite having a lower share of rights, it has the power to participate in the determination of the financial and management policies of the investee by virtue of particular legal links such as participation in syndicated agreements, are considered companies subject to significant influence (i.e. associates).

Joint ventures are those companies, for which, on a contractual basis, the Bank and one or more other parties share control, or for which decisions regarding key activities require unanimous consent of all the parties that share control.

Recognition

Equity investments are recognised on the settlement date. Initial recognition is at cost, including directly attributable ancillary costs. Investments in foreign currency are translated into euro at the exchange rate ruling on the settlement date.

Measurement

Subsequent to initial recognition, equity investments are measured at cost, adjusted to consider value impairment, if any.

At each balance sheet date, tests are carried out to see if there is objective evidence that the investment has suffered an impairment loss.

Impairment occurs when the carrying amount of the asset exceeds its recoverable value, this being the greater of the net selling price (i.e. the amount obtainable from the sale of the asset in a hypothetical transaction between independent parties, net of disposal costs) and its value in use (i.e. the present value of the cash flows expected to be derived from continuing use and disposal of the asset at the end of its useful life).

On completion of impairment testing, in accordance with internal policy, stress tests are also performed on certain key parameters used in the valuation model in order to reduce the recoverable amount to the carrying amount.

As required by IAS 36, impairment testing is performed annually; moreover, at each interim reporting date, steps are taken to verify whether conditions exist that would require impairment tests to be repeated: in particular, monitoring is performed of qualitative and quantitative indicators of presumed impairment of an investment (trigger event).

Any impairment write-downs are charged to the income statement.

If the reasons for making the impairment adjustment cease to apply due to an event occurring after recognition of an impairment, the related asset is written back and the amount of the write-back is recognised in the income statement.

Derecognition

Equity investments are derecognised when the contractual rights on cash flows from financial assets expire or when they are sold, substantially transferring all the risks and benefits of ownership.

Recognition of items affecting the income statement

Dividends are recognised when the right to collect them is established. Gains/losses on disposal are determined based on the difference between the carrying amount of the investment measured at weighted average cost and the purchase price, net of directly attributable transaction costs.

6 – Property, plant and equipment

Classification

Property, plant and equipment include land, buildings, artistic assets, equipment, furniture and fittings and other office equipment. These consist of tangible fixed assets held for use in the provision of services (used for business purposes) and for rental to third parties (investment property) and for which it is deemed that they will be used for more than one financial year. This also includes the rights to use acquired through leasing and relating to the use of a tangible asset (for lessee companies), the assets granted under operating leases (for lessor companies).

Recognition

Property, plant and equipment are initially recorded at purchase price, including all attributable costs of purchasing and bringing the asset to working condition.

On first-time adoption of IAS/IFRS, we made use of the exemption provided by art. 16 of IFRS 1, opting to assess property at fair value as the deemed cost at 1 January 2004. After that date, buildings have been valued at cost.

Extraordinary maintenance costs are attributed to the assets to which they relate. Routine maintenance costs are charged directly to the income statement.

In application of IFRS 16, leases are accounted for on the basis of the right of use model, so that, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for his right to use the underlying asset during the period of the lease.

When the asset is made available to the lessee for its use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.

Measurement

Property, plant and equipment are shown at purchase cost, including ancillary expenses, less accumulated depreciation and any impairment losses, with the exception of works of art, which are measured according to the revaluation model.

For property, plant and equipment measured according to the revaluation model:

- if the carrying amount of an asset is increased following its revaluation, the increase must be recognised in other components in the statement of comprehensive income and booked to equity in the revaluation reserve; on the other hand, if a decline in the value of an asset, previously recognised in the income statement, is recovered, the write-back has to be recognised as income;
- if the carrying amount of an asset is reduced following its revaluation, the decrease must be recognised in other components in the statement of comprehensive income as a revaluation excess, assuming that there is already a positive valuation reserve for this asset; otherwise, this decrease must be recorded in the income statement.

Property, plant and equipment are systematically depreciated, on a straight-line basis at rates that reflect the residual useful life of the asset in question. Exceptions are made for land and works of art, which are not subject to depreciation because of the uncertainty of their useful life, and in view of the fact that normally their value is unlikely to fall over time. Extraordinary maintenance costs are capitalised and depreciated over the residual useful life of the assets to which they relate.

Impairment tests are performed on an annual basis. If it is ascertained that the carrying amount of an asset is higher than its recoverable value, the carrying amount is adjusted as appropriate in the income statement.

If the reasons for recognising an impairment loss cease to apply, the asset is written back but without exceeding the carrying amount that the asset would have had (net of depreciation) if no impairment losses had been recognised in prior years.

With reference to the right of use, accounted for on the basis of IFRS 16, it is measured using the cost model in accordance with IAS 16 - Property, plant and equipment; in this case, the asset is subsequently depreciated and subjected to impairment testing if any indications of impairment arise.

Derecognition

Property, plant and equipment are derecognised on disposal.

Recognition of items affecting the income statement

Depreciation, amortisation and impairment losses, if any, are recognised in the income statement as net adjustments to property, plant and equipment

7 – Intangible assets

Classification

Intangible assets include goodwill, compensation for abandonment of leasehold premises and software purchase costs. The rights to use acquired under the lease and relating to the use of an intangible asset (for the lessees) are also included, as are the assets granted under operating leasing (for the lessors). Restructuring costs of properties not owned (i.e. "leasehold improvements") are recorded under Other assets.

Recognition

Goodwill is the positive difference between the purchase cost and the fair value of assets and liabilities acquired in business combinations. It is booked to intangible assets when it is actually representative of future economic benefits generated by the assets acquired.

Other intangible assets are stated at cost and are only recognised if they meet the requirements of independent identifiability and separation from goodwill, probable realisation of future economic benefits and reliable measurability of cost.

Measurement

Intangible assets are recognised in the balance sheet at purchase cost, including ancillary charges, less the amount of accumulated amortisation and impairment losses, if any.

Amortisation is calculated on a straight-line basis at rates that reflect the residual useful life of the asset in question.

Goodwill is not amortised as it is considered to have an indefinite useful life; instead, it is subjected annually to an impairment test. The cash-generating unit to which the goodwill was allocated is identified for this purpose. Within the Banco Desio Group, the cash-generating units (CGU) correspond to the legal entities.

The amount of any impairment loss is determined as the amount by which the goodwill's carrying value exceeds its recoverable amount. The recoverable amount is the higher of the cash-generating unit's fair value, net of any selling costs, or its related value in use.

Any impairment write-downs are charged to the income statement, with no possibility of a subsequent write-back.

Compensation for abandonment of leasehold premises is amortised at rates based on the duration of the lease contract (renewal included).

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from them.

Recognition of items affecting the income statement

Amortisation and impairment losses, if any, are recognised in the income statement as net adjustments to intangible assets.

Adjustments to leasehold improvements are recognised in the income statement under other operating charges.

8. Non-current assets and disposal groups held for sale

Classification

Non-current assets/liabilities and groups of assets/liabilities whose carrying amount will presumably be recovered through sale rather than through continuous use are classified in the asset item "Non-current assets and disposal groups held for sale", and in the liability item "Liabilities associated with assets held for sale".

Recognition

To be classified in these items, the assets or liabilities (or disposal group) must be immediately available for sale and there must be active and concrete plans to make highly probable their disposal within one year of being classified as an asset being held for sale.

Measurement

Following their classification in this category, these assets are measured at the lower of their carrying amount and their fair value, less costs to sell, with the exception of certain types of assets - attributable for example to all financial instruments falling within the scope of application of IFRS 9 - for which IFRS 5 provides that the valuation criteria of the accounting standard in question must continue to be applied.

In the event that the assets being disposed of are depreciable, the depreciation process ceases from the year in which they are classified as non-current assets held for sale.

Income and expenses attributable to groups of assets and liabilities being held for sale, if considered discontinued operations pursuant to IFRS 5, are shown in the income statement after tax, in the item "320. Profit (loss) from discontinued operations net of taxes", while those relating to individual non-current assets being held for sale are recognised in the most suitable income statement item.

By "discontinued operations" we mean an important autonomous branch or geographical area of activity, even if it is part of a single coordinated disposal programme, rather than a subsidiary company acquired exclusively for resale.

Derecognition

Non-current assets and disposal groups held for sale are eliminated from the balance sheet at the time of disposal.

9 – Current and deferred taxation

Income taxes for the year are calculated by estimating the amount of tax due on an accrual basis, in a consistent manner with the recognition in the financial statements of the costs and revenue that generated the taxation in question. In addition to current taxes, calculated according to current tax rules, deferred taxation, arising as a result of timing differences between the amounts recorded in the financial statements and the corresponding tax bases, is also recognised. Taxes therefore reflect the balance of current and deferred taxation on income for the period.

Deferred tax assets are recognised when their recovery is probable, i.e. when it is expected that there will be sufficient future taxable income to recoup the asset. They are shown in the balance sheet under caption Deferred tax assets.

Conversely, deferred tax liabilities are shown on the liabilities side of the balance sheet under caption Deferred tax liabilities.

In the same way, current taxes not yet paid at the balance sheet date are shown under Current Tax Liabilities. In the event of the payment of advances that exceed the final amount due, the amount recoverable is shown under Current Tax Assets.

If deferred tax assets and liabilities relate to transactions that were recognised directly in equity without passing through the income statement, these are recorded with a contra-entry to the appropriate equity reserve (e.g. valuation reserve).

10 – Provisions for risks and charges

Provisions for risks and charges for commitments and guarantees given

The sub-item of provisions for risks and charges in question includes the credit risk provisions to cover commitments to disburse funds and guarantees issued that fall within the scope of application of the impairment rules under IFRS 9. In these cases, in principle, we adopt the same methods of allocation between the three stages of credit risk and the same methods of calculation of expected loss with reference to Financial assets at amortised cost or at fair value through other comprehensive income.

Other provisions for risks and charges

Provisions for risks and charges include provisions made to cover ongoing obligations that are related to work relationship or disputes, also tax disputes, that are the result of past events, for the settlement of which it is probable that there will be an outflow of resources that can be reliably estimated.

Provisions represent the best estimate of the future cash flows needed to settle the obligation at the balance sheet date. In cases where the effect of time is a significant factor, the amounts provided are discounted, taking into account when the obligation is likely to fall due. The discount rate reflects the current value of money, taking into consideration the risks specific to the liability.

The evaluation of long-service bonuses to employees is made by independent external actuaries and follows the same logic as described above for calculating the provision for termination indemnities. Actuarial gains and losses are recognised immediately in the income statement.

Recognition of items affecting the income statement

Provisions are charged to the income statement.

The effects arising from the passage of time for the discounting of future cash flows are recorded in the income statement under provisions.

11. Financial liabilities at amortised cost

Classification

Due to banks, Due to customers and Debt securities in issue include the various forms of interbank and customer funding, repurchase agreements with the obligation to repurchase in the future and deposits made through certificates of deposit, bonds and other instruments collection fund, net of any repurchased amounts. The payables recorded by the company as a lessee in the context of leasing transactions are also included.

Recognition

Initial recognition of these financial liabilities takes place on the date of the contract, which normally coincides with receipt of the amounts collected or on issue of the debt securities. Initial recognition is at the fair value of the liability, usually equal to the amount received or the issue price, plus any costs or income directly attributable to the individual funding operation or issue.

Measurement

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Exceptions to this are short-term liabilities, for which the time factor is negligible, which remain recorded for the amount collected. Lease payables are revalued when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate contract.

Derecognition

Financial liabilities are derecognised on expiration or termination. Repurchasing bonds issued previously also results in their derecognition; the difference between the carrying amount of the liability and the amount paid to repurchase it is recognised in the income statement.

The re-placement of own securities previously repurchased is considered a new issue recognised at the new placement price.

12 – Financial liabilities held for trading

Recognition and classification

The financial instruments included in this caption are recognised on the subscription date or on the date of issue at an amount equal to the fair value of the instrument, without considering transaction costs or income directly attributable to the instrument concerned.

This caption includes, in particular, trading derivatives with a negative fair value.

Measurement and recognition of items affecting the income statement

Financial liabilities held for trading are measured at fair value, booking the effects to the income statement.

Derecognition

Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is sold with the substantial transfer of all the risks and benefits that derive from owning it.

14 – Currency Transactions

Recognition

Foreign currency transactions are recorded at the time of initial recognition, in the bank's functional currency, by applying to the exchange rate in force on the date of the transaction.

Measurement

At each annual or interim balance sheet date, items in foreign currency are valued as follows:

- monetary items are converted at the exchange rate ruling at the balance sheet date;
- non-monetary items are measured at cost and are converted at the exchange rate on the date of the transaction;
- non-monetary items measured at fair value are converted at the exchange rate ruling on the balance sheet date.

Recognition of items affecting the income statement

Exchange differences arising on settlement of monetary amounts or on the conversion of monetary items at rates other than those of initial conversion, or conversion of the previous financial statements, are recorded in the income statement in the period in which they arise.

When a profit or loss relating to a non-monetary element is recognised in equity, the exchange difference relating to this element is also recognised in equity. On the other hand, when a profit or loss is recognised in the income statement, the related exchange difference is also recorded in the income statement.

15 – Other information

Other assets

This caption includes assets not attributable to other items in the assets side of the balance sheet. The entry may include by way of example:

- gold, silver and precious metals;
- accrued income, other than that capitalised together with related financial assets, including that deriving from contracts with clients pursuant to IFRS 15;
- receivables connected with the supply of non-financial goods or services;
- tax receivables, other than those classified in caption "110. Tax assets"
- tax credits linked to the "Cure Italy" and "Relaunch" Decrees acquired following disposal by the direct beneficiaries or previous purchasers.

This caption can also include unallocated in-transit and suspense items ("debit balances"), on condition that they are insignificant in total.

Other liabilities

This caption includes the liabilities not attributable to other items of the liabilities side of the balance sheet.

The caption includes by way of example:

- payment agreements that must be classified as payables pursuant to IFRS 2;
- amounts due in relation to the supply of goods and non-financial services;
- accrued expenses, other than those capitalised together with related financial liabilities, including those deriving from contracts with clients pursuant to IFRS 15;
- tax payables other than those classified in caption "60. Tax liabilities", including amounts withheld as a tax agent.

Provision for termination indemnities

Measurement

The provision for termination indemnities is recorded in the financial statements using actuarial techniques.

The evaluation is carried out by independent external actuaries according to the accrued benefit method, using the Projected Unit Credit Method. This amount represents the present value, calculated from a demographic/financial point of view, of benefits payable to employees (termination indemnities) for the period of service already accrued, which is obtained by re-proportioning the total present value of the obligation to the period of service already rendered at the valuation date, taking into account the likelihood of resignations and requests for advances.

To determine the discount rate, reference is made to an index which represents the yield on a basket of high quality corporate bonds in the same currency used for payment of the benefits due to employees. In line with prevalent practice, an "AA" class index was selected.

Recognition of items affecting the income statement

The provision for termination indemnities arising from the actuarial valuation, as allowed by IAS 19, is recorded as a contra-entry to the valuation reserves for the component of actuarial gains (losses) and in the income statement under provisions for other components such as accrued interest due to the passage of time (discounting).

Valuation reserves

This caption includes valuation reserves of financial assets valued at fair value through other comprehensive income (FVOCI), derivative contracts to hedge cash flows, valuation reserves created under special laws in past years and reserves for the actuarial valuation of employee benefits under IAS 19. They also include the effects of the application of fair value as the deemed cost of property, plant and equipment upon first-time adoption of IAS/IFRS.

Recognition of costs and revenues

Revenues are recognised:

- at a specific moment when the entity fulfils the obligation to transfer the promised asset or service to the customer, or
- over time, as the entity fulfils its obligation to transfer the promised asset or service to the customer.

The asset is transferred when, or during the period in which, the customer acquires control. These involved in particular:

- interest expense is recognised on a pro-rata basis at the contractual interest rate or, in the case of application of amortised cost, at the effective interest rate. Interest income (expense) also includes positive (negative) differentials or margins on financial derivatives accrued at the date of the financial statements:
  a) hedging assets and liabilities that generate interest;
  b) classified in the balance sheet in the trading book, but operationally linked to assets and/or liabilities measured at fair value (fair value option);
  c) operationally linked to assets and liabilities classified as held for trading and providing for the settlement of differentials or margins on several maturities.

Note that interest income (or interest expense) in the financial statements also includes amortisation for the year of the fair value differences measured with reference to business combinations, due to the greater or lesser profitability accorded to assets classified as receivables and liabilities classified as payables and debt securities in issue. However, in the event of termination of these loans (acquired as the result of a business combination), any higher book value recorded in the financial statements on initial recognition gets fully released through profit and loss in the year that the loan is repaid (as Net adjustments for credit risk relating to Financial assets at amortised cost);

- default interest, which may be provided by contract, is recognised in the income statement only when actually collected;
- dividends are recognised in the income statement when the right to collect them arises, the Bank is likely to receive the related economic benefits and the amount can be determined reliably; commission income from services is recognised based on contractual agreements during the period in which the services are rendered. The fees and commissions considered in amortised cost for the purpose of determining the effective interest rate are booked as interest;
- revenues from trading in financial instruments, determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement on recognition of the transaction, if the fair value can be determined with reference to parameters or recent transactions observable in the same market in which the instrument is traded (Level 1 and Level 2 of the fair value hierarchy). If these values cannot easily be determined or have a

reduced level of liquidity (Level 3), the financial instrument is recognised for an amount equal to the transaction price, net of the trading margin; the difference with respect to the fair value is booked to the income statement over the duration of the transaction through a progressive reduction in the valuation model of the corrective factor linked to the reduced liquidity of the instrument;
- gains/losses from trading in financial instruments are recognised in the income statement on completion of the sale, based on the difference between the consideration paid or received and the carrying amount of the instruments;
- revenues from the sale of non-financial assets are recognised on completion of the sale, i.e. when the obligation towards the customer is fulfilled.

Costs are recognised in the income statement according to the accruals principle; the costs related to obtaining and fulfilling contracts with customers are recognised in the income statement in the periods in which the related revenues are recorded. If costs and revenues can be associated in a generic and indirect way, costs are allocated systematically to several periods with rational procedures. Costs that cannot be associated with income are booked immediately to the income statement.

Note that the contributions to the Single Resolution Mechanism (SRM) and the Deposit Guarantee Scheme (DGS) are recognised in the income statement under caption "180 b) Other administrative costs", taking into account the recommendations of IFRIC 21 and the Bank of Italy communication of 19 January 2016. In particular, the contribution (DGS) is accounted for when the "obligating event" takes place, based on the provisions of the new Articles of Association of the Interbank Deposit Protection Fund, under which the Fund builds up financial resources until the target level is reached through the ordinary contributions of the banks that are members at 30 September of each year.

Finance leases

Assets leased to others under finance leases are shown as receivables, for an amount equal to the net investment of the lease. The recognition of financial income reflects a constant periodic rate of return.

Securitisations

Exposures to the securitisation (in the form of junior securities or deferred purchase price) are allocated to Financial assets at fair value through profit or loss. However, if the relationship between the originator and the special purpose vehicle (or the separate assets managed by it) comes within the definition of control[9] introduced by IFRS 10, it is included in the Banco Desio Group's scope of consolidation.

According to the breakdown by type, Financial assets at amortised cost include loans to customers involved in securitisations subsequent to 1 January 2004, which do not have the requisites under IFRS 9 for derecognition from the financial statements, or transactions with which loans are assigned to the special purpose vehicle and in which, even if there is formal transfer of legal title to the loans, control over the cash flows deriving from them and the substantial risks and benefits are maintained.

Against these loans and receivables, the consideration received for their sale, net of securities issued by the special purpose vehicle and repurchased by the originator, is allocated to Financial liabilities measured at amortised cost.

[9] Under this definition, an investor controls an entity subject to investment when the investor has power over its key assets, is exposed to variable returns resulting from the relationship with the entity and has the ability to affect those returns by exercising power over it.

Tax credits linked to the "Cura Italia" and "Relaunch" Decrees acquired following disposal by the direct beneficiaries or previous purchasers (e.g. Ecobonus).

Law Decrees 18/2020 ("Cura Italia") and 34/2020 ("Relaunch") have introduced into Italian law tax incentives based on investment costs (e.g. Ecobonus and Sismabonus) and on current costs (e.g. rent of premises for non-residential use). These tax incentives are applied to households or businesses, are commensurate with a percentage of the expenditure incurred (which in some cases even reaches 110%) and are disbursed in the form of tax credits or tax deductions (with an option to convert them into tax credits). The main features of these tax credits are (i) the possibility to use them for offsetting; (ii) transferability to third-party purchasers and (iii) the fact that they are non-refundable by the tax authorities.

The accounting of tax credits acquired by a third party (transferee of the tax credit) is not covered by a specific international accounting standard. IAS 8 provides that, in the event where there is a case not explicitly dealt with by an IAS/IFRS, management has to define an accounting policy that guarantees relevant and reliable disclosure of such transactions.

To this end and taking into consideration the indications expressed by the Supervisory Authorities, the Bank has adopted an accounting policy that refers to the accounting discipline envisaged by IFRS 9, applying by analogy the provisions compatible with the characteristics of the transaction and considering that the tax credits in question are substantially similar to a financial asset. The Group purchases the receivables according to its tax capacity, with the aim of holding them and using them for future compensation. These receivables are therefore attributable to a Hold to Collect business model and recognised at amortised cost, showing the remuneration in net interest income during the recovery period. These receivables have to be measured considering how they will be used through estimated future compensations. However, the accounting framework envisaged by IFRS 9 for the calculation of expected losses is not applicable in this specific case, i.e. ECL is not calculated on these tax credits, as there is no counterparty credit risk, taking into account that realisation of the credit takes place by offsetting them against tax payables and not by collecting them.

Taking into account that the tax credits purchased do not represent tax assets, government grants, intangible assets or financial assets, in accordance with international accounting standards, the most appropriate classification is the residual one, "Other Assets".

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, book value and interest income

Type of financial instrument	Source portfolio	Destination portfolio	Date of reclassification	Reclassified book value	Interest income recorded during the year (before tax)
Debt securities	HTCS	HTC	01.10.2018	603,756	n.a.

With reference to the reclassified financial assets still recorded under assets at the reporting date, the "Reclassified book value" column shows the amount transferred from the HTCS to the HTC portfolio (originally Euro 898,391 thousand), including the cumulative OCI valuation reserve at 30 September 2018, negative for Euro 33,898 thousand (originally Euro 41,512 thousand, pre-tax), which was eliminated from shareholders' equity on the reclassification date in exchange for the fair value of the reclassified financial assets, which are then recognised as if they had always been valued at amortised cost.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

According to IFRS 9 Financial instruments, a business model represents the way in which groups (or portfolios) of financial assets are managed collectively to pursue certain strategic corporate objectives, i.e. the collection of contractual cash flows, earning profits by selling them, or a combination of the two, which in relation to the contractual characteristics of the cash flows of the financial assets in question (SPPI test - Solely Payments of Principal and Interest) determines the measurement at amortised cost, at fair value through profit or loss or at fair value recognised in equity. The business model does not therefore depend on management's intentions with respect to a single financial instrument, but at a higher level of aggregation (the portfolio) and is determined by management according to the scenarios that are reasonably expected to occur, also taking into account the methods for measuring the performance of financial assets held under the model, the methods of communication (and remuneration) of performance to managers with strategic responsibilities and of the risks that affect the performance of the business model (and therefore of the financial assets held within the ambit of the business model) and the way in which these risks are managed.

On first-time adoption of IFRS 9, in order to allocate the financial instruments to the business models, for the loan portfolio, if the conditions apply, only the Held to Collect (or HTC) business model was defined. This model reflects the operating mode that is always followed by the members of the Banco Desio Group in managing loans granted to retail and corporate customers. For the proprietary portfolio of financial instruments, on the other hand, three business models have been defined: Held to Collect (HTC), Held to Collect and Sell (HTC&S) and Trading (FVTPL), with limited cases in which a change in management's intentions was chosen with respect to the accounting categories envisaged by IAS 39, for which the prevailing destination for bond instruments (mainly Italian government securities) held for investment purposes has been identified by the Banco Desio Group in the categories HTC and HTC&S to a more or less equal extent.

This decision was taken following a specific analysis of the performance and management of the securities portfolio over the previous two years, with the aim of ensuring periodic cash flows through the HTC&S category, while reserving the possibility of taking advantage of market opportunities to sell securities before their maturity (but not on a regular basis); this business model was seen as the main category to which financial investments should be allocated, while reflecting the exposure to market risk by measuring them at fair value with an impact on comprehensive profitability in each reporting period.

Considering the evolution of the reference context, during the year the Board of Directors of Banco di Desio e della Brianza monitored the effects of the operational decisions made with particular attention (including the "2Worlds" securitisation, for which the GACS was obtained) in order to achieve the strategic objectives defined in the Group's 2018-2020 business plan. In fact, the above plan reiterated the centrality of the credit chain as the main driver of profitability, while pursuing a reduction in the overall risk exposure, accompanied by prudent and conservative management of the proprietary securities portfolio.

Analysis of the results at 30 June 2018 then gave further impetus to the implementation of initiatives designed to protect the Bank's assets. These included a specific assessment, with the help of an independent external advisor, relating to the overall strategic management of the Group's investment activities to identify the ways in which the business models of the proprietary securities portfolio could be redefined. The Board of Directors of Banco di Desio e della Brianza therefore met on 26 September 2018 to discuss, among other things, the results of this assessment; in this context, the rationale underlying the work of the Finance Department has been critically reviewed with particular regard to the risk profile expressed by the groups of financial assets allocated to the various business models.

The analysis showed how the Bank's investment policies led to situations of sometimes considerable misalignment with respect to the objectives and strategic lines defined in the business plan, based on the pursuit of a stable policy of strengthening capital ratios. In light of the conclusions reached, while reiterating the need to maintain a particularly prudent risk profile in managing the securities portfolio, the Bank opted for a more decisive management strategy aimed at favouring stability in the collection of medium-long term financial flows of the securities portfolio and therefore mitigation of the risks of weakening the capital ratios (albeit at the expense of taking advantage of any market opportunities).

Operationally, this necessarily involved a change of approach in the overall management of financial assets:

- favouring the HTC portfolio as a category for investment purposes, so as to ensure, on the one hand, certain and stable cash flows with low risk assumption and, on the other hand, a way of managing loans that is more consistent with the sources of financing increasingly oriented towards medium to long-term stability (covered bond issues, EMTN programme),
- the HTC&S portfolio, which showed a strong sensitivity to market risk, as a category destined for short-term treasury activities now of a "residual" nature compared with the past,
- the FVTPL portfolio to exploit market opportunities through short/very short-term (intraday) trading activities according to a defined and limited exposure to market risks (a marginal activity with respect to the Group's core business).

In order to ensure consistent management of the new business models, it was necessary to change the organisational structure of the Parent Company's Finance Department: from 27 September 2018, it is now split into three separate sectors (respectively "ALM" for medium-long term investments, "Trading" and "Treasury", the last two being only for the needs of Banco di Desio e della Brianza in a centralised Group logic. The change in the business models therefore led to a redefinition/integration of the operating limits previously established with a view to the new financial asset management processes that have been defined; similarly, a review has been carried out by the Finance Department of the reports produced and integration of the primary indicators included in the Risk Appetite Framework.

Again from an operational point of view, the management objectives and drivers associated with the new business models have determined a need to review the allocation of financial assets among the various portfolios, according to the characteristics of each financial instrument with respect to the new reasons for holding them, i.e. approximately 74% of the HTC&S portfolio outstanding at the date when the change in business models was approved was associated with the HTC/ALM portfolio.

In order to make the new investment management models immediately operational, the amendments to the internal regulations of the Banco Desio Group of the highest level were approved (e.g. the methodological framework of IFRS 9, Group risk management policies, operating policy limits, etc.) and, as a consequence, amendments/integrations were made to the Finance Department's internal regulations for managing the Group's proprietary securities and treasury portfolio.

The accounting effects of this operation, which only affect the balance sheet, took place on 1 October 2018 (the "reclassification date"), for which the conditions established by IFRS 9 in the case of a change in business models were satisfied (in terms of rarity of occurrence, decision taken by senior management following external or internal changes, materiality for operations in general and the fact that they can be demonstrated to third parties).[10]

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[10] To specifically assess the significance/relevance of the change in the business model, reference was made to the "2018 Conceptual Framework for Financial Reporting" of the IASB and therefore to the expectations of users of the financial statements in relation to the amounts deemed relevant by them; so, in this specific case, for the Banco Desio Group and for the individual Bank concerned, quantitative elements were used such as the size of the HTC&S portfolio potentially subject to reallocation, which was placed in relation to capital amounts such as the entire HTC&S portfolio, the total of financial assets other than loans, total assets and carrying amount of equity at 30 June 2018. In consideration of the strong sensitivity to risk demonstrated by the HTC&S portfolio, associated with the dual purpose of holding financial assets to collect cash flows or to take advantage of any market opportunities to make sales, the "transaction materiality" was also considered in

The financial instruments involved in the change of business model from HTC&S to HTC are mainly represented by sovereign debt securities, as well as corporate bonds for a total nominal value of Euro 936 million for the Parent Company Banco Desio. The relative accumulated loss on the reclassification date of Euro 41.5 million (gross of the related tax effect), previously recognised in the other components of comprehensive income (valuation reserve), is eliminated from equity against the fair value of the same financial instruments, which are therefore recognised as if they had always been valued at amortised cost.

In December 2019, the Finance Department, in collaboration with the Chief Risk Officer, concluded the annual analysis to verify the operating limits and thresholds of the proprietary securities portfolio, which took into account the changes made in the meantime to the Eurozone's monetary policy. This analysis was submitted to Banco Desio's Board of Directors on 12 December 201. After discussing the matter, the Board approved the proposal to update (in accordance with paragraph B4.1.2C of IFRS 9) the operating thresholds of the proprietary securities portfolio, with effect from 1 January 2020, in order to bring the composition of the individual portfolios into line as much as possible with their set objectives, making it easier to pursue them on an ongoing basis. Specifically:

- with reference to the FVTPL portfolio: increase in the daily stop-loss, while keeping the other periodic VAR and Stop Loss limits unchanged;
- with reference to the HTC&S portfolio: (a) increase in the maximum duration of the portfolio, (b) increase in the maximum residual life of the securities that can be held and (c) establishment of a maximum limit that can be invested in securities with a rating lower than investment grade, but still equal to or greater than BB- or Ba3;
- with reference to the HTC portfolio: (a) differentiation in the weighting of sales as the modified duration of the securities in portfolio decreases, without prejudice to the sales materiality threshold of 5% and (b) it is better to set the frequency threshold (i.e. the number of annual executions) at 12, regardless of the number of positions that make up the portfolio.

Considering the market yields offered for the asset classes to which the Bank is most exposed, in June 2020 and in December 2021 the Board of Directors approved an update to the operational limits for the hold to collect & sell (HTC&S) portfolios and the trading portfolio. This decision was made in order to align their composition as closely as possible with the specified business model objectives, confirmed in the assessment approved by the Board of Directors on 26 September 2018, having regard for the changes in the financial markets that have taken place in the meantime.

The information relating to the effective interest rate determined at the date of reclassification (IFRS 7, paragraph 12C, letter a) is not considered relevant, as it is not required for the type of reclassification that was made.

terms of the incidence of the OCI valuation reserve on securities potentially subject to reallocation with respect to equity at 30 June 2018, 31 July 2018 and 31 August 2018, demonstrating a volatility effect on the balance sheet over three months that was not negligible. Even the final figures at 30 September 2018 further corroborated the analyses carried out for the purposes of the resolutions passed on 26 September 2018.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

The accounting standard IFRS 13 "Fair Value Measurement" defines fair value as the price that would be received for the sale of an asset or that would be paid to transfer a liability in a regular transaction between market participants (exit price). The definition of fair value provided by IFRS 13 makes it clear that fair value measurements are market based and not entity specific.

This standard introduced disclosure requirements about fair value measurements and the inputs used for the measurement of assets and liabilities that are measured at fair value on a recurring or non-recurring basis after initial financial statement recognition, as well as about the effect on comprehensive income of fair value measurements of instruments using effective unobservable inputs.

When a price for the same asset or a liability cannot be found, the fair value is estimated by applying a valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

As required by IFRS 13 and for the purpose of determining the fair value of OTC derivatives, counterparty risk needs to be considered.

The fair value hierarchy provides for 3 levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 2 and 3 inputs). The fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure fair value. A fair value measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised.

Fair value measurement with use of level 1 inputs

The fair value falls within level 1 if determined based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A price quoted in an active market provides the most reliable evidence of fair value and, when available, should be used without any adjustments.

An active market is a market in which transactions for an asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fundamental elements are the following:

- Identification of the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability;
- the ability of the entity to carry out a transaction in the asset or liability at the price of that market on the valuation date.

The principal market is the market with the greatest volume and level of activity for the asset or liability. In the absence thereof, the most advantageous market is the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability.

A.4.1 Levels of fair value 2 and 3: valuation techniques and inputs used

The fair value of financial assets and liabilities is measured by using valuation techniques that take into account the characteristics of the financial instrument being measured.

For level 2 of the fair value hierarchy, the fair value is determined by using a valuation price from an external information provider or a price calculated using internal valuation techniques that use directly or indirectly observable inputs for the asset or liability and include:

- prices quoted for similar assets or liabilities in active markets;
- prices quoted for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability, for example:
    - interest rates and yield curves observable at commonly quoted intervals;
    - implied volatilities;
    - credit spreads;
- market-corroborated inputs.

For level 3 of the fair value hierarchy, unobservable inputs are used for the asset or liability. Use of these inputs, including those from internal sources, is allowed if there is no observable market information to help make estimates; they should reflect the assumptions that market participants would make in determining the price.

For Level 3 of the fair value hierarchy and with specific reference to OTC derivatives in foreign currencies, the input relating to credit spread for non-institutional customers is provided by an internal rating model which categorises each counterparty in risk classes with the same probability of insolvency.

Also worth noting is the application of the Credit Value Adjustment (CVA) model for OTC derivatives, in order to highlight the impact of the counterparty's credit quality, an intrinsic factor in the pricing of bonds, but not of derivatives. The method applied consists of determining the fair value by discounting the derivative's positive mark to market (MTM) over the residual life of the instrument using the weighted credit spread.

On the other hand, as regards OTC derivatives with a negative MTM, the model applied is the Debit Value Adjustment (DVA), with the aim of highlighting, for the Bank, the impact of its own creditworthiness. The model applies the same formula of discounting the CVA to the negative value (MTM) of the derivative including the credit spread of the Bank.

It should be noted that, in the application of both models (CVA and DVA) and for the purpose of determining the impact of the counterparty's credit quality, or the quality of its credit rating, account has been taken of the effect of reducing credit risk in the presence of collateralisation agreements (CSA).

The fair value of non-financial assets and liabilities (receivables and payables) is determined using the DCF (discounted cash flow) method; the currently used module permits consistent integration in fair value measurement of market factors, financial characteristics of the transaction and credit risk components.

With reference to "assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis" for which the fair value is provided solely for the purpose of the explanatory notes, we would point out the following:

- for loans and receivables, the fair value is calculated for performing positions beyond the short term using the valuation technique that envisages the discounting of expected cash flows, considering, at the free risk rate, the credit risk of the relationship (in terms of PD and LGD measured by the internal rating models in use), while for non-performing and short-term performing positions, the carrying amount is considered a reasonable approximation of the fair value. In general, they are classified in Level 3, except in the case where the significance of the observable inputs compared with the entire assessment is higher than a predetermined threshold (Level 2), or in the event of assets held for sale or transactions being completed at the reference date (Level 1) Taking into account the current context of the credit market, with particular reference to non-performing loans, this fair value (Level 2 and 3), determined taking into account multi-scenario assumptions that provide for the combination between internal management and so-called "disposal scenarios", may not represent the potential exit price because of a certain margin of uncertainty, which is in any case inherent in the various components making up the price considered by a potential third-party purchaser;

- debt and certificates of deposit issued by Group banks are measured at book value, which represents a reasonable approximation of their fair value (Level 3);
- for bonds issued by Group banks, the fair value is measured according to the discounting of future cash flows and applying a credit spread (Level 2);
- investment property: fair value is estimated through the use of property market information sources, appropriately adjusted based on parameters such as location, size, age, intended use and maintenance and based on value estimates performed by external independent experts (Level 3).

A.4.2 Process and sensitivity of valuations

Valuation techniques and inputs selected are applied consistently, except where events take place that require them to be replaced or modified, such as: new markets develop, new information becomes available, information previously used is no longer available or valuation techniques improve.

The measurement process for financial instruments consists of the phases summarised below:

- for each asset class, market inputs are identified as well as the manner in which they have to be incorporated and used;
- the market inputs used are checked to ensure they are worthy of use in the valuation techniques employed;
- the valuation techniques used are compared with market practices to identify any critical issues and to determine if any changes need to be made to the valuations.

For financial instruments that are measured at fair value on a recurring basis and which are categorised as level 3, no sensitivity analysis is provided due to their nature and the immateriality of the amounts involved, except for the below description.

A.4.3 Fair value hierarchy

For financial assets and liabilities measured at fair value on a recurring basis, their categorisation within the aforementioned fair value hierarchy levels reflects the significance of the inputs used for the valuation.

If the market for assets and liabilities no longer qualifies as active, then the valuation technique and inputs are changed and the assets and liabilities are categorised within a lower level of the fair value hierarchy.

A valuation technique is used consistently from period to period, except where circumstances arise that necessitate the use of a more appropriate technique, such as the development of new markets, the availability of new information or a change in market conditions. This could lead to assets and liabilities measured at different dates being categorised in a different fair value hierarchy.

The policy for the determination of the levels is applied on a monthly basis.

A.4.4 Other information

There is nothing to add to the information that has been previously disclosed.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level of fair value

Financial assets/liabilities measured at fair value	31.12.2021 L1	31.12.2021 L2	31.12.2021 L3	31.12.2020 L1	31.12.2020 L2	31.12.2020 L3
1. Financial assets at fair value through profit or loss	23,197	4,493	57,856	18,657	3,790	34,255
a) Financial assets held for trading	6,932	3,610	493	2,662	2,930	647
b) financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	16,265	883	57,363	15,995	860	33,608
2. Financial assets at fair value through other comprehensive income	562,347	27,681	3,334	574,459	23,893	64,281
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	585,544	32,174	61,190	593,116	27,683	98,536
1. Financial liabilities held for trading	-	5,461	441	-	6,935	592
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	365	-	-	1,540	-
Total	-	5,826	441	-	8,475	592

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

Investments measured on the basis of unobservable inputs (Level 3) represent a very small percentage of total Financial assets at fair value (8.7% at 31 December 2021 compared with 13.7% in the previous year, which included the equity investment in Cedacri). These investments consist almost entirely of UCITS units measured mandatorily at fair value.

At 31 December 2021, the impact of applying the Credit Value Adjustment and Debit Value Adjustment to the balance sheet values has not been calculated as all outstanding derivative contracts are backed by collateral agreements with counterparties to mitigate credit risk (CSA agreements).

A.4.5.2 Annual changes in Financial assets at fair value on a recurring basis (Level 3)

	Financial assets at fair value through profit or loss				Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets mandatorily at fair value				
1. Opening balance	**34,255**	**647**	**-**	**33,608**	**64,281**	**-**	**-**	**-**
2. Increases	**26,214**	**493**	**-**	**25,721**	**54,228**	**-**	**-**	**-**
2.1. Purchases	23,385	-	-	23,385	-	-	-	-
2.2. Profits posted to:	2,829	493	-	2,336	54,228	-	-	-
2.2.1. Income statement	2,829	493	-	2,336	-	-	-	-
- of which: capital gains	2,829	493	-	2,336	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	-	54,228	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	**2,613**	**647**	**-**	**1,966**	**115,175**	**-**	**-**	**-**
3.1. Sales	54	-	-	54	114,680	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3. Losses posted to:	1,986	647	-	1,339	-	-	-	-
3.3.1. Income statement	1,986	647	-	1,339	-	-	-	-
- of which: capital losses	1,986	647	-	1,339	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	-	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	573	-	-	573	495	-	-	-
4. Closing balance	**57,856**	**493**	**-**	**57,363**	**3,334**	**-**	**-**	**-**

A.4.5.3 Annual changes in financial liabilities measured at fair value on a recurring basis (Level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**592**	**-**	**-**
2. Increases	**441**	**-**	**-**
2.1 Issues	-	-	-
2.2. Losses posted to:	441	-	-
2.2.1. Income statement	441	-	-
- of which: capital losses	441	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**592**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits posted to:	592	-	-
3.3.1. Income statement	592	-	-
- of which: capital gains	592	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**441**	**-**	**-**

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by level of fair value

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2021				31.12.2020			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	16,270,180	2,271,870	8,319,758	5,916,052	14,278,375	2,099,604	7,970,888	4,602,651
2. Investment property	2,502			2,823	1,758			1,920
3. Non-current assets and disposal groups held for sale	13,080			13,080				
Total	**16,285,762**	**2,271,870**	**8,319,758**	**5,931,955**	**14,280,133**	**2,099,604**	**7,970,888**	**4,604,571**
1. Financial liabilities at amortised cost	16,314,213		1,513,377	14,798,919	14,278,176		1,601,142	12,677,596
2. Liabilities associated with assets held for sale								
Total	**16,314,213**	**-**	**1,513,377**	**14,798,919**	**14,278,176**	**-**	**1,601,142**	**12,677,596**

Key

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.5 INFORMATION ON "DAY ONE PROFIT/LOSS"

IFRS 9 – Financial Instruments requires a financial instrument upon initial recognition to be measured at fair value, which is normally the transaction price (that is, the amount paid for the financial assets and the amount received for the financial liabilities). The foregoing holds true for exchanges of instruments quoted in an active market. If the market for a financial instrument is not active, then valuation techniques are used to determine its fair value. If a difference arises (so-called "day one profit/loss") between the transaction price and the amount determined at the time of initial recognition through the use of valuation techniques and this difference is not recognised immediately in the income statement, then disclosure needs to be provided as per paragraph 28 of IFRS 7, by indicating the accounting policy adopted for the income statement recognition, subsequent to initial recognition of the instrument, of the difference.

In relation to the operations put in place and based on the internal valuation methodologies currently in use, the fair value of the financial instruments on initial recognition generally coincides with the transaction price; however, if a difference arises between the transaction price and the amount determined using valuation techniques, this difference is immediately recognised to the income statement.

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - caption 10

1.1 Cash and cash equivalents: breakdown

	31.12.2021	31.12.2020
a) Cash	52,903	56,524
b) Current accounts and demand deposits with Central Banks	-	-
c) Current accounts and demand deposits with banks	31,392	63,682
Total	**84,295**	**120,206**

NB: to reflect inclusion in item "10. Cash and cash equivalents" of current accounts and sight deposits with banks and central banks (with the exception of the Mandatory Reserve account) required by the 7th Update of Circular 262 published in October 2021, the balance for the comparative period was restated to reflect the reclassification of Euro 63,682 thousand from item 40.a) Due from banks to item 10) Cash and cash equivalents.

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Section 2 - Financial assets at fair value through profit or loss - caption 20

2.1 Financial assets held for trading: breakdown

Captions/Amounts	31.12.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	3,600	-	-	2,930	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	3,600	-	-	2,930	-
2. Equity instruments	4,668	-	-	2,553	-	-
3. UCITS units	2,151	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**6,819**	**3,600**	**-**	**2,553**	**2,930**	**-**
B. Derivatives						
1. Financial derivatives	113	10	493	109	-	647
1.1 for trading	113	10	493	109	-	647
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**113**	**10**	**493**	**109**	**-**	**647**
Total (A+B)	**6,932**	**3,610**	**493**	**2,662**	**2,930**	**647**

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

Caption 20 "Financial assets held for trading" comprises:

a) cash assets held for trading;
b) positive value of derivatives held for trading.

The policy adopted for the categorisation of financial instruments within the three levels of the fair value hierarchy is disclosed in the previous section "A.4 Information on fair value" in Part A "Accounting policies" of the explanatory notes.

All financial instruments included in financial assets held for trading are measured at fair value.

2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparties

Captions/Amounts	31.12.2021	31.12.2020
A. Cash assets		
1. Debt securities	**3,600**	**2,930**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	3,600	2,930
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**4,668**	**2,553**
a) Banks	541	302
b) Other financial companies	1,209	266
of which: insurance companies	-	-
c) Non-financial companies	2,918	1,985
d) Other issuers	-	-
3. UCITS units	**2,151**	**-**
4. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**10,419**	**5,483**
B. Derivatives		
a) Central counterparties	-	-
b) Other	616	756
Total (B)	**616**	**756**
Total (A+B)	**11,035**	**6,239**

2.5 Other financial assets mandatorily at fair value: breakdown

Captions/Amounts	31.12.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**883**	**-**	**-**	**860**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	883	-	-	860	-
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. UCITS units	**16,265**	**-**	**57,363**	**15,995**	**-**	**33,608**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**16,265**	**883**	**57,363**	**15,995**	**860**	**33,608**

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

The item "Financial assets mandatorily at fair value" includes the UCITS units that are not held for trading purposes; these instruments by their very nature do not pass the SPPI test ("solely payments of principal and interests") foreseen in IFRS 9 "Financial Instruments". This caption includes units of closed-end funds subscribed following completion of sales of non-performing loans to the fund; the fair value of fund units (level 3) is determined by applying the policies set out by the bank for that type of financial instrument.

In particular, in 2021 sales of loans were carried out for a nominal value of Euro 46,742 thousand, with the subscription of closed-end funds for Euro 18,386 thousand, valued in line with the Group's fair value policy.

2.6 Other financial assets mandatorily at fair value: breakdown by borrower/issuer

	31.12.2021	31.12.2020
1. Equity instruments	**-**	**-**
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	**883**	**860**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	883	860
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. UCITS units	**73,628**	**49,603**
4. Loans	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**74,511**	**50,463**

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Section 3 - Financial assets at fair value through other comprehensive income - caption 30

3.1 Financial assets at fair value through other comprehensive income: breakdown

Captions/Amounts	31.12.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**562,178**	**17,681**	**-**	**574,272**	**13,893**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	562,178	17,681	-	574,272	13,893	-
2. Equity instruments	**169**	**10,000**	**3,334**	**187**	**10,000**	**64,281**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**562,347**	**27,681**	**3,334**	**574,459**	**23,893**	**64,281**

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

The caption "Financial assets at fair value through other comprehensive income" includes:

- the bond portfolio not intended for trading purposes and not held with the exclusive intent of collecting contractual cash flows;
- equity investments representing voting rights of less than 20% of the share capital of companies for which the so-called "FVOCI option" was adopted on FTA of IFRS 9 "Financial Instruments", or at the time of purchase if it is after 1 January 2018.

In the comparison period, in particular, caption "2. Equity instruments" showed the investment in Cedacri S.p.A. for Euro 60.5 million, based on internal valuation models applied to the economic and financial forecasts contained in the strategic planning documents. On 5 March 2021, the shareholders of Cedacri signed a binding agreement which provided for the sale of their respective equity investments to ION. Considering that the equity investment was sold on 3 June 2021, the buyer (the newco Cedacri Mergeco S.p.A.) paid the Bank the agreed sum of Euro 114.7 million, as described in greater detail in the Report on Operations, to which reference is made.

3.2 Financial assets at fair value through other comprehensive income: breakdown by borrower/issuer

Captions/Amounts	31.12.2021	31.12.2020
1. Debt securities	**579,859**	**588,165**
a) Central banks	-	-
b) Public administrations	561,060	574,272
c) Banks	18,799	13,893
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**13,503**	**74,468**
a) Banks	10,000	10,000
b) Other issuers:	3,503	64,468
- other financial companies	2,224	2,504
of which: insurance companies	-	-
- non-financial companies	1,279	61,964
- other	-	-
3. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**593,362**	**662,633**

3.3 Financial assets at fair value through other comprehensive income: gross value and total write-downs

		Gross value					Total write-downs				
		First stage	of which: Instruments with low credit risk	Second stage	Third stage	Purchased or originated credit impaired	First stage	Second stage	Third stage	Purchased or originated credit impaired	Total partial write-offs
Debt securities		579,859	579,859	-	-	-	163	-	-	-	-
Loans		-	-	-	-	-	-	-	-	-	-
Total	**31.12.2021**	**579,859**	**579,859**	**-**	**-**	**-**	**163**	**-**	**-**	**-**	**-**
Total	**31.12.2020**	**588,165**	**588,165**	**-**	**-**	**-**	**172**	**-**	**-**	**-**	**-**

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Section 4 - Financial assets at amortised cost - caption 40

4.1 Financial assets at amortised cost: breakdown of amounts due from banks

Type of transaction/Amounts	31.12.2021						31.12.2020					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	Purchased or originated credit impaired	L1	L2	L3	First and second stage	Third stage	Purchased or originated credit impaired	L1	L2	L3
A. Due from central banks	**1,921,557**	**-**	**-**	**-**	**-**	**1,921,557**	**836,893**	**-**	**-**	**-**	**-**	**836,893**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirement	1,921,557	-	-	X	X	X	836,893	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**523,692**	**-**	**-**	**-**	**365,651**	**163,850**	**465,001**	**-**	**-**	**-**	**337,229**	**135,810**
1. Loans	162,050	-	-	-	-	162,050	134,010	-	-	-	-	134,010
1.1. Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Time deposits	53,209	-	-	X	X	X	43,126	-	-	X	X	X
1.3. Other loans:	108,841	-	-	X	X	X	90,884	-	-	X	X	X
- Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Loans for leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	108,841	-	-	X	X	X	90,884	-	-	X	X	X
2. Debt securities	361,642	-	-	-	365,651	1,800	330,991	-	-	-	337,229	1,800
2.1 Structured securities	3,974	-	-	-	4,007	-	3,945	-	-	-	3,988	-
2.2 Other debt securities	357,668	-	-	-	361,644	1,800	327,046	-	-	-	333,241	1,800
Total	**2,445,249**	**-**	**-**	**-**	**365,651**	**2,085,407**	**1,301,894**	**-**	**-**	**-**	**337,229**	**972,703**

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

NB: to reflect inclusion in item 10. Cash and cash equivalents of current accounts and sight deposits with banks and central banks (with the exception of the Mandatory Reserve account) required by the 7th Update of Circular 262 published in October 2021, the cash flow statement for the comparative period was restated to reflect the reclassification of Euro 63,682 from item 40.a) Due from banks to item 10) Cash and cash equivalents.

Stage segmentation takes place in compliance with the following requirements of "IFRS 9 Financial Instruments:

a) stage 1 for exposures performing in line with expectations;
b) stage 2 for exposures performing below expectations or that have recorded a significant increase in credit risk compared with when they were originated (or purchased);
c) stage 3 for non-performing exposures.

The balances of item "B. Due from banks" are shown net of adjustments deriving from the application of the models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments".

Amounts due from central banks include the amount of the reserve requirement at the Bank of Italy. For the purpose of maintaining the average level of the reserve in line with the requirement, the amount thereof may fluctuate, even significantly, in relation to the contingent liquidity needs of the Bank.

The Bank's commitment to maintain the reserve requirement amounts to Euro 103.9 million at 31 December (Euro 101.3 million in December 2020).

Amounts due from banks do not include loans and receivables classified as non-performing loans.

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows.

4.2 Financial assets at amortised cost: breakdown of loans to customers

Type of transaction/Amounts	31.12.2021						31.12.2020					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	Purchased or originated credit impaired	L1	L2	L3	First and second stage	Third stage	Purchased or originated credit impaired	L1	L2	L3
1. Loans	**10,838,026**	**220,143**	**9,598**	**-**	**7,528,161**	**3,755,169**	**10,113,140**	**295,599**	**10,702**	**-**	**7,196,337**	**3,561,278**
1.1. Current accounts	1,772,859	42,010	161	X	X	X	1,686,521	72,701	305	X	X	X
1.2. Repurchase agreements	-	-	-	X	X	X	0	0	0	X		X
1.3. Mortgage loans	7,943,255	169,031	9,284	X	X	X	7,496,763	205,708	10,241	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	66,970	410	12	X	X	X	8,712	585	35	X	X	X
1.5 Loans for leases	151,439	5,146	-	X	X	X	154,268	12,057	0	X	X	X
1.6. Factoring	76,935	107	-	X	X	X	43,027	296	0	X	X	X
1.7. Other loans	826,568	3,439	141	X	X	X	723,849	4,252	121	X	X	X
2. Debt securities	**2,757,165**	**-**	**-**	**2,271,870**	**425,946**	**75,476**	**2,493,358**	**0**	**0**	**2,099,604**	**437,322**	**4,989**
2.1. Structured securities	-	-	-	-	-	-	0	0	0	-	-	-
2.2. Other debt securities	2,757,165	-	-	2,271,870	425,946	75,476	2,493,358	0	0	2,099,604	437,322	4,989
Total	**13,595,191**	**220,143**	**9,598**	**2,271,870**	**7,954,107**	**3,830,645**	**12,606,498**	**295,599**	**10,702**	**2,099,604**	**7,633,659**	**3,566,267**

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

Gross loans total 11,408,964 thousand euro (10,766,773 thousand euro at the end of the previous year), of which: 10,943,969 thousand euro related to performing loans (10,191,052 thousand euro at the end of the previous year) and 464,995 thousand euro to non-performing loans (575,721 thousand euro at the end of the previous year).

Total write-downs on the same loans amount to Euro 341,197 thousand (Euro 347,332 thousand at the end of the previous year), of which Euro 238,905 thousand relate to non-performing loans (Euro 273,776 thousand at the end of the previous year) and Euro 102,292 thousand to performing loans (Euro 73,556 thousand at the end of the previous year).

With regard to the determination of credit losses, the information provided in the note on "Risks, uncertainties and the impacts of the Covid-19 pandemic" in "Section 4 – Other aspects", contained in subsection "A.1 General information" of "Part A - Accounting policies", is supplemented by the note on the “Model for measuring expected losses on performing loans” contained in “Part E – Information on risks and related hedging policy” of these explanatory notes.

The breakdown of loans to customers by type at 31 December 2021 (compared with 31 December 2020) shows significant growth in medium/long-term mortgages and loans due to both the disbursements made to companies backed by guarantees from Medio Credito Centrale, and the loans to households.

The table also includes the amounts of receivables sold which have not been derecognised, constituting eligible assets for the Covered Bond programme; at 31 December 2021 these loans amount to 1,491,336 thousand euro (1,473,441 thousand euro at the end of the previous year).

The sub-caption "Mortgage loans" also include collateralised loans with the ECB (via the A.Ba.Co procedure) amounting to Euro 3,177,848 thousand (Euro 2,889,722 thousand at the end of last year).

The sub-caption "Other loans" includes financing operations other than those indicated in the previous sub-captions (for example, bullet loans, advances on invoices and bills of exchange, import/export advances and other miscellaneous items).

Loans and receivables from companies belonging to the Banco Desio Group amount to Euro 863,329 thousand; they all relate to the subsidiary Fides S.p.A. (Euro 811,611 thousand at the end of the previous year).

This caption includes the interest accrued at 31 December 2021 that is recoverable from 1 March of the following year, due to application of the rules for the calculation of interest on banking transactions established in MEF Decree no. 343/2016, which implements art. 120, para. 2, of the Consolidated Banking Law (T.U.B.).

The caption "Purchased or originated credit impaired" includes those loans that originated as part of forbearance measures granted on non-performing loans.

The fair value of non-current performing loans is measured using techniques that discount the cash flows expected after considering the related credit risk, while the carrying amount of non-performing and current performing loans is considered to be a reasonable approximation of fair value. Taking into account the current context of the credit market, with particular reference to non-performing loans, this fair value (Level 2 and 3), determined taking into account multi-scenario assumptions that provide for the combination between internal management and so-called "disposal scenarios", may not represent the potential exit price because of a certain margin of uncertainty, which is in any case inherent in the various components making up the price considered by a potential third-party purchaser.

Caption "2. Debt securities" includes securities held in the "held to collect" business model, i.e. held with the intention of collecting contractual cash flows. The value of debt securities is shown net of adjustments deriving from the application of the new models for determining the expected loss on the "held to collect" debt securities portfolio in application of "IFRS 9 - Financial instruments". This portfolio at 31 December 2021 includes Euro 177,580 thousand of senior notes issued by the "2Worlds s.r.l." SPV following the sale of bad loans through use of the "GACS" scheme in 2018; another reimbursement of Euro 16,180 thousand was made in January 2022.

At 31 December 2021, non-performing loans of Euro 13,080 thousand were reclassified to caption "110. Assets held for sale", due to sales agreements previously signed and subsequently finalised at the beginning of 2022.

4.3 Financial assets at amortised cost: breakdown by borrower/issuer of loans to customers

Type of transaction/Amounts	31.12.2021			31.12.2020		
	First and second stage	Third stage	Purchased or originated credit impaired assets	First and second stage	Third stage	Purchased or originated credit impaired assets
1. Debt securities	**2,757,165**	**-**	**-**	**2,493,358**	**-**	**-**
a) Public administrations	2,250,151	-	-	2,048,094	-	-
b) Other financial companies	453,277	-	-	417,290	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	53,737	-	-	27,974	-	-
2. Loans to:	**10,838,026**	**220,143**	**9,598**	**10,113,140**	**295,299**	**10,702**
a) Public administrations	114,997	177	15	67,062	319	-
b) Other financial companies	1,068,541	2,067	-	944,639	5,208	-
of which: insurance companies	4,904	-	-	4,342	-	-
c) Non-financial companies	5,994,291	131,061	4,513	5,788,032	190,278	4,511
d) Households	3,660,197	86,838	5,070	3,313,407	99,494	6,191
Total	**13,595,191**	**220,143**	**9,598**	**12,606,498**	**295,299**	**10,702**

4.4 Financial assets at amortised cost: gross value and total write-downs

	Gross value					Total write-downs				Total partial write-offs
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	Purchased or originated credit impaired	First stage	Second stage	Third stage	Purchased or originated credit impaired	
Debt securities	3,121,344	3,120,874	-	-	-	2,537	-	-	-	-
Loans	11,209,318		1,814,632	455,362	13,406	17,865	84,452	235,219	3,808	6,371
Total 31.12.2021	**14,330,662**	**3,120,874**	**1,814,632**	**455,362**	**13,406**	**20,402**	**84,452**	**235,219**	**3,808**	**6,371**
Total 31.12.2020	**11,713,542**	**2,856,917**	**2,333,465**	**565,965**	**14,235**	**18,306**	**56,626**	**270,366**	**3,533**	**9,039**

The table shows the distribution of the exposures measured at amortised cost (both to banks and to customers) and the related adjustments in the three stages with increasing level of credit risk (due to the evolution over time) envisaged by IFRS 9 "Financial Instruments". Stage segmentation takes place in compliance with the following requirements:

a) stage 1 for exposures performing in line with expectations;
b) stage 2 for exposures performing below expectations or that have recorded a significant increase in credit risk compared with when they were originated (or purchased);
c) stage 3 for non-performing exposures.

The breakdown into stages is relevant for the application of the model for the calculation of impairment based on expected losses, determined on the basis of past events, current and reasonable conditions and "supportable" future forecasts (current model based on losses incurred but not recorded). In particular, the model for the calculation of the expected loss has the following characteristics:

- calculation horizon of the expected loss equal to one year (stage 1) or lifetime (stages 2 and 3);
- inclusion in the impairment calculation model of forward-looking components, such as expected changes in the macroeconomic scenario.

With reference to debt securities only, the so-called "low credit risk exemption" is active, on the basis of which we identified as low credit risk exposures and therefore to be considered in stage 1 the exposures that, at each reference date, will have a rating equal or higher than "investment grade" (or a similar quality), regardless of whether the rating has or has not worsened since the time the security was purchased.

4.4a Loans at amortised cost subject to Covid-19 support measures: gross value and total write-downs

		Gross value					Total write-downs				Total partial write-offs*
		First stage	of which: Instruments with low credit risk	Second stage	Third stage	Purchased or originated credit impaired	First stage	Second stage	Third stage	Purchased or originated credit impaired	
1. Loans subject to forbearance in compliance with the GL		13,627	-	525,104	31,756	332	78	48,431	10,723	57	-
2. Loans subject to moratorium measures in force no longer complying with the GL and not considered subject to forbearance		-	-	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures		-	-	-	-	-	-	-	-	-	-
4. New loans		2,101,080	-	322,375	14,806	1,523	2,616	2,415	2,646	228	-
Total	**31.12.2021**	**2,114,707**	**-**	**847,479**	**46,562**	**1,855**	**2,694**	**50,846**	**13,369**	**285**	**-**
Total	**31.12.2020**	**2,777,812**	**553**	**1,636,177**	**58,666**	**4,447**	**4,008**	**40,213**	**13,665**	**585**	**-**

(*) GL: Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (EBA/GL/2020/02)

Exposures in stage 2 shown in the table were impacted by management overlays, in relation to both the staging allocation and the calculation of the expected loss of the model, which will be described in greater detail in "Section E - Information on risks and hedging policies".

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Section 6 - Adjustment to financial assets with generic (or "macro") hedges - caption 60

6.1 Adjustment of hedged assets: breakdown by hedged portfolio

Adjustment of hedged assets/Amounts	31.12.2021	31.12.2020
1. Positive adjustments	**502**	**563**
1.1 of specific portfolios:	-	-
a) financial assets at amortised cost	-	-
b) financial assets at fair value through other comprehensive income	-	-
1.2 total	502	563
2. Negative adjustments	**-**	**-**
2.1 of specific portfolios:	-	-
a) financial assets at amortised cost	-	-
b) financial assets at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**502**	**563**

The adjustment to financial assets with generic hedges ("macro-hedging") refers to the delta between fair value and amortised cost of mortgage portfolios (previously identified as a hedged item) outstanding on the date of termination of the "macro-hedging" relationships and released over the useful life of the portfolios.

At 31 December, the balance solely comprises unamortised positive differentials on portfolios that were discontinued in prior years.

Section 7 - Equity investments - caption 70

7.1 Equity investments: details of holdings

Name	Registered office	Head office	% Held %	Voting rights %
A. Subsidiaries				
Fides S.p.A.	Rome	Rome	100.000	100.000
Desio OBG S.r.l	Conegliano	Conegliano	60.000	60.000

7.2 Significant equity investments: book value, fair value and dividends received

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to paragraph "3. Investments in subsidiaries with significant minority interests" of section 3 - Scope of consolidation and methodology" of Part A of the Banco Desio Group's consolidated financial statements.

7.3 Significant equity investments: accounting information

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to paragraph "3. Investments in subsidiaries with significant minority interests" of section 3 - Scope of consolidation and methodology" of Part A of the Banco Desio Group's consolidated financial statements.

Impairment testing of equity investments

In compliance with the requirements of IAS 36 and taking account of the guidance laid down in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, details are provided below of impairment testing of equity investments held at the reporting date.

Impairment testing is designed to check that the carrying amount of equity investments does not exceed their recoverable amount, defined as the higher of fair value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the investment.

As described in the paragraph "Risks, uncertainties and impacts of the Covid-19 pandemic" in "Section 4 – Other aspects" of "A.1 General information" in "Part A - Accounting policies" of these explanatory notes (to which reference is made), preparation of these financial statements included carrying out impairment tests on goodwill and equity investments. These tests took account of the performance forecasts updated by management (starting with the 2021-2023 Business Plan) for the five-year period, based on the forecast at 31 December 2021 (developed starting from the latest final interim figures) of the 2022 budget approved by the Board of Directors on16 December 2021, as well as the most recent market forecasts available.

In particular, pursuant to IAS 36 and in application of the policy on the impairment of intangible assets with an indefinite useful life (goodwill) and equity investments, the recoverable amount of equity investments was determined with reference to their value in use, if there was no fair value arising from transactions concerning the target of the impairment test or from market transactions involving similar targets. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived from them, using an appropriate discount rate for the time period in which the cash flows will be generated.

In practice, for credit or financial companies, use is made of Free Cash Flow to Equity (FCFE) methodology, or, more specifically, an Excess Capital variant of the Dividend Discount Model (DDM). This methodology determines the value of a company based on future cash flows that it will be capable of distributing to its shareholders, without touching the assets needed to support its expected growth in compliance with regulatory capital requirements imposed by the Supervisory Authorities, discounted using a discount rate that reflects the specific risk premium. Note, however, that despite the term "Dividend Discount Model", the cash flows considered by the model are not dividends expected to be distributed to shareholders, but cash flows from which a shareholder could benefit and which are surplus to operating capital requirements.

Impairment testing has thus been performed on the basis of the criteria and assumptions set out below.

a) Criterion to estimate the recoverable amount (impairment)

To estimate the recoverable amount of an equity investment, reference is made to the so-called value in use (equity value for banks and financial intermediaries).

"Explicit" time period for the determination of future cash flows

The time period adopted for the 2022-2023 Business Plan was considered, together with the further projection of that plan made by management and approved by the Board of Directors on 10 January 2022. This prudent projection was used to obtain an explicit forecast for the next 5 years, thus reducing the distortions that would derive from using the shorter time horizon for the Plan, which is heavily conditioned by a complex systemic situation clouded by macroeconomic and sector uncertainties as a result of the pandemic. More generally, the longer time frame normalises the effect on results of exceptional events, in order to focus more properly on the true medium/long-term potential of the business tested.

Cash flows

For the valuation of banks and financial intermediaries, an equity side approach to DDM methodology is used for the determination of equity value as, due to the characteristic activities undertaken by a financial intermediary (deposit taking and lending), it is particularly difficult to distinguish between financial payables and operating payables; furthermore, for the Excess Capital approach, cash flows available to shareholders are cash flows from which a shareholder could potentially benefit in excess of operating capital requirements and, thus, they take due account of regulatory capital absorption.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to Ke, the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity.

The equity value of the investment at the date of testing, determined on the basis of the above procedure, is then compared with the book value of the specific equity investment, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing

The main assumptions used for impairment testing are set out below.

Legal entity	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratios
Fides S.p.A.	DDM	2022 Budget extended to 2026 (*)	7.1%	8.22%	1.58%	Net results	Tier1 9.84% (**)

(*) 2021-23 Business Plan forecasts updated by the management, taking account of the results achieved at 30 September 2021, the forecasts at 31 December 2021 and the most recent market forecasts available, which led to the approval of the 2022 budget and the additional 5-year projections developed.

(**) Target allocated capital for the Banco Desio Group estimated (CET1 5Y average) also in order to monitor the consistency with the minimum (current) levels of CET1 at the level of the CRR Brianza Unione Group.

As a result of the impairment testing, no writedown of this equity investment was required.

It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets and could be subject to changes, which are currently unforeseeable, that would consequently have an impact on the main assumptions applied and, thus, potentially, also on the results of future years that could be different from those set out herein.

c) Sensitivity analysis

Since the measurement of impairment is rendered particularly complex due to the current macroeconomic and market environment and by the consequent difficulties in forecasting long term earnings, to support the testing performed, stress tests were carried out assuming a change in the main parameters applied for impairment testing.

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the equity investments match their carrying amounts.

Equity investments	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Fides S.p.A.	44.33%	Over 1,000

7.5 Equity investments: changes during the year

	31.12.2021	31.12.2020
A. Opening balance	**42,200**	**42,200**
B. Increases	**-**	**-**
B.1 Purchases	-	-
- of which: business combinations	-	-
2. Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Sales	-	-
- of which: business combinations	-	-
C.2 Write-downs	-	-
C.3 Impairment losses	-	-
C.4 Other changes	-	-
D. Closing balance	**42,200**	**42,200**
E. Total revaluations	**-**	**-**
F. Total write-downs	**-**	**-**

LISTING OF EQUITY INVESTMENTS AND SIGNIFICANT EQUITY INVESTMENTS

List of investments in subsidiaries (Caption 70. Equity investments)

(amounts in Euro)

Equity investments	*Number*	*% of shares or quotas*	*nominal value*	*Book value*
Subsidiaries				
Fides S.p.A.	35,000,000	100.000	35,000,000	42,193,729
Desio OBG S.r.l.	1	60.000	6,000	6,000
Total Caption 100. Equity investments				**42,199,729**

List of equity investments (Caption 30. Financial assets at fair value through other comprehensive income)

(amounts in Euro)

Equity investments	*Number*	*% of shares or quotas*	*nominal value*	*Book value*
Bank of Italy	400	0.133	10,000,000	10,000,000
Gepafin S.p.A.	113,848	10.728	683,088	1,593,417
Unione Fiduciaria	15,050	1.394	82,775	485,212
Baires Produzioni s.r.l.	-	-	-	240,000
Sviluppo Como - ComoNExt Spa	150,000	1.542	150,000	150,000
Bancomat S.p.A.	29,150	0.691	145,750	145,749
S.W.I.F.T. - Brussels	17	0.016	2,125	38,226
Sia S.p.A.	101,794	0.059	13,233	6,097
CBI S.C.P.A	5,720	1,243	11,440	11,440
Total				**12,670,141**

7.8. Significant restrictions

This type of information does not have to be provided here by banks that prepare consolidated financial statements in accordance with Circular 262 of the Bank of Italy; reference is therefore made to paragraph "4. Significant restrictions" of "Section 3 - Scope of consolidation and methodology" of Part A of the Banco Desio Group's consolidated financial statements.

Section 8 - Property, plant and equipment - caption 80

8.1 Property, plant and equipment - for business purposes: breakdown of assets at cost

Assets/Amounts	31.12.2021	31.12.2020
1. Own assets	**165,035**	**169,101**
a) land	52,553	52,778
b) property	95,846	99,107
c) furniture	3,680	4,216
d) electronic systems	4,284	3,246
e) other	8,672	9,754
2. Rights of use acquired under lease	**50,481**	**50,676**
a) land	-	-
b) property	49,795	49,809
c) furniture	-	-
d) electronic systems	-	-
e) other	686	867
Total	**215,516**	**219,777**
of which: obtained through enforcement of the guarantees received	-	-

Land and buildings are measured at the amount revalued as of 1 January 2004 on the first-time adoption of IFRS. Otherwise, the policy method is cost; this criterion is also adopted for all other tangible fixed assets.

The expected useful lives of the main asset categories are as follows:

- property: 50 years,
- office furniture, fittings, miscellaneous plant and equipment, armoured counters and compasses and alarm systems: 10 years,
- terminals and PCs, mixed use vehicles: 4 years.

Within each asset category, where necessary, certain types of assets may be attributed different and specified useful lives.

All categories of property, plant and equipment are depreciated on a straight line basis, except for land and works of art, which are not depreciated.

Under the heading "2. Rights of use acquired under lease", in accordance with IFRS 16 -"Leases" in force from 1 January 2019, right of use assets (or "RoU Assets") under lease agreements, calculated as the sum of the lease payable, initial direct costs, payments made on or before the contract's starting date (net of any incentives received for leasing) and decommissioning and/or restoration costs.

8.2 Investment property: breakdown of assets at cost

Assets/Amounts	31.12.2021				31.12.2020			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Own assets	**2,502**	**-**	**-**	**2,823**	**1,758**	**-**	**-**	**1,920**
a) land	1,052	-	-	1,187	828	-	-	846
b) property	1,450	-	-	1,636	930	-	-	1,074
2. Rights of use acquired under lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) property	-	-	-	-	-	-	-	-
Total	**2,502**	**-**	**-**	**2,823**	**1,758**	**-**	**-**	**1,920**
of which: obtained through enforcement of the guarantees received	-	-	-	-	-	-	-	-

Key

L1 = Level 1

L2 = Level 2

L3 = Level 3

Commitments to purchase property, plant and equipment (IAS 16/74.c)

At year-end there are no commitments to purchase property, plant and equipment.

8.3 Property, plant and equipment for business purposes: breakdown of revalued assets

As at the respective balance sheet dates, the Bank did not have any revalued property, plant and equipment for business purposes.

8.4 Investment property: breakdown of assets at fair value

At the balance sheet date, the Bank did not have any investment property at fair value.

8.6 Property, plant and equipment for business purposes: changes during the year

Assets/Amounts	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	**52,778**	**209,278**	**39,883**	**30,833**	**57,928**	**390,700**
A.1 Total net write-downs	-	(60,362)	(35,667)	(27,587)	(47,307)	(170,923)
A.2 Net opening balance	52,778	148,916	4,216	3,246	10,621	219,777
B. Increases:	**-**	**15,610**	**479**	**4,251**	**1,485**	**21,825**
B.1 Purchases	-	12,102	213	2,066	963	15,344
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increase in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	-
B.7 Other changes	-	3,508	266	2,185	522	6,481
C. Decreases:	**225**	**18,885**	**1,015**	**3,213**	**2,748**	**26,086**
C.1 Sales	1	3	278	2,190	551	3,023
C.2 Depreciation	-	12,280	503	1,023	2,133	15,938
C.3 Impairment write-downs booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value booked to	-	-	180	-	-	180
a) shareholders' equity	-	-	57	-	-	57
b) income statement	-	-	123	-	-	123
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property, plant and equipment	224	844	X	X	X	1,068
b) non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	5,758	54	-	64	5,876
D. Net closing balances	**52,553**	**145,641**	**3,680**	**4,284**	**9,358**	**215,516**
D.1 Net total write-downs	-	(72,346)	(35,902)	(26,424)	(48,948)	(183,620)
D.2 Gross closing balance	**52,553**	**217,987**	**39,582**	**30,708**	**58,306**	**399,136**
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

The captions A.1 and D.1 – "Net total write-downs" relate to accumulated depreciation.

Captions "B.7 Other changes", "C.1 Sales" and "C.7 Other changes" include the effects of disposals and sales of property, plant and equipment during the year; in particular, caption "B.7 Other changes" includes the release of the accumulated depreciation on the assets sold and caption "C.7 Other changes" includes the release of the historical cost of the same assets. As a result of the aforementioned disposals, losses of Euro 103 thousand were recorded to the income statement under caption 200 "Other operating charges/income".

8.7 Investment property: changes during the year

Assets/Amounts	Total	
	Land	Buildings
A. Opening balance	**828**	**930**
B. Increases	224	844
B.1 Purchases	-	-
B.2 Capitalised improvement costs	-	-
B.3 Positive changes in fair value	-	-
B.4 Write-backs	-	-
B.5 Foreign exchange gains	-	-
B.6 B.6 Transfers from assets used in business	224	844
B.7 Other changes	-	-
C. Decreases	**-**	**324**
C.1 Sales	-	-
C.2 Depreciation	-	29
C.3 Negative changes in fair value	-	-
C.4 Impairment write-downs	-	-
C.5 Foreign exchange losses	-	-
C.6 Transfers to:	-	-
a) assets used in business	-	-
b) non-current assets and disposal groups held for sale	-	-
C.7 Other changes	-	295
D. Closing balance	**1,052**	**1,450**
E. Measurement at fair value	**1,187**	**1,636**

8.9 Commitments to purchase property, plant and equipment

At year-end there are no commitments to purchase property, plant and equipment.

OWN PROPERTY (excluding property under finance lease)

Location of the property		surface area of office space (sqm)	Net carrying amount (in thousands of Euro)
ALBINO	Viale Libertà 23/25	332	621
ARCORE	Via Casati, 7	362	492
BAREGGIO	Via Falcone, 14	200	246
BESANA BRIANZA	Via Vittorio Emanuele, 1/3	625	736
BOLOGNA	Porta Santo Stefano, 3	1,223	8,152
BOLOGNA SANTA VIOLA	Via Della Ferriera, 4	200	930
BOVISIO MASCIAGO	Via Garibaldi, 8	382	374
BRESCIA	Via Verdi, 1	720	2,710
BRIOSCO	Via Trieste, 14	430	364
BRUGHERIO	Viale Lombardia, 216/218	425	1,131
BUSTO ARSIZIO	Via Volta, 1	456	910
CADORAGO	Via Mameli, 5	187	263
CANTU'	Via Manzoni, 41	1,749	1,970
CARATE BRIANZA	Via Azimonti, 2	773	861
CARUGATE	Via XX Settembre, 8	574	546
CARUGO	Via Cavour, 2	252	336
CASTELLANZA	Corso Matteotti, 6	337	371
CESANO MADERNO	Corso Roma, 15	692	775
CHIAVARI	Piazza Matteotti, 11	68	918
CINISELLO BALSAMO	Via Frova, 1	729	806
CINISELLO BALSAMO	Piazza Gramsci	26	14
COLOGNO MONZESE	Via Cavallotti, 10	128	42
COMO	Via Garibaldi, angolo Via Varese	548	2,091
CUSANO MILANINO	Viale Matteotti, 39	522	610
DESIO	Piazza Conciliazione, 1	1,694	1,848
DESIO	Via Rovagnati, 1	20,032	26,207
DESIO	Via Volta, 96	238	523
GARBAGNATE	Via Varese, 1	400	1,059
GIUSSANO	Via Addolorata, 5	728	823
LECCO	Via Volta, ang. Via Montello	615	1,547
LEGNANO	Corso Italia, 8	1,545	2,385
LISSONE	Via San Carlo, 23	583	1,171
MEDA	Via Indipendenza, 60	678	708
MILAN	Via della Posta, 8	1,912	7,301

MILAN	Via Foppa, 5	223	724
MILAN	Via Menotti	825	2,683
MILAN	Via Moscova, 30/32	668	4,865
MILAN	Via Trau', 3	422	1,870
MILAN	Piazza De Angeli, 7/9	385	1,970
MISINTO	Piazza Mosca, 3	330	326
MODENA	Via Saragozza, 130	720	3,817
MONZA	Via Rota, 66	330	481
MONZA	Piazza S. Paolo, 5	496	3,368

Location of the property		surface area of office space (sqm)	Net carrying amount (in thousands of Euro)
NOVA MILANESE	Piazza Marconi, 5	526	601
NOVATE MILANESE	Via Matteotti, 7	462	604
ORIGGIO	Largo Croce, 6	574	677
PADUA	Via Matteotti, 26	550	3,163
PALAZZOLO MILANESE	Via Monte Sabotino, 1	605	585
PIACENZA	Via Vittorio Veneto,67/a	486	1,283
REGGIO EMILIA	Via Terrachini, .1	713	2,369
RENATE	Piazza don Zanzi, 2	429	569
RHO	Via Martiri Libertà, 3	410	660
RUBIERA	Via Emilia Ovest, 7	310	1,247
SARONNO	Via Rimembranze, 42	530	683
SEGRATE	Via Cassanese, 200	170	262
SEREGNO	Via Trabattoni, 40	1,233	1,892
SESTO SAN GIOVANNI	Piazza Oldrini	377	697
SEVESO	Via Manzoni, 9	382	942
SOVICO	Via Frette, 10	673	948
TURIN	Via Filadelfia, 136	370	1,570
VAREDO	Via Umberto I°, 123	501	463
VEDUGGIO	Via Vittorio Veneto, 51	257	212
VERANO BRIANZA	Via Preda, 17	322	343
VERANO BRIANZA	Via Furlanelli, 3	790	624
VIGEVANO	Via Decembrio, 21	655	1,838
VIMERCATE	Via Milano, 6	338	851
AMELIA	Via Orvieto, 14	204	141
ASSISI	Piazza Santa Chiara, 19	464	655
BEVAGNA	Corso Matteotti, 36/38	103	134
CASCIA	Piazza G. Garibaldi, 1	372	184
CORCIANO	Via Gramsci 2	290	182

EMPOLI	Via Busoni, 83/97	578	1,438
FOLIGNO	Via Cesare Battisti, 2	2,280	1,667
NORCIA	Corso Sertorio, 5	259	260
PERUGIA	C.so Vannucci, 30	901	1,688
PERUGIA	Via delle Marche, 26	113	115
PERUGIA	Via Tagliapietra, 3	518	454
PERUGIA	Via Settevalli, 175	521	1,387
ROME PRATI FISCALI	Via Val Maggia, 135	197	1,793
SCHEGGINO	Piazza del Mercato, 1	170	131
SPOLETO	Piazza Pianciani	8,423	18,527
SPOLETO	Via G. Marconi, 220	189	131
SPOLETO	Via Nursina, 1	815	1,106
SPOLETO	Viale Trento e Trieste	3,793	2,316
TERNI	Corso del Popolo, 45	1,895	2,444
TERNI	Via del Rivo, 104/F	180	181
TREVI	Piazza Garibaldi, 7	703	437
Sub total		79,395	148,399
Investment property			
MEDA parking space	Via Indipendenza, 60	15	6
MILAN	1st floor Via Trau', 3	205	982
MONZA	Corso Milano, 47	453	772
MONZA	Via Manzoni, 37	397	663
FOLIGNO	Via Velino, 2	168	79
Sub total		1,238	2,502
Total		80,633	150,901

Table of revalued assets recognised in the financial statements

(pursuant to art. 10 of Law no. 72 of 19/3/1983)

(amounts in Euro)

	Revaluations in line with inflation	Revaluations to reflect change in value		
		Merger deficit	Voluntary revaluations	TOTAL

	Law 576/75	Law 72/83	Law 413/91			
DESIO, Via Rovagnati, 1		937,369	6,844,273			7,781,642
CINISELLO, P.zza Gramsci			1,173			1,173
CUSANO M.NO Via Matteotti, 39	10,170	25,483	19,944		12,925	68,522
CANTU', Via Manzoni, 41		22,884	185,972	1,321,713		1,530,569
CARUGATE, Via XX Settembre, 8			355		4,132	4,487
MILAN, Via della Posta, 8/10			189,958		51,645	241,603
NOVATE M.SE, Via Matteotti, 7			22,022	170,257		192,279
GIUSSANO, Via Addolorata, 5			26,067			26,067
MEDA, Via Indipendenza, 60			51,616			51,616
MONZA, Corso Milano, 47			227,521			227,521
BOVISIO, Via Garibaldi, 8			26,357			26,357
PALAZZOLO M.SE, Via Monte Sabotino, 1			24,339			24,339
LEGNANO, Corso Italia, 8			176,676			176,676
SOVICO, Piazza Frette			62,703			62,703
Total	**10,170**	**985,736**	**7,858,976**	**1,491,970**	**68,702**	10,415,554

Section 9 - Intangible assets - caption 90

9.1 Intangible assets: breakdown by type

Assets/Amounts	31.12.2021		31.12.2020	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill		9,796		9,796
A.2 Other intangible assets	2,659	-	1,976	-
of which Software	2,659	-	1,976	-
A.2.1 Assets at cost:	2,659	-	1,976	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	2,659	-	1,976	-
A.2.2 Assets at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**2,659**	**9,796**	**1,976**	**9,796**

Goodwill recorded in the financial statements, having an indefinite useful life, is not amortised on a straight-line basis but subjected to impairment testing at least once a year, particularly at the year end reporting date or, in any case, any time circumstances arise that suggest that there may be impairment.

Other intangible assets are amortised on a straight-line basis over their useful lives which, for computer software, is four years and for application software is 4 or 5 years, based on the useful life specified within the asset category.

Impairment testing of goodwill

According to the provisions of IAS 36 and taking into account the information contained in the joint Bank of Italy/Consob/Isvap document of 3 March 2010, we report below information on the impairment test on cash generating units (CGU).

Impairment testing is designed to check that the carrying amount of the CGU does not exceed its recoverable amount, defined as the higher of fair value that can be derived from continued use (value in use) and the potential selling price in the market (fair value less costs to sell or exchange value) of the CGU.

As described in the paragraph “Risks, uncertainties and impacts of the Covid-19 pandemic” in “Section 4 – Other aspects” of “A.1 General information” in “Part A - Accounting policies” of these explanatory notes (to which reference is made), preparation of these financial statements included carrying out impairment tests on goodwill and equity investments. These tests took account of the performance forecasts updated by management (starting with the 2021-2023 Business Plan) for the five-year period, based on the forecast at 31 December 2021 (developed starting from the latest final interim figures) of the 2022 budget approved by the Board of Directors on16 December 2021, as well as the most recent market forecasts available.

In particular, pursuant to IAS 36 and in application of the policy on the impairment of intangible assets with an indefinite useful life (goodwill) and equity investments, the recoverable amount of the CGUs was determined with reference to their value in use. For the determination of value in use, IAS 36 allows the use of a discounted cash flow methodology. This approach computes the value in use of a CGU or of a company based on the present value of the future (operating) cash flows expected to be derived from them, using an appropriate discount rate for the time period in which the cash flows will be generated.

In practice, for credit or financial companies, use is made of Free Cash Flow to Equity (FCFE) methodology, or, more specifically, an Excess Capital variant of the Dividend Discount Model (DDM). This methodology determines the value of a company based on future cash flows that it will be capable of distributing to its shareholders, without touching the assets needed to support its expected growth in compliance with regulatory capital requirements imposed by the Supervisory Authorities, discounted using a discount rate that reflects the specific risk premium. Note, however, that despite the term "Dividend Discount Model", the cash flows considered by the model are not dividends expected to be distributed to shareholders, but are cash flows from which a shareholder could benefit and which are surplus to operating capital requirements.

On a basis consistent with that of the prior year financial statements, individual legal entities have been identified as CGUs, taking account of the fact that the Banking Group envisages that the Parent Company shall provide guidance and strategic coordination aimed at the achievement of the objectives concerning the development and earnings of each legal entity and, as a consequence, results are reported autonomously (by means of the management reporting system) in a manner which sees the CGU coincide with the legal entity and, accordingly, management reports, as well as the budget process, analyse, monitor and forecast earnings and financial position based on this approach.

Impairment testing was thus conducted for the legal entity Banco di Desio e della Brianza Spa on the basis of the criteria and assumptions set out below.

a) <u>Criterion to estimate the recoverable amount (impairment)</u>

To estimate the recoverable amount of the goodwill pertaining to the specific legal entity, reference is made to the so-called "value in use" ("equity value" for banks and financial intermediaries).

<u>"Explicit" time period for the determination of future cash flows</u>

The time period adopted for the 2022-2023 Business Plan was considered, together with the further projection of that plan made by management and approved by the Board of Directors on 10 January 2022. This prudent projection was used to obtain an explicit forecast for the next 5 years, thus reducing the distortions that would derive from using the shorter time horizon for the Plan, which is heavily conditioned by a complex systemic situation clouded by macroeconomic and sector uncertainties as a result of the pandemic. More generally, the longer time frame normalises the effect on results of exceptional events, in order to focus more properly on the true medium/long-term potential of the business tested.

<u>Cash flows</u>

For the valuation of banks and financial intermediaries, an equity side approach to DDM methodology is used for the determination of equity value as, due to the characteristic activities undertaken by a financial intermediary (deposit taking and lending), it is particularly difficult to distinguish between financial payables and operating payables; furthermore, for the Excess

Capital approach, cash flows available to shareholders are cash flows from which a shareholder could potentially benefit in excess of operating capital requirements and, thus, they take due account of regulatory capital absorption.

Discount rate

For the valuation of banks and financial intermediaries, reference is made to Ke, the so-called cost of capital (cost of equity).

Growth rate of cash flows beyond the "explicit" time period for the determination of future cash flows

A long term growth rate is used in line with the projected long term inflation rate.

Terminal Value

This is determined by the application of a formula that accounts for the value of free cash flows that continue into perpetuity.

The equity value of the CGU at the date of testing, determined on the basis of the above procedure, after deducting the book value of shareholders' equity, is then compared with the book value of the specific goodwill pertaining to the CGU in question, with the sole objective of verifying whether there is any impairment.

b) Parameters used for impairment testing

The main assumptions used for impairment testing are set out below.

CGU	Model	Input used	CAGR RWA	Ke	g	Plan flows	Capital ratio
Banco di Desio e della Brianza S.p.A.	DDM	2022 Budget extended to 2026 (*)	2.5%	8.22%	1.58%	Net results	Tier1 9.84% (**)

(*) 2021-23 Business Plan forecasts updated by the management, taking account of the results achieved at 30 September 2021, the forecasts at 31 December 2021 and the most recent market forecasts available, which led to the approval of the 2022 budget and the additional 5-year projections developed.

(**) Target allocated capital for the Banco Desio Group estimated (CET1 5Y average) also in order to monitor the consistency with the minimum (current) levels of CET1 at the level of the CRR Brianza Unione Group.

As a result of the impairment testing, no write-down of goodwill was required.

It should be emphasised that the parameters and the information used for impairment testing are influenced by the economic downturn and by financial markets and could be subject to changes, which are currently unforeseeable, that would consequently have an impact on the main assumptions applied and, thus, potentially, also on the results of future years that could be different from those set out herein.

c) Sensitivity analysis

Since the measurement of impairment is rendered particularly complex due to the current macroeconomic and market environment and by the consequent difficulties in forecasting long term earnings, to support the testing performed, stress tests were carried out assuming a change in the main parameters applied for impairment testing.

The table below provides a summary of the changes in the percentage or percentage points of the underlying assumptions that would be required to have the recoverable amount of the CGU, after having deducted the shareholders' equity allocated thereto, match the carrying amount of goodwill.

CGU	% decrease in net future results (RN)	Increase in p.p. of discount rate used for future cash flows (FCFE)
Banco di Desio e della Brianza S.p.A.	43.56%	Over 1,000

9.2 Intangible assets: changes during the year

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		LIM	UNLIM	LIM	UNLIM	
A. Opening balance	**11,940**	**-**	**-**	**20,121**	**-**	**32,061**
A.1 Total net write-downs	(2,144)	-	-	(18,145)	-	(20,289)
A.2 Net opening balance	9,796	-	-	1,976	-	11,772
B. Increases	**-**	**-**	**-**	**1,938**	**-**	**1,938**
B.1 Purchases	-	-	-	1,938	-	1,938
- of which: business combinations	-	-	-	-	-	-
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- recognised in equity	X	-	-	-	-	-
- recognised in income statement	X	-	-	-	-	-
B.5 Foreign exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**1,255**	**-**	**1,255**
C.1 Sales	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Write-downs	-	-	-	1,255	-	1,255
- Amortisation	X	-	-	1,255	-	1,255
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-

C.3 Negative changes in fair value:	-	-	-	-	-	-
- recognised in equity	X	-	-	-	-	-
- recognised in income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Foreign exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**9,796**	**-**	**-**	**2,659**	**-**	**12,455**
D.1 Total net write-downs	(2,144)	0	0	(19,400)	0	(21,544)
E. Gross closing balance	**11,940**	**0**	**0**	**22,059**	**0**	**(33,999)**
F. Measurement at cost	0	0	0	0	0	0

Key

LIM: limited duration

UNLIM: unlimited duration

9.3 Other information

At year-end there are no commitments to purchase intangible assets.

Section 10 - Tax assets and liabilities - Asset caption 100 and Liability caption 60

10.1 Deferred tax assets: breakdown

	IRES	IRAP	31.12.2021	31.12.2020
A) With contra-entry to the income statement:				
Tax losses	185		185	12,144
Tax deductible goodwill	3,727	755	4,482	4,082
Write-down of loans to customers deductible on a straight-line basis	112,966	15,787	128,753	152,268
General allowance for doubtful accounts	305		305	305
Write-down of loans to customers outstanding at 31.12.1994				
Statutory depreciation of property, plant and equipment	282		282	276
Provision for guarantees and commitments and country risk	1,116		1,116	1,360
Provisions for personnel costs	4,911	791	5,702	5,443
Provision for lawsuits	2,623		2,623	2,600
Provision for claw-backs	228	46	274	236
Provision for sundry charges	1,377	187	1,564	1,211
Tax provision for termination indemnities				
Other general expenses deductible in the following year				
Other	4,381	547	4,928	1,725
Total A	**132,101**	**18,113**	**150,214**	**181,650**
B) With contra-entry to shareholders' equity:				
Cash-flow hedges	1,082	219	1,301	1,301
Write-down of securities at FVOCI	1,059	220	1,279	51
Tax deductible goodwill	76	15	91	99
Tax provision for termination indemnities	1,109	-	1,109	1,112
Total B	**3,326**	**454**	**3,780**	**2,563**
Total (A+B)	**135,427**	**18,567**	**153,994**	**184,213**

Probability test on deferred tax assets

In relation to the deferred tax assets described above, it should be noted that they refer for Euro 109,789 thousand to taxes as per Law 214/2011, which made it certain that they would be recovered, thereby making the IAS 12 Income taxes probability test automatically satisfied.

The Parent Company Banco di Desio e della Brianza S.p.A. is not obliged to pay the annual guarantee fee for the transformation of deferred tax assets into tax credits as per Law 214/2011 as introduced by art. 11 of D.L. 59/2016, as the tax base, calculated according to regulations, is negative.

The additional deferred tax assets described above, which are outside the scope of Law 214/2011, have been recognised in view of the probability of their recovery, expecting there to be sufficient taxable income in the future to recover these assets. In particular, deferred tax assets were analysed by type and timing of reabsorption, as well as the future profitability of the bank and the related taxable income based on the business plan forecasts referring to the time frame attributable to the years 2022 and 2023 of the 2021-2023 Business Plan, and the additional development of that plan, overseen by the management and approved by the Board of Directors on 10 February 2022, and their extension to 2026, described in greater detail as part of the impairment testing of goodwill. The analysis showed that there will be sufficient taxable income in the future to recover these assets.

10.2 Deferred tax liabilities: breakdown

	IRES	IRAP	31.12.2021	31.12.2020
A) With contra-entry to the income statement:				
Tax depreciation of buildings				7,555
Tax depreciation of property, plant and equipment		13	13	16
Tax amortisation of goodwill	10	2	12	571
Tax amortisation of deferred charges (software)				
PPA of depreciation and amortisation				1,011
Other	645	5	650	569
Total A	**655**	**20**	**675**	**9,722**
B) With contra-entry to shareholders' equity				
Cash-flow hedges	999	202	1,201	841
Revaluation of securities at FVOCI	20	4	24	630
Revaluation of equity investments				2,218
Revaluation of artworks	51	10	61	79
Total B	**1,070**	**216**	**1,286**	**3,768**
Total (A+B)	**1,725**	**236**	**1,961**	**13,490**

10.3 Changes in deferred tax assets (with contra-entry to income statement)

	31.12.2021	31.12.2020
1. Opening balance	**181,650**	**189,951**
2. Increases	**9,515**	**7,638**
2.1 Deferred tax assets recognised during the year	9,383	7,161
a) relating to prior years		
b) due to changes in accounting policies		
c) write-backs		
d) other	9,383	7,161
2.2 New taxes or increases in tax rates		
2.3 Other increases	132	477
of which: business combinations		
3. Decreases	**40,951**	**15,939**
3.1 Deferred tax assets cancelled during the year	29,110	15,939
a) reversals	29,110	15,939
b) written down as no longer recoverable		
c) change in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases	11,841	
a) Conversion to tax credits as per L. 214/2011	11,841	
b) Other		
of which: business combinations		
4. Closing balance	**150,214**	**181,650**

The deferred tax assets recognised during the year mainly comprised:

- Euro 3,919 thousand relating to non-deductible provisions to risks and charges and employee related provisions;
- Euro 99 thousand to the non-deductible provisions tax disputes;
- Euro 1,122 thousand for non-deductible provisions for legal disputes and bankruptcy clawback actions;
- Euro 800 thousand for the restoration of the deferred tax assets due to the realignment carried out pursuant to art. 110 of Decree Law no 104/2020 of the tax values to the higher statutory amounts of goodwill recognised in 2019 following the merger by incorporation of the former subsidiary Banca Popolare di Spoleto;
- Euro 205 thousand for ACE (Aid for Economic Growth).

The sub-caption "2.3 Other increases" relates to the recognition of deferred tax assets as a result of the recomputation, made for the purpose of the 2020 tax return.

Deferred tax assets cancelled in the year are essentially due to:

- Euro 20,294 thousand from the recovery of prior year loan write-downs, pursuant to art. 16, paragraph 4 of Decree Law no. 83 of 27 June 2015 and subsequent amendments and integrations;

- Euro 3,036 thousand from the deduction of the 10% annual portion pursuant to paragraphs 1067 and 1068 of art. 1 of Law 145/2018, of the income elements arising from the adoption of the recognition of the expected losses on loans and receivables from customers, booked on first-time adoption of the IFRS 9 standard;
- Euro 4,789 thousand relating to the use of taxed provisions.

Caption "3.3 Other decreases" refers to the credit relating to the tax losses for 2020, transformed into tax credits pursuant to art. 2, paragraph 56-bis of Decree Law no. 225/2010, starting from the date of filing the tax returns.

The closing balance comprises the credit for the current-year tax loss of the Company, 185 thousand euro, which is transformable into a tax credit pursuant to art. 2, para. 56-bis, of Decree 225/2010, upon presentation of the annual income tax declaration.

That amount includes the lower credit for deferred tax assets on the tax loss, equal to Euro 1,343 thousand, generated due to the income components charged directly to shareholders' equity, which were never planned to be charged to the income statement.

10.3.bis Changes in deferred tax assets under Law 214/2011

	31.12.2021	31.12.2020
1. Opening balance	**142,469**	**150,876**
2. Increases		
of which: business combinations		
3. Decreases	**32,680**	**8,407**
3.1 Reversals	20,839	8,407
3.2 Conversion to tax credits	11,841	
a) arising from the loss for the year		
b) arising from tax losses	11,841	
3.3 Other decreases		
of which: business combinations		
4. Closing balance	**109,789**	**142,469**

"3.1 Reversals" refers to:

- Euro 20,294 thousand for the recovery of prior year loan write-downs, pursuant to art. 16, paragraph 4 of Decree Law no. 83 of 27 June 2015 and subsequent amendments and integrations;
- Euro 72 thousand for the amortisation of goodwill previously stepped up for tax purposes.

Caption "3.2 Conversion to tax credits" refers to the credit relating to the tax losses for 2020, transformed into tax credits pursuant to art. 2, paragraph 56-bis of Decree Law no. 225/2010, starting from the date of filing the tax returns.

The closing balance comprises the credit for the current-year tax loss of the Company, 185 thousand euro, which is transformable into a tax credit pursuant to art. 2, para. 56-bis, of Decree 225/2010, upon presentation of the annual income tax declaration.

10.4 Change in deferred tax liabilities (as a contra-entry to the income statement)

	31.12.2021	31.12.2020
1. Opening balance	9,722	12,253
2. Increases	703	63
2.1 Deferred tax liabilities recognised during the year	703	63
a) relating to prior years		
b) due to changes in accounting policies		
c) other	703	63
2.2 New taxes or increases in tax rates		
2.3 Other increases		
of which; business combinations		
3. Decreases	9,750	2,594
3.1 Deferred tax liabilities cancelled during the year	9,658	2,594
a) reversals	9,658	2,594
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases	92	
of which; business combinations		
4. Closing balance	675	9,722

Deferred tax liabilities recognised during the year mainly refer to the Provision for termination indemnities and the adjustment of deferred tax liabilities on the value of buildings following the realignment carried out pursuant to art. 110 of Decree Law no. 104/2020.

Deferred tax liabilities cancelled during the year are mainly attributable:

- for Euro 9,544 thousand, to the realignment carried by the Parent Company, pursuant to art. 110 of Decree Law no. 104/2020, of the tax values to the higher statutory values of buildings;
- for 111 thousand euro to the share of capital gains realised on financial assets in 2017, deductible on a straight-line basis over the following four years in accordance of art. 86 of TUIR (Consolidated Income Tax Act).

10.5 Changes in deferred tax liabilities (as a contra-entry to shareholders' equity)

	31.12.2021	31.12.2020
1. Opening balance	2,563	2,402
2. Increases	1,258	171
2.1 Deferred tax assets recognised during the year	1,258	171
a) relating to prior years		
b) due to changes in accounting policies		
c) other	1,258	171
2.2 New taxes or increases in tax rates		
2.3 Other increases		
of which: business combinations		
3. Decreases	41	10
3.1 Deferred tax assets cancelled during the year	41	10
a) reversals	41	10
b) written down as no longer recoverable		
c) due to changes in accounting policies		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
of which: business combinations		
4. Closing balance	3,780	2,563

Deferred tax assets recognised during the year are due to the valuation of securities classified as Financial assets valued at fair value through other comprehensive income (FVOCI).

Deferred tax liabilities cancelled during the year are essentially due to the valuation of securities classified as Financial assets valued at fair value through other comprehensive income (FVOCI).

10.6 Changes in deferred tax liabilities (as a contra-entry to shareholders' equity)

	31.12.2021	31.12.2020
1. Opening balance	3,768	3,562
2. Increases	364	1,102
2.1 Deferred tax liabilities recognised during the year	364	1,102
a) relating to prior years		
b) due to changes in accounting policies		
c) other	364	1,102
2.2 New taxes or increases in tax rates		
2.3 Other increases		
of which: business combinations		
3. Decreases	2,846	896
3.1 Deferred tax liabilities cancelled during the year	2,846	896
a) reversals	2,846	896
b) due to changes in accounting policies		
c) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
of which: business combinations		
4. Closing balance	1,286	3,768

Deferred tax liabilities recognised during the year are mainly due to the change in the cash-flow hedge reserve.

Deferred tax liabilities cancelled during the year are essentially due to the measurement and sale of securities classified as Financial assets at fair value through other comprehensive income (FVOCI).

10.7 Other information

Current tax assets

Captions	31.12.2021	31.12.2020
Ires	13,982	12,183
Irap	-	4,717
Total	13,982	16,900

Current tax liabilities

Captions	31.12.2021	31.12.2020
Ires	-	-
Irap	1,809	-
Total	1,809	-

Section 11 – Non-current assets and disposal groups held for sale and associated liabilities – Caption 110 of assets and Caption 70 of liabilities and shareholders' equity

At 31 December 2021, assets held for sale included non-performing loans of Euro 13,080 thousand valued at the sale price deriving from the sales agreements signed and finalised at the date of approval of this document.

Section 12 - Other assets – caption 120

12.1 Other assets: breakdown

	31.12.2021	31.12.2020
Tax credits		
- capital	151,199	2,944
- interest		
Amounts recoverable from the tax authorities for advances paid	36,019	29,721
Withholding tax credits		
Cheques negotiated to be cleared	15,502	15,808
Guarantee deposits		
Invoices issued to be collected	320	304
Debtors for securities and coupons to be collected by third parties		
Printer consumables and stationery		
Items being processed and in transit with branches	22,796	19,409
Currency spreads on portfolio transactions		141
Investments of the supplementary fund for termination indemnities	19	31
Leasehold improvement expenditure	7,258	8,173
Accrued income and prepaid expenses	18,057	2,495
Other items	36,535	28,358
Total	287,705	107,384

The "Tax credits" caption mainly relates to:

- for Euro 147,166 thousand to tax credits for the eco/earthquake bonuses acquired pursuant to art. 121 of Decree Law 34/2020 and recognised at amortised cost, as indicated in Part A – A.2 Main captions in the financial statements, to which reference is made;
- for Euro 1,127 thousand, to the credit linked to management of the reconstruction loans disbursed after the 2009 earthquake in Abruzzo;
- for Euro 2,215 thousand, to the credit linked to management of the reconstruction loans disbursed after the 2016 earthquake in Central Italy.

"Amounts recoverable from the tax authorities for advances paid" relate to payments of tax advances that exceed the tax liability as per the applicable tax return; in detail, they refer to:

- a receivable for virtual stamp duty of Euro 24,154 thousand (vs Euro 18,485 thousand);

- a receivable for an advance payment of substitute tax due on capital gains of Euro 10,101 thousand, as per art. 2, para. 5, of Decree Law no. 133 of 30 November 2013 (vs Euro 9,579 thousand);
- a receivable for substitute tax on medium/long-term loans for Euro 972 thousand;
- a receivable for withholding tax on the interest earned by deposits and current accounts of Euro 792 thousand. (vs Euro 1,655 thousand).

The "Items being processed and in transit with branches" principally include cheques being processed, Euro 1,587 thousand (vs Euro 3,619 thousand), the F24 tax payment forms accepted that will be debited to accounts on the due date, Euro 1,706 thousand (vs Euro 1,765 thousand), the recovery of commissions on lines of credit made available to customers, Euro 6,849 thousand (vs Euro 7,401 thousand) and and units of a closed-end investment fund to be received for Euro 5,538 thousand. This caption comprises transactions that are usually closed out within a few days of the start of the new year.

The amount of "Currency spreads on portfolio transactions" results from the offset of illiquid liability positions against illiquid asset positions relating to remittances pertaining to customers' and the bank's portfolios.

"Leasehold improvement expenditure" is amortised each year in accordance with the residual period of the lease agreement.

"Accrued income and prepaid expenses" include amounts that are not attributable to specific asset captions; this caption mainly relates to prepaid administrative costs; the change on the previous year is mainly attributable to the different dynamics in payment of the fees for the IT outsourcer, paid in advance for 2022.

The main sub-captions included in the caption "Other items" are:

- other amounts awaiting collection for 20,068 thousand euro (vs Euro 15,976 thousand) mainly stamp duty recoverable on bank statements, services charged to clients on a quarterly basis and interbank income receivable;
- invoices to be issued for Euro 4,948 thousand. (vs Euro 2,165 thousand);
- a receivable from the subsidiary Fides for the provision of services for 153 thousand euro (vs Euro 146 thousand).

LIABILITIES AND SHAREHOLDERS' EQUITY

Section 1 - Financial liabilities at amortised cost - caption 10

1.1 Financial liabilities at amortised cost: breakdown of amounts due to banks

Type of transaction/Amounts	31.12.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	3,805,889	X	X	X	2,396,584	X	X	X
2. Due to banks	9,806	X	X	X	15,660	X	X	X
2.1 Current accounts and demand deposits	56	X	X	X	1,375	X	X	X
2.2 Time deposits	9,750	X	X	X	14,285	X	X	X
2.3 Loans	-	X	X	X	-	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Finance lease payables	-	X	X	X	-	X	X	X
2.6 Other payables	-	X	X	X	-	X	X	X
Total	3,815,695	-	-	3,815,695	2,412,244	-	-	2,412,244

Key

BV = book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The "Due to central banks" caption reflects the funding facility assigned to the Bank by the ECB as part of the "TLTRO " operation. To assist this loan, the Bank has lodged collateralised mortgage loans with the ECB (via the A.Ba.Co. procedure).

In March and December 2021, the Bank participated in TLTRO III auctions for amounts of Euro 1.0 billion and Euro 0.45 billion, respectively, thus bringing total TLTRO III loans outstanding to Euro 3.85 billion. As a result of exceeding the benchmark for net disbursements, and the resulting achievement of the bonus rate, at 31 December 2021 the caption interest income includes the interest accrued during the year for Euro 35.7 million which, along with the accruals recognised in the previous year for Euro 3.4 million, bring the total accruals of negative interest income to Euro 39.1 million.

1.2 Financial liabilities at amortised cost: breakdown of amounts due to customers

Type of transaction/Amounts	31.12.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	10,125,728	X	X	X	9,560,492	X	X	X
2. Time deposits	434,619	X	X	X	515,159	X	X	X
3. Loans	324,775	X	X	X	69,505	X	X	X
3.1 Repurchase agreements	207,735	X	X	X	-	X	X	X
3.2 Other	117,040	X	X	X	69,505	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Finance lease payables	51,565	X	X	X	51,438	X	X	X
6. Other payables	39,566	X	X	X	60,411	X	X	X
Total	10,976,253	-	-	10,976,253	10,257,005	-	-	10,257,005

Key

BV = book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The main components of "Other payables" relate to: cashier's cheques for Euro 38,894 thousand (vs Euro 59,837 thousand) and bank transfer cheques for Euro 540 thousand (vs Euro 543 thousand).

In application of IFRS 16, caption 5. "Finance lease payables" shows the lease liability, consisting of the current value of the payments which still have to be paid to the lessor at the reference date.

1.3 Financial liabilities at amortised cost: breakdown of debt securities in issue

Type of security/Amounts	31.12.2021				31.12.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	1,515,294	-	1,513,377	-	1,600,580	-	1,601,142	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,515,294	-	1,513,377	-	1,600,580	-	1,601,142	-
2. other securities	6,971	-	-	6,971	8,347	-	-	8,347
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	6,971	-	-	6,971	8,347	-	-	8,347
Total	1,522,265	-	1,513,377	6,971	1,608,927	-	1,601,142	8,347

Key

BV = book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

This caption reflects funding by means of securities, which include bonds and certificates of deposit, the book value of which is measured at amortised cost (or at fair value if the security is hedged), inclusive of accrued interest thereon. The total funds collected are shown net of repurchased securities.

The caption A.1.2 "Bonds: other" includes the Guaranteed Bank Bonds (GGB) issued for Euro 1,171.9 million.

"A.2.2 Other securities: other" consist of certificates of deposit and related accrued interest, with a short term maturity.

1.4 Details of subordinated payables/securities

Bonds	Issue date	Maturity date	Currency	Interest rate	31.12.2021	31.12.2020
ISIN code IT0005107880	28.05.2015	28.05.2022	EUR	FR	80,027	80,006
ISIN code IT0005136335	16.10.2015	16.10.2021	EUR	FR	-	50,081
Total					80,027	130,087

No subordinated bond was issued by Banco Desio during the period.

Section 2 - Financial liabilities held for trading - caption 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	31.12.2021					31.12.2020				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	X	-	5,461	440	X	X	-	6,935	592	X
1.1 for trading	X	-	5,461	440	X	X	-	6,935	592	X
1.2 connected with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 for trading	X	-	-	-	X	X	-	-	-	X
2.2 connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	-	5,461	440	X	X	-	6,935	592	X
Total (A+B)	X	-	5,461	440	X	X	-	6,935	592	X

Key

NV = Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Fair value* = Fair value calculated excluding the differences in value due to changes in the issuer's credit rating since the issue date

Caption 20 "Financial liabilities held for trading" comprises the negative value of derivatives held for trading.

Section 4 - Hedging derivatives - caption 40

4.1 Hedging derivatives: breakdown by type and level

	31.12.2021				31.12.2020			
	Fair value			NV	Fair value			NV
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives		365		80,000		1,540		130,000
Fair value								
2) Cash flows		365		80,000		1,540		130,000
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		365		80,000		1,540		130,000

Key

NV = Notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

This caption reports the fair value of the financial derivatives arranged to hedge bonds issued by the Bank (cash flow hedges).

Section 6 - Tax liabilities - caption 60

The breakdown and changes during the year of tax liabilities are disclosed in Section 10, Assets, together with information on deferred tax assets.

Section 8 - Other liabilities - caption 80

10.1 Other liabilities: breakdown

	31.12.2021	31.12.2020
Due to tax authorities	767	2,776
Amounts payable to tax authorities on behalf of third parties	33,854	26,788
Social security contributions to be paid	6,240	6,378
Dividends due to shareholders	16	12
Suppliers	17,100	20,701
Amounts available to customers	13,580	11,543
Interest and dues to be credited		
Payments against bill instructions	58	304
Early payments on loans not yet due	43	64
Items being processed and in transit with branches	9,761	14,402
Currency differences on portfolio transactions	137,428	104,184
Due to personnel	7,439	11,668
Sundry creditors	79,306	85,230
Provisions for guarantees given and commitments		
Accrued expenses and deferred income	2,473	2,596
Total	308,065	286,646

The "Amounts payable to tax authorities on behalf of third parties" mainly relate to the F24 tax payments to be made on behalf of customers and to the taxes withheld by the for payment to the tax authorities.

- "Items being processed and in transit with branches" are generally settled in the first few days of the next period. The main components thereof relate to:
- bank transfers in progress for a total of Euro 1,677 thousand (vs Euro 4,024 thousand),
- to MAV, RAV, payment slips and SDD instructions for Euro 1,121 thousand (vs Euro 1,931 thousand), items connected to securities transactions subsequently settled for Euro 277 thousand (vs Euro 4,326 thousand),
- items in transit for the settlement of customer purchase orders for asset management products (UCITS units and bancassurance) for Euro 682 thousand (vs Euro 723 thousand).

The amount of “Currency differences on portfolio transactions” is the result of the offset of illiquid liability positions against illiquid asset positions, in relation to various types of transactions in connection with the accounts of customers and of correspondent banks.

"Due to personnel" includes the payable relating to early retirement incentives of Euro 6,686 thousand and the amount due for holiday pay of Euro 753 thousand.

The main items included under caption “Sundry creditors” refer to: bank transfers being processed of Euro 64,527 thousand (Euro 57,759 thousand at the end of the previous year), sundry creditors for currency trading transactions for Euro 824 thousand (Euro 2,198 thousand in the previous year), creditors for bills paid for Euro 3,807 thousand (Euro 824 thousand in the previous year), and sums collected for pending disputes awaiting attribution for Euro 5,080 thousand (Euro 5,837 thousand in the previous year); the comparison period also included the amount of dividends on the profit of Banco Desio at 31 December 2019, equal to Euro 14,359 thousand, awaiting distribution to shareholders, as subject to the condition precedent according to the specific regulatory framework of reference.

Section 9 - Provision for termination indemnities - caption 90

9.1 Provision for termination indemnities: changes during the year

	31.12.2021	31.12.2020
A. Opening balance	24,482	25,240
B. Increases	-	517
B.1 Provision for the year	-	76
B.2 Other changes	-	441
C. Decreases	(2,781)	(1,275)
C.1 Payments made	(2,776)	(1,275)
C.2 Other changes	(5)	-
D. Closing balance	21,701	24,482
Total	21,701	24,482

In accordance with international accounting standards, the provision for termination indemnities is classified as a defined benefit scheme and is therefore subject to actuarial measurement, for which the related assumptions applied are set out in the following paragraph.

The provision made in the year does not include amounts paid directly by the Bank, depending on the choice made by employees, to supplementary pension schemes or to the state pension scheme managed by INPS. The cost of the foregoing payments, which for the year just ended amounts to Euro 10,582 thousand (Euro 11,279 thousand at the end of the previous year), is recognised in Personnel expenses in the sub-caption "g) payments to external supplementary pension funds: defined contribution".

The captions "B.2 Other changes" and "C.2 Other changes" reflects the impact of discounting the provision for termination indemnities for statutory purposes (positive and negative).

The statutory liability to the employees of the Bank at year end amounts to Euro 19,927 thousand.

9.2 Other information

The actuarial assumptions used by the independent actuary for the measurement of the liability at the reporting date are the following:

Demographic assumptions

- for the probability of death, those determined by gender by the State General Accounting Department, denominated RG 48;
- for the probability of disability, those, by gender, adopted by the 2010 INPS forecasting model. These probabilities were arrived at by starting with the distribution by age and gender of pensions at 1 January 1987 with effect from 1984, 1985 and 1986 relating to personnel in the credit sector;
- for the retirement age for the general working population, it was assumed that the first of the pension requirements valid for compulsory social security insurance had been met;
- for the probability of leaving employment for reasons other than death, based on internal statistics, an annual frequency of 2.50% was used; account has also been taken of the Bank's redundancy plan;
- for the probability of advances, an annual amount of 4% was assumed;

Economic-financial assumptions

Technical measurement was performed on the basis of the following assumptions:

- technical discounting rate -0.38%
- annual inflation rate 1.20%
- total annual income growth rate 2.50%
- termination indemnity annual growth rate 2.40%.

As regards the discount rate, the iBoxx Eurozone Corporates AA 7-10 index at the valuation date has been taken as reference for the valuation of this parameter.

The following table gives a sensitivity analysis of the liability recognised on changes in the economic and financial assumptions:

	Increase in parameter (+)	Decrease in parameter (-)
Annual discounting rate (+/-0.25%)	21,380	22,032
Annual inflation rate (+/- 0.25%)	21,888	21,518
Annual turn over rate (+/- 2.00%)	21,516	21,914

Section 10 - Provisions for risks and charges - caption 100

10.1 Provisions for risks and charges: breakdown

Captions/Amounts	31.12.2021	31.12.2020
1. Credit risk provisions relating to commitments and financial guarantees given	4,058	4,947
2. Provisions for other commitments and other guarantees given	-	-
3. Pensions and similar commitments	-	-
4. Other provisions for risks and charges	39,020	34,946
4.1 legal and tax disputes	10,670	10,167
4.2 Personnel expenses	18,150	17,450
4.3 Other	10,200	7,329
Total	43,078	39,893

In caption "1. Provisions for credit risk relating to commitments and financial guarantees given", the risk provision is determined by applying the models for calculating the expected loss defined on first-time adoption of "IFRS 9 Financial Instruments".

The "Legal disputes" sub-caption includes provisions made for losses expected to arise from disputes, of which Euro 9,841 thousand relates to legal disputes (Euro 9,455 thousand at the end of last year) and Euro 829 thousand relates to bankruptcy clawback actions (Euro 734 thousand at the end of last year).

The caption “personnel expenses” mainly includes the estimated liabilities for redundancy incentives for Euro 4,067 thousand (Euro 7,852 thousand in the previous year), relating to the bonus system for Euro 10,236 thousand (Euro 5,661 thousand at the end of the previous year, a figure which was impacted by the revision of the bonus pool in 2020 when the Covid-19 pandemic was exploding) and for long-service and additional holiday awards for Euro 3,828 thousand (Euro 3,906 thousand at the end of the previous year).

The caption "Other" includes provisions for charges pertaining to other operating risks, including provisions for contractual indemnities due to financial advisors on the occurrence of certain conditions

10.2. Provisions for risks and charges: changes during the year

	Provisions for other commitments and other guarantees given	Other provisions for risks and charges	Total
A. Opening balance	**4,947**	**34,946**	**39,893**
B. Increases	**-**	**18,697**	**18,697**
B.1 Provision for the year	-	18,696	18,696
B.2 Changes due to the passage of time	-	1	1
B.3 Changes due to changes in the discount rate	-	-	-
B.4 Other changes	-	-	-
- of which: business combinations	-	-	-
C. Decreases	889	14,623	15,512
C.1 Utilisations during the year	889	10,381	11,270
C.2 Changes due to changes in the discount rate	-	-	-
C.3 Other changes	-	4,242	4,242
- of which: business combinations	-	-	-
D. Closing balance	4,058	39,020	43,078

With reference to "Other provisions", "B.1 Provisions of the year" include accruals for:

- the bonus fund of Euro 10,006 thousand,
- other operational risks, including the provisions related to the indemnities to be paid to financial advisors, for Euro 4,348 thousand,
- charges for legal disputes and bankruptcy of Euro 3,347 thousand.

The caption "B.2 Changes due to the passage of time" includes discount interest accrued during the year on the provision for legal disputes and on the staff provision for solidarity, due to the proximity of the expected maturities of the liabilities.

The caption "C.1 Utilisations in the year" includes direct utilisations of Provisions for risks and charges as a result of agreements and settlements executed in the year, as well as conditions having been met for the payment of provisions to the personnel. In particular, utilisations related mainly to payments for legal disputes and claims from bankruptcy administrators, Euro 3,840 thousand, payments relating to the bonus fund, Euro 5,333 thousand, and to operational risks, Euro 1,153 thousand.

10.3. Credit risk provisions relating to commitments and financial guarantees given

	Credit risk provisions relating to commitments and financial guarantees given				
	First stage	Second stage	Third stage	Purchased or originated credit impaired	Total
1. Commitments to disburse funds	1,181	210	-	-	1,391
2. Financial guarantees given	239	364	2,064	-	2,667
Total	1,420	574	2,064	-	4,058

10.5 Pensions and similar commitments - defined benefits

At the reference dates, the caption shows a zero balance.

10.6 Provisions for risks and charges: other provisions

	31.12.2021	31.12.2020
Legal and tax disputes	10,670	10,167
Other operating risks	10,200	7,329
Solidarity fund	4,067	7,852
Long-service bonuses and additional holidays	3,828	3,906
Other employee related provisions	10,255	5,692
Total	39,020	34,946

The caption "personnel expenses" mainly includes the liabilities regarding costs relating to the bonus system for Euro 10,236 thousand (Euro 5,661 thousand at the end of the previous year).

Section 11 - Redeemable shares - caption 120

Banco Desio does not have this type of shares.

Section 12 - Shareholders' equity - captions 110, 130, 140, 150, 160, 170 and 180

12.1 "Share capital" and "Treasury shares": breakdown

	31.12.2021	31.12.2020
A. Share capital	70,693	70,693
A.1 - Ordinary shares	70,693	63,828
A.2 Savings shares		6,865
A.3 Preference shares		
B. Treasury shares		
B.1 Ordinary shares		
B.2 Savings shares		
B.3 Preference shares		
Total	70,693	70,693

On November 29, 2021, the mandatory conversion of savings shares into ordinary shares became effective; therefore, from that date only the ordinary shares, including the ordinary shares resulting from the mandatory conversion, with the same characteristics as those in circulation at the effective date, are traded on Euronext Milan of the Italian Stock Exchange;

After the mandatory conversion of the 13,202,000 savings shares into ordinary shares had taken effect, the share capital, fully subscribed and paid up, equal to Euro 11,617,760, is split into 134,363,049 ordinary shares with no par value.

12.2 Share capital - Number of shares: changes in the year

Captions/Type	Ordinary	Other
A. Shares at the beginning of the year	122,745,289	13,202,000
- fully paid	122,745,289	13,202,000
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares in circulation: opening balance	122,745,289	13,202,000
B. Increases	11,617,760	
B.1 New issues		
- for payment		
- business combination		
- conversion of bonds		
- exercise of warrant		
- other	11,617,760	
- bonus issues		
- in favour of employees		
- in favour of directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes		
C. Decreases		13,202,000
C.1 Cancellation		13,202,000
C.2 Purchase of treasury shares		
C.3 Business sale transactions		
C.4 Other changes		
D. Shares in circulation: closing balance	134,363,049	-
D.1 Treasury shares (+)		
D.2 Shares at the end of the year		
- fully paid		
- not fully paid		

12.3 Share capital: other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

12.4 Revenue reserves: other information

In compliance with the requirements of art. 2427, paragraph 1.7 bis of the Civil Code, set out below is a summary of the components of shareholders' equity in accordance with their origin and with an indication of their possible use and distribution, as well as their utilisation in the previous three years.

	31.12.2021	Possible uses		Unrestricted portion	Uses in the last three years	
					Loss coverage	Other uses
Share capital	70,693					
Share premium reserve	16,145	A,B,C	(1)	16,145		
Legal reserve	105,190	A,B	(2)(3)			
Statutory reserve	605,474	A,B,C		605,474		
Reserves for intercompany transactions	8,313	A,B	(4)			
Valuation reserves:						
- financial assets at fair value through other comprehensive income	-3,387		(5)			
- property, plant and equipment	123					
- actuarial measurement of provision for termination indemnities	-3,822		(5)			
- special revaluation laws	22,369	A,B	(6)			
- revaluation reserve Law 413/1991	697	A,B,C		697		
- exchange differences	-					
- cash-flow hedges	-203		(5)			
IAS transition reserve	80,813			(7)		
Retained earnings	120,006	A,B,C		120,006		
Charity reserve	132			(8)		92
Other	3,266	A,B,C		3,266		
Total	1,025,809			745,588		92

Key: A = increase in share capital B = for loss coverage C = for distribution

(1) Pursuant to article 2431 of the Civil Code, that portion of the share premium reserve needed to ensure the legal reserve meets the minimum legal requirements (one fifth of share capital) is non distributable

(2) This may be used for increases in share capital, but only the portion that exceeds one fifth of the share capital

(3) Establishment of a restriction for tax purposes due to the realignment of tax values to higher carrying amounts for Euro 31,640 thousand

(4) Reserves deriving from the transfer of the business unit and purchase/sale of the Milan branch with BPS in connection wit the application of OPI 1.

(5) Restricted reserve as per art. 6 of Legislative Decree 38/2005

(6) Reserve set up on first-time adoption of IAS/IFRS for the impact of the valuation at "deemed cost" of property and equipment, as required by the "IAS decree"

(7) The IAS/IFRS transition reserve complies with article 7 of Legislative Decree 38/2005

(8) Reserve for social-cultural contributions, as specified in the articles of association

12.5 Equity instruments: breakdown and changes during the year

None.

12.6 Other information

There is no other information to be disclosed in addition to that already disclosed in the previous paragraphs.

1.Commitments and financial guarantees given (other than those designated at fair value)

	Nominal value on commitments and financial guarantees given				31.12.2021	31.12.2020
	First stage	Second stage	Third stage	Purchased or originated credit impaired		
1. Commitments to disburse funds	**3,037,972**	**85,917**	**7,721**	**-**	**3,131,610**	**3,356,502**
a) Central Banks	-	-	-	-	-	-
b) Public administrations	49,980	-	-	-	49,980	15,856
c) Banks	7,866	-	-	-	7,866	6,741
d) Other financial companies	152,445	1,869	-	-	154,314	164,181
e) Non-financial companies	2,625,933	77,373	7,288	-	2,710,594	2,961,005
f) Households	201,748	6,675	433	-	208,856	208,719
2. Financial guarantees given	**48,703**	**3,193**	**1,313**	**-**	**53,209**	**50,472**
a) Central Banks	-	-	-	-	-	-
b) Public administrations	-	-	-	-	-	6
c) Banks	32	-	-	-	32	32
d) Other financial companies	2,591	27	-	-	2,618	2,650
e) Non-financial companies	41,031	2,826	1,230	-	45,087	42,770
f) Households	5,049	340	83	-	5,472	5,014

2. Other commitments and other guarantees given

	Nominal value 31.12.2021	Nominal value 31.12.2020
1. Other guarantees given	233,033	210,896
of which: non-performing loans	2,922	3,188
a) Central Banks	-	-
b) Public administrations	48	50
c) Banks	5,741	6,325
d) Other financial companies	1,878	2,445
e) Non-financial companies	207,198	183,344
f) Households	18,168	18,372
2. Other commitments	-	-
of which: non-performing loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as guarantees for own liabilities and commitments

Portfolios	31.12.2021	31.12.2020
1. Financial assets at fair value through profit or loss	-	-
2. Financial assets at fair value through other comprehensive income	207,543	-
3. Financial assets at amortised cost	6,321,364	4,363,163
4. Property, plant and equipment	-	-
of which: tangible fixed assets that constitute inventories	-	-

Caption "3. Financial assets at amortised cost" includes loans transferred to the SPV Desio OBG Srl consisting of assets suitable for the issue of Covered Bonds (GBB) and the collateralised loans with the ECB through the A.Ba.Co. procedure.

5. Administration and trading on behalf of third parties

Type of services	31.12.2021
1. Execution of orders on behalf of customers	-
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	1,747,284
3. Custody and administration of securities	21,361,591
a) third-party securities on deposit as custodian bank (excluding portfolio management schemes)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) third-party securities held on deposit (excluding portfolio management schemes): other	8,721,889
1. securities issued by the reporting bank	415,909
2. other securities	8,305,980
c) third-party securities deposited with third parties	8,700,788
d) portfolio securities deposited with third parties	3,938,914
4. Other transactions	-

5. Financial assets subject to netting in the financial statements, or subject to framework netting agreements or similar arrangements

Technical forms		Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to netting in the financial statements		Net amount (f=c-d-e)	Net amount
					Financial instruments (d)	Cash deposits posted as collateral (e)	31.12.2021	31.12.2020
1. Derivatives		10	-	-	-	-	-	-
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
Total	31.12.2021	10	-	-	-	-	10	
Total	31.12.2020	-	-	-	-	-		-

6. Financial liabilities subject to netting in the financial statements, or subject to framework agreements for netting or similar arrangements

Technical forms		Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c = a-b)	Related amounts not subject to netting in the financial statements		Net amount (f=c-d-e)	Net amount
					Financial instruments (d)	Cash deposits posted as collateral (e)	31.12.2021	31.12.2020
1. Derivatives		5,826	-	5,826	5,020	1,010	(204)	1,005
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
Total	31.12.2021	5,826	-	5,826	5,020	1,010	(204)	
Total	31.12.2020	8,475	-	8,475	6,330	1,140		1,005

PART C - INFORMATION ON THE INCOME STATEMENT

Section 1 - Interest - captions 10 and 20

1.1 Interest and similar income: breakdown

Captions/Technical forms	Debt securities	Loans	Other transactions	31.12.2021	31.12.2020
1. Financial assets at fair value through profit or loss:	377	-	-	377	158
1.1 Financial assets held for trading	262	-	-	262	40
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	115	-	-	115	118
2. Financial assets at fair value through other comprehensive income	755	-	X	755	1,033
3. Financial assets at amortised cost:	23,772	196,451	X	220,223	222,292
3.1 Due from banks	4,631	83	X	4,714	4,204
3.2 Loans to customers	19,141	196,368	X	215,509	218,088
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	1,071	1,071	2
6. Financial liabilities	X	X	X	37,450	8,397
Total	24,904	196,451	1,071	259,876	231,882
of which: interest income on impaired financial	-	1,993	-	1,993	3,862
of which: interest income from finance leases	X	2,210	X	2,210	3,408

Interest on "Financial assets at amortised cost" is recognised net of default interest accrued and not collected in the reference period on non-performing loans, since this is only recorded in the financial statements when collected. The interest in question accrued at the year-end amounts to Euro 1,105 thousand (Euro 1,933 thousand).

Conversely, the caption includes default interest referred to the year and collected during the year of Euro 344 thousand (Euro 254 thousand last year).

The caption includes interest paid on loans from the subsidiary Fides S.p.A. totalling Euro 14,633 thousand euro (15,845 thousand euro last year).

Caption 5. “Other assets” includes revenues relating to the Ecobonus and Sismabonus tax credits recognised by the Bank following the sale by customers, showing the remuneration in net interest income during the recovery period.

Caption “6. Financial liabilities” includes the negative interest earned on the TLTRO loans obtained, recognised using the effective interest rate on an amortised cost basis for Euro 35,695 thousand (vs Euro 8,397 thousand) as well as interest income on repurchase agreements for Euro 1,755 thousand.

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Captions	31.12.2021	31.12.2020
Interest income on financial assets in foreign currency	368	676

1.2.2 Interest income from finance leases

Total interest recognised as income in the year is included in the caption "Loans to customers – loans" and amounts to Euro 2,210 thousand (Euro 3,409 thousand last year); of this, Euro 1,951 thousand relates to index-linked contracts, of which Euro 90 thousand relates to leaseback agreements (in 2020 Euro 2,389 thousand related to index-linked contracts, of which Euro 154 thousand related to leaseback agreements).

Financial income pertaining to subsequent years amounts to Euro 18,922 thousand, of which Euro 1,646 thousand relates to leaseback agreements (last year Euro 25,854 thousand and Euro 2,272 thousand, respectively).

1.3 Interest and similar expense: breakdown

Captions/Technical forms	Payables	Securities	Other transactions	31.12.2021	31.12.2020
1. Financial liabilities at amortised cost	(6,512)	(12,948)	X	(19,460)	(25,124)
1.1 Due to central banks	-	X	X	-	
1.2 Due to banks	(647)	X	X	(647)	(1,047)
1.3 Due to customers	(5,865)	X	X	(5,865)	(9,091)
1.4 Debt securities in issue	X	(12,948)	X	(12,948)	(14,986)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	(322)	(322)	(240)
5. Hedging derivatives	X	X	(1,084)	(1,084)	(989)
6. Financial assets	X	X	X	(8,265)	(29)
Total	(6,512)	(12,948)	(1,406)	(29,131)	(26,382)
of which: interest expense relating to lease payables	(702)	X	X	(702)	(1,021)

Caption "6. Financial assets" comprises the negative interest on the reserve account with the Bank of Italy for Euro 6,605 thousand, negative interest on securities included in the held to collect & sell portfolio for Euro 1,453 thousand, as well as interest expense on reverse repurchase agreements for Euro 207 thousand.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

Captions	31.12.2021	31.12.2020
Interest expense on foreign currency financial liabilities	(143)	(280)

1.4.2 Interest expense on finance leases

Banco Desio is not party to any finance lease agreements that generate interest expense.

1.5 Differentials on hedging transactions

Captions	31.12.2021	31.12.2020
A. Positive differentials on hedging transactions	-	-
B. Negative differentials on hedging transactions	(1,084)	(989)
C. Balance (A-B)	(1,084)	(989)

Section 2 - Commission - captions 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts	31.12.2021	31.12.2020
a) Financial instruments	19,641	17,518
1. Placement of securities	3,651	2,956
1.1 With firm commitment and/or based on an irrevocable commitment	-	-
1.2 Without irrevocable commitment	3,651	2,956
2. Reception and transmission of orders and execution of orders on behalf of customers	5,450	5,445
2.1 Order taking for one or more financial instruments	5,450	5,445
2.2 Execution of orders on behalf of customers	-	-
3. Other commission connected with operations linked to financial instruments	10,540	9,117
of which: trading on own account	-	-
of which: individual asset management	9,963	8,540
b) Corporate finance	-	-
1. M&A consultancy	-	-
2. Treasury services	-	-
3. Other commission connected with corporate finance services	-	-
c) Investment consultancy	-	-
d) Clearing and settlement	-	-
e) Custody and administration	1,693	1,544
1. Custodian bank	-	-
2. Other commission linked to custody and administration	1,693	1,544
f) Centralised administrative services for collective portfolio management	-	-
g) Trustee activities	-	-
h) Payment services	112,163	97,498
1. Current accounts	78,104	70,416
2. Credit cards	12,904	6,422
3. Debit cards and other payment cards	4,682	5,143
4. Bank transfers and other payment orders	8,514	7,421
5. Other commission linked to payment services	7,959	8,095
i) Distribution of third-party services	67,736	53,053
1. Collective asset management	33,807	25,686
2. Insurance products	27,367	21,583
3. Other products	6,562	5,783

of which: individual asset management	380	395
j) Structured finance	-	-
k) Servicing related to securitisation	-	-
l) Commitments to disburse funds	-	-
m) Financial guarantees given	2,329	2,345
of which: credit derivatives	-	-
n) Financing transactions	1,533	923
of which: factoring transactions	1,533	923
o) Trading in foreign exchange	1,029	905
p) Goods	-	-
q) Other commission income	8,092	6,318
of which: h) management of multilateral trading systems	-	-
of which: for management of organised trading facilities	-	-
Total	214,216	180,104

The commissions for "distribution of third-party services - other products" refer to consumer credit for Euro 5,652 thousand (Euro 4,712 thousand in the comparative period).

The commissions paid by the subsidiary Fides S.p.A. amount to Euro 1,851 thousand (Euro 2,532 thousand last year).

"Other commission income" fees for the Internet banking service of Euro 1,933 thousand (Euro 2,123 thousand last year), recoveries of expenses for the collection of mortgage instalments for Euro 1,475 thousand (Euro 1,343 thousand last year) and rent for safety deposit boxes of Euro 558 thousand.

2.2 Commission income: product and service distribution channels

Channels/Amounts	31.12.2021	31.12.2020
a) at own branches:	81,351	64,555
1. asset management	9,963	7,777
2. placement of securities	3,651	2,956
3. distribution of third-party services and products	67,737	53,822
b) offer through financial promoters:	-	-
1. asset management	-	-
2. placement of securities	-	-
3. distribution of third-party services and products	-	-
c) other distribution channels:	-	-
1. asset management	-	-
2. placement of securities	-	-
3. distribution of third-party services and products	-	-

2.3 Commission expense: breakdown

Services/Amounts	31.12.2021	31.12.2020
a) Financial instruments	(267)	(274)
of which: trading in financial instruments	(267)	(274)
of which: placement of financial instruments	-	-
of which: individual asset management	-	-
- Own	-	-
- Portfolios managed by third parties	-	-
b) Clearing and settlement	-	-
c) Custody and administration	(1,458)	(1,289)
d) Collection and payment services	(2,081)	(3,249)
of which: credit and debit cards and other payment cards	(660)	(1,486)
e) Servicing related to securitisation	-	-
f) Commitments to receive funds	-	-
g) Financial guarantees received	(107)	(203)
of which: credit derivatives	-	-
h) Offer of securities, financial products and services through financial promoters	(3,363)	(2,251)
i) Trading in foreign exchange	-	-
j) Other commission expense	(817)	(865)
Total	(8,093)	(8,131)

The other commission expense includes commissions paid for introducing customers and disbursing loans to them for Euro 109 thousand (Euro 319 thousand last year).

Section 3 - Dividends and similar income - caption 70

3.1 Dividends and similar income: breakdown

Caption/Income	31.12.2021		31.12.2020	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	236	0	143	0
B. Other financial assets mandatorily at fair value	0	0	0	0
C. Financial assets at fair value through other comprehensive income	454	0	1,622	0
D. Equity investments	2,204	0	1,625	0
Total	2,894	0	3,390	0

In addition to the dividends received from subsidiaries, the table shows dividend income from minority interests classified as "Financial assets at fair value through other comprehensive income" and dividends relating to equity instruments classified as "Financial assets held for trading".

Dividend income from equity investments, as per caption "D. Equity investments", relates to Fides S.p.A.

Section 4 - Net trading income - caption 80

4.1 Net trading income: breakdown

Transactions/Elements of income	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	280	1,421	(408)	(16)	1,277
1.1 Debt securities	93	207	(9)	(9)	282
1.2 Equity instruments	127	1,069	(339)	(7)	850
1.3 UCITS units	60	108	(60)	-	108
1.4 Loans	-	-	-	-	-
1.5 Other	-	37	-	-	37
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	2,523
4. Derivatives	1,595	5,256	(10)	(6,351)	487
4.1 Financial derivatives:	1,595	5,256	(10)	(6,351)	487
- On debt securities and interest rates	1,492	1,585	(10)	(1,642)	1,425
- On equities and equity indices	103	3,671	-	(4,709)	(935)
- On currency and gold	X	X	X	X	(3)
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	1,875	6,677	(418)	(6,367)	4,287

The captions "1. Financial assets held for trading" and "4. Derivatives" include income from financial assets held for trading, with the exception of derivatives used to hedge financial instruments for which the fair value option was adopted and for which the measurement results are shown in the table "Net change in value of financial assets and liabilities at fair value".

Caption "3. Other financial assets and liabilities: exchange differences" includes the gains (or losses) arising from assets and liabilities in foreign currency.

Section 6 - Gains (losses) on disposal or repurchase - caption 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Caption/Income items	31.12.2021			31.12.2020		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	4,179	(15,493)	(11,314)	6,502	(8,249)	(1,747)
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	4,179	(15,493)	(11,314)	6,502	(8,249)	(1,747)
2. Financial assets at fair value through other comprehensive income	4,855	(458)	4,397	9,001	(783)	8,218
2.1 Debt securities	4,855	(458)	4,397	9,001	(783)	8,218
2.2 Loans	-	-	-	-	-	-
Total assets	9,034	(15,951)	(6,917)	15,503	(9,032)	6,471
Financial liabilities at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	11	(320)	(309)	43	(60)	(17)
Total liabilities	11	(320)	(309)	43	(60)	(17)

This caption includes the net gain (loss) on disposal of financial assets, excluding those held for trading and those at fair value through profit or loss, as well as the net gain (loss) from the repurchase of own securities.

The caption "1.2. Loans to customers" also includes the net gain (loss) on disposal of non-performing loans.

The caption "2. Financial assets at fair value through other comprehensive income" includes the net gain (loss) on sales in the year, inclusive of the release of the related valuation reserve, gross of the tax effect.

As regards financial liabilities, the caption "3. Debt securities in issue" includes the net gain (loss) from the repurchase of own bonds.

Section 7 - Net result of other financial assets and liabilities at fair value through profit or loss - caption 110

7.2. Net change in value of other financial assets and liabilities at fair value through profit or loss: breakdown of other financial assets that are mandatorily at fair value

Transactions/Elements of income	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	3,417	490	(2,784)	(392)	731
1.1 Debt securities	11	-	-	-	11
1.2 Equity instruments	-	-	-	-	-
1.3 UCITS units	3,406	490	(2,784)	(392)	720
1.4 Loans	-	-	-	-	-
2. Financial assets: exchange differences	X	X	X	X	-
Total	3,417	490	(2,784)	(392)	731

This item consists of the result of financial instruments which are mandatorily at fair value through profit or loss, even if they are not held for trading, as they fail to pass the SPPI test foreseen in the new standard. This item is made up mainly of UCITS units, which by their very nature do not have characteristics compatible with passing the test.

Section 8 - Adjustments for credit risk - caption 130

8.1 Net adjustments for credit risk relating to financial assets at amortised cost: breakdown

Transactions/Elements of income	Write-downs (1)						Write-backs (2)				31.12.2021	31.12.2020
	First stage	Second stage	Third stage		Impaired acquired or originated		First stage	Second stage	Third stage	Purchased or originated credit impaired		
			Write-offs	Other	Write-offs	Other						
A. Due from banks	(99)	-	-	-	-	-	-	-	-	-	(99)	25
- Loans	(26)	-	-	-	-	-	-	-	-	-	(26)	68
- debt securities	(73)	-	-	-	-	-	-	-	-	-	(73)	(43)
B. Loans to customers	(2,321)	(27,825)	(3,371)	(65,026)	-	(136)	-	-	13,308	-	(85,371)	(71,282)
- Loans	(1,207)	(27,825)	(3,371)	(65,026)	-	(136)	-	-	13,308	-	(84,257)	(72,076)
- debt securities	(1,114)	-	-	-	-	-	-	-	-	-	(1,114)	794
Total	(2,420)	(27,825)	(3,371)	(65,026)	-	(136)	-	-	13,308	-	(85,470)	(71,257)

This caption includes the adjustments and write-backs made against the credit risk of assets at amortised cost (loans to banks and customers, including debt securities).

As regards "Write-downs", the figure in the "Write-off" column relates to losses from the write-off of bad loans.

"Write-downs – third stage", which arise from the analytical assessment of the probability of recovery of non-performing loans and by discounting cash flows expected to be generated, relate to:

- bad loans Euro 22,948 thousand (19,740)
- unlikely to pay loans Euro 42,007 thousand (36,192)
- past due loans Euro 207 thousand (130)

"Write-backs - first and second stage" are calculated on the performing loan portfolio.

"Specific write-backs - third stage" relate to:

- bad debts written off in previous years with higher than expected recoveries for Euro 1,006 thousand (vs 717 thousand euro),
- collections of receivables previously written down for Euro 8,142 thousand (vs Euro 8,141 thousand)
- recoveries on valuations for Euro 4,160 thousand (vs 7,264 thousand).

The adjustments to loans and securities are determined by applying the new models for the calculation of the expected credit losses adopted by the Bank in application of "IFRS 9 Financial Instruments".

With regard to the determination of credit losses, the information provided in the note on "Risks, uncertainties and the impacts of the Covid-19 pandemic" in "Section 4 – Other aspects", contained in subsection "A.1 General information" of "Part A - Accounting policies", is supplemented by the note on the "Model for measuring expected losses on performing loans" contained in "Part E – Information on risks and related hedging policy" of these explanatory notes.

8.1a Net adjustments for credit risk relating to loans at amortized cost subject to Covid-19 support measures: breakdown

Transactions/Elements of income	Write-downs, net						31.12.2021	31.12.2020
	First stage	Second stage	Third stage		Purchased or originated credit impaired			
			Write-offs	Other	Write-offs	Other		
1. Loans subject to forbearance in compliance with the GL	465	(37,390)	-	(8,903)	-	(11)	(45,839)	(30,256)
2. Loans subject to moratorium measures in force no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-
3. Loans subject to other forbearance measures	-	-	-	-	-	-	-	-
4. New loans	598	(1,479)	-	(2,500)	-	(125)	(3,506)	(4,983)
Total	**1,063**	**(38,869)**	**-**	**(11,403)**	**-**	**(136)**	**(49,345)**	
Total	**1,727**	**(26,750)**		**(6,762)**				**(35,239)**

8.2 Net adjustments for credit risk relating to financial assets at fair value through other comprehensive income: breakdown

Transactions/Elements of income	Write-downs (1)						Write-backs (2)				31.12.2021	31.12.2020
	First stage	Second stage	Third stage		Purchased or originated credit		First stage	Second stage	Third stage	Purchased or originated credit impaired		
			Write-offs	Other	Write-offs	Other						
A. Debt securities	(117)	-	-	-	-	-	126	-	-	-	9	191
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	(117)	-	-	-	-	-	126	-	-	-	9	191

This item includes the adjustments and write-backs deriving from application of the new models for determining the expected loss on the "held to collect & sell" debt securities portfolio in application of "IFRS 9 - Financial Instruments".

Section 9 - Profits/losses from contractual changes without cancellations - caption 140

9.1 Profits/losses from contractual changes: breakdown

This caption includes the adjustment made to the book values of loans to customers that undergo changes to the contractual cash flows without giving rise to accounting cancellations pursuant to para. 5.4.3 and Appendix A of IFRS 9.

Section 10 - Administrative costs - caption 160

10.1 Payroll costs: breakdown

Type of expense/Amounts	31.12.2021	31.12.2020
1) Employees	(167,155)	(174,583)
a) wages and salaries	(112,049)	(111,970)
b) social security charges	(30,049)	(29,977)
c) termination indemnities	-	-
d) pension expenses	-	-
e) provision for termination indemnities	(178)	(86)
f) provision for post-retirement benefits and similar commitments:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(10,582)	(11,279)
- defined contribution	(10,582)	(11,279)
- defined benefit	-	-
h) equity-based payments	-	-
i) other personnel benefits	(14,297)	(21,271)
2) Other active employees	(715)	(464)
3) Directors and auditors	(2,661)	(2,765)
4) Retired personnel	-	-
5) Recovery of cost of employees seconded to other companies	27	21
6) Reimbursement of cost of third-party employees seconded to the Company	-	-
Total	(170,504)	(177,791)

The caption "1.g – payments to external supplementary pension funds: defined contribution" includes part of the termination indemnities paid to the state pension scheme and to supplementary pension funds.

Details of caption "1.i) – other employee benefits" are provided in table 10.4 below.

10.2 Average number of employees by level

	31.12.2021	31.12.2020
1) Employees	2,104	2,140
a) managers	31	35
b) middle managers	1,023	1,027
c) other employees	1,050	1,078
2) Other personnel	11	5

10.4 Other personnel benefits

	31.12.2021	31.12.2020
Provision for sundry charges	(9,911)	(4,884)
Contributions to healthcare fund	(2,280)	(2,336)
Training and instruction costs	(687)	(335)
Rent expense of property used by employees	(102)	(137)
Redundancy incentives	990	(12,027)
Other	(2,307)	(1,552)
Total	(14,297)	(21,271)

The main components of the "Other" caption include company canteen costs of Euro 2,184 thousand (vs. Euro 1,856 thousand) and costs relating to insurance premiums of Euro 314 thousand (vs. Euro 323 thousand).

10.5 Other administrative costs: breakdown

	31.12.2021	31.12.2020
Indirect taxes and duties:		
- Stamp duty	(27,791)	(27,291)
- Other	(6,159)	(6,072)
Other costs:		
- IT expenses	(18,704)	(20,139)
- Lease of property and other assets	(2,054)	(1,586)
- Maintenance of buildings, furniture and equipment	(9,141)	(8,661)
- Post office and telegraph	(1,269)	(1,358)
- Telephone and data transmission	(5,248)	(5,983)
- Electricity, heating, water	(3,075)	(3,555)
- Cleaning services	(3,238)	(3,213)
- Printed matter, stationery and consumables	(670)	(608)
- Transport costs	(880)	(861)
- Surveillance and security	(1,574)	(2,171)
- Advertising	(1,288)	(1,071)
- Information and surveys	(2,455)	(2,444)
- Insurance premiums	(1,309)	(970)
- Legal fees	(2,791)	(2,488)
- Professional consulting fees	(8,142)	(9,356)
- Various contributions and donations	(196)	(94)
- Sundry expenses	(25,330)	(19,833)
Total	(121,314)	(117,754)

"Lease of property and other assets" includes the costs incurred on lease/rent software contracts not included in the scope of IFRS 16.

The caption "Sundry expenses" comprises the contributions of the year to Single Resolution Mechanism and to Deposit Guarantee Scheme for Euro 17,943 thousand (vs Euro 11,520 thousand) of which:

- Euro 6,794 thousand for the ex-ante ordinary contribution to the Single Resolution Mechanism (SRM) for the year (Euro 3,443 thousand in the previous period);
- Euro 2,213 thousand for the extraordinary contribution to the Single Resolution Mechanism (SRM) for the year (Euro 1,088 thousand in the previous period);
- Euro 8,935 thousand (vs Euro 6,989 thousand) for the contribution to the Deposit Guarantee Scheme (DGS), of which Euro 2,218 thousand as an additional contribution;

It also includes the fees paid to the KPMG network for services provided to the Bank, as summarised below by type of service.

Type of services	Company that provided the service	Fees (in thousands of euro)
Audit	KPMG S.p.A.	296.5
Attestation services	KPMG S.p.A.	68.0
Other services:		
Risk management methodological support	KPMG Advisory S.p.A.	* 454.4
Total		818.9

* Net of Euro 115.6 thousand pertaining to 2020

The fees are shown net of expenses, the CONSOB contribution (where due) and VAT.

Section 11 - Net provisions for risks and charges - caption 170

11.1 Other net provisions for risks and charges: breakdown

	Provision	Utilisations	31.12.2021	31.12.2020
Commitments for guarantees given	(355)	1,244	889	(2,234)
Charges for legal disputes	(7,788)	3,478	(4,310)	(2,249)
Other	(3,431)	2,445	(986)	(1,709)
Total	(11,574)	7,167	(4,407)	(6,192)

The item "commitments for guarantees given" represents the net provision for risks determined by applying the models for calculating the expected loss in accordance with "IFRS 9 Financial Instruments".

Charges for legal disputes include provisions made in the year for expected losses arising from legal disputes and bankruptcy clawback actions.

Other provisions include provisions for other operating risks.

Section 12 - Net adjustments to property, plant and equipment - caption 180

12.1. Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Property, plant and equipment				
1 For business purposes	(15,939)	-	-	(15,939)
- Owned	(6,085)	-	-	(6,085)
- Rights of use acquired under lease	(9,854)	-	-	(9,854)
2. Investment property	(29)	-	-	(29)
- Owned	(29)	-	-	(29)
- Rights of use acquired under lease	-	-	-	-
3. Inventory	X	-	-	X
Total	(15,968)	-	-	(15,968)

The adjustments consist entirely of depreciation calculated over the useful lives of the assets.

The item "Rights of use acquired under lease" includes the depreciation charged on RoU Assets recorded in application of IFRS 16 "Leases" in force from 1 January 2019 and calculated as the sum of the lease payable, initial direct costs, payments made on or before the contract's starting date (net of any incentives received for leasing) and decommissioning and/or recovery costs.

Details, by asset category, of the impact on the income statement of adjustments to property, plant and equipment are shown in caption "C.2 Depreciation" of the table "9.5 and 9.6 Changes during the year" of Section 9, Assets.

Section 13 - Net adjustments to intangible assets - caption 190

13.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets	(1,255)			(1,255)
of which: software	(1,255)	-	-	(1,255)
A.1 Owned	(1,255)	-	-	(1,255)
- Generated internally	-	-	-	-
- Other	(1,255)	-	-	(1,255)
A.2 Rights of use acquired under lease	-	-	-	-
B. Assets held for sale	X	-	-	-
Total	(1,255)	-	-	(1,255)

The adjustments consist entirely of amortisation calculated over the useful lives of the assets.

Section 14 - Other operating charges/income - Caption 200

14.1 Other operating charges: breakdown

	31.12.2021	31.12.2020
Amortisation of leasehold improvements	(1,411)	(1,567)
Losses on disposal of property, plant and equipment	(125)	(168)
Charges on non-banking services	(9,644)	(279)
Total	(11,180)	(2,014)

14.2 Other operating income: breakdown

	31.12.2021	31.12.2020
Recovery of taxes from third parties	30,956	30,531
Recharge of costs of current accounts and deposits	2,206	2,776
Rental and leasing income	45	77
Other expense recoveries	1,871	2,359
Gains on disposal of property, plant and equipment	22	12
Other	944	1,127
Total	36,044	36,882

Caption “Charges on non-banking services” includes Euro 9.3 million set aside as a precautionary measure following the preventive confiscation of tax credits acquired from a financial intermediary. For more information, refer to the Report on Operations.

The “Recovery of taxes from third parties” principally includes the recovery of stamp duty on current accounts, deposit accounts and other customer investments totalling Euro 27,072 thousand (Euro 25,420 thousand), and the recovery of substitute taxes totalling Euro 3,889 thousand (Euro 5,111 thousand).

"Recharge of costs of current accounts and deposits" includes recoveries for rapid preliminary investigation fees of Euro 822 thousand (vs Euro 1,339 thousand) and other recoveries for various communications to customers of Euro 1,145 thousand (vs Euro 1,268 thousand).

"Other expense recoveries" include, in particular, recoveries of legal costs relating to bad loans of Euro 1,014 thousand (vs Euro 1,315 thousand), the recovery of processing costs for various loans for Euro 170 thousand (vs Euro 340 thousand), and the recovery of sundry expenses relating to lease applications of Euro 312 thousand (vs Euro 291 thousand).

Section 16 - Net gains (losses) arising from the far value measurement of property, plant and equipment and intangible assets - caption 230

16.1. Net result of the measurement at fair value (or revalued amount) or at estimated realisable value of property, plant and equipment and intangible assets: breakdown

Assets/Income items	Revaluations	Write-downs	Exchange differences		Net result
			Positive	Negative	
	(a)	(b)	(c)	(d)	(a-b+c-d)
A. Property, plant and equipment	-	(123)	-	-	(123)
A.1 For business purposes:	-	(123)	-	-	(123)
- Owned	-	(123)	-	-	(123)
- Rights of use acquired under lease	-	-	-	-	-
A.2 Investment property:	-	-	-	-	-
- Owned	-	-	-	-	-
- Rights of use acquired under lease	-	-	-	-	-
A.3 Other	-	-	-	-	-
B. Intangible assets	-	-	-	-	-
B.1 Owned:	-	-	-	-	-
B.1.1 Generated internally	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Rights of use acquired under lease	-	-	-	-	-
Total	-	(123)	-	-	(123)

The caption includes the negative change in the category of works of art as a result of the update to the valuation of valuable artistic assets (governed by IAS 16 "Property, Plant and Machinery").

Section 17 - Goodwill impairment - caption 240

The outcome from impairment testing of goodwill recognised in the financial statements did not require any impairment adjustments to be made.

As regards the method adopted for the performance of the testing, reference should be made to "Section 10 – Intangible assets", Assets.

Section 19 - Income taxes on continuing operations - caption 270

19.1 Income taxes on continuing operations: breakdown

Income items/Amounts	31.12.2021	31.12.2020
1. Current taxes (-)	(1,696)	(433)
2. Change in prior period income taxes (+/-)	224	106
3. Reduction in current taxes (+)	-	-
3.bis Reduction in current taxes for tax credits under Law 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(18,384)	(8,777)
5. Change in deferred tax liabilities (+/-)	8,954	2,531
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(10,902)	(6,573)

Taxation for the period benefited from the step-up of the fiscal values to the higher statutory carrying amounts of buildings and goodwill, pursuant to art. 110 of Decree Law 104/2020.

The positive effect on the result for the period was Euro 9,365 thousand, due to the difference between:

- the substitute tax due of 979 thousand euro (referred to in item 1);
- the reversal of deferred tax liabilities for Euro 9,544 thousand (referred to in item 5) and the reconstitution of deferred tax assets for Euro 800 thousand (referred to in item 4), for a total of Euro 10,344 thousand.

Law 190/2014 added the Patent Box regime to the Italian legal framework: this is an optional regime for the reduced taxation of income deriving from the use of intangible assets, including trademarks. In 2016, Banca Popolare di Spoleto (absorbed by the Bank in 2019) submitted an application for admission to the trademark procedure, starting from the tax period 2016. In April 2021 an agreement was reached with the Umbria Regional Department of the Tax Agency, Taxation and Compliance Office, Audits Section, regarding the methodology to be used to calculate the economic contribution of the intangible assets referred to in the application.

Following the agreement, the Bank recognised in the 2021 Financial Statements a tax benefit relating to the subsidised Patent Box regime, only for the three-year period 2016-2019, of Euro 219 thousand.

Caption "2. Change in prior period income taxes", which records an increase of Euro 224 thousand, refers to the recalculation of taxes as of 31.12.2020.

Caption “4. Change in deferred tax assets” differs from the net balance of rows 2.1 and 3.1 of Table “10.3 Change in deferred tax assets (as a contra-entry to the income statement)” for Euro 1,343 thousand, equal to the lower receivable for deferred tax assets on the tax loss, generated due to the elements of income charged directly to shareholders' equity, which were never planned to be charged to the income statement.

19.2 Reconciliation between the theoretical and current tax charge

	IRES		IRAP	
Result before taxes	63,317		63,317	
Costs not deductible for IRAP purposes			36,674	
Revenue not taxable for IRAP purposes			(6,997)	
Sub total	63,317		92,994	
Theoretical tax charge: 24% IRES - 3.5% IRES surcharge - 5.57% IRAP		(17,412)		(5,180)
Temporary differences taxable in subsequent years	(1,070)		(35)	
Temporary differences deductible in subsequent years	26,430		12,597	
Reversal of prior year temporary differences	(87,697)		(63,491)	
Differences that will not reverse in subsequent years	(6,840)		(3,942)	
Taxable income	(5,860)		38,123	
Current taxes for the period: 24% IRES - 3.5% IRES surcharge - 5.57% IRAP		1,406		(2,123)

No current taxes have been set aside for the purposes of the IRES surcharge.

The "Current taxes for the year" reported in this table total Euro 717 thousand. The difference compared with the amount reported in caption "1. Current taxes" of table 19.1 is due to the substitute tax of Euro 979 thousand due as a result of the realignment ("step-up") carried out pursuant to art. 110 of Decree Law no. 104/2020, of the tax values to the higher statutory values of buildings and goodwill, as specified under Table "19.1 Income taxes on continuing operations: breakdown".

The difference between the theoretical tax charge and the current tax charge was principally due to:

- recovery of prior year loan write-downs, pursuant to art. 16, para. 4 of Decree Law 83 of 27 June 2015 and subsequent amendments and integrations;
- the deduction of the 10% annual portion pursuant to paragraphs 1067 and 1068 of art. 1 of Law 145/2018, of the income elements arising from the adoption of the recognition of the expected losses on loans and receivables from customers, booked on first-time adoption of the IFRS 9 standard.

PART D – COMPREHENSIVE INCOME

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Captions	31.12.2021	31.12.2020
10.	Net profit (loss) for the period	52,415	23,895
	Other elements of income, without reversal to income statement		
20.	Equity instruments designated at fair value through other comprehensive income:	(50,963)	22,971
	a) change in fair value	(50,963)	22,971
	b) transfers to other components of shareholders' equity		
50.	Property, plant and equipment	(57)	
70.	Defined-benefit pension plans	3	(440)
100.	Taxes on other elements of income without reversal to profit or loss	3,662	(1,480)
	Other elements of income, with reversal to income statement		
130.	Cash-flow hedges:	1,090	631
	a) changes in fair value		
	b) reversal to income statement	1,090	631
150.	Financial assets (other than equities) at fair value through other comprehensive income:	(5,544)	(1,111)
	a) changes in fair value	(3,796)	1,592
	b) reversal to income statement	(1,748)	(2,632)
	- adjustments for credit risk	(10)	(191)
	- gains/losses on disposal	(1,738)	(2,441)
	c) other changes	-	(71)
180.	Taxes on other elements of income with reversal to profit or loss	1,472	158
190.	Total other elements of income	(50,337)	20,729
200.	Total other comprehensive income (Captions 10+190)	2,078	44,624

The negative change in caption 20 "Equity instruments designated at fair value through other comprehensive income" is due to the sale of the investment in Cedacri S.p.A. completed on 3 June 2021 for Euro 114.7 million; in accounting terms, the following entries have been made as a result of this disposal i) reversal of the valuation reserve at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result compared with the initial book value, equal to Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve shown under retained earnings. In the comparative period, the positive change in this item was attributable to the revaluation of the investment held in Cedacri S.p.A.

PART E - INFORMATION ON RISKS AND RELATED HEDGING POLICY

Introduction

The Internal Control and Risk Management System consists of a set of rules, procedures and organisational structures designed to permit the identification, measurement, management and monitoring of major risks. This system has been integrated into the Group's organisational and corporate governance structures.

The system's guidelines have been set out in specific internal regulations. The operational instructions and detailed information regarding the controls in place, at various levels, over business processes are included in specific "Consolidated Texts" by function and Internal Procedures.

The organisational model adopted by the Group envisages that the Risk Management function reports directly to the Chief Executive Officer and participates in the risk management process designed to identify, measure, assess, monitor, prevent, mitigate and communicate the risks assumed or which could be assumed in the conduct of business. This function also covers the subsidiaries, in accordance with the provisions of the relevant Service Agreements.

The Board of Directors approves, at least annually, the Group's "Risk Appetite Framework (RAF)" and the "Policy for risk management", which define risk appetite, thresholds of tolerance, limits and the rules and methodologies for monitoring risks. Within the context of these documents, specific risk indicators with related attention thresholds are provided at the level of individual legal entity, identifying the competent functions for the specific control mechanisms and providing dedicated information flows. The Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) also form part of the Group's risk management system.

SECTION 1 – CREDIT RISK

Qualitative information

1. General aspects

The Bank's lending activity has developed according to the guidelines of the Business Plan, addressed to local economies primarily in the retail, small business and small SME markets. To a lesser extent, our lending activity is directed towards the corporate market.

The activities aimed at individual customers, small businesses (artisans, family businesses and professionals), SMEs and Corporates, and customers in the financial sector, mainly include the following products: loans and deposits, financial, banking and payment services, documentary credit, leasing, factoring, financial, insurance and asset management products, debit and credit cards.

Commercial policy is mainly pursued through the Bank's branch network based on credit policies geared to supporting local economies. Particular attention is paid to maintaining relationships established with customers and their development in the geographic areas where the Bank has traditionally been present and in new markets with the aim of acquiring new market shares and facilitate growth in business volumes. The subsidiary Fides S.p.A, which makes to private customers in the form of salary/pension-backed loans, advances on termination pay and personal loans, also makes use of agents that are external to the Parent Company's sales network when placing its products. The Bank also operates under agreements with the Italian Banking Association and with trade and business associations, signing conventions aimed at providing support to corporate borrowers while carefully monitoring asset quality.

2. Credit risk management policies

2.1. Organisational aspects

Factors that generate credit risk involve the possibility that an unexpected change in the creditworthiness of a counterparty in respect of which there is an exposure, might generate a corresponding unexpected change in the market value of the credit position. It follows that not only the possibility of a counterparty's insolvency, but also a simple deterioration of its creditworthiness has to be considered a manifestation of credit risk.

The Group's organisational structure provides for adequate monitoring and management of credit risk, in a logic of separation between business and control functions. The Parent Company's Board of Directors has exclusive power to lay down guidelines that have an impact on the running of the Group's affairs and, in this context, to make decisions on strategic lines and operations, business and financial plans as well as those relating - again at the level of strategic supervision - to the Internal Control and Risk Management System in compliance with the Capital Requirements in force at the time. In line with the provisions of Bank of Italy circular 285/2013, the Parent Company has granted to the Risk Management Department the activities of verification and supervision of the monitoring and debt collection activities carried out by the competent company departments, providing for the right to intervene, where necessary, with regard to the classification of anomalous credit and provisional accruals and postings.

2.2. Systems for managing, measuring and monitoring credit risk

Systems for managing, measuring and monitoring credit risk are developed in an organisational context that involves the whole cycle of the credit process, from initial inquiry and periodic review to final withdrawal and recovery.

During the fact finding stages of the lending process, the bank performs an internal and external investigation on the customer and arrives at a final decision on whether to grant the loan by also considering the information obtained on the customer’s financial standing from what is known of the customer and of the customer's economic environment.

During the process of granting credit, the Group operates according to guidelines based on risk diversification among various customers operating in different industries and market sectors and on the appropriateness of the credit facility depending on the independent creditworthiness of the borrower, the technical form and the collateral that could be acquired.

The analysis and monitoring of risk associated with the lending process is performed with the support of specific operating procedures. The aim of a prompt monitoring system is to identify, as soon as possible, signs of deterioration of exposures in order to intervene with effective corrective measures. To this end, credit exposures are monitored by means of an analysis of relationship trends and by central oversight of risk by means of dedicated procedures. This review facilitates the identification of customers with anomalies in the conduct of their relationship as opposed to those with a regular trend.

All loan operations carried out by the Bank as a result of the health emergency have been appropriately coded so that we can govern and monitor the situation day-by-day.

The concessions or suspensions carried out for legislative "Covid-19" purposes, requested by customers before 30 September 2020, have not been classified as forborne (according to the indications provided by the supervisory authorities). Legislative suspensions received after that date were analytically assessed in order to identify the elements of forbearance. Commencing from the last quarter of 2020, a series of detailed checks were carried out on counterparties with the largest exposures to look for evidence that they should be classified as forborne or, in the case of significant anomalies, as UTP. These checks, which led to modest changes to non-performing loans in percentage terms on the sample subject to verification, were completed in the first quarter of 2021. Analytical verification continued in the second half of the 2021 on a sample of counterparties which have requested and benefited from the extension of the measures granted by art. 56 of the Liquidity Decree. Similar to the analyses conducted in the first half of the year, there was a low percentage of volumes of counterparties classified as impaired.

In the case of a moratorium decided by the Bank, specific assessments are carried out only for positions with companies that already had a higher level of risk before the outbreak of the pandemic, to verify whether or not to consider renegotiation as a forbearance measure, with a consequent transfer to stage 2.

To assess how the macroeconomic scenario is likely to evolve, estimates of impacts on the sector and the tools available to deal with the crisis and the new scenario that will emerge at the end of the emergency were examined in depth.

As part of its corporate risk management policy, the bank has set up a system of operating limits and specific Key Risk Indicators (KRI). In the context of monitoring and control, on pre-established thresholds being exceeded, the Risk Management function activates internal procedures for an intervention in order to maintain a risk appetite level consistent with the guidelines laid down in the RAF and the risk management policies.

For risk management purposes, the Group uses an internal rating system that classifies each counterparty in risk classes that reflect their probability of default. The classification of performing counterparties is on a scale from 1 to 10. Non-performing loans (past due and/or overdrawn exposures, unlikely-to-pay and bad loans) are excluded from the rating assignment.

For the purpose of calculating the capital requirement for credit risk, the Bank follows the rules laid down in the regulations for the standardised approach, resorting for certain counterparties to the use of ratings provided by authorised external credit assessment institutions (ECAIs).

2.3. Methods of measuring expected losses

The general approach defined by IFRS 9 to estimate the impairment is based on a process aimed at highlighting the deterioration of the credit quality of a financial instrument at the reporting date rather than at the date of initial recognition. The regulatory indications regarding the assignment of credits to the various "stages" envisaged by the Standard (a process known as "staging" or "stage allocation") do in fact identify significant changes in credit risk by referring to the change in creditworthiness with respect to the initial recognition of the counterparty, the expected life of the financial asset and other forward-looking information that may affect credit risk.

In accordance with IFRS 9, performing loans are broken down into two different categories:

- Stage 1: this bucket includes assets that have not suffered significant deterioration in credit risk. This stage provides for the calculation of the expected loss at one year on a collective basis;
- Stage 2: this bucket classifies assets that show significant deterioration in credit quality between the reporting date and the date of initial recognition. For this bucket the expected loss must be calculated from a lifetime perspective, i.e. over the entire duration of the instrument, on a collective basis.

As part of the ongoing monitoring of the application framework of IFRS 9, given the change in the macroeconomic context due to Covid-19, the Group has analysed the valuation aspects in line with the indications of the various regulators. In particular, given the operating environment conditioned by the pandemic emergency, the Group has prepared this financial report with reference to the instructions contained in documents published by the various international institutions (ESMA, EBA, BCE-SSM, IFRS

Foundation), seeking to establish a balance between the need to avoid making excessively pro-cyclical assumptions in the models used to estimate the ECL during the healthcare emergency and the need to ensure that the risks to which the Group is (or will be) exposed are adequately reflected in the prudential and accounting measurements made.

The Group therefore decided to update the macroeconomic forecasts of the models used to estimate the expected losses to align with the projections for Italy in 2021-23 drawn up by the experts of the Bank of Italy, as part of the coordinated work of the Eurosystem published on 17 December 2021, and with the projections for Europe drawn up by the experts of the European Central Bank, published on 16 December 2021 and, to a lesser extent, those drawn up by specialised providers. These projections take into account the transmission of the effects of the pandemic to the economy through multiple channels, such as the drop in international trade and foreign demand, the reduction of international tourist flows, the effects of uncertainty and confidence on companies' propensity to invest, etc.

Estimate of Expected Credit Loss – Stage 1 and Stage 2

The model for calculating Expected Credit Losses (ECL) used in testing performing instruments for impairment, differentiated according to the classification of the exposure in Stage 1 or Stage 2, is based on the following formula:

$$ECL = \sum_{t=1}^{T} PDt\,'\,EADt\,'\,LGDt\,'\,(1+r)^{-t}$$

where:

PDt represents the probability of default on each cash flow date. This is the probability of moving from performing to non-performing over the one-year time horizon (1-year PD) or over the entire duration of the exposure (PD lifetime)

EADt represents the counterparty exposure at each cash flow date

LGDt represents the loss associated to counterparty on each cash flow date. This is the percentage of loss in the event of default, based on the historical experience observed in a given observation period, as well as the prospective evolution over the entire lifetime of the exposure

r represents the discount rate

t represents the cash flow number

T represents the total number of cash flows, limited to the following 12 months for stage 1 relationships, whereas it refers to the entire residual life for those in stage 2

The models used to estimate these parameters derive from the corresponding parameters developed on the basis of the most recent regulatory guidelines, making specific adaptations to take into account the different requirements and purposes of the IFRS 9 impairment model compared with the regulatory one.

The definition of the above parameters therefore took into account the following objectives:

- removing the elements envisaged for regulatory purposes only, such as the downturn component considered in the regulatory LGD calculation to take into account the adverse economic cycle, the margin of conservatism envisaged for the PD, LGD and EAD and the add-on of indirect costs with the objective of avoiding a double-counting effect on the income statement;

- including the conditions of the current economic cycle (Point-in-Time risk measures) in place of a measurement of the parameters along the economic cycle (TTC - Through The Cycle) envisaged for regulatory purposes;
- introducing forward-looking information on the future dynamics of macroeconomic factors (forward-looking risk) deemed potentially able to influence the borrower's situation;
- extending the risk parameters to a long-term perspective, taking into account the lifetime of the credit exposure to be assessed).

More detailed information is provided below on how the Group has determined the aforementioned IFRS 9 compliant risk parameters, with particular reference to the way in which forward-looking factors have been included.

In this regard, it should be noted that the updating of the historical series of the parameters and consequently of their recalibration is carried out on an annual basis.

Estimate of the PD parameter

The PD parameters were suitably calibrated, using satellite models, to reflect the default rates based on current (PiT) and forward-looking conditions. These parameters must be estimated with reference not only to the twelve-month period after the reporting date, but also to future years so that lifetime provisions can be calculated.

For the Group, the lifetime PD curves were constructed by multiplying the 12-month rating migration matrices, divided by segments conditioned by prospective macroeconomic scenarios, with a Markovian approach. The associated lifetime PD curve is associated with each rating class assigned to counterparties through internal models. The main methodological steps used to estimate lifetime PD are listed below:

- construction of the historical Point in Time (PiT) migration matrices for each risk segment defined by the rating models and, on the basis of the average of these matrices, obtaining the 3-year migration matrices for each risk segment. Note that in order to reduce the bias on the default rate deriving from the support policies, counterparties benefiting from moratoriums were removed from the 2020 migration matrix;
- determination of future PiT migration matrices for the first three years following the reporting date, obtained on the basis of PiT migration matrices conditioned on the basis of some selected macroeconomic scenarios, via satellite models (Merton method) capable of expressing the sensitivity of the PD measures with respect to changes in the main economic aggregates. These satellite models are differentiated by business and private segment and use specific variables for each segment;
- obtaining the cumulative PDs by rating class and scenario, through Markov chain techniques of the future PiT migration matrices for the first three years, as previously calculated, while from the fourth year onwards the 1-year average TTC is used, assumed as constant in each period t, obtained by deconditioning the single annual migration matrices observed in the last five years through the Merton–Vasicek method;
- generation of the cumulative lifetime PD curve as the average of the cumulated PD curves of each selected macroeconomic scenario weighted by the respective probabilities of occurrence.

Please refer to the following paragraph "Inclusion of forward-looking factors" for further details on how to construct the PD parameter.

Estimate of the LGD parameter

The LGD values are assumed equal to the regulatory recovery rates calculated over the economic cycle (TTC), suitably adapted in order to remove some elements of prudence represented by indirect costs and by the component linked to the adverse economic cycle (so-called "downturn" component, in addition to the previously mentioned "margin of conservatism).

EAD estimate

For on-balance sheet exposures, the EAD parameter is presented at each future payment date by the residual amount due, based on the amortisation schedule, as uplifted by any unpaid and/or past due instalments.

For off-balance sheet exposures, represented by guarantees and commitments to disburse irrevocable or revocable funds, the EAD is equal to the nominal value weighted by a specific credit conversion factor (CCF - Credit Conversion Factor), determined in accordance with internal models and using the standardised approach for the remaining exposures.

Inclusion of forward-looking factors

For the purpose of determining expected losses, the inclusion of forward-looking information is obtained by considering the effects on risk parameters, derived from different macroeconomic scenarios. In detail, the many possible alternative macroeconomic scenarios have been traced to a limited to three scenarios (positive, basic and negative), which constitute the input of the so-called "satellite models". Use of these latter models makes it possible to define, through statistical regression techniques, the relationship between a limited number of significant macroeconomic variables, taken as a point of reference, and the decay rates of the various segments. The result of these estimates is used to create stress factors, called "delta scores", distinguished by scenario and risk segments. These "delta scores" are applied using the Merton method to the average Point in Time (PiT) matrix by risk segment, represented by the most recent three-year internal data available on migration between ratings, so as to obtain three future stressed matrices based on macroeconomic forecasts. From the fourth year onwards, to calculate the PD curves, we chose to refer to the long-term matrix.

Subsequently, the construction of the PD curves for each of the 3 scenarios takes place by applying the Markov chain statistical procedure (product of the annual matrices described above). Lastly, the cumulative PiT and lifetime PD curves are generated as the average of the cumulated PD curves of each selected macroeconomic scenario, weighted by the respective probability of occurrence.

Considering that the effects of the final data for 2020 (featuring a sharp 8.9% drop in Italian GDP) have probably not been entirely reflected in the default classifications nor in the impairment of the performing loans portfolio, it was decided to incorporate a Cliff Effect into the calculation of the expected default rates. This is a disproportionate amplification of the effects deriving from a substantial simultaneous decrease – from the end of 2021 – in the mechanisms to support the economy adopted to deal with the pandemic (i.e. SACE guarantees on business loans, moratoriums on loans to SMEs and on mortgage loans, measures on tax bills falling due and restorations, firing freezes and access to the funded Redundancy Fund).

The adjustment was therefore applied by calculation – starting with the projections obtained by applying the satellite model and to each rating system – the difference between the estimated 2020 default rate (DR) and the rate observed in that year, and the difference between the 2021 DR and the rate observed in that year. Subsequently, the latent portion of defaults was identified for which it is believed that the support measures granted were not sufficient to mitigate the pandemic effect, spreading it asymmetrically over the three-year projection (i.e. with a greater effect on the first year of the projection).

Furthermore, given the persistence of uncertainty about the future evolution of the pandemic and its economic effects, the mix of probability of occurrence was calibrated by adding to the "baseline" scenario deemed most likely (with a probability of 55%), an alternative "negative" scenario (with a probability of 45%) and a "positive" scenario (with a probability of 0%).

The following tables show the range of values for the macroeconomic factors considered in the forward-looking conditioning models (i.e. satellite models, which are routinely subject to calibration and fine-tuning), for the scenarios deemed most likely to influence the expected losses of the performing credit exposures and the probability of occurrence considered as at 31 December 2021, 2020 and 2019:

Financial statements at 31 December 2021:	Positive Scenario		Baseline Scenario		Negative scenario	
Macroeconomic indicators	Min	Max	Min	Max	Min	Max
GDP - Italy	2.24	6.44	2.50	6.20	1.43	5.96
Inflation - Europe	2.10	3.40	1.80	3.20	1.40	3.10
3-month Euribor	-0.47	-0.50	-0.50	-0.50	-0.54	-0.50
Residential property values Italy	1.43	2.50	1.39	1.73	0.36	1.38
Spread Bund - on 10-year BTPs	0.91	1.03	0.91	1.03	1.28	2.14
Probability of occurrence	0%		55%		45%	

Financial statements at 31 December 2020	Positive Scenario		Baseline Scenario		Negative scenario	
Macroeconomic indicators	Min	Max	Min	Max	Min	Max
GDP - Italy	-8.9	6.1	-9.0	3.8	-9.2	1.4
Unemployment - Italy	8.9	9.8	9.2	10.4	9.6	11.3
Residential property values	292.2	324.2	288.2	294.7	270.3	283.0
Unemployment - Europe	7.5	8.8	8.0	9.3	8.1	10.3
Probability of occurrence	0%/5%		70%		25%/30%	

Financial statements at 31 December 2019	Baseline scenario		Negative scenario	
Macroeconomic indicators	Min	Max	Min	Max
GDP - Italy	1.30	1.32	-1.52	0.62
Unemployment - Italy	10.51	10.81	11.93	12.68
Inflation - Italy	1.50	1.62	-0.10	0.77
Inflation - Europe	1.53	1.73	0.11	0.51
BTP yield	2.49	2.85	3.72	4.02
3-month Euribor	-0.13	0.15	0.34	0.54
Probability of occurrence	80%		20%	

Post model adjustments

Considering, in addition, that the latent riskiness of a cluster of exposures at the reference date cannot be fully reflected in the models for measuring expected losses pursuant to IFRS 9 in terms of staging allocation, due to the application of expected losses as a result of the specific situation that the government support measures continue to create on the liquidity of businesses and the normal monitoring of loans (past-due amounts, financial tensions, etc.), the Bank deemed it appropriate to adopt a prudent approach in line with that required by ESMA in the "European Common Enforcement Priorities for 2021 Annual Financial Reports" in assessing the long-term impacts of Covid-19, defining post model adjustments ("management overlays") which consider the following for the transfer to stage 2:

- for the moratoriums on mortgage loans still in force at 30 September 2021, mainly comprised of legislative moratoriums pursuant to art. 56 of the "Liquidity Decree",
- the updating of the analyses of the attractiveness of the sectors by the Bank using the sector studies carried out by Prometeia, focusing on ratings equal to or worse than the median class (rating 5).

With regard to the sectors considered less attractive, the Ateco business codes used as drivers for the specific monitoring and risk containment actions adopted as part of credit policies were taken into consideration, as discussed below.

ATECO (sector code)	SECTOR	ATTRACTIVITY
1	Agriculture	LOW
2	Agriculture	LOW
3	Agriculture	LOW
13	Textiles and Clothing	LOW
14	Textiles and Clothing	LOW
15	Textiles and Clothing	LOW
35	Production and supply of electricity, gas	LOW
55	Accommodation and Catering	LOW
56	Accommodation and Catering	LOW
68	Real Estate	LOW
70	Business Serv ices	LOW
73	Business Serv ices	LOW
77	Business Serv ices	LOW
78	Business Serv ices	LOW
79	Recreational Activ ities, Sports and Trav el Agencies	LOW
80	Business Serv ices	LOW
81	Business Serv ices	LOW
82	Business Serv ices	LOW
90	Recreational Activ ities, Sports and Trav el Agencies	LOW
91	Recreational Activ ities, Sports and Trav el Agencies	LOW
92	Recreational Activ ities, Sports and Trav el Agencies	LOW
93	Recreational Activ ities, Sports and Trav el Agencies	LOW

Within positions in stage 2, for loans to businesses, specific high risk clusters were identified, on which to apply increasing minimum coverage:

Cluster 1: active moratoriums (in force at 30 September 2021) with rating classes 1-3 and moratoriums expired before 30 September 2021 for sectors with low attractiveness;

Cluster 2: active moratoriums with rating classes 1-3 for sectors with low attractiveness;

Cluster 3: active moratoriums with ratings >= 4 and other loans in sectors with loan attractiveness (ratings >=7);

Cluster 4: active moratoriums with ratings >= 4 for sectors with low attractiveness.

The moratoriums in force at 30 September 2021 or subsequently on loans to individual customers were considered a single risk cluster on which to apply a minimum coverage level which could reflect higher underlying risk.

To define the minimum coverage to apply to the various clusters identified, within a range from 3% to 13%, the average coverage levels expressed by the model on different risk stages were considered.

Sensitivity analysis of expected losses

As shown in the paragraph "Use of estimates and assumptions in preparing the financial statements" contained in part A in the section "Basis of preparation and accounting policies", the determination of losses due to impairment of receivables implies significant elements of opinion, with particular reference to the model used to measure losses and related risk parameters, to the triggers deemed to express significant credit deterioration and to the selection of macroeconomic scenarios.

The inclusion of forward-looking factors is a particularly complex exercise, as it requires the formulation of macroeconomic forecasts, the selection of scenarios and their probability of occurrence, as well as the definition of a model capable of expressing the relationship between the aforementioned macroeconomic factors and the default rates of the exposures subject to assessment, as explained in the previous paragraph.

In order to assess how forward looking factors can influence expected losses, it is considered reasonable to carry out a sensitivity analysis in the context of different scenarios based on forecasts consistent with the evolution of the various macroeconomic factors. The innumerable interrelations between the individual macroeconomic factors are, in fact, such as to render a sensitivity analysis of the expected losses based on the single macroeconomic factor barely meaningful.

The Group therefore deemed it reasonable for the sensitive analysis to consider the probability of occurrence of the negative scenario to be 70%, which would increase the write-downs to the performing loans portfolio by about Euro 1.2 million, gross.

2.4. Credit risk mitigation techniques

As part of the process leading up to the provision of credit, whenever possible, the Group acquires real and/or personal guarantees in order to mitigate risk, even if the requirements appear to be satisfied.

For all loans, the main type of real guarantee is the mortgage, primarily related to the technical form of mortgage loans (particularly on residential properties). Substantial loans are sometimes also assisted by public guarantees, such as the guarantees and counter-guarantees given by the Guarantee Fund for SMEs pursuant to Law 662/96, SACE or the European Investment Fund, as well as by the pledge of securities and/or cash.

Guarantees received are drawn up on contractual forms in line with industry standards and the law, and are approved by the relevant corporate functions. The process of collateral management provides for monitoring and specific controls to check their eligibility, in line with the requirements of supervisory regulations.

The public guarantees, such as the guarantees and counter-guarantees given by the Guarantee Fund for SMEs pursuant to Law 662/96 and by SACE, are modelled in the ECL calculation; an expected loss is also calculated in relation to the guaranteed part of the exposure, in order to take account of public counterparty risk. A similar approach is adopted in relation to the financial guarantees that are eligible for prudential purposes.

3. Non-performing exposures

3.1 Management strategies and policies

The current regulatory framework provides for the classification of non-performing financial assets according to their risk status. Three categories are foreseen: "bad loans", "unlikely to pay" and "non-performing past due and/or overdrawn exposures".

- Bad loans: exposure to a borrower in a state of insolvency (even if not legally bankrupt) or in substantially similar situations, regardless of the loss forecasts made by the intermediary.
- Unlikely to pay loans: exposures for which the intermediary considers full compliance by the debtor unlikely without recourse to actions such as collection of guarantees, regardless of the presence of amounts due and/or overdrawn.

- Non-performing past due and/or overdrawn exposures: exposures, other than those classified as bad or unlikely to pay, with amounts that are past due and/or overdrawn continuously for more than 90 days.

"Exposures subject to forbearance" are also envisaged as a category, referring to the exposures subject to renegotiation and/or refinancing due to the customer's financial difficulties (manifest or in the process of manifestation). These exposures may constitute a subset of non-performing loans (exposures subject to forbearance on non-performing positions) rather than performing loans (exposures subject to forbearance on performing positions). The management of these exposures, in compliance with regulatory provisions with respect to timing and classification procedures, is assisted through specific work processes and IT tools.

The Group has a policy that lays down the criteria for making adjustments that establish the minimum percentages to be applied in determining expected losses, depending on the type of impaired loan, the original technical form and the type of collateral. The Parent Company's management of non-performing exposures is delegated to a specific organisational unit, the NPL Department, responsible for identifying strategies for maximising recovery on individual positions and defining the adjustments to be applied to them. The only "non-performing past due/overdue" exposures subject to a collective write-down and with a high probability of reclassification between "performing" exposures are managed by the function delegated to credit performance monitoring, which eventually proceeds to classify among the "unlikely to pay" loans, transferring their management to the NPL Department.

The expected loss is the synthesis of several elements derived from various (internal and external) assessments of the principal debtor's assets and those of any guarantors and, in the case of UTP, also considers the drivers used in defining the LGD. Monitoring of the expected loss is constant and compared with the development of the individual position. The Risk Management function periodically monitors compliance with the doubtful percentages foreseen in the policy for managing non-performing loans by reporting any discrepancies to the relevant departments for realignment and monitors the recovery of non-performing loans, both managed directly and through external specialised operators.

The time element linked to the present value of non-performing loans is determined by specific assessments carried out for each type of asset, drawn up on the basis of information relating to the individual legal jurisdiction, and subject to periodic updating.

In line with the Bank's objectives for the reduction of the Bank's non-performing loans indicated in the Business Plan, as well as in the Plan for Managing NPLs, and with a view to maximising recoveries, the competent corporate functions define the best management strategy for non-performing exposures. Based on the subjective characteristics of the individual counterparty/exposure and internal policies, this may involve a revision of the contractual terms (forbearance), assignment to an internal recovery unit or to a specialised third-party operator, identification of the possibility of sale to third parties in the credit sector (at single exposure level or within a set of positions with the same characteristics).

In execution of its capital management strategy, the Parent Company completed a programme of sales of NPLs, particularly significant in recent years, with reference to loans classified as "bad" and loans classified as "unlikely-to-pay" (UTP). The additional sales finalised during the year resulted in an further decrease in the NPL Ratio (gross non-performing loans/gross loans ratio) to 4.1%, net of assets classified as held for sale, confirming a level in line with the best in the Italian banking industry. In line with the NPL ratio containment policy, there are plans for initiatives that will allow further improvement in this indicator.

In particular, considering the limited volumes of past due/overdue positions, the bank's attention is concentrated above all on timely identification of positions classified as performing but with certain critical elements, in order to identify procedures to regularise the situation, where possible, also through appropriate measures of forbearance.

Two types of action are taken to limit the stock of "unlikely-to-pay" loans (UTPs):

1. prevention of inflows to UTP;
2. effective management of the impaired portfolio in order to maintain good levels of recovery and/or a return to performing status, together with a policy of targeted sales aimed at optimising its value.

As business counterparties represent a significant share, in terms of volume, the focus is more on reducing transfers to UTP for this type of loan.

The methods and operational tools used by the Banco Desio Group, through which the positions that present credit anomalies and critical factors are identified and managed, are regulated and formalised in the internal documentation. In particular, monitoring is strongly focused on analysing the performance of the individual risk positions intercepted through periodic and spot checks, based on the systematic reports produced by the internal IT procedure (Credit Quality Manager) and highlighted by the Monitoring Dashboard. In addition to photographing and periodically monitoring the trend in anomalies, this tool provides an assessment of the individual branches for the purposes of control and eventual intervention, giving each one a ranking based on various risk indicators.

This reporting tool, which is also used to provide support for the Parent Company's senior management and the Network, makes it possible to interpret, process and age the data coming from various certified sources, in order to detect the credit quality of the Parent Company, of the Territorial Areas and of the Branches.

3.2 Write-offs

Non-performing exposures for which there is no possibility of recovery (either total or partial) are subject to cancellation from the accounting records ("write-offs") in accordance with the policies in force from time to time, subject to approval by the Group's Board of Directors. Among the strategies identified for containing NPLs, the Group has envisaged for unlikely to pay loans, a management approach based on single name assignments with particular reference to those loans managed with a view to liquidation or total repayment (so-called "gone concern").

As regards the indicators used to assess recovery expectations, the Group has adopted specific analytical assessment policies for non-performing loans which provide for specific percentages of adjustment, distinguishing the presence and type of underlying guarantees (secured or unsecured), the submission of customers to a specific procedure (agreed in advance, settlement liquidators, agreed upon in continuity, crisis due to over-indebtedness, as per art. 67 or art. 182 of the Bankruptcy Law).

3.3. Purchased or originated credit impaired financial assets

As indicated in "IFRS 9 – Financial Instruments", in some cases, a financial asset is considered non-performing at the time of initial recognition as the credit risk is very high and, in the case of purchase, is purchased at a significant discount (compared with the initial value). In the event that the financial assets in question, based on the application of classification drivers (i.e. SPPI test and business model), are classified among assets valued at amortised cost or at fair value through other comprehensive income, they qualify as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to a specific treatment. Adjustments equal to the lifetime expected credit loss (ECL) are recorded against them, from the date of initial recognition and throughout their life. In light of the above, POCI financial assets are initially registered as non-performing loans, without prejudice to the possibility of being subsequently transferred to performing loans, in which case a lifetime ECL will continue to be recorded. A "POCI" therefore qualifies as such in the reporting processes and in the calculation of the expected loss (ECL).

4. Financial assets subject to commercial renegotiations and exposures subject to forbearance

In the face of financial difficulties on the part of the debtor, exposures may be subject to changes in the contractual terms in favour of the debtor in order to make their repayment sustainable. Depending on the subjective characteristics of the exposure and the reasons for the debtor's financial difficulties, the changes may act in the short term (temporary suspension from payment of the loan principal or an extension of a due date) or in the long term (lengthening the duration of a loan, revision of the interest rate) and lead to classification of the exposure (both performing and non-performing) as "forborne". "Forborne" exposures are subject to specific forecasts with a view to classification, as indicated in the ITS EBA 2013-35 implemented by the Group's credit policies; if the forbearance measures are applied to performing exposures, these are taken into account in the process of assigning the internal management rating and are part of the exposures in stage 2. All exposures classified as "forborne" are included in specific monitoring processes by the relevant company departments.

To be more specific, with the help of suitable IT procedures, these functions monitor the effectiveness of the forbearance measures granted, detecting whether the customer's financial situation is subsequently getting better or worse. If at the end of the monitoring period the position complies with all the criteria required by regulations, it is no longer considered as a forborne loan; otherwise, it remains under forborne exposures.

If considered opportune, the branches have the right to review the conditions applied to customer exposures, even when there are no signs of financial difficulty, within the limits of their current decision-making autonomy.

In this case, the exposure does not fall into the category of forborne exposures.

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<u>Quantitative information</u>

A. Credit quality

A.1 Non-performing and performing loans: amounts, adjustments, trends and economic distribution

A.1.1 Distribution of financial assets by portfolio and quality of lending (book values)

Portfolio/Quality	Bad loans	Unlikely to pay loans	Past due impaired loans	Past due performing loans	Other performing exposures	Total
1. Financial assets at amortised cost	93,565	130,986	1,538	39,845	16,004,246	16,270,180
2. Financial assets at fair value through other comprehensive income	-	-	-	-	579,859	579,859
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	-	-	-	-	883	883
5. Financial assets held for sale	2,721	10,359	-	-	-	13,080
Total 31.12.2021	**96,286**	**141,345**	**1,538**	**39,845**	**16,584,988**	**16,864,002**
Total 31.12.2020	**116,633**	**184,303**	**1,010**	**38,010**	**14,527,444**	**14,867,400**

A.1.2 Distribution of financial assets by portfolio and quality of lending (gross and net amounts)

Portfolio/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total write-downs	Net exposure	Total partial write-offs*	Gross exposure	Total write-downs	Net exposure	
1. Financial assets at amortised cost	464,994	(238,905)	226,089	6,371	16,149,065	(104,974)	16,044,091	16,270,180
2. Financial assets at fair value through other comprehensive income	-	-	-	-	580,022	(163)	579,859	579,859
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. 1.3 Other financial assets mandatorily at fair value	-	-	-	-	X	X	883	883
5. Financial assets held for sale	24,516	(11,436)	13,080	-	-	-	-	13,080
Total 31.12.2021	489,510	(250,341)	239,169	6,371	16,729,087	(105,137)	16,624,833	16,864,002
Total 31.12.2020	575,722	(273,776)	301,946	9,039	14,639,820	(75,226)	14,565,455	14,867,400

Portfolio/Quality	Assets with an obviously poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	4,216
2. Hedging derivatives	-	-	-
Total 31.12.2021	-	-	4,216
Total 31.12.2020	-	-	3,686

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A.1.3 Distribution of financial assets by past due bands (book values)

Portfolios/Stages of risk	First stage			Second stage			Third stage			Purchased or originated credit impaired		
	From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days	From 1 to 30 days	From 30 to 90 days	Beyond 90 days
1. Financial assets at amortised cost	19,571	-	-	13,771	5,446	1,056	12,514	13,511	129,919	0	0	-
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	0	0	-
3. Financial assets held for sale	-	-	-	-	-	-	1,306	-	8,236	0	0	-
Total 31.12.2021	19,571	-	-	13,771	5,446	1,056	13,820	13,511	138,155	-	-	-
Total 31.12.2020	10,083	-	-	20,389	7,118	420	9,737	13,037	196,976	-	-	-

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: change in total net write-downs and total provisions - Part 1

Description/stages of risk	Total write-downs									
	Assets included in the first stage					Assets included in the second stage				
	Due from banks and central banks on demand	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: collective write-downs	Due from banks and central banks on demand	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: collective write-downs
Total opening adjustments	-	18,306	172	-	18,478	-	56,626	-	-	56,626
Increases in purchased or originated financial assets	-	7,981	-	-	7,981	-	2,078	-	-	2,078
Cancellations other than write-offs	-	(4,995)	-	-	(4,995)	-	(911)	-	-	(911)
Net adjustments/write-backs for credit risk (+/-)	-	(828)	(9)	-	(837)	-	26,640	-	-	26,640
Contractual changes without write-offs	-	-	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-	-	-
Write-offs not booked directly to the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	-	(62)	-	-	(62)	-	19	-	-	19
Total closing adjustments	-	20,402	163	-	20,565	-	84,452	-	-	84,452
Recoveries of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-offs booked directly to the income statement	-	-	-	-	-	-	-	-	-	-

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: change in total net write-downs and total provisions - Part 2

Description/stages of risk	Total write-downs											Total provisions on commitments to disburse funds and financial guarantees given				Total
	Assets included in the third stage						Purchased or originated credit impaired fin. assets									
	Due from banks and central banks on demand	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	First stage	Second stage	Third stage	Commitments to disburse funds and fin. guarantees given on purchased or originated impaired assets	Total
Total opening adjustments	-	270,366	-	-	270,366	-	3,533	-	-	3,411	122	2,196	766	1,985	-	353,950
Increases in purchased or originated financial assets	-	858	-	-	858	-	X	X	X	X	X	-	-	-	-	10,917
Cancellations other than write-offs	-	(35,691)	-	-	(35,691)	-	-	-	-	-	-	-	-	-	-	(41,597)
Net adjustments/ write-backs for credit risk (+/-)	-	11,121	-	-	11,121	-	275	-	-	275	-	(776)	(192)	79	-	36,310
Contractual changes without write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the method of making estimates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Write-offs not booked directly to the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	(11,435)	-	11,435	-	-	-	-	-	-	-	-	-	-	-	(43)
Total closing adjustments	-	235,219	-	11,435	246,654	-	3,808	-	-	3,686	122	1,420	574	2,064	-	359,537
Recoveries of financial assets subject to write-off	-	4,257	-	-	-	-	-	-	-	-	-	-	-	-	-	4,257
Write-offs booked directly to the income statement	-	(3,978)	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,978)

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the different stages of credit risk (gross and nominal values)

Portfolios/Stages of risk		Gross exposure/nominal value					
		Transfers between first and second stage		Transfers between second and third stage		Transfers between first and third stage	
		From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
1. Financial assets at amortised cost		762,841	894,700	61,442	3,401	18,986	693
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-
3. Financial assets held for sale		-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees given		93,223	58,146	1,062	116	3,643	568
Total	31.12.2021	856,064	952,846	62,504	3,517	22,629	1,261
Total	31.12.2020	1,949,054	361,797	52,556	17,300	37,630	2,262

A.1.5a Loans subject to Covid-19 support measures: transfers between the different credit risk stages (gross values)

Portfolio/Quality		Gross amounts/nominal value					
		Transfers between first and second stage		Transfers between second and third stage		Transfers between first and third stage	
		From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
A. Loans at amortised cost		320,114	-	12,975	176	5,097	63
A.1 subject to forbearance complying with GL		17,758	-	10,417	122	6	30
A.2. subject to moratorium measures in force no longer complying with GL and not considered subject to forbearance		-	-	-	-	-	-
A.3 subject to other forbearance measures		-	-	-	-	-	-
A.4 new loans		302,356	-	2,558	54	5,091	33
B. Loans at fair value through other comprehensive income		-	-	-	-	-	-
B.1 subject to forbearance complying with GL		-	-	-	-	-	-
B.2. subject to moratorium measures in force no longer complying with GL and not considered subject to forbearance		-	-	-	-	-	-
B.3 subject to other forbearance measures		-	-	-	-	-	-
B.4 new loans		-	-	-	-	-	-
Total	31.12.2021	320,114	-	12,975	176	5,097	63
Total	31.12.2020	1,273,297	93,817	21,658	7,790	6,976	122

A.1.6 on- and off-balance sheet credit exposures to banks: gross and net amounts:

Types of exposure/Amounts	Gross exposure					Total write-downs and provisions					Net exposure	Total partial write-offs*
		First stage	Second stage	Third stage	Purchased or originated credit impaired		First stage	Second stage	Third stage	Purchased or originated credit impaired		
A. ON-BALANCE SHEET EXPOSURES												
A.1 ON DEMAND	31,420	31,420	-	-	-	28	28	-	-	-	31,392	-
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	31,420	31,420	-	X	-	28	28	-	X	-	31,392	-
A.2 OTHER	2,468,241	2,468,241	-	-	-	595	595	-	-	-	2,467,646	-
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to pay loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
c) Past due non-performing loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which exposures subject to forbearance	-	X	-	-	-	-	X	-	-	-	-	-
d) Past due performing loans	-	-	-	X	-	-	-	-	X	-	-	-
- of which exposures subject to forbearance	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	2,468,241	2,468,241	-	X	-	595	595	-	X	-	2,467,646	-
- of which exposures subject to forbearance	-	-	-	X	-	-	-	-	X	-	-	-
TOTAL (A)	2,499,661	2,499,661	-	-	-	623	623	-	-	-	2,499,038	-
B. OFF-BALANCE SHEET EXPOSURES						-	-	-	-	-		

a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	13,639	13,639	-	X	-	1	1	-	X	-	13,638	-
TOTAL (B)	13,639	13,639	-	-	-	1	1	-	-	-	13,638	-
TOTAL (A+B)	2,513,300	2,513,300	-	-	-	624	624	-	-	-	2,512,676	-

"On-balance sheet exposures" include all on-balance sheet financial assets due from banks, regardless of the portfolio they are allocated to for accounting purpose.

"Off-balance sheet exposures" include all financial transactions that differ from on-balance sheet transactions (guarantees given, commitments, derivatives, etc.) that involve the assumption of credit risk, whatever the purpose of the transactions (trading, hedging, etc.).

A.1.7 On- and off-balance sheet credit exposures to customers: gross and net amounts:

Types of exposure/Amounts	Gross exposure					Total write-downs and provisions					Net exposure	Total partial write-offs*
		First stage	Second stage	Third stage	Purchased or originated credit impaired		First stage	Second stage	Third stage	Purchased or originated credit impaired		
A. ON-BALANCE SHEET EXPOSURES												
a) Bad loans	259,290	X	-	256,789	2,501	163,004	X	-	161,743	1,261	96,286	6,371
- of which exposures subject to forbearance	28,505	X	-	27,612	893	14,688	X	-	14,334	354	13,817	-
b) Unlikely to pay loans	228,456	X	-	221,327	7,129	87,111	X	-	84,685	2,426	141,345	-
- of which exposures subject to forbearance	116,177	X	-	112,612	3,565	43,517	X	-	42,323	1,194	72,660	-
c) Past due non-performing loans	1,763	X	-	1,756	7	227	X	-	226	1	1,536	1
- of which exposures subject to forbearance	331	X	-	331	-	46	X	-	46	-	285	-
d) Past due performing loans	41,419	19,682	21,701	X	36	1,575	111	1,464	X	-	39,844	-
- of which exposures subject to forbearance	5,890	-	5,890	X	-	513	-	513	X	-	5,377	-
e) Other performing exposures	14,223,908	12,427,242	1,792,929	X	3,737	102,966	19,858	82,987	X	121	14,120,942	-
- of which exposures subject to forbearance	197,800	-	197,266	X	534	16,288	-	16,258	X	30	181,512	-
Total (A)	14,754,836	12,446,924	1,814,630	479,872	13,410	354,883	19,969	84,451	246,654	3,809	14,399,953	6,372

B. OFF-BALANCE SHEET EXPOSURES

a) Non-performing	12,043	X	-	12,043	-	2,063	X	-	2,063	-	9,980	-
b) Performing	3,398,213	3,294,990	103,223	X	-	1,993	1,419	574	X	-	3,396,220	-
TOTAL (B)	3,410,256	3,294,990	103,223	12,043	-	4,056	1,419	574	2,063	-	3,406,200	-
TOTAL (A+B)	18,165,092	15,741,914	1,917,853	491,915	13,410	358,939	21,388	85,025	248,717	3,809	17,806,153	6,372

"On-balance sheet exposures" include all on-balance sheet financial assets due from customers, regardless of the portfolio they are allocated to for accounting purposes.

Off-balance sheet credit exposures" include all financial transactions other than cash ones (guarantees given, commitments, derivatives, etc.) that involve the assumption of credit risk, whatever the purpose of the transactions (trading, hedging, etc.).

A.1.7a On-balance sheet exposures to customers subject to Covid-19 support measures: gross and net amounts: gross and net amounts:

	Gross exposure					Total write-downs and provisions					Net exposure	Total partial write-offs*
		First stage	Second stage	Third stage	Purchased or originated credit impaired		First stage	Second stage	Third stage	Purchased or originated credit impaired		
A. NON-PERFORMING LOANS	-	-	-	-	-	-	-	-	-	-	-	-
a) Subject to forbearance complying with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	-	-	-	-	-	-	-	-	-	-	-	-
B. UNLIKELY TO PAY LOANS	50,415	-	-	49,566	849	15,417	-	-	15,147	270	34,998	-
a) Subject to forbearance complying with GL	35,156	-	-	34,920	236	12,572	-	-	12,522	50	22,584	-
b) Subject to moratorium measures no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	15,259	-	-	14,646	613	2,845	-	-	2,625	220	12,414	-
C. NON-PERFORMING PAST-DUE LOANS	200	-	-	200	-	26	-	-	26	-	174	-
a) Subject to forbearance complying with GL	40	-	-	40	-	5	-	-	5	-	35	-
b) Subject to moratorium measures no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	160	-	-	160	-	21	-	-	21	-	139	-

D. PERFORMING LOANS	4,649	189	4,435	-	25	300	3	297	-	-	4,349	-
a) Subject to forbearance complying with GL	3,346	189	3,157	-	-	281	3	278	-	-	3,065	-
b) Subject to moratorium measures no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	1,303	-	1,278	-	25	19	-	19	-	-	1,284	-
E. OTHER PERFORMING LOANS	2,958,544	2,114,518	843,044	-	982	53,256	2,691	50,550	-	15	2,905,288	-
a) Subject to forbearance complying with GL	535,481	13,438	521,947	-	96	48,236	75	48,154	-	7	487,245	-
b) Subject to moratorium measures no longer complying with GL and not considered subject to forbearance	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	-	-	-	-	-	-	-	-	-	-	-	-
d) New loans	2,423,063	2,101,080	321,097	-	886	5,020	2,616	2,396	-	8	2,418,043	-
TOTAL (A+B)+C+D+E)	3,013,808	2,114,707	847,479	49,766	1,856	68,999	2,694	50,847	15,173	285	2,944,809	-

A.1.8 On-balance sheet credit exposures to banks: change in gross impaired exposures

Balances were zero at the reporting date.

A.1.8 bis Cash credit exposures to banks: change in gross exposures subject to forbearance broken down by credit quality

Balances were zero at the reporting date.

A.1.9 On-balance sheet credit exposures to customers: change in gross impaired exposures

Description/Categories	Bad loans	Unlikely to pay loans	Past due non-performing loans
A. Initial gross exposure	298,889	275,668	1,164
- of which: exposure sold but not derecognised	-	8,962	55
B. Increases	55,521	110,795	8,904
B.1 transfers from performing loans	165	83,241	5,209
B.2 transfers from purchased or originated credit impaired assets	-	687	143
B.3 transfers from other categories of non-performing exposures	54,277	6,117	1,823
B.4 contractual changes without write-offs	-	-	-
B.5 other increases	1,079	20,750	1,729
C. Decreases	95,120	158,007	8,304
C.1 transfers to performing loans	229	4,535	1,618
C.2 write-offs	10,601	175	-
C.3 collections	18,688	55,845	663
C.4 proceeds from disposal	12,501	19,581	-
C.5 losses on disposal	53,007	21,771	-
C.6 transfers to other categories of non-performing exposures	94	56,100	6,023
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposure	259,290	228,456	1,764
- of which: exposures sold but not derecognised	-	10,050	165

A.1.9bis On-balance sheet credit exposures to customers: change in gross exposures subject to forbearance broken down by credit quality

Description/Quality	Exposures subject to forbearance: non-performing	Exposures subject to forbearance: performing
A. Initial gross exposure	167,636	128,502
- of which: exposures sold but not derecognised	5,260	24,232
B. Increases	53,871	179,705
B.1 transfers from performing positions not subject to forbearance	2,412	158,138
B.2 transfers from performing positions subject to forbearance	34,852	X
B.3 transfer from exposures subject to forbearance	X	2,833
B.4 transfers from non-performing positions not subject to forbearance	-	-
B.4 other increases	16,607	18,734
C. Decreases	76,494	104,517
C.1 transfers to performing positions not subject to forbearance	X	32,808
C.2 transfers to performing positions subject to forbearance	2,833	X
C.3 transfers to exposures subject to forbearance on non-performing positions	X	34,852
C.4 write-offs	606	-
C.5 collections	52,560	36,845
C.6 proceeds from disposal	11,756	12
C.7 losses on disposal	8,739	-
C.8 other decreases	-	-
D. Closing gross exposure	145,013	203,690
- of which: exposures sold but not derecognised	6,327	30,220

A.1.10 Non-performing on-balance sheet credit exposures to banks: change in total net write-downs

Balances were zero at the reporting dates.

A.1.11 Non-performing on-balance sheet credit exposures to customers: change in total net write-downs

Description/Categories	Bad loans		Unlikely to pay loans		Past due non-performing loans	
	Total	of which exposures subject to forbearance	Total	of which exposures subject to forbearance	Total	of which exposures subject to forbearance
A. Total opening adjustments	182,257	15,288	91,365	37,358	154	47
- of which: exposures sold but not derecognised	-	-	1,525	895	7	7
B. Increases	61,223	11,788	52,896	25,582	240	63
B.1 write-downs of purchased or originated credit impaired financial assets	-	X	-	X	-	X
B.2 other write-downs	40,138	2,698	43,541	24,050	209	43
B.3 losses on disposal	5,974	753	9,321	1,512	-	-
B.4 transfers from other categories of non-performing exposures	14,105	8,337	34	20	31	20
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	1,006	-	-	-	-	-
C. Decreases	80,477	12,386	57,150	19,423	168	64
C.1 measurement write-backs	3,977	513	6,444	3,425	52	16
C.2 write-backs on collection	4,503	710	4,565	2,500	79	29
C.3 gains on disposal	2,414	158	740	129	-	-
C.4 write-offs	10,601	3,519	175	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	14,133	8,357	37	19
C.6 contractual changes without write-offs	-	-	-	-	-	-
C.7 other decreases	58,982	7,486	31,093	5,012	-	-
D. Total closing adjustments	163,003	14,690	87,111	43,517	226	46
- of which: exposures sold but not derecognised	-	-	2,295	1,571	22	

Banco Desio

A.2 Distribution of financial assets, commitments to disburse funds and financial guarantees given for external and internal rating classes

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees given for external rating classes (gross values)

Exposures	External rating class						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets at amortised cost	36,638	240,713	3,115,807	823,545	302,088	144,302	11,950,967	16,614,060
- First stage	35,405	233,722	3,070,737	740,595	229,716	76,947	9,943,538	14,330,660
- Second stage	1,233	6,991	45,055	82,950	67,460	65,928	1,545,015	1,814,632
- Third stage	-	-	-	-	4,912	1,427	449,023	455,362
- Purchased or originated credit impaired	-	-	15	-	-	-	13,391	13,406
B. Financial assets at fair value through other comprehensive income	2,587	-	559,709	17,725	-	-	-	580,021
- First stage	2,587	-	559,709	17,725	-	-	-	580,021
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	24,516	24,516
- First stage	-	-	-	-	-	-	-	-
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	24,511	24,511
- Purchased or originated credit impaired	-	-	-	-	-	-	5	5
Total (A+B+C)	39,225	240,713	3,675,516	841,270	302,088	144,302	11,975,483	17,218,597
D. 4. Commitments to disburse funds and financial guarantees given	38,321	130,669	255,386	230,442	77,026	31,086	2,660,527	3,423,457
- First stage	38,321	130,669	250,343	221,726	76,126	30,450	2,560,556	3,308,191
- Second stage	-	-	5,043	8,716	900	440	88,124	103,223
- Third stage	-	-	-	-	-	196	11,847	12,043
- Purchased or originated credit impaired	-	-	-	-	-	-	-	-
Total (D)	38,321	130,669	255,386	230,442	77,026	31,086	2,660,527	3,423,457
Total (A+B+C+D)	77,546	371,382	3,930,902	1,071,712	379,114	175,388	14,636,010	20,642,054

The attribution of external ratings refers to the positions of the Group proprietary securities portfolio and to loans for which Cerved, an external credit assessment institution (or ECAI) has assigned a credit risk rating.

The following table gives a reconciliation between the rating classes indicated in table A.2.1 and those provided by the ECAIs Moody's and Mode Finance, the agencies that the Group uses for external ratings.

Classes of credit quality	Moody's rating	Mode Finance
1	from Aaa to Aa3	from EA1 to EA2-
2	from A1 to A3	from EA3+ to EA3-
3	from Baa1 to Baa3	from EB1+ to EB1-
4	from Ba1 to Ba3	from EB2+ to EB2-
5	from B1 to B3	from EB3+ to EB3-
6	Caa1 or less	EC1+ or less

A.2.2 Distribution of financial assets, commitments to disburse funds and financial guarantees given for interior rating classes (gross values)

The Bank does not use internal rating models for the determination of capital requirements.

The Bank uses a rating model to assess individual consumer customers and corporate customers (Retail, Corporate and Financial Businesses and Institutions)

The following table shows performing loans belonging to the above categories with the proportion of each rating class to the overall exposure.

Exposures	Internal rating class				
	from 1 to 4	from 5 to 6	from 7 to 10	Financial and Institutional	Total
On-balance sheet exposures	65.33%	25.59%	6.78%	2.30%	100%
Off-balance sheet exposures	79.36%	14.68%	4.19%	1.77%	100%

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed on- and off-balance sheet credit exposures to banks

Balances are zero at the reporting date.

A.3.2 Regulatory consolidation: Guaranteed on- and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Secured guarantees (1)				Unsecured guarantees (2) Credit derivatives						Unsecured guarantees (2) Endorsement credits				Total
								Other derivatives									
			Property - Mortgages	Property under finance leases	Securities	Other secured guarantees	CLN	Central counterparties	Banks	Other financial companies	Other parties	Public administrations	Banks	Other financial companies	Other parties	(1)+(2)
1. Guaranteed on-balance sheet exposures:	8,703,837	8,419,375	4,383,293	105,746	230,387	128,613	-	-	-	-	-	2,458,883	16,302	18,735	765,077	8,107,036
1.1. totally guaranteed	6,825,239	6,557,813	4,380,259	105,746	204,139	123,104	-	-	-	-	-	986,608	13,357	6,416	733,398	6,553,027
- of which non-performing	389,329	206,283	162,768	4,393	465	2,236	-	-	-	-	-	8,396	760	19	27,154	206,191
1.2. partially guaranteed	1,878,598	1,861,562	3,034	-	26,248	5,509	-	-	-	-	-	1,472,275	2,945	12,319	31,679	1,554,009
- of which non-performing	23,266	13,548	118	-	121	574	-	-	-	-	-	9,290	148	-	1,480	11,731
2. Guaranteed off-balance sheet exposures:	852,003	850,921	2,996	-	65,687	59,197	-	-	-	-	-	1,738	4,243	715	672,165	806,741
2.1. totally guaranteed	733,645	732,670	2,996	-	53,670	48,159	-	-	-	-	-	952	3,917	28	622,806	732,528
- of which non-performing	3,760	3,469	13	-	70	432	-	-	-	-	-	-	-	-	2,954	3,469
2.2. partially guaranteed	118,358	118,251	-	-	12,017	11,038	-	-	-	-	-	786	326	687	49,359	74,213
- of which non-performing	593	571	-	-	19	324	-	-	-	-	-	-	-	-	126	469

B. Distribution and concentration of credit exposures

B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers

(Part 1)

Exposures/Counterparties		Public administrations		Financial companies		Financial companies (of which: insurance companies)	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures							
A.1 Bad loans		-	-	2,424	11,420	-	-
- of which exposures subject to forbearance		-	-	-	-	-	-
A.2 Unlikely to pay loans		292	265	638	146	-	-
- of which exposures subject to forbearance		-	1	11	11	-	-
A.3 Past due non-performing loans		177	26	1	-	-	-
- of which exposures subject to forbearance		-	-	-	-	-	-
A.4 Performing loans		2,926,223	585	1,522,702	3,095	4,904	1
- of which exposures subject to forbearance		-	(2)	1,296	85	-	-
Total A		2,926,692	876	1,525,765	14,661	4,904	1
B. Off-balance sheet exposures							
B.1 Non-performing loans		-	-	-	-	-	-
B.2 Performing loans		50,028	-	158,726	118	-	-
Total B		50,028	-	158,726	118	-	-
Total (A+B)	31.12.2021	2,976,720	876	1,684,491	14,779	4,904	1
Total (A+B)	31.12.2020	2,705,659	1,014	1,537,265	12,522	4,342	-

B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers

(Part 2)

Exposures/Counterparties		Non-financial companies		Households	
		Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures					
A.1 Bad loans		59,191	117,313	34,672	34,270
- of which exposures subject to forbearance		6,517	8,851	7,297	5,839
A.2 Unlikely to pay loans		86,240	61,202	54,175	25,498
- of which exposures subject to forbearance		39,622	28,503	33,028	15,002
A.3 Past due non-performing loans		362	56	998	144
- of which exposures subject to forbearance		51	8	234	38
A.4 Performing loans		6,049,409	76,172	3,662,452	24,691
- of which exposures subject to forbearance		120,368	12,294	65,224	4,424
Total A		6,195,202	254,743	3,752,297	84,603
B. Off-balance sheet exposures					
B.1 Non-performing loans		9,422	1,999	558	64
B.2 Performing loans		2,954,999	1,727	232,467	149
Total B		2,964,421	3,726	233,025	213
Total (A+B)	31.12.2021	9,159,623	258,469	3,985,322	84,816
Total (A+B)	31.12.2020	9,193,520	250,302	3,651,629	89,551

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers

(Part 1)

Exposures/Geographical areas		Italy		Other European countries		America
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure
A. On-balance sheet exposures						
A.1 Bad loans		96,234	(162,935)	53	(68)	-
A.2 Unlikely to pay loans		141,042	(86,924)	303	(187)	-
A.3 Past due non-performing loans		1,533	(225)	5	(1)	-
A.4 Performing loans		13,989,280	(104,423)	154,225	(99)	16,796
Total (A)		14,228,089	(354,507)	154,586	(355)	16,796
B. Off-balance sheet exposures						
B.1 Non-performing loans		9,979	(2,063)	-	-	-
B.2 Performing loans		3,391,728	(1,994)	4,055	-	432
Total (B)		3,401,707	(4,057)	4,055	-	432
Total (A+B)	31.12.2021	17,629,796	(358,564)	158,641	(355)	17,228
Total (A+B)	31.12.2020	16,949,205	(353,084)	117,233	(286)	21,377

Banco Desio

B.2 Territorial distribution of on- and off-balance sheet credit exposures to customers

(Part 2)

Exposures/Geographical areas		America	Asia		Rest of the world	
		Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay loans		-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-
A.4 Performing loans		(20)	427	(1)	58	-
Total (A)		(20)	427	(1)	58	-
B. Off-balance sheet exposures						
B.1 Non-performing loans		-	-	-	1	-
B.2 Performing loans		-	-	-	5	-
Total (B)		-	-	-	6	-
Total (A+B)	31.12.2021	(20)	427	(1)	64	-
Total (A+B)	31.12.2020	(18)	171	(1)	87	-

B.3 **Territorial distribution of on- and off-balance sheet credit exposures to banks**

(Part 1)

Exposures/Geographical areas		Italy		Other European countries		America
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure
A. On-balance sheet exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay loans		-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-
A.4 Performing loans		2,373,434	(567)	93,094	(28)	-
Total (A)		2,373,434	(567)	93,094	(28)	-
B. Off-balance sheet exposures						
B.1 Non-performing loans		-	-	-	-	-
B.2 Performing loans		11,089	(1)	676	-	-
Total (B)		11,089	(1)	676	-	-
Total (A+B)	31.12.2021	2,384,523	(568)	93,770	(28)	-
Total (A+B)	31.12.2020	1,260,642	(435)	131,156	(56)	3,018

B.3 Territorial distribution of on- and off-balance sheet credit exposures to banks

(Part 2)

Exposures/Geographical areas		America	Asia		Rest of the world	
		Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans		-	-	-	-	-
A.2 Unlikely to pay loans		-	-	-	-	-
A.3 Past due non-performing loans		-	-	-	-	-
A.4 Performing loans		-	-	-	1,118	-
Total (A)		-	-	-	1,118	-
B. Off-balance sheet exposures						
B.1 Non-performing loans		-	-	-	-	-
B.2 Performing loans		-	2,000	-	-	-
Total (B)		-	2,000	-	-	-
Total (A+B)	31.12.2021	-	2,000	-	1,118	-
Total (A+B)	31.12.2020	(2)	317	-	802	(1)

B.4 Large exposures

With reference to current supervisory regulations, the situation at 31 December 2021 is reported below:

Description	Amount (book value)	Amount (weighted amount)	Number
Large exposures	9,136,788	319,559	8

The positions recognised relate to:

- tax assets of the bank and
- Italian government securities,
- stake held in the Bank of Italy,
- subscription of junior and mezzanine securities and granting of loans to the vehicle company of the NPL securitisation with GACS,
- guarantees provided by the Guarantee Fund under Law no. 662 of 23.12.1996,
- guarantees given by SACE,
- exposures with Crédit Agricole for cash deposited as part of the covered bond transaction and debt securities included in the proprietary portfolio,
- repurchase agreements in force with Cassa di Compensazione e Garanzia.

C. Securitisations

Qualitative information

In 2018, a securitisation was carried out that makes use of the Italian State guarantee on the senior securities issued following a securitisation of bad loans pursuant to Decree Law 18/2016 ("GACS") aimed at deconsolidating Banco Desio Group loans for a gross value of Euro 1.0 billion (the "Transaction").

The Transaction was structured in order to carry out the significant transfer of the credit risk associated with the securitised loans ("SRT") pursuant to art. 243 et seq. of Regulation (EU) no. 575/2013; the portfolio of bad loans 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 2020, 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.

In December 2021, Banco Desio also participated in a multi-originator securitisation of bad loans with GACS government guarantee, carried out by the team of Cassa Centrale Banca (Buonconsiglio 4). In particular, on 15 December, the Bank finalised the non-revolving sale in the form of a securitisation, carried out pursuant to Law 130/1999 (the "Transaction") of a portfolio of NPLs with a gross book value (GBV) of Euro 22.9 million to the vehicle company “Buonconsiglio 4 S.r.l.” (“SPV” or “Vehicle”).

In order to fulfil the retention obligation pursuant to: (i) art. 405, par. 1 of Regulation EU 575/2013 (the “CRR”), (ii) art. 51, par. 1 of Delegated Regulation (EU) 231/2013 (“AIMFD Regulation”) and (iii) art. 254 of Delegated Regulation (EU) 35/2015 (“Solvency II Regulation”), the Group decided to maintain a net economic interest in the nominal value of each Junior (around 7%) and Mezzanine tranche (around 6%) transferred to third party investors, and retain 100% of the Senior tranche, pursuant to art. 405, par. 1, letter (a) of the CRR. The sale price, equal to Euro 4.59 million (gross of collections of Euro 90 thousand relating to the period 1 August 2021 – 1 December 2021, as envisaged by the GACS Decree of 3 August 2016, art. 2, par., letter a), was recognised via BDB subscribing ABS securities (“Notes”) issued by the SPV on 14 December 2021, in exchange for the NPLs acquired pro-rata from each selling bank. On 15 December 2021, Banco di Desio e della Brianza signed the final binding agreement for the sale by the originator bank of around 94% of the Mezzanine securities and 93% of the Junior securities formulated by a third-party institutional investor, for a pro-rata price of Euro 202,322, collecting the price on the date set out for settlement of the securities transactions, i.e. 17 December 2021. After the transaction was finalised in December, the application for a guarantee on the senior securities was sent to the Ministry of the Economy and Finance (MEF), which is still being processed. at the date of preparation of this document, the conditions have been met to recognise the significant risk transfer of the loans sold for prudential purposes.

In 2020, the Bank subscribed Euro 50 million for an asset-backed security (“ABS”) issued by Lumen SPV S.r.l. (special-purpose vehicle or "SPV"), representing medium/long-term loans granted by Credimi S.p.A. (“Originator”) to SMEs and backed by guarantees from Medio Credito Centrale (MCC), as envisaged in Decree Law 23 dated 8 April 2020 (the "Liquidity" Decree). In 2021, an additional issue by Lumen was subscribed, with underlying loans of the same type for an additional Euro 50 million.

The objectives of this initiative are to:

1. obtain an expected return consistent with the risk profile of the operation with underlying loans that are guaranteed by Medio Credito Centrale;
2. increase the number of customers with a target in line with the commercial and credit policies (geography, company size and expected loss of the portfolio);
3. commence operations in fintech channels (co-branded portal) that provide clients with a fully on-line user experience that is simple and quick.

During 2020, with a view to diversifying the securities portfolio and seeking attractive returns, the Bank also invested 5 million euro in senior notes issued by Viveracqua, an SPV, maturing in 2034 and representing 6 bond issues by companies operating in the water sector. Also with a view to diversifying its securities portfolio, in 2021 the following investments were made in senior tranches of third-party securitisations:

- Euro 30 million relating to a simple, transparent and standardised (“STS”) senior issue of Kripton SPV with underlying loans to SMEs guaranteed by Medio Credito Centrale: at 31 December 2021, the transaction is still in the ramp-up phase, and payments of around Euro 21.5 million have been made;

- Euro 15 million relating to a senior issue of the vehicle P2P Lendit with underlying consumer loans to individuals. At 31 December 2021, the transaction is still in the ramp-up phase and payments of around Euro 1.4 million have been made.

Quantitative information

C.1 Exposures arising from principal "own" securitisations, broken down by type of securitised asset and by type of exposure

TYPE OF SECURITISED ASSETS/ EXPOSURES	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
A. Fully derecognised	181,592	39	882		2	
- financial assets at amortised cost	181,592	39				
B. Partially derecognised						
C. Not derecognised						

The exposure shown in the financial statements represents:

- the value of the senior securities at amortised cost (including upfront costs incurred and accrued interest accrued and net of the expected credit loss - ECL);
- the fair value of mezzanine and junior securities held, recorded under financial assets that are mandatorily at fair value.

C.2 - Exposures arising from principal "third party" securitisations, broken down by type of securitised asset and by type of exposure

TYPE OF UNDERLYING ASSETS/EXPOSURES	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adj./write-back	Book value	Adj./write-back	Book value	Adj./write-back
Loans to customers	118,444	1,455				
Unlisted debt securities	5,017	35				

E. Asset disposals

A. A. Financial assets sold and not fully derecognised

E.4 Covered bonds

This section includes covered bond transactions in which the transferring bank and the financing bank coincide.

2017 saw the launch of the "Covered Bond - Desio OBG" programme, designed to achieve benefits for the Group in terms of funding (diversification of deposits, lower funding cost and funding sources with longer maturities). The Programme, which is multi-seller in nature, involves:

- Banco di Desio e della Brianza (Parent Company) in the role of (1) originator bank, (2) lending bank, and (3) bank issuing the covered bonds;
- Desio OBG S.r.l. (Vehicle or SPV), as a special purpose vehicle for the sale of eligible assets by Banco Desio, 60% owned by the Parent Company;
- BNP Paribas, as the counterparty in the swap taken out to hedge the potential risk generated by the mismatch between the fixed rate on the covered bond and the mix of rates on the portfolio.

A covered bond for 100 million euro maturing in 2031 was issued in a private placement on 12 January 2021 at mid-swap level plus 34 bps (zero-coupon bond with an issue price of 98.493%).

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. issues by Banco di Desio e della Brianza of covered bonds to institutional investors for Euro 575 million (in 2017) and Euro 500 million (in 2019), respectively, with 7-year maturity, plus Euro 100 million (issued in 2021), with 10-year maturity;
4. a liability swap on the covered bonds issued taken out by the SPV for a notional amount of Euro 300 million (for the 2017 issue) and for a notional amount of Euro 200 million (for the 2019 issue) with BNP Paribas as counterparty;
5. a back-swap taken out by Banco di Desio e della Brianza for the same notional amount with the same counterparty, as a mirror-image of the previous one.

The main characteristics of the transaction are summarised below:

a) SPV name: Desio OBG S.r.l.
b) Type of underlying loans: Residential mortgage loans;
c) Value of the loans sold: total of Euro 2,180 million;
d) Amount of subordinated loan: totalling Euro 1,595 million at 31 December 2021;
e) Nominal value of the covered bonds issued: Euro 1,175 million;
f) Interest rate on covered bonds issued: fixed rate equal to 0.875% (2017 issue), 0.375% (2019 issue) and 0% with issue price 98.493% (2021 issue).

At 31 December 2021, the loan portfolio sold by the Bank has a book value of about Euro 1,491 million.

C. Financial assets sold and fully derecognised

<u>Qualitative information</u>

In line with the pro-active management strategy for non-performing loans and the guidelines issued by the European Central Bank, during the year there were 7 sales of loan portfolios made up of mortgage and unsecured loans classified as bad loans and unlikely-to-pay for a gross book value (GBV) of Euro 75.0 million to closed-end investment funds in exchange for the investment in units of those funds, for a total of Euro 24.3 million.

As can be seen from the analysis of the quantitative information reported in the following paragraph, the structure of each transaction was configured in a way to allow Banco Desio to meet the requirements of IFRS 10 Consolidated Financial Statements regarding the absence of the conditions required for the exercise of control over the investment fund (and therefore exclusion of the units received from the scope of consolidation of the Banco Desio Group). Likewise, the conditions laid down by IFRS 9 for the substantial transfer of the rights to receive the cash flows from the individual assets sold and the risks and benefits associated with them are respected. This results in total deconsolidation of the loans transferred from an accounting point of view, also taking into consideration that no further guarantees have been granted, except for the usual ones on the existence of credit in favour of the Fund.

As part of the agreements involved in the Transaction ("side letters"), specific periodic reporting has been provided for to allow subscribers of the units adequate feedback on the assets underlying the net asset value of the closed-end Fund.

Quantitative information

Against those multi-originator sales, due to the presence of sales of non-performing loans to the same fund by a series of investors (including ten banks and one operator specialising in the management of non-performing loans), the following fund units were subscribed:

- Euro 4.1 million in the Efesto fund,
- Euro 8.7 million in the Cuvee fund,
- Euro 6.7 million in the VIC2 fund,
- Euro 4.7 million in the Illimity CR fund.

Due to the pre-existing write-downs at 31 December 2020 on the loans sold in 2021, net losses on the sale of financial assets at amortised cost of approximately Euro 6.4 million were recognised.

Against this multi-originator sales, due to the presence of sales of non-performing loans by a series of investors, Banco Desio holds the following investments in closed-end UCIs of non-performing loans, with the resulting % of total issued units (based on the latest statement available of each fund):

1. 5,133,105.17 units of the Efesto Fund, corresponding to 1.7% of the total of the issued units;
2. 34.1845 units of the Back2Bonis Fund, corresponding to 3.5% of the total of the issued units;
3. 7,767,036 units of the Clessidra Fund, corresponding to 3.9% of the total of the issued units;
4. 4,741,034 units of the Illimity CR Fund, corresponding to 4.1% of the total of the issued units;
5. 159 units of the Vir1 Fund, corresponding to 12.9% of the total of the issued units;
6. 120 units of the Vic2 Fund, corresponding to 22.2% of the total of the issued units, plus one unit to be received for a value of Euro 5.9 million.

Taking into account the participation in each fund with respect to the series of investors involved, the conditions required by IFRS 10 for the exercise of control over the related Fund are not met, whereas the bank met the conditions of IFRS 9 for the derecognition of the loans sold due to the changed characteristics of the asset recorded in the financial statements in place of the loans originated by the

Bank (in terms of number, characteristics and nominal amount of the loans) and derecognised as a result of the transactions. To reach these conclusions, the following were assessed:

- the absence of elements indicating an ability to guide or control the variable yields of the funds, to which the Bank is exposed as holder of the units;
- the number of debtors, the segments in which they operate, the existence of guarantees, the timing of recoveries and the types of loan: analysis of these qualitative factors identifies considerable diversification, with many debtors having different characteristics that, furthermore, cause the funds to adopt different recovery strategies to those that the individual participating banks would have adopted;
- for the more significant contributions with respect to the total assets of the funds (Vir1 and Vic2), the conclusions of a quantitative test carried out by calculating the ratio of the variability of the cash flows from the loan portfolios contributed by each participating bank to the variability of the cash flows from the overall loan portfolio held by the fund.

The units of closed-end investment funds subscribed, classified under instruments mandatorily valued at fair value through profit and loss, are measured according to the methods set out in the Fair Value Policy for the type of asset, based on the internally-developed methods; this fair value (Level 3) updated in line with the adoption of the fair value models identified resulted in an adjustment to the last available NAV totalling Euro 3.7 million, equal to over 8% of the investment recorded based on the NAV communicated by the manager.

F. Credit risk measurement models

The Bank does not use internal portfolio models for measuring credit risk exposure.

SECTION 2 – MARKET RISK

2.1 Interest rate risk and price risk – Trading portfolio for supervisory purposes

Qualitative information

A. General aspects

Unexpected changes in market interest rates, in the presence of differences in maturities and in the timing of interest rate reviews for assets and liabilities, result in a change in the net interest flow and therefore in net interest income (or "interest margin"). In addition, these unexpected fluctuations expose the Bank to changes in the economic value of assets and liabilities.

The Bank adopted a strategy to consolidate a return in line with budget, while maintaining a low risk profile through a low portfolio duration.

B. Management and measurement of interest rate risk and price risk

In carrying out its responsibilities for management and coordination, the Board of Directors issued specific rules on controls.

Trading by the Bank's Finance Department is subject to operating limits as set out in the "Risk policy" and in internal regulations; in order to mitigate market risk, specific limits have been set for size, sensitivity (duration), income (stop loss) and Value at Risk (VaR). A specific reporting system is the tool used to provide adequate information to the organisational units involved.

The indicators and operating limits are continuously monitored, as a first level control, by the Finance Area, while the Risk Management Department carries out second level monitoring, activating any escalation procedures in the event of overruns, in accordance with the provisions of internal regulations.

For the quantification of generic and specific risks, the Group has adopted a model based on the concept of Value at Risk (VaR) in order to express synthetically and in monetary terms the maximum probable loss of a static portfolio with reference to a specific time horizon and at a specific confidence level under normal market conditions. This method has the advantage of allowing the aggregation of positions involving heterogeneous risk factors; it also provides a summary number which, being a monetary expression, is easily used by the organisational structure involved. The VaR model uses involves the Monte Carlo simulation technique which, after appropriate assumptions and correlations, estimates the value of the portfolio by calculating a number of possible revaluations and, given the vector of expected portfolio returns, determines the ideal percentile for distribution. The model uses a confidence interval of 95% with a period of 1 day. The application used to calculate the VaR is provided by Bloomberg.

The internal model is not used in the calculation of capital requirements for market risk.

Quantitative information

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives - Euro

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. On-balance sheet assets	-	-	-	-	2,581	991	-	-
1.1 Debt securities	-	-	-	-	2,581	991	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	2,581	991	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	95	18	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	95	18	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	143,411	3,901	5,098	1,225	420	-	-
+ Short positions	-	126,913	4,051	5,410	4,148	5,017	5,712	-

1. Trading portfolio for supervisory purposes: distribution by residual duration (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives – Other currencies

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. On-balance sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	125,385	3,974	5,117	-	-	-	-
+ Short positions	-	128,132	3,974	5,117	-	-	-	-

2. Trading portfolio for supervisory purposes: distribution of exposures in equities and equity indices for the main listing market countries

Type of operation/equity index	Listed			Unlisted
	Italy	United States	Other	
A. Equity instruments				
long positions	3,868		800	
short positions				
B. Unsettled transactions in equity securities				
long positions				
short positions				
C. Other equity security derivatives				
long positions	113			
short positions			3,849	
D. Equity index derivatives				
long positions				
short positions				

3. Trading portfolio for supervisory purposes: internal models and other methodologies for the analysis of sensitivity

The monitoring of the "trading portfolio for supervisory purposes" performed up to the third quarter shows a structure with limited market risk. The VaR estimated using Monte Carlo simulations at 31.12.2021 amounts to Euro 96.56 thousand, with a percentage of 1.70% of the trading portfolio.

2.2 Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, management and measurement of interest rate risk and price risk

The measurement of interest rate risk is performed by the risk management function. This activity is carried out for the Bank's, which covers almost all of the banking book. The whole of the Bank's business associated with the transformation of maturities of assets and liabilities, portfolio securities, treasury operations and the respective hedging derivatives are monitored with Asset and Liability Management (ALM) methods using ERMAS5.

The static analysis currently performed allows us to measure the impact of changes in the interest rate structure expressed in terms of the change in the economic value of assets and net interest income. In this context, the results of the banking book for financial statement purposes are also presented, excluding analysis of financial instruments in the trading portfolio for supervisory purposes.

The variability of net interest income, driven by positive and negative changes in interest rates over a period of 365 days, is estimated by the use of Gap Analysis. The changes in the economic value of assets and liabilities are analysed by applying a Sensitivity Analysis approach.

The analyses are carried out also considering non-parallel shifts in the yield curve and the application of behavioural models for on-demand items. With simulation analysis it is possible to predict specific scenarios of changes in market interest rates.

Quantitative information

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities - Euro

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
1. On-balance sheet assets	1,888,666	6,924,596	1,280,620	500,115	3,104,853	2,002,843	1,082,357	-
1.1 Debt securities	-	742,411	963,377	96,868	722,385	1,034,008	137,913	-
- with early redemption option	-	197,443	7,077	503	65,393	67,069	-	-
- other	-	544,968	956,300	96,365	656,992	966,939	137,913	-
1.2 Loans to banks	119,090	1,927,419	-	-	-	383	-	-
1.3 Loans to customers	1,769,576	4,254,766	317,243	403,247	2,377,463	968,452	944,444	-
- current accounts	1,457,927	330,664	2,204	4,245	18,471	900	28	-
- other loans	311,649	3,924,102	315,039	399,002	2,363,997	967,552	944,416	-
- with early redemption option	97,026	3,226,102	257,402	394,416	2,327,150	952,230	944,050	-
- other	214,623	698,000	57,637	4,586	36,847	15,322	366	-
2. On-balance sheet liabilities	9,430,685	1,079,301	234,256	138,482	5,086,232	144,832	61,875	-
2.1 Due to customers	9,428,806	936,098	122,028	137,862	116,327	44,457	61,875	-
- current accounts	9,300,316	701,337	89,428	94,442	62,248	-	-	-
- other payables	128,490	234,761	32,600	43,420	54,079	44,457	61,875	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	128,490	234,761	32,600	43,420	54,079	44,457	61,875	-
2.2 Due to banks	56	-	-	-	3,805,889	-	-	-
- current accounts	56	-	-	-	-	-	-	-
- other payables	-	-	-	-	3,805,889	-	-	-
2.3 Debt securities	1,823	143,203	112,228	620	1,164,016	100,375	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,823	143,203	112,228	620	1,164,016	100,375	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								

+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	7,207	11,156	19,924	81,135	42,674	25,373	-
+ Short positions	-	185,722	1,748	-	-	-	-	-
- Other derivatives								
+ Long positions	-	80,000	-	-	-	-	-	-
+ Short positions	-	-	80,000	-	-	-	-	-
4. 4. Other off-balance sheet transactions								
+ Long positions	63,402	3,065	-	-	-	-	480	-
+ Short positions	66,947	-	-	-	-	-	-	-

1. Banking book: distribution by residual duration (based on repricing date) of financial assets and liabilities - Other currencies

Type/Residual duration	On demand	Up to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified duration
. On-balance sheet assets	8,216	85,726	1,391	195	2,669	309	124	-
1.1 Debt securities	-	-	-	164	2,422	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	164	2,422	-	-	-
1.2 Loans to banks	7,087	61,069	-	-	-	-	-	-
1.3 Loans to customers	1,129	24,657	1,391	31	247	309	124	-
- current accounts	508	-	-	-	-	-	-	-
- other loans	621	24,657	1,391	31	247	309	124	-
- with early redemption option	-	-	31	31	247	309	124	-
- other	621	24,657	1,360	-	-	-	-	-
. On-balance sheet liabilities	82,926	9,750	-	-	-	-	-	-
2.1 Due to customers	82,926	-	-	-	-	-	-	-
- current accounts	82,926	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	9,750	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	-	9,750	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								

+ Long positions	-	-	-	-	-	-	-	-
+ Short positions								
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
. 4. Other off-balance sheet transactions								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

2. Banking book - internal models and other methodologies for the analysis of sensitivity

The Bank's operational and strategic approach is to consider the volatility of the interest margin and the overall economic value of own funds.

The risk exposure does not present any critical issues and remains within the limits laid down in the prudential supervisory regulations. The distribution of assets and liabilities by maturity and repricing date has, however, some peculiarities arising from the current market environment, which continues to see an increase in demand and short-term deposits; this has led to a physiological decrease in the average duration of liabilities, whereas assets have not undergone any substantial changes in terms of average duration.

The Bank regularly conducts scenario and stress tests to estimate the possible impact of changes in market interest rates on net interest income, over the time horizon of one year, and on the economic value, as required by European regulations.

With the goal of fine-tuning that analysis, considering the actual speed of repricing of the items lacking a contractual expiry, the adoption of a behavioural estimation model of demand items was approved, in substitution of the one mentioned in Attachment C of Circular 285. The model was validated by the Group's internal Validation function and used in the first application for the purposes of the ICAAP 2020 reporting.

Also considering the low level of interest rates and the non-negative interest rate constraint, for demand items to customers, therefore, partial propagation is assumed on the final interest rate in the event of increases in market rates, and no action in the event of decreases, as the floor of interest rates has been reached and cannot be lowered any further.

Thus, in the event of increases, the final positive impact on the net interest income is the result of the full benefit on the asset side that reprices during the year, partially decreased by the limited increase in the cost of liabilities.

Conversely, in the event of a further decrease in interest rates, the impossibility of transferring the new levels to demand deposits would make it impossible to mitigate the decreased return on assets, entailing a greater reduction in net interest income.

The method used for the impact analysis on economic value is based on integrating the results of the management model that represents the financial statement items in terms of volumes and repricing buckets, including the results of the behavioural model on demand items, to which the coefficients set out in Circular 285 are applied to approximate sensitivity.

In this simplified revaluation approach, the impact of increases in interest rates would decrease the economic value of the banking book, while the presence of the implicit floor mentioned above would limit its increase in the event of a decline in the curve.

2.3 EXCHANGE RISK

Qualitative information

A. General aspects, management and measurement of exchange risk

The Bank is exposed to exchange risk as a result of its trading activities in foreign exchange markets and investment activities and fundraising with instruments denominated in a currency other than the domestic one.

The exposure to exchange risk is marginal. Forex operations are managed by the Finance Department.

Exchange rate risk is managed through operating limits, both by currency areas and by concentration on each currency. In addition, daily and yearly stop-loss operating limits have been set.

B. Hedging of exchange risk

The Bank's main objective is to manage exchange risk in a prudent manner, always taking into consideration the possibility of taking advantage of any market opportunities. Transactions that involve taking on exchange risk are managed through appropriate hedging strategies.

Quantitative information

1. Distribution by currency of denomination of assets, liabilities and derivatives

Captions	Currencies				
	US dollar	Pound sterling	Franc	Yen	Other currencies
A. Financial assets	86,935	6,298	4,267	2,070	3,074
A.1 Debt securities					
A.2 Equity instruments	9				
A.3 Loans to banks	68,293	4,994	3,059	162	3,069
A.4 Loans to customers	18,633	1,304	1,208	1,908	5
A.5 Other financial assets					
B. Other assets	252	298	197	48	185
C. Financial liabilities	89,063	6,268	4,362	2,130	3,026
C.1 Due to banks	12,229			2,055	
C.2 Due to customers	76,834	6,268	4,362	75	3,026
C.3 Debt securities					
C.4 Other financial liabilities					
D. Other liabilities	88	24	0		
E. Financial derivatives					
- Options					
+ Long positions					
+ Short positions					
- Other derivatives					
+ Long positions	71,661	1,650	115	1,524	839
+ Short positions	69,509	1,653	38	1,463	793
Total assets	158,848	8,246	4,579	3,642	4,098
Total liabilities	158,660	7,945	4,400	3,593	3,819
Net balance (+/-)	188	301	179	49	279

2. Internal models and other methodologies for the analysis of sensitivity

The Bank's exchange risk profile is not particularly significant, given the limited foreign currency exposure of the main asset and liability items and the related hedges put in place through the use of financial derivatives.

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SECTION 3. DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

3.1 Trading derivatives

A. Financial derivatives

A.1 Financial trading derivatives: notional values at the end of the period

Underlying assets/Type of derivatives	Total 31.12.2021				Total 31.12.2020			
	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 netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	-	-	17,259	-	-	-	14,514	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	17,259	-	-	-	14,514	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	113	-	-	-	109	-
a) Options	-	-	113	-	-	-	109	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	264,942	-	-	-	142,278	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	264,942	-	-	-	142,278	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	282,314	-	-	-	156,901	-

A.2 Financial trading derivatives: positive and negative gross fair value - breakdown by product

Type of derivative	31.12.2021				31.12.2020			
	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 netting arrangements	Without netting arrangements	
1. Positive fair value								
a) Options	-	-	113	-	-	-	109	-
b) Interest rate swaps	-	-	10	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	494	-	-	-	647	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	617	-	-	-	756	-
2. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	5,461	-	-	-	6,935	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	441	-	-	-	592	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	5,902	-	-	-	7,527	-

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A.3 OTC financial trading derivatives – notional values, positive and negative gross fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of netting arrangements				
1) Debt securities and interest rates				
- notional value	X	15,559	-	1,700
- positive fair value	X	-	-	10
- negative fair value	X	5,461	-	-
2) Equities and equity indices				
- notional value	X	-	18	95
- positive fair value	X	-	18	95
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	132,471	110,771	21,700
- positive fair value	X	177	15	301
- negative fair value	X	288	18	134
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of netting arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equities and equity indices	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

3) Currency and gold	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial 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		737	5,372	11,150	17,259
A.2 Financial derivatives linked to equities and stock indices		95	18	-	113
A.3 Financial derivatives linked to currencies and gold		264,942	-	-	264,942
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	31.12.2021	265,774	5,390	11,150	282,314
Total	31.12.2020	142,933	2,859	11,109	156,901

3.2. Accounting hedges

Qualitative information

A. Fair value hedges

To date, the Bank did not take out any fair value hedges.

B. Cash flow hedges

The Bank uses cash flow hedges to reduce exposure to adverse changes in expected cash flows; the objective is to stabilise the cash flows of the hedged instrument with the flows of the hedging instrument.

D. Hedging instruments

For hedging, we use derivatives represented by interest rate swaps, but only to hedge interest rate risk.

E. Items being hedged

To date, hedged instruments relate to liabilities (bonds issued) through specific micro-hedges.

For hedging, we use derivatives represented by interest rate swaps, but only to hedge interest rate risk.

Banco Desio has prepared a model able to manage hedge accounting in accordance with the rules laid down in International Accounting Standards. The method used for the effectiveness test is the "dollar offset method" (hedge ratio) on a cumulative basis.

Quantitative information

A Hedging derivatives

A.1. Financial hedging derivatives: notional values at the end of the period

Underlying assets/Type of derivatives	Total				Total			
	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 netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	-	-	80,000	-	-	-	130,000	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	80,000	-	-	-	130,000	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and equity indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	80,000	-	-	-	130,000	-

A. Financial hedging derivatives: positive and negative gross fair value - breakdown by product

Type of derivative	Positive and negative fair value								Change in amount used to determine hedge effectiveness	
	31.12.2021				31.12.2020					
	Over the counter				Over the counter					
	Central counterparties	Without central counterparties		Organised markets	Central counterparties	Without central counterparties		Organised markets	31.12.2021	31.12.2020
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	365	-	-	-	1,540	-	365	1,540
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	-	365	-	-	-	1,540	-	365	1,540

A.3 OTC financial hedging derivatives - notional values, positive and negative gross fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not form part of netting arrangements				
1) Debt securities and interest rates				
- notional value	X	80,000	-	-
- positive fair value	X	-	-	-
- negative fair value	X	365	-	-
2) Equities and equity indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currency and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that form part of netting arrangements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-

- negative fair value	-	-	-	-
2) Equities and equity indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying/Residual life		Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives linked to debt securities and interest rates		80,000	-	-	80,000
A.2 Financial derivatives linked to equities and stock indices		-	-	-	-
A.3 Financial derivatives linked to currencies and gold		-	-	-	-
A.4 Financial derivatives linked to commodities		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	31.12.2021	80,000	-	-	80,000
Total	31.12.2020	50,000	80,000	-	130,000

3.3 Other information on trading and hedging instruments

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other parties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	15,559	-	1,700
- net positive fair value	-	-	-	10
- net negative fair value	-	5,461	-	-
2) Equities and equity indices				
- notional value	-	-	18	95
- net positive fair value	-	-	18	95
- net negative fair value	-	-	-	-
3) Currency and gold				
- notional value	-	132,471	110,771	21,700
- net positive fair value	-	177	15	301
- net negative fair value	-	288	18	134
4) Commodities				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchase of protection				

- notional value	-	80,000	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	365	-	-
2) Sale of protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

SECTION 4 - LIQUIDITY RISK

Qualitative information

A. General aspects, management and measurement of liquidity risk

Liquidity risk is managed by the Finance Department with the aim of verifying the Group's ability to meet liquidity needs, avoiding situations of excessive and/or insufficient cash, resulting in the need to invest and/or raise funds at less favourable rates than the market.

The monitoring of and periodic reporting on liquidity risk is carried out by the Risk Management Office in compliance with the threshold of tolerance for this kind of risk as determined by the Policy for the management of liquidity risk. Treasury activities consist of procuring and allocating available liquidity through the interbank market, open market operations and transactions in repurchase agreements and derivatives.

The management of operational liquidity has the objective of ensuring the Group is capable of meeting expected and unexpected payment commitments in the context of the "normal course of business" (going concern) over a short term time horizon that does not exceed 3 months. The scope of reference of the daily report on operating liquidity refers to items with a high level of volatility and a considerable impact on the monetary base. The monitoring and control of operating limits is carried out through the acquisition of information resulting from collection and payment transactions, management of accounts for services and trading in the financial instruments held in proprietary portfolios.

The counterbalancing capacity model allows us to integrate the report with all of the free assets that can readily be used, both to be eligible for refinancing with the ECB and to be sold. Next to the application of haircuts determined by the ECB for eligible securities and A.Ba.Co. loans, appropriate discount factors are prepared (divided by type of security, rating and currency), also for all securities not eligible, but still considered marketable if appropriately positioned in time buckets.

Further support for the management of liquidity risk is derived from the monitoring of structural liquidity with the primary objective of maintaining an adequate dynamic relationship between assets and liabilities in the medium to long term.

Operations are measured using Asset and Liability Management (ALM) methods through the ERMAS5 application: by developing all of the cash flows generated by operations, it allows us to evaluate and manage in the various time periods any liquidity requirement that the Bank may encounter due to imbalances between inflows and outflows.

The analysis of the overall structural liquidity is developed on a monthly basis using the technique, i.e. showing imbalances by date of liquidation of capital flows over a set time horizon.

In order to evaluate the impact of the negative events on the risk exposure, stress tests are performed at consolidation level. In particular, the events considered are:

- outflow from overdrafts repayable on demand considered non core;
- lack of inflow from contractual lending (mortgage loans, leasing, personal loans) and "on demand" due to the increase in impaired loans;
- decrease in value of the owned securities portfolio (Held to collect and sell "HTCS" and Held to collect "HTC");
- repurchase of issued Bonds;
- use of available facilities for revocable lines of credit (call risk).

On completion of the analysis, three types of scenarios are created:

1. Idiosyncratic, defined as a loss of confidence by the Group's market;
2. Market, defined as a loss arising from exogenous events and from the impact of a general economic downturn;
3. Combined, being a combination of scenarios 1 and 2.

The time horizon for the simulation of all scenarios is 1 month, a period in which the Bank would have to cope with the crisis before commencing structural interventions.

Particular attention is paid to funding policy, which is coordinated by the Finance Department by organising bond issues on the retail market and on the Euromarket. The financing strategies adopted by the Group are focused on a subdivision of funding sources, with a preference for retail as opposed to wholesale customers, as well as on a significant number of counterparties and thus ensuring an adequate diversification of the residual maturities of liabilities.

Quantitative information

1. Distribution of financial assets and liabilities by residual contractual duration

EURO

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
A. On-balance sheet assets	2,036,047	41,767	140,684	152,063	797,076	622,205	1,055,783	5,966,257	4,351,384	1,921,766
A.1 Government securities	-	-	1,271	-	2,633	139,447	247,323	1,420,921	989,790	-
A.2 Other debt securities	3,545	-	258	488	43,306	23,372	47,952	293,435	491,147	-
A.3 UCITS units	75,026	-	-	-	-	-	-	-	-	-
A.4 Loans	1,957,476	41,767	139,155	151,575	751,137	459,386	760,508	4,251,901	2,870,447	1,921,766
- Banks	125,138	-	-	-	-	-	-	-	384	1,921,766
- Customers	1,832,338	41,767	139,155	151,575	751,137	459,386	760,508	4,251,901	2,870,063	-
B. On-balance sheet liabilities	10,103,767	212,138	4,154	55,441	94,557	316,151	147,170	5,126,570	208,095	-
B.1 Deposits and current accounts	10,060,123	3,337	3,151	25,292	62,863	117,229	131,097	68,544	-	-
- Banks	56	-	-	-	-	-	-	-	-	-
- Customers	10,060,067	3,337	3,151	25,292	62,863	117,229	131,097	68,544	-	-
B.2 Debt securities	1,809	1,003	1,003	30,135	31,470	192,838	7,703	1,165,358	101,815	-
B.3 Other liabilities	41,835	207,798	-	14	224	6,084	8,370	3,892,668	106,280	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	4,714	33,092	82,652	7,384	3,885	5,067	-	-	-
- Short positions	-	1,984	33,048	82,642	7,377	3,881	5,157	18	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	10	-	-	-	-	-	-	-	-	-
- Short positions	5,461	-	-	-	185	185	-	-	-	-
C.3 Deposits and loans to be received										

- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	15	-	-	35	3,000	500	-	12,879	50,518	-
- Short positions	66,947	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

Banco Desio

1. Distribution of financial assets and liabilities by residual contractual duration

OTHER CURRENCIES

Captions/Residual duration	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Unspecified duration
A. On-balance sheet assets	8,989	24,696	32,207	20,676	8,389	1,409	234	2,683	385	-
A.1 Government securities	-	-	-	-	-	2	3	1,478	-	-
A.2 Other debt securities	-	-	-	-	126	-	197	985	-	-
A.3 UCITS units	752	-	-	-	-	-	-	-	-	-
A.4 Loans	8,237	24,696	32,207	20,676	8,263	1,407	34	220	385	-
- Banks	7,093	21,119	28,273	11,740	-	-	-	-	-	-
- Customers	1,144	3,577	3,934	8,936	8,263	1,407	34	220	385	-
B. On-balance sheet liabilities	82,926	8,830	920	-	-	-	-	-	-	-
B.1 Deposits and current accounts	82,926	8,830	920	-	-	-	-	-	-	-
- Banks	-	8,830	920	-	-	-	-	-	-	-
- Customers	82,926	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	1,982	33,124	82,673	7,606	3,974	5,117	-	-	-
- Short positions	-	4,709	33,144	82,673	7,606	3,974	5,117	-	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-

C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISK

Qualitative information

A. General aspects, management and measurement of operational risk

Operational risk is the risk of incurring losses due to inadequate or dysfunctional procedures, human resources or internal systems, or to exogenous events, inclusive of legal risk (see EU regulation 575/2013).

Banco Desio e della Brianza uses the above definition of operational risk within the operational risk management model that has been approved and embodied within corporate policy.

In this regard, a specific operational risk management macro-process (ORM framework) has been designed that consists of the following phases:

- Identification: recognition, collection and classification of information relating to operational risks;
- Measurement: economic measurement of operational risks linked to the Bank's operations;
- Monitoring and reporting: collection and structured organisation of the results in order to monitor the evolution of operational risk exposure;
- Mitigation and control: transfer of risk 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.

The Risk Management function applied company regulations to structure an adequate monitoring and reporting system for operational risk by integrating it with the dictates of the supervisory regulations about the provisions regarding coordination between control functions. With respect to the detrimental events gathered in the Corporate Database of Operational Losses, a reporting system was implemented that is capable of providing information concerning the events in question: number of events, gross amount of losses and any recoveries.

With regard to the management and monitoring of outsourcing risk, a specific method for assessing the risk associated with third parties was developed and implemented with respect to the broader process of operational risk assessment.

IT security and data protection are priorities for Banco Desio e della Brianza, which attaches central importance to the various risk management strategies. The measures adopt comply consistently with the current regulations governing privacy and security, as well as with the principal sector standards, in order to ensure that the IT systems are protected from events that might have adverse impacts on Desio e della Brianza and the rights of data subjects.

The management, control and measurement of IT risks, including cyber risk, are integral parts of the broader system of internal control and risk management adopted by Banco Desio e della Brianza.

With reference to the principal organisational and operational controls currently in place to ensure data security and protection, Banco Desio e della Brianza applies:

- ✓ an ICT Risk Assessment process aimed at identifying and measuring exposure to IT risk. This process includes assessment of the risks deriving from the IT system provided to the Bank on a full outsourcing basis by Cedacri S.p.a.; a system of key risk indicators that monitor constantly

exposures to the principal data security threats, including: events deriving from the violation of business rules and practices in the area of information security (i.e. IT fraud, Internet attacks, malfunctions and service outages), attempted fraud via virtual banking channels and potential malware attached to e-mail or web interactions;
- ✓ a process for assessing third parties and the technological and organisational controls established by them to ensure *inter alia* IT security and operational continuity in the context of the services provided, both in the contracting phase and throughout the entire working relationship;
- ✓ a DPIA (Data Protection Impact Assessment) that considers the need for and proportionality of the processing of confidential data, considers and manages any risks for the rights and freedoms of the data subjects concerned, and identifies and implements mitigation measures for any weaknesses found in the existence and effectiveness of adequate physical, organisational and technological controls;
- ✓ internal training on the data protection regulations and on the methods for processing and protecting data;
- ✓ pro-active anti-fraud procedures that address the dynamic changes in the techniques employed in IT attacks;
- ✓ procedures for the management of security incidents;
- ✓ threat alert systems, partly by specialist recourse to Security Operation Centres. In addition, a service was acquired recently that includes an advanced IT application complete with intrusion detection system, as well as a component that uses machine learning techniques to group network devices into similar clusters, in terms of the behaviour, in order to help identify anomalies and generate alerts;
- ✓ daily monitoring of the performance of ICT security that uses a rating system (external assessment by a specialist operator with a global footprint).

With reference to the principal lines of development, the Bank worked to strengthen the first level controls over IT security, via the development of a system of KPIs capable of monitoring constantly the following areas: positioning of the Bank with regard to cyber security, effectiveness of fraud detection systems, exposure to vulnerabilities and management of incidents.

As regards the management of risks impacting the Group's business continuity, the Business Continuity plan was updated during the year, with a view to process: measures were drawn up to identify services deemed to be vital for the business, system documentation was prepared to support operations (operating procedures for emergency management and recovery), 2 new branches were identified as Business Continuity sites for personnel who cannot operate remotely and for those processes which still need materiality.

For risk management of criminal offences pursuant to Legislative Decree 231/2001 "Regulation of the administrative liability of legal entities, companies and associations with or without legal personality", the Bank has adopted an organisational model for its prevention. The supervision of the effective implementation of the aforementioned models has been assigned to specific internal bodies.

As regards legal risk, in relations with customers the individual corporate functions work with standard contracts that have previously been vetted by the appropriate department. Accordingly, it should be noted that most of the ongoing legal disputes at the year end relate to disputes concerning compensation for damages, alleged usury and compound interest charges.

Risk related to outstanding legal disputes

Banco Desio e della Brianza, as part of its day-to-day operations, has been involved in legal proceedings for which specific loss estimates have been made when deemed appropriate by the competent corporate functions. The following table summarises the outstanding disputes at the end of the period, together with the related provisions:

	Number	*Claim*	*Provisions*
Claw-back suits	17	€11.8 million	€ 0.83 million
Other lawsuits	529	€ 142.95 million	€ 8.80 million

Subsection "1.5. Operational risk" of "Section 2 – Risks of the consolidation for regulatory purposes" contained in Part E - Information on risks and related hedging policy" of the consolidated explanatory notes describes the main disputes (with claims of more than million euro) outstanding at the reporting date.

Action for damages against former corporate officers of Banca Popolare di Spoleto S.p.A.

For completeness, it should be noted that, under article 72, paragraph 5, of the CBA, after approval has been obtained from the Bank of Italy, the Extraordinary Commissioners in charge of special administration of the subsidiary Banca Popolare di Spoleto, at the end of their mandate, had taken legal action of responsibility against members of the dissolved administrative and control bodies and the general manager. On 7 April 2016, the Ordinary Shareholders' Meeting of Banca Popolare di Spoleto resolved, among other things, confirmation of the action of responsibility already taken by the Extraordinary Commissioners and its extension against the former Statutory Auditors. It should be noted that this action contains a request for the defendants to be sentenced to pay damages of approximately Euro 30.0 million, broken down according to their respective responsibilities. The proceedings relating to admission of the evidence and the case brought against the former auditors have been combined. By way of Shareholders' Meeting taken on 8 October 2021, the lawsuit was settled via the payment to the Bank of the total amount of Euro 380 thousand.

Quantitative information

The number of adverse events recorded by the Banco Desio and Brianza at 31 December 2021 came to 1,277. The result of the process of collecting adverse events is summarised in the table below:

Event type	% events	% of total	% of total	% Recoveries
INTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination), involving at least one member of the bank	0.41%	0.2%	0.2%	0.00%
EXTERNAL FRAUD Losses due to acts of fraud, embezzlement, circumvention of statutes, laws or company policies (excluding incidents of discrimination) perpetuated by third parties	2.36%	73.4%	73.2%	0.86%
EMPLOYMENT AND SAFETY AT WORK Losses due to actions contrary to employment laws and contracts on health and safety in the workplace, and compensation for injury or incidents of discrimination	0.33%	3.3%	3.3%	0.00%
RELATIONAL ACTIVITY CONNECTED TO CUSTOMERS, PRODUCTS AND CHANNELS Losses due to inability (not intentional or negligent) to fulfil professional commitments taken with customers (including fiduciary requirements and adequate information on investments)	12.06%	16.4%	16.6%	0.00%
DAMAGE TO ASSETS This category includes events of a natural origin or attributable to actions taken by third parties that cause damage to physical assets of the bank	0.49%	0.1%	0.1%	0.00%
BUSINESS INTERRUPTION AND SYSTEM FAILURE Losses arising from a blockage of information systems or line connections	0.41%	0.1%	0.1%	0.00%
EXECUTION OF INSTRUCTIONS, DELIVERY OF PRODUCTS AND PROCESS MANAGEMENT	83.94%	6.5%	6.5%	0.32%
TOTAL Banco Desio e della Brianza	100.00%	100.00%	100.00%	0.6%

The gross operating loss came to Euro 13,022 thousand, for which provisions were made during the period of Euro 2,657 thousand; recoveries were recorded for Euro 84 thousand, so the net operating loss amounted to Euro 12,938 thousand.

PART F - INFORMATION ON SHAREHOLDERS' EQUITY

Section 1 – Shareholders' equity

A. Qualitative information

The Board of Directors has always paid a great deal of attention to the Bank's capital. It is well aware of its importance in inspiring confidence in external providers of finance, as it can be used to absorb losses, and of its importance for purely operational and business development purposes. A good level of capitalisation allows us to address the question of business development with the necessary degree of autonomy and to preserve the stability of the Bank.

The concept of book equity used by Banco Desio is given by the sum of the following liability captions: share capital, valuation reserves, other reserves, share premium reserve and net profit (loss) for the period.

The policy of the Board of Directors is thus to assign a considerable priority to capital, so as to use it in the best way possible to expand the Bank's business and to maximise the return for shareholders, while maintaining a prudent risk profile. As regards this last aspect, it should be borne in mind that the main component of mandatory minimum capital requirements relates to credit risk associated with a diversified loan portfolio focused on the core sector of local businesses and households.

Shareholders' equity at 31 December 2021, inclusive of net profit for the year, increased to Euro 1,078.2 million compared with Euro 987.0 million at the 2020 year end.

B. **Quantitative information**

B.1 Shareholders' equity: breakdown

Captions/Amounts	**31.12.2021**	**31.12.2020**
1. Share capital	70,693	70,693
2. Share premium reserve	16,145	16,145
3. Reserves	923,195	810,200
- retained earnings	911,513	798,518
a) legal reserve	105,190	102,800
b) extraordinary reserve	605,473	592,375
d) other	200,850	103,343
- other	11,682	11,682
6. Valuation reserves:	15,776	66,113
- Equity instruments designated at fair value through other comprehensive income	(856)	46,463
- Financial assets at fair value through other comprehensive income	(2,531)	1,180
- Property, plant and equipment	123	161
- Cash-flow hedges	(203)	(933)
- Actuarial gains (losses) on defined-benefit pension plans	(3,823)	(3,824)
- Special revaluation laws	23,066	23,066
7. Net profit (loss) for the period	52,415	23,895
Total	**1,078,224**	**987,046**

B.2 Valuation reserves of financial assets at fair value through other comprehensive income: breakdown

Assets/Amounts	31.12.2021		31.12.2020	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	48	2,579	1,275	95
2. Equity instruments	22	878	47,023	560
3. Loans				
Total	**70**	**3,457**	**48,298**	**655**

The negative change in caption 20 "Equity instruments designated at fair value through other comprehensive income" is due to the sale of the investment in Cedacri S.p.A. completed on 3 June of this year for Euro 114.7 million; in accounting terms, the following entries have been made as a result of this disposal i) reversal of the valuation reserve at 31 December 2020 for a total of Euro 47.0 million (Euro 50.5 million gross of tax) and ii) the positive result compared with the initial book value, equal to Euro 97.5 million (Euro 104.8 million before tax), in a specific reserve shown under retained earnings. In the comparative period, the positive change in this item was attributable to the revaluation of the same investment in Cedacri S.p.A.

B.3 Valuation reserves of financial assets at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance	**1,180**	**46,463**	
2. Positive changes	**71**	**46**	
2.1 Fair value increases	7	21	
2.2 Write-downs for credit risk	37	9	
2.3 Reversal of negative reserves on disposal to profit or loss	27	16	
2.4 Transfers to other components of shareholders' equity (equity instruments)			
2.5 Other changes			
3. Negative changes	**(3,782)**	**(47,365)**	
3.1 Fair value decreases	(2,548)	(156)	
3.2 Write-backs for credit risk	(44)		
3.3 Reversal to income statement from positive reserve: from disposals	(1,190)		
2.4 Transfers to other components of shareholders' equity (equity instruments)		(47,023)	
3.4 Other changes		(186)	
4. Closing balance	**(2,531)**	**(856)**	

B.4 Valuation reserves related to defined-benefit pension plans: changes of the year

Valuation reserves related to defined-benefit pension plans generated a positive effect of Euro 2 thousand (net of the related tax effect of Euro 1 thousand) during the year, resulting from the change in the discounting of provisions for termination indemnities for statutory purposes.

Section 2 – Own funds and capital adequacy ratios

As required by the 6th update of Circular 262 "Bank financial statements: schedules and rules for preparation", reference should be made to the contents of the public disclosure ("Third Pillar") provided by the Bank at consolidated level.

PART H - TRANSACTIONS WITH RELATED PARTIES

1 - Information on the remuneration of Managers with strategic responsibilities

For information on the remuneration paid to those who have the power and responsibility, directly or indirectly, for the planning, management and control of the Bank's activities, a definition which includes the directors, members of the supervisory bodies and managers with such strategic responsibilities, please refer to the "Report on the Group's Remuneration Policies" as at 31 December 2021 prepared in accordance with art. 123-ter CFA and published on the website www.bancodesio.it.

2 - Related party disclosures

The internal procedure ("Internal Regulations") for the management of transactions with related parties and entities included in the scope of application of art. 136 of the CBA, adopted in accordance with Consob Regulation no. 17221/2010, as updated by the Resolution 21624/2020, and supplemented in accordance with the Minimum Capital Requirement in respect of risk assets and conflicts of interest with respect to persons linked to the Bank or the Banking Group pursuant to art. 21624 TUB, is explained in the Annual Report on Corporate Governance at 31 December 2021. The same procedure is published in accordance with the Regulation on our website www.bancodesio.it in the "Bank/Governance/Corporate documents/Related Parties" section.

Given that, pursuant to art. 5 of Consob Regulation 17221/2010 and art. 154-ter of the CFA, periodic information has to be provided:

a) on individual "significant" transactions carried out during the reference period, i.e. those transactions that, as a total, exceed the thresholds foreseen in Attachment 3 of the said Regulation;[11]

b) on other individual transactions with related parties as defined under art. 2427, second paragraph, of the Italian Civil Code, entered into during the reporting period, that have materially impacted the financial position and results of the Bank;

c) on any changes or developments in related-party transactions disclosed in the last annual report that have had a material effect on the financial position or results of the Bank,

there were no transactions worthy of note during the year.

* * *

Transactions with related parties are generally entered into on an arm's length basis and are, in any case, in the Group's interest. Comparison with the equivalent market or standard conditions is mentioned in the periodic reporting of transactions to the Corporate Bodies.

In this context, there are no transactions outstanding at 31 December 2021 that present particular risk profiles compared with those considered part of the normal course of banking business and related financial activity or that present profiles of atypical/unusual features worthy of note.

The following paragraphs summarise - in a prudential logic of unified management of potential conflicts of interest - existing relationships with the Parent company, subsidiary companies and other related parties pursuant to art. 53 CBA and/or art. 2391 of the Italian Civil Code, included entities treated as per art 136 of CBA also in compliance with Italian laws), highlighting, in particular, the balance of current accounts and of the securities portfolio at the end of the year.

[11] With respect to the level of significance of the transactions with related parties, the Internal Regulations refer to a threshold of Euro 37.5 million (equivalent to 5% of consolidated regulatory capital recognised for Banco Desio at the date of adoption of the Procedure).

I - Parent company

At the end of the year, payables (to customers) versus the Parent Company Brianza Unione di Luigi Gavazzi e Stefano Lado S.A.p.A. amounted to Euro 209.6 million, of which Euro 203.2 million, relating to the securities portfolio.

It should be recalled that at the end of 2018, a five-year unsecured "bullet" loan was entered into with this Company for a total of Euro 5 million to replace a similar credit line at another bank which was about to expire. This transaction falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers, carried out at market conditions (also on the list of conditions in force for Related Parties according to the specific framework resolution) and included in ordinary credit and loans activity.

The service agreement has also been renewed with the same Company governing the reciprocal rights and obligations inherent to the accounting and reporting activities delegated to Banco di Desio e della Brianza S.p.A. for regulatory consolidation purposes pursuant to art. 11 and 99 of EU Regulation no. 575/2013 (CRR). The fees paid to the latter are of a minor amount and have in any case been determined with the same methodology as similar agreements with subsidiaries. It should be noted that this transaction also falls within the scope of application of art. 136 of the Consolidated Banking Act by virtue of the positions held by certain Officers referred to in the following paragraph "Transactions with Officers and parties related to them".

II – Subsidiaries

Set out below is a summary of significant transactions with subsidiaries approved by the Board of Directors during the year, in compliance with the above Procedure.

Counterparty	Nature of Transaction	Amounts/financial conditions (Euro)
Fides S.p.A.	Overdraft facility	Overall increase from Euro 865,046,500 to Euro 910,046,500

The amounts of assets/liabilities, guarantees/commitments and income/costs arising from transactions with the aforementioned companies are disclosed in Para. 8.4 of the Report on Operations under the caption “subsidiaries”.

III - Transactions with Officers and parties related to them[12]

As for the granting of credit lines approved in 2021 pursuant to art. 53 of the CBA (also according to the new provisions introduced by Legislative Decree implementing Directive 2013/36/EU, the so-called CRD IV) and/or art. 2391-bis of the Civil Code (including parties treated in accordance with art. 136 CBA), these were mainly ordinary lending transactions to officers of the Bank and/or parties related to them (i.e. directors, statutory auditors and managers with strategic responsibilities in Banco Desio and its subsidiaries). These relationships did not affect the application of the normal assessment criteria of creditworthiness. The total amount granted in connection with the 33 positions existing at 31 December 2021 comes to some Euro 13.2 million and the related utilisations amount in total to some Euro 5.7 million.

As regards funding relationships held by Banco Desio directly with Officers, as well as parties related to them, it should also be noted that the total balances at 31 December 2021 amounted to Euro 138.5 million in amounts due to customers (including approximately Euro 119.1 million in securities portfolios).

The above computation excludes transactions and balances with the parent company and with subsidiaries as per paragraphs I and II above.

Details on to the lending and funding relationships referred to in this paragraph are shown in the following table:

[12] Related Parties pursuant to art. 53 CBA (included entities treated as per art 136 of CBA) and/or art. 2391-bis of the Italian Civil Code (other than the parent company and subsidiary/associated companies).

	Balances at 31.12.2021 (in Euro/million)
Lending transactions:	
Amount granted	13.2
Amount drawn down	5.7
Funding transactions:	
C/c and d/r amount (a)	19.4
Amount of securities portfolios (b)	119.1
Total (A+B)	138.5

In accordance with Consob Resolution no. 15519 of 27 July 2006, it should be noted that the overall incidence of the balances shown in the previous paragraphs, in terms of equity, financial and economic results, is more or less insignificant.

PART M – INFORMATION ON LEASES

SECTION 1 - LESSEE

Qualitative information

As required by IFRS 16 "Leases", for the contracts that confer the right to control the use of an identified asset (see IFRS 16.B9 and paragraphs B13-B20) for a certain period of time, over the period of use, Banco Desio has assessed whether both of the following requirements have been satisfied:

a) The right to obtain substantially all the economic benefits from use of the identified asset, as described in paragraphs B21-B23;

b) The right to direct the use of the identified asset, as described in paragraphs B24-B30.

Consequently, when a lease contract is identified and the asset is made available for use by the lessee, the Bank recognises:

- a liability consisting of payments due for leases (i.e. Lease Liability). This liability is initially recognised at the present value of future payments due for the lease discounted at the interest rate implicit in the lease or, if this rate cannot easily be determined, at the lessee's incremental borrowing rate;
- an asset consisting of the right of use (i.e. RoU Asset). This asset is initially recognised as a sum of the lease liabilities, initial direct costs, payments made on the date or before the effective date of the contract, net of any lease incentives received, and dismantling costs.

These balance sheet amounts are recognised separately for each type of asset identified, comprising solely property and cars in the case of Banco Desio.

Banco has adopted some of the practical expedients and recognition exemptions envisaged in IFRS 16 "Leases":

- contracts with an underlying asset value of less than or equal to Euro 5,000 at the FTA date ("low-value assets") were excluded;
- contracts with an overall lease term of less than or equal to 12 months ("short-term assets") were excluded;
- the initial direct costs of measuring the RoU Asset on the FTA date were excluded.

Estimated dismantling costs for the purpose of determining the RoU Asset have not been taken into consideration, as this type of cost should only be considered on the effective date of the lease contract.

With reference to the lease term, the Banco Desio has decided to consider only the first renewal period as reasonably certain for new contracts, unless there are contractual clauses that prohibit it, or facts or circumstances that might lead to consider additional renewals or determine the end of the lease agreement. For contracts in existence at the FTA date, a renewal period is added if the contract is in the first contractual period (i.e. the first renewal period has not yet taken place), or if the contract is in a renewal period following the first one, but the deadline for communication of the cancellation has already expired.

As regards the rate for discounting future lease payments, Banco Desio decided to use as an incremental borrowing rate a single interest rate curve relating to Banco di Desio e della Brianza, also considering a floor of 0% for due dates that have negative interest rates. This curve is based on a risk-free rate (i.e. market interest rate) on the financing spread (i.e. the lessee's credit risk) and is amortising. Typically, the lease contract does not provide for a single payment on the due date, but rather a periodic payment of instalments over the entire duration of the contract, which involves a declining trend for the residual debt.

With reference to 2020, Banco Desio has not applied the practical expedient envisaged in Regulation (EU) 1434/2020. This measure, linked to Covid-19, provides optional, temporary operational support to lessees that benefit from concessions with regard to their instalment payments. The renegotiations carried out during the reference period do not fall within the scope of application of this amendment.

Quantitative information

The leasing assets and liabilities recognised at 31 December 2021 comprise:

- a "RoU Asset" of Euro 49.8 million for properties and Euro 0.7 million for cars;
- a "Lease Liability" of Euro 50.9 million for properties and Euro 0.7 million for cars.

The charges recognised during the year in relation to lease contracts totalled Euro 10,556 thousand, comprising Euro 702 thousand classified as "Interest expense" and Euro 9,854 thousand as "Net adjustments to property, plant and equipment", being the RoU depreciation charge.

In particular, the depreciation recognised in the income statement refers:

- Euro 407 thousand to cars,
- Euro 9,447 thousand to property.

Overall costs for the year referring to lease contracts and not falling within the application of IFRS 16 (low-value assets and short-term assets) amount to Euro 2,054 thousand.

With reference to the "Lease liability" recognised at 31 December 2021, equal to Euro 51,565 thousand, a breakdown by residual maturity is shown below:

- Euro 8,940 thousand within 12 months;
- Euro 20,248 thousand from 1 to 3 years;
- Euro 8,995 thousand from 3 to 5 years;
- Euro 13,382 thousand over 5 years.

SECTION 2 – LESSOR

Qualitative information

Assets leased to others under finance leases are shown as receivables, for an amount equal to the net investment of the lease. The recognition of financial income reflects a constant periodic rate of return.

Quantitative information

The reconciliation among gross investment in leases and present value of minimum lease payments and unsecured residual value payable to lessor is reported below.

	31.12.2021				31.12.2020			
Type of transaction	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)	Gross investment	Deferred profit	Net investment	Unsecured residual value (purchase option)
Finance lease	175,045	18,922	156,123	36,155	189,930	25,854	163,536	40,825
- of which leaseback agreements	10,557	1,646	8,911	2,773	12,569	2,272	10,927	3,590
Total	**175,045**	**18,922**	**156,123**	**36,155**	**189,390**	**25,854**	**163,356**	**40,825**

	31.12.2021			31.12.2020		
Falling due	Gross investment	Deferred profit	Net investment	Gross investment	Deferred profit	Net investment
- Within one year	6,431	160	6,271	3,974	87	3,887
- Between one and two years	8,269	368	7,901	12,074	671	11,403
- Between two and three years	11,337	599	10,738	11,143	787	10,356
- Between three and four years	22,855	983	21,872	12,258	888	11,370
- Between four and five years	38,670	3,341	35,329	23,197	1,596	21,601
- Beyond five years	87,483	13,471	74,012	126,744	21,825	104,919
Total	**175,045**	**18,922**	**156,123**	**189,390**	**25,854**	**163,536**

The net investment corresponds to the outstanding capital element of lease obligations at the year end.

Total interest recognised as income in the year is included in the caption "Loans to customers – loans" and amounts to Euro 2,210 thousand (Euro 3,408 thousand last year); of this, Euro 1,951 thousand relates to index-linked contracts, of which Euro 90 thousand relates to leaseback agreements (in 2020 Euro 2,389 thousand related to index-linked contracts, of which Euro 154 thousand related to leaseback agreements).

Financial income pertaining to subsequent years amounts to Euro 18,922 thousand, of which Euro 1,646 thousand relates to leaseback agreements (last year Euro 25,854 thousand and Euro 2,272 thousand, respectively)

Certification pursuant to art. 154-bis of Legislative Decree 58/98

1. The undersigned, Alessandro Decio, Chief Executive Officer, and Mauro Walter Colombo, Financial Reporting Manager, of Banco di Desio e della Brianza S.p.A., certify pursuant to paragraphs 3 and 4 of art. 154 bis of Legislative Decree 58 of 24 February 1998:

- the adequacy of the administrative and accounting procedures for the preparation of the financial statements with respect to the Company and their
- effective application during 2021.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the financial statements at 31 December 2021 was based on a process defined by Banco di Desio e della Brianza S.p.A. in accordance with the Internal Control Integrated Framework model, issued by the Committee of Sponsoring Organizations of the Treadway Commission, which acts as a reference framework that is generally accepted internationally.
3. We also certify that:
   3.1 The financial statements:
      a. have been prepared in accordance with the applicable IAS/IFRS recognised within the European Union pursuant to European Parliament and Council Regulation (EC) no. 1606/2002 dated 19 July 2002;
      b. agree with the books of account and accounting records;
      c. are able to provide a true and fair view of the assets and liabilities, results and financial position of the issuer.

   3.2 the Report on Operations includes a reliable analysis of the results of operations and of the situation of the, with a description of the principal risks and uncertainties faced by it.

Desio, 10 February 2022

Chief Executive Officer	Financial Reporting Manager
Alessandro Decio	*Mauro Walter Colombo*

Auditors' report

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Banco di Desio e della Brianza S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Banco di Desio e della Brianza S.p.A. (the "bank"), which comprise the balance sheet as at 31 December 2021, the income statement and the statements of comprehensive income, statement of changes in shareholders' equity and cash flows statement for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Banco di Desio e della Brianza S.p.A. as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets at amortised cost"

Notes to the separate financial statements "Part B - Information on the balance sheet - Assets": section 4 "Financial assets at amortised cost"

Notes to the separate financial statements "Part C - Information on the income statement": section 8.1 "Net adjustments for credit risk relating to financial assets at amortised cost: breakdown"

Notes to the separate financial statements "Part E - Information on risks and related hedging policies": section 1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Lending to customers is one of the bank's core activities. Loans and receivables with customers recognised under financial assets at amortised cost totalled €13,825 million at 31 December 2021, accounting for 78% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €85 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, an assessment of any guarantees, the impact of macroeconomic	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein, as well as the adjustments made as a result of the effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network;

Key audit matter	**Audit procedures addressing the key audit matter**
variables, future scenarios and risks of the sectors in which the bank's customers operate. The complexity of the directors' estimation process has been affected by the persisting Covid-19 emergency, which continues to affect current economic conditions and potential future macroeconomic scenarios, requiring an adjustment to the valuation processes and methods. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	— selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the loan and receivable categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets at amortised cost, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Classification and measurement of financial assets at fair value levels 2 and 3

Notes to the separate financial statements "Part A – Accounting policies": paragraphs A.2.1 "Financial assets at fair value through profit or loss", A.2.2 "Financial assets at fair value through other comprehensive income" and A.4 "Information on fair value".

Notes to the separate financial statements - "Part B – Information on the balance sheet - Assets": sections 2 "Financial assets at fair value through profit or loss " and 3 "Financial assets at fair value through other comprehensive income"

Notes to the separate financial statements "Part C - Information on the income statement": sections 4 "Net trading income" and 7 "Net result of other financial assets and liabilities at fair value through profit or loss"

Notes to the separate financial statements "Part E - Information on risks and related hedging policies": section 2 "Market risk"

Key audit matter	**Audit procedures addressing the key audit matter**
Trading in and holding financial instruments are one of the bank's core activities. The separate financial statements at 31 December 2021 include financial assets at fair value totalling €679 million.	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the trading, classification and measurement of financial instruments;

Key audit matter	Audit procedures addressing the key audit matter
A portion thereof, equal to €93 million, is made up of financial assets at fair value without a quoted price on an active market. The bank's directors have classified them in levels 2 and 3 of the fair value hierarchy. Classifying and, especially, measuring fair value levels 2 and 3 financial instruments require a high level of judgement in relation to the complexity of the models and parameters used. The complexity of the above procedure has been affected by the persisting Covid-19 emergency, which continues to affect current economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the classification and measurement of financial assets at fair value levels 2 and 2 are a key audit matter.	— assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the classification and measurement of financial instruments with fair value levels 2 and 3, also in the light of the financial effects of the Covid-19 pandemic; — checking, on a sample basis, that the financial instruments had been correctly classified on the basis of their fair value level; — for a sample of financial instruments with fair value levels 2 and 3, assessing the reasonableness of the parameters used by the directors for their measurement, also in the light of the financial effects of the Covid-19 pandemic; we carried out these procedures with the assistance of experts of the KPMG network; — analysing the changes in the composition of the financial instrument portfolios compared to the previous year end and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about financial instruments and related fair value levels, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Other matters

The bank's 2020 separate financial statements were audited by other auditors, who expressed their unqualified opinion thereon on 10 March 2021.

Responsibilities of the bank's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 23 April 2020, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2021 to 31 December 2029.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion on the compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The bank's directors are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF) to the separate financial statements to be included in the annual financial report.

We have performed the procedures required by Standard on Auditing (SA Italia) 700B in order to express an opinion on the compliance of the separate financial statements with Commission Delegated Regulation (EU) 2019/815.

In our opinion, the separate financial statements have been prepared in XHTML format in compliance with the provisions of Commission Delegated Regulation (EU) 2019/815.

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The bank's directors are responsible for the preparation of a directors' report and a report on corporate governance and ownership structure at 31 December 2021 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's separate financial statements at 31 December 2021 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's separate financial statements at 31 December 2021 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 23 March 2022

KPMG S.p.A.

(signed on the original)

Alessandro Nespoli
Director of Audit

RESOLUTIONS OF THE SHAREHOLDERS' MEETING

The Shareholders' Meeting of Banco di Desio e della Brianza S.p.A. met, first in Extraordinary Session then in Ordinary Session, at first calling on 14 April 2022, making use, for the participation of the Shareholders, exclusively of a Designated Representative pursuant to art. 135-undecies of the Consolidated Finance Act and art. 106 of the "Cura Italia" Decree still in force, as part of the containment measures of the Covid-19 epidemic.

Amendments to the Articles of Association

The Extraordinary Shareholders' Meeting approved:

- an amendment to article 14 of the Articles of Association to reinstate the Board structure with an odd minimum and maximum number of members (i.e. from a minimum of 9 to a maximum of 11 members) in order to minimise, even conceptually, the risk that situations of voting parity may arise which would require having recourse to a casting vote;

- an amendment to article 17 of the Articles of Association, in adaptation to the 35th update of Circular no. 285 of the Bank of Italy, which expressly includes among the Board's duties those relating to: recovery plan; rules of professional conduct for bank staff; company policy for the promotion of diversity and inclusiveness.

Reduction in the number of directors

Following the approval of the amendment to article 14 of the Articles of Association by the Extraordinary Shareholders' Meeting, the Ordinary Shareholders' Meeting approved the motion to reduce the number of directors from 12 to 11 for the current three-year period.

Approval of Banco Desio's financial statements and allocation of the 2021 result

The Ordinary Shareholders' Meeting approved the financial statements at 31 December 2021. The profit for the year is equal to Euro 52,415,041.00.In this context, the Shareholders' Meeting approved the distribution to the shareholders of a dividend, equal to Euro 0.1365 for each of the 134,363,049 ordinary shares. In compliance with the Stock Exchange calendar, the dividend will be paid on 27 April 2022 on detachment of coupon no. 31; the ex-coupon date for share pricing purposes and the record date[1] will be 25 and 26 April 2022, respectively.

The consolidated financial statements and the consolidated non-financial statement (or "Sustainability Report") of the Banco Desio Group at 31 December 2021, drawn up in compliance with Legislative Decree 254/2016, were also presented to the Ordinary Shareholders' Meeting.

[1] *date of entitlement to pay the dividend pursuant to art.83-terdecies TUF by Legislative Decree 91/2012.*

The individual and consolidated financial statements have been audited by KPMG S.p.A. which expressed an unqualified opinion, as well as their view that the directors' report was consistent with the financial statements and compliant with the law. The Independent Auditors also expressed an opinion that the Sustainability Report complied with the applicable provisions of law (as a "limited assurance engagement").

On this occasion, the update of the sustainability rating was communicated to the Shareholders' Meeting by "Standard Ethics", a specialised agency which, today, updated the SER corporate rating of Banco Desio, confirming it as "EE–", a sustainable grade, also increasing by one notch the Long Term Expected SER rating from the current "EE–" to "EE" with a positive long-term outlook.

Annual report on the remuneration policy and compensation paid

The Ordinary Shareholders' Meeting also approved the Annual Report on the Remuneration Policy and the Compensation Paid, drawn up in compliance with the supervisory provisions on this matter.

Annual incentive plan called "2022 Incentive System", based on the assignment of "Phantom Shares", intended for the Chief Executive Officer and General Manager and other key personnel of Banco di Desio and Brianza S.p.A. and its subsidiaries

Lastly, the Ordinary Shareholders' Meeting approved an annual incentive plan called the "2022 Incentive System", drawn up pursuant to art. 114-bis, paragraph 1, Consolidated Finance Act, based on the assignment of "Phantom Shares", intended for the Chief Executive Officer and General Manager and other key personnel of Banco di Desio and Brianza S.p.A. and its subsidiaries pursuant to art. 2359 of the Italian Civil Code and the attribution to the Board of Directors, with the right to sub-delegate, of all the powers necessary for implementation of the "2022 Incentive System" Plan, to be exercised in compliance with what is indicated in the information document published on the institutional website at www.bancodesio.it (in the "The Bank/Governance/Shareholders' Meeting section).